

FOR ANYONE
WHO HAS EVER
NEEDED A LOAN

SHIRE *first* MORTGAGES

MORTGAGE NEWS

Issue 12

Autumn/Winter 2009

Briefly:

- The last time interest rates were as low as they are now the Beatles were touring Australia.
- Average monthly loan repayments have dropped by \$500 since September last year.
- What will you do with your Federal Government Stimulus payment? By depositing it into your loan or offset account you will save interest and pay off your loan sooner.

Inside this issue:

- Take a closer look—pre purchase inspections 2
- Purchasing property off the plan 2
- Equipment Leasing might improve your cash flow 3
- Stimulus Plan: Tax Breaks 3
- What are the extra costs of buying a home? 4
- Housing Affordability at an all time high! 4



2009 is zooming past more quickly than we care to think about. Everywhere you look we are hearing gloom and doom. Can we use the “R” word or not? One thing is for sure, we are still on the same rollercoaster ride we were last year and it is still taking us up and down with the odd sideways twist thrown in. In the finance world the major banks are still growing their market share with many smaller lenders unable or unwilling to compete. At the same time credit criteria and lending policies are being tightened and changed on an almost daily basis. Add to this mix the fact that it takes lenders somewhere between 3 and 20 business days to look at a file it is small wonder there is a lot of frustration and confusion in the marketplace.

Luckily at Shire First Mortgages all of our lending managers have strong credit and banking backgrounds. This knowledge, coupled with the fact that we have preferred broker status with a number of lenders means not only can we get those tricky deals done but we can also get most deals approved much more quickly than other brokers.

With interest rates at an all time low and housing affordability at an all time high now is the time to get into the property market. Don't forget we are able to assist you with “RP Data” reports on any property you are looking at purchasing including information on comparable sales. These reports retail for about



\$60 but are complimentary for customers of Shire First Mortgages.

We hope you enjoy this edition of our Mortgage Newsletter. As always any feedback you have is welcome. Regards

Deanne

Susanne & Neil Massingham



What has happened to Lo Doc ?

Self employed borrowers relying on the “shoe box” accounting method may well find it more difficult to secure a loan in the current environment.

About 10 years ago, lo doc loans or loans where proof of income such as tax returns was not required were restricted to a handful of specialist lenders. However as economic conditions boomed, mainstream lenders jumped on the bandwagon increasing competition to the point where it was almost easier to get a lo doc loan than one where you had to prove income and there was no difference in interest rates.

As a result of global economic conditions all banks have reviewed their lending policies. Self employed borrowers have been

particularly affected with lo doc loans some of the hardest hit.

A number of traditional lo doc lenders have simply disappeared or stopped lending. Many others have either reduced the amount they are willing to lend, increased the pricing to reflect the risk or increased the amount of documentation they require as “proof of income”.

So if you need a lo doc loan what can you expect?

- You will need to have an ABN registered for 2 years and be registered for GST.
- You will need a minimum of 20% equity in the property you are purchasing.
- You will need to pay

Lenders Mortgage Insurance if you borrow more than 60% of the value of the security property.

- You may be asked to supply current trading account statements and BAS statements to verify income.
- You will not be able to borrow in a company or trust name.
- You may find it difficult to refinance an existing lo doc loan.
- You may not be able to get cash out.

If you have an existing lo doc loan or would like to borrow funds on a lo doc basis please contact our office so we can discuss the best options with you.

The greatest compliment you can pay us is to refer us to your family, friends and colleagues.

Take a closer look—pre purchase inspections



Who will pay your loan if you get sick?

As part of our service we can offer you competitive quotes for mortgage protection insurance. No health questions asked. It costs nothing to get a quote and best of all the first 3 months are FREE with no penalty if you cancel after that time.

Why not enquire today?

While a pre-purchase inspection may seem inconvenient or unnecessary it is an essential step of any property purchase.

You love the kitchen, the balcony's great and the building appears to be in good shape. Time to sign the dotted line? Wrong!

While a property may appear to be in good condition to you and well worth its asking price, only a professional can really ensure you're making a smart purchase.

To arrange an expert opinion—and give you peace of mind—organise a building and pest inspection on your property before you buy. A Pest and Building inspection will check the condition of the interior, the roof, under-floor and inter-wall spaces to determine whether there are any significant building problems or hazards you need to be aware of.

They'll then provide you with a detailed summary of the property's condition, usually in a checklist format.

What you'll gain

Such an inspection could save you thousands of dollars, in two key ways. First, if the property has some minor problems you may be able to drive down the purchase price. Second, the inspection

could uncover more serious problems, which could see you incur substantial repair and maintenance costs in the long run, or even worse, threaten the value of the property. For this reason the inspection is vital!

What will it cost?

The price of a pre-purchase building and pest inspection will depend on the property and the time taken to undertake the examination, but as a rule of thumb a standard report for a typical residential property should set you back around \$500—a worthwhile investment.

How do I arrange it?

Pre purchase building and pest inspections are usually arranged through your convey-

ancer or solicitor who will take care of everything for you.

If you have any questions please give our office a call. We would be happy to go through the basics. We can even point you in the direction of a few reputable companies who will be able to assist you.



TAKE HEED

A pest and building inspection can make or break your investment; however there are some things than an inspection may not cover, so be sure to address these with your inspector should you have any concerns

Some exemptions may include:

- Gas fittings
- Footings
- Electrical wiring
- Fireplaces or chimneys
- Television reception
- Plumbing
- Concealed damp-proofing
- Watering Systems
- Drainage

Purchasing property off the plan

Buying a property off the plan is a way for many investors and home buyers to enter the property market. With so many developments to choose from, if you decide to buy off the plan here is some wise advice to take on board:

- **Choose the right location:** choose an area where there is a demand for property but a current undersupply—this should help boost your property's value over time.
- **Suss out the developer:** Make sure they have a good reputation and a sound track record—go and see other projects and talk to their previous clients.

- **Examine the plan:** Make sure you obtain a professional opinion on the plans to ensure they are satisfactory. If you can't find an architect, talk to a builder or a seasoned investor for a second opinion.
- **Do your homework:** Find out what's in the pipeline for other developments in the area—other projects could help or hinder your potential for return depending on what's planned.
- **Know what your paying for:** Thoroughly examine the schedule of finishes and make sure everything is detailed in the con-

tract—leave nothing to a verbal agreement.

- **Read the fine print:** Have the contract examined by a legal professional before signing on the dotted line.
- **Use a broker to organise your loan:** Different banks have different policies when it comes to off the plan purchases. At Shire First Mortgages we will be able to find the loan to best suit your requirements. We will also be able to organise your deposit bond as part of our service to you.



Equipment Leasing might improve your cash flow.

Instead of purchasing computers, plant or other business equipment, many businesses use Commercial Leasing because it improves their cash flow. Some of the commercial finance options include: Commercial Leasing ; Operating Leases; Finance Leases; Fully Maintained Leases; Hire Purchase & Chattel Mortgage Finance

Commercial Leasing - monthly tax-deductible payments

With Commercial Leasing, instead of you paying for your business equipment, the Lender does. They then lease the business equipment to you for a monthly tax-deductible rental payment.

Operating Lease vs Finance Lease - what's the difference?

With a Commercial Equipment Lease, you have two options: an Operating Lease or a Finance Lease. At the end of a Finance Lease, the lender gives you the opportunity to purchase the goods for a previously agreed Residual lump sum payment. In contrast, at the end of an Operating Lease, there is no liability to you for the Residual payment. It is the responsibility of the lender to whom you return the equipment.

Operating Lease vs Finance Lease - which is right for me?

Choosing between an Operating Lease and a Finance Lease depends on your situation. An Operating Lease is effectively a rental arrangement with no liability to you at the end of the term,

whereas a Finance Lease has a residual amount that is your responsibility whether you retain goods or return them to the lender. There is also an accounting difference, with Operating Leases being off balance sheet, while Finance Leases are recorded on the business balance sheet. To understand which Equipment Leasing option best suits your business, talk to an MFAA member.

Fully Maintained Equipment Leases

With a normal Equipment Lease, you are financing the equipment over a term and the maintenance of the equipment is your responsibility. With a Fully Maintained Lease, the Lender can build the cost of maintenance into the rental payments.

Commercial Leasing - structure your payments to suit

The advantage of Commercial Leasing is that instead of paying the whole purchase price in cash up front, you're making ongoing monthly payments. This is much better for your cash flow.

What's more, you can structure those lease payments to suit your expected revenue streams - pay more in high season, less when business is quieter.

Commercial Leasing - up to date with technology

Some Commercial Leases allow you to upgrade to new equipment - say the latest computer. You pay for this flexibility with a higher interest rate and lease

payment, but if it's critical to your business to use the latest technology, it could be a good option.

Equipment Leasing and Hire Purchase: what's the difference?

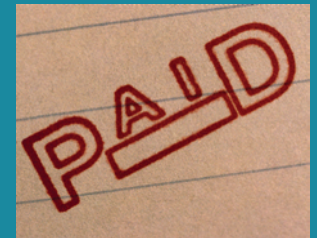
Hire Purchase is another way to finance capital equipment that doesn't require you to pay the full purchase price up front. Commercial Hire Purchase is like a Commercial Lease in that you pay "rent" over the repayment term. The difference is that with Hire Purchase, you gain equity as you make payments and title passes to you with the last repayment. A Hire Purchase agreement can be structured with or without a "Balloon" payment ie an additional lump sum payment to be made at the end of the lease.

Hire Purchase - a different tax structure

One of the big differences between Commercial Leasing and Hire Purchase is in the handling of tax deductions. With Hire Purchase, instead of claiming the whole monthly payment as a tax deduction as you do with a lease, you claim the depreciation of the equipment and any interest charged. This tends to mean you will deduct more in the early years compared to a Commercial Lease.

Chattel Mortgage Equipment Finance

Chattel Mortgage Finance is a loan that allows a business using the "cash" method of accounting for the Goods & Services Tax to claim back the GST on the equipment's purchase price in their next Business Activity Statement.



Access your loan online through our website!

Simply log onto www.shirefirstmortgages.com.au and click on "Client Access" where you will find links to your lender's internet banking site.

Stimulus Plan: Tax Breaks

Owners of small businesses will gain a special tax break if they buy new equipment ranging from computers and fax machines to cars and industrial machinery before the end of the financial year.

As part of its latest economic stimulus package, the Federal Government is offering small businesses a tax deduction of 30 per cent of the cost of new capital equipment worth more than \$1000 so long as it is bought by June 30 and installed before the years end.

The Government gave the examples of a business buying a \$2000 computer, which would attract a \$600 deduction against its tax liability, and a firm buying a \$60,000 backhoe, which would gain an \$18,000 deduction.

The tax deduction will be available for any business with a turnover of \$2Million a year or less. It will fall to 10 per cent for equipment bought from July until the end of December for installation by the end of 2010.

Bigger businesses will be eligible for the same tax deductions but will have to spend at least \$10,000 on new equipment to qualify.

Shire First Mortgages can help you take advantage of the tax breaks outlined in the Stimulus Plan by arranging for competitive leasing and hire purchase finance.

If you would like to know more about the business finance options available give Neil a call today.



FOR ANYONE WHO HAS
EVER NEEDED A LOAN



Your first choice for a
smarter mortgage.

Established since 1999

1/96 Gynea Bay Road
Gynea NSW 2227

Ph 02 9531 7503
Fax 02 9531 7628
Email:

loans@shirefirstmortgages.com.au

Visit our website:

www.shirefirstmortgages.com.au



Mortgage News —For anyone who has ever needed a loan

What are the extra costs of buying a home?

When they take out a Mortgage, many people forget to consider the associated fees and expenses. Here are some of the extra costs that you'll need to consider when you buy a home.

Home Loan application fees

Most Lenders charge a Home Loan application or Establishment fee. Application fees vary from lender to lender and can range from \$0 (as part of a package or a special offer) to \$1000 (a non bank lender). Application or Establishment fees generally cover

- Legal contracts
- Credit check
- The cost of one valuation
- Attendance at settlement

If a lender has to carry out more than one valuation they may charge an additional valuation fee. Some banks also charge their legal and settlement fees separately. Some banks do not

charge an establishment fee upfront but will charge you a "Deferred Establishment Fee" if you pay out your loan within a certain time (usually 3—5 years) of drawdown.

Lenders Mortgage Insurance

If you don't have 20% of the purchase price of the property, the Lender will require you take out Lenders Mortgage Insurance to cover the risk that you might default on your repayments. Lenders Mortgage Insurance is a once off premium which can normally be added to your loan amount.

Mortgage fees and costs

Fees directly associated with the mortgage include

- Title Search Fees
- Mortgage Registration Charges

Property fees and costs

Property fees include

- Building and Pest Inspection Fees—see our arti-

- cle in this newsletter
- Stamp Duty—First Home Buyers may be exempt.
- Transfer Registration Fee
- Solicitor or Conveyancer Costs
- Home and Contents Insurance
- Council and Water Rates
- Strata Levies and or Body Corporate Fees
- Property Maintenance Costs
- Utility Costs

When you calculate your purchase budget make sure you allow enough in reserve to cover these costs. It is also important not to over commit yourself. Make sure you have enough money left at the end of the month after loan repayments to cover ongoing incidentals associated with home ownership.

Housing Affordability at an all time high!

Big cuts in interest rates and the boost to the First Home Owners Grant pushed housing affordability conditions to the best level in five years, according to the HIA-CBA First Home Buyer Affordability Index.

The HIA-CBA report revealed an increase of almost 40% in the December 2008 quarter. During this quarter the average home loan repayment fell by 26% to \$2056 per month.

The 1% rate cut in February 2009 and further reductions in interest rates which are expected to follow this year should make housing even more affordable. The improvement in affordability means it is now possible for more Australians to purchase a home of their own.

Affordability improved in all capital cities and regional areas of

Australia with the largest improvements occurring in Perth, Brisbane and regional Western Australia.

A good indicator of housing affordability is the auction clearance rates. Average auction clearance rates were less than 50% this time last year. Results since the beginning of 2009 show clearance rates consistently above 75% - 80% in most major centres.

With housing affordability at an all time high and interest rates at an all time low, now is the perfect time to get into the property market either as an investor, first home buyer or through upgrading your existing home.

When you find something you love you will need to act quickly as there are more buyers than there are properties.

To put yourself in the best posi-

tion possible to buy it is essential you deal with a good broker and obtain a pre approval. At Shire First Mortgages we have preferred broker status with many lenders which means we can get your loan approved faster than if you deal with other brokers in the market.

Secondly make your real estate agent your friend. Sign up to as many property websites as you can to receive their property alerts. Many properties are not advertised in the paper anymore as they are sold too quickly. Once you have found a property we will work closely with your agent to make the process as smooth as possible and ensure you can take advantage of these great buying conditions and don't get left behind.

Disclaimer. This newsletter does not necessarily reflect the opinion of the publisher. It is intended to provide general news and information only. While every care has been taken to ensure the accuracy of the information it contains, neither the publishers, authors nor their employees, can be held liable for any inaccuracies, errors or omission. Copyright is reserved throughout. No part of this publication can be reproduced or reprinted without the express permission of the publisher. Readers are advised to contact their financial adviser, broker or accountant before making any investment decisions and should not rely on this newsletter.

Shire First Mortgages is independently owned & operated by N & S Massingham Pty Ltd ATF The N & S Massingham Family Trust ACN 085 889 407.