

FOR ANYONE
WHO HAS EVER
NEEDED A LOAN



MORTGAGE NEWS

Issue 5

June 2007

Briefly:

- Interest rates are on hold.
- Did you know that a survey of 1,207 people by Newspoll and First National Real Estate revealed that women feel the bathroom and the size and number of bedrooms are the highest priorities when buying a home. Men are more likely to check if a home has a garage or workshop. (source YourMortgage.com.au)

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Product Profile—Equity Finance Mortgage (EFM) ®

An EFM is a new type of loan which can help Australians achieve their goals—whether it be purchase their first home, reduce their existing home loan repayments to free up cash-flow for other costs; or even help them purchase a more expensive property than they would otherwise be able to afford—like a family that has out-grown their current home.

HOW DOES IT WORK?

Normally, a borrower will have one mortgage against their property. Sometimes, they will have more than one (ie a second mortgage). EFM works in conjunction with a traditional home loan so that the borrower would have a loan with the Bank, and also an EFM loan, all secured against the one property.

An EFM is not like regular second mortgages, as it allows you to borrow up to 20% of a property's value. There is no annual percentage rate applicable to an EFM loan unless you are in default. You are not required to make any regular monthly interest repayments throughout the term of the EFM loan. Instead, when you sell the property or repay the EFM loan, you repay the EFM amount you originally borrowed plus up to a 40% share of any increase in the value of the property.

EXAMPLE—Buy a more expensive home and keep the same monthly loan repayments with an EFM.

Jack and Alice wish to buy a bigger house to accommodate their growing family but they can't afford any more than their current loan repayments. If they sold their unit they would have \$75,000 of equity from the sale which is enough to cover the purchase costs and still have a \$50,000 deposit. Using a traditional home loan they can afford to buy a property worth \$425,000 and their situation would look like this:

Property Value	\$425,000
Deposit	\$50,000
Loan Needed	\$375,000
Traditional Loan Required	\$375,000
Lenders Mortgage	
Ins Premium	\$5172

Monthly loan

Repayments \$2,845

If Jack and Alice were to get a 20% EFM contribution in addition to their traditional home loan, their scenario would look like this:

Property Value	\$531,000
Deposit	\$50,000

Loan Needed	\$481,000
EFM (20% of Property value)	\$106,000
Traditional Loan Required	\$375,000
Lenders Mortgage	
Ins Premium	\$6175

Monthly loan

Repayments \$2,845*

By using an EFM in conjunction with a traditional home loan and agreeing to share any future increases in the value of their property, Jack and Alice have been able to purchase a 25% more expensive home worth \$531,000, possibly with a bigger back yard and 3 bedrooms instead of 2; and are still making the same monthly loan repayments.

An EFM might be able to help you lower your home loan repayments or afford a more expensive property.

To discuss your individual circumstances and find out more information all you need to do is to contact us and we will help you through the process.

*This example excludes application fees and other fees associated with the loans such as valuation fees, account keeping fees, transaction fees as well as transaction costs associated with refinancing a home loan such as stamp duty, government fees, conveyancing fees and stamp duty on lenders mortgage insurance. The examples above are based on the following assumptions which are not forecasts or prediction and may not reflect actual events. The examples assume that the EFM is for 20% of the property's value at the outset and that no default interest is payable at any time over the term of the EFM loan. The actual EFM loan may be for less than 20% of the property's value and the outcomes may vary considerably if default interest becomes payable. The examples assume that the traditional home loan interest rate is 7.80%p.a., the loan term is 25 years, all principal and interest payments are made on time, the only repayments made are the required repayments—that is, no additional repayments or redraws are made, and no event of default has occurred and default interest is not incurred at any time during the term of the loan. Please note the example assumes that the interest rate on the traditional home loan only and the traditional home loan taken in conjunction with an EFM is the same. This assumption may not apply to your circumstances. Interest rates available on a traditional home loan only may be lower than the interest rate available on a traditional home loan taken in conjunction with an EFM. Ask us to compare this for you taking your circumstances into consideration.
 ® Equity Finance Mortgage (EFM) and EFM are registered trade marks of ARES Capital Management Pty Limited ABN 93 113 861



Capital Growth vs rental return?

Which investment property is suitable for you?

Investing in real estate is undoubtedly one of the most efficient ways for Australians to build their wealth. Property has historically increased in value in most markets in the long-term and gives buyers the added benefit of receiving a direct return from the rental income.

Property that yields high rental returns as well as good capital growth can be hard to find. So many investors therefore usually base their strategy around either long-term capital growth or a cash-positive rental return.

If you're not sure which path you should take, the following tips should help you decide which strategy best suits your goals.

High Rental Returns

Though they can pop up anywhere, good rental yields typically arise in regional or

outer suburban areas. While such properties are less likely to be affected by fluctuations in market prices, steady rental demands increase the likelihood of solid rental returns.

Properties with a high rental yield can make for a great investment with those looking to increase their day-to-day cash flow, however it pays to take note that it is also taxed as income, and this can minimize an owner's net earnings.

Capital Growth

Capital Growth investors on the other hand are looking for properties that appreciate in value rather than focusing on the rental yield. While usually found anywhere, investors often focus on capital cities or areas of growth and development.

The objective of this strategy is to sell the property for a profit within a certain number of years, leaving a healthy return on the initial investment.

It can be a struggle for some

investors to work through the first two years of ownership though, as the rental returns may yield little or no profit and mortgage repayments may need to be bolstered with other funds. Just be careful that you're not over committing or paying more than you can afford.

It is important to remember that while property investment is one of the safer options open to Australians, there is no guarantee that a property will continue to increase in value at the rate it has done in the past. Make sure you take time to research the market, always take a long-term view and speak to your broker to ensure you've chosen suitable finance.



Do you currently have a Shire First/ Challenger Loan ?
You are now able to access any redraw in your account with our convenient new "directcard". Your directcard is accepted at most ATMs & EFTPOS facilities Australia wide. To apply simply call Susanne today.



Packaging your home loan

Home loan customers have plenty of choices today with many new products on the market, ranging from a simple home loan to more sophisticated offerings for those who require a loan package with extra features. So what is a home loan package and what are the benefits for borrowers?

A home loan or "professional" "package" is basically a bundling of borrower benefits for a single annual fee. Previously, packages used to be restricted to people employed in certain "professional" occupations. This has largely changed with most major lenders offering package benefits based not on occupation but on minimum loan amount. These minimums start as low as \$100,000 for some lenders. Packages are

available to both home borrowers and investors.

Home loan packages typically cost somewhere between \$200 & \$400 pa in fees which are charged to the loan at settlement and each year thereafter. At the end of the day borrowers need to carefully consider the annual cost of the package versus the annual value of benefits received.

Not every "package" offers the same benefits. However, as a general guide, packages offer a variety of benefits including:

- * Discounts off the banks' standard variable interest rates
- * Discounted or nil loan establishment fees

* No monthly loan administration and/or offset account charges

* Free transactional banking account

* Fee free credit cards

* Discounts on some insurance products and other banking services.

Home Loan packages can be suitable for borrowers needing to borrow large sums of money or those requiring a whole suite of products.

If you would like more information on home loan packages offered by different banks call us today and we would be more than happy to show you some of the options available to you.

Using your Equity to fund your Superannuation

This case study is of a general nature only and is provided to show an overview of some of the CGT and superannuation concessions which may be available. There may be conditions which the investor will need to satisfy before the concessions are available. Investors should seek professional advice relating to their individual circumstances.

James and Samantha are 64 and keen to retire to the coast in July 2007. They've heard about the super changes and want to take advantage of the \$1 million undeducted contribution rule before 30 June 2007. To raise \$1 million, however, they believe they must sell their investment property, or their share portfolio, and incur Capital Gains Tax (CGT) in the process. Their real estate agent also warns them that the current market conditions mean they are unlikely to get the \$1 million they want for the property and might get a better price in the new calendar year.

James and Samantha decide to talk to a financial planner to

see if there is a smarter way to fund the \$1 million super contribution without having to sell their investment property in a 'fire sale'.

Their financial planner suggests they:

- Arrange a short term loan of \$1 million and invest the funds into super;

- Sell the property next calendar year.

James and Samantha then borrow \$1 million against their family home and place the money into their super fund. As the money is being used for super contributions, it is NOT tax deductible. They decide to sell the investment property in January 2008 to repay the loan.

On the sale of the property in January 08, they again face the prospect of paying CGT.

However, as they are under 65 years of age, if they each make a deductible contribution to their super fund of \$100,000 they can offset the assessable CGT payable on the sale of the property. How? This strategy takes advantage of the **new full deductibility of personal contributions which comes into effect July 2007.**

By taking out a short-term loan they can meet the 30 June deadline.

And by delaying the sale of the investment property they might sell in a more buoyant market, so a 'fire sale' has been avoided. They can also take advantage of the new super rules from 1 July 07 which allows a deduction for personal super contributions which may offset their CGT liability.

This is a fictitious example only. The information is of a general nature and is provided to show an overview of some of the CGT and superannuation concessions which may be available. The information does not constitute financial product advice. There may be conditions which the investor will need to satisfy before the concessions are available. Nothing in these case studies shall be construed as a solicitation to buy or sell any security or other product, or to engage in or to refrain from engaging in any transaction. In publishing these case studies, we did not take into account the investment objectives, financial situation and particular needs of any reader. Investors should seek professional advice relating to their individual circumstances.

The information contained in these case studies is accurate as at 26/04/07 and based on the Federal Government's budget proposals on superannuation. The precise details and interpretation of the law may not be finalised until later this financial year. Investors should seek professional advice for the most up-to-date changes.

Our thanks to Macquarie Bank for letting us use this article. Please contact the Macquarie Relationship Banking specialist, Richard Chesworth on 1300 658 292 for further information.



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 funder's internet banking site.

Spotlight on First Home Buyers

Leading Australian Mortgage Insurer Genworth Financial has recently released a survey report on some of the issues facing first home buyers. Highlights from the report include:

- First Home Buyers are struggling to enter the property market despite their Australian Dream to own a home Housing has stretched beyond the reach of many individuals with 29% unable to save a deposit and a further 24% feeling they were unable to meet mortgage repayments
- 66% of First Home Buyers continue to remain trapped in rental properties which is delaying their

ability to save a deposit

- Over recent years product innovation in the mortgage market has increased, providing First Home Buyers with a wider range of alternative loan options



- Despite this wider range of options there is a lack of awareness amongst First Home Buyers about the benefits some of the new products offer.

As Mortgage Professionals the staff at Shire First Mortgages have been specially trained to assist First Home Buyers. We can provide information on many of the new products and services available as well as entitlements to government Stamp Duty concessions and First Home Owner Grants.

For more information about First Home Owner Grants why not log onto our website www.shirefirstmortgages.com.au.

Our services are without obligation and free of charge to the borrower so if you are a first home buyer or you know of someone who wants to get into the property market why not give us a call now and let us guide you through the process.



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Established since 1999

1/96 Gymea Bay Road
Gymea NSW 2227

Ph 02 9531 7503
Fax 02 9531 7628
Email:

loans@shirefirstmortgages.com.au

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Mortgage News —For anyone who has ever needed a loan

Welcome to the June 2007 edition of our newsletter.

Hasn't the year gone past quickly? We're half way through and there is more to do than ever. So far this year the Reserve Bank has kept cash rates on hold with most economists predicting this to remain unchanged for the next few months at least. This is great news for home buyers and investors alike. Lenders are also coming to the party with many exciting new products being released onto the market.

We have recently become fully accredited to assist with an exciting new type of product the Shared Appreciation Mortgage also known as Equity Finance Mortgage®. We have included a brief outline of this type of loan on page 1 of the newsletter. The end of June also sees some opportunities for superannuation and we have included an article on using property equity to fund your superannuation. If you would like to discuss either of these opportunities further please call us or contact us via our website enquiry.

Challenger Mortgage Management has recently launched a new "directcard" for existing clients. This means that if you have a current Shire First Mortgages loan you can now access any redraw in your loan via ATM & EFTPOS. To apply give Susanne a call.

Finally, don't forget to call us if you ever need any information on your loan or other loan offers in the marketplace. We are accredited with most lenders and can assist you to compare any offers/interest rates with your current loan.



Neil



Susanne



Deanne

Winner of our Great Aussie BBQ Competition



Earlier this year we held our Great Aussie BBQ competition to celebrate Australia Day and launch our new website. Thank you to everyone who entered.

The winner was Mr John McDonagh pictured here with Neil taking delivery of his new BBQ.

Welcome to our newest staff member



Vantreigh has recently joined our administration /customer service team on a part time basis. Next time you call and she answers the phone why not say G'day!

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

If you know of anyone who needs a loan or who needs a review of their current mortgage situation we would be honoured if you would tell them about Shire First Mortgages. Feel free to pass on this newsletter or give us a call and we will mail one out to them.

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