FOR ANYONE WHO HAS EVER NEEDED A LOAN

SHIRE first MORTGAGES

MORTGAGE NEWS

Issue 7 December 2007

Briefly:

- More interest rate rises are predicted. Hold onto your wallets.
- Don't forget we now have access to both RP Data and Residex property reports to help you determine your property's worth!
- Did you know we can assist you with Leasing Finance for new and used motor vehicles? If you are looking to buy a new car why not call Neil and let us give you a quote and help make the transaction as smooth as possible.

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The US Sub Prime Market– What is it and why does it matter?

The "US sub prime market" is a part of the residential mortgage market in the US and is characterized by low income borrowers who have a bad credit history in servicing their home loans. In 2005, the US real estate market experienced an all time high and as part of this, financing became more creative to make owning a home more accessible to the wider population—in particular, to those who may not have otherwise been able to afford to do so.

Characteristics of the changes in lending practices included:

- Credit became available to low income members of the community with a poor credit history, who are known as "sub prime" borrowers.
- Honeymoon rates—some initial interest rates were as low as 1% or 2% for the first 2 years then they increased to the standard rate of 7%. This caused sub prime borrowers to default as they could not keep up with the repayments on their loans
- High Loan to Value Ratios ("LVRs") - some as high as 140%. As property prices began to fall, this made the position of the sub prime borrower even worse.

As the interest rates increased on these types of loans, many sub prime borrowers could not meet their repayments and so they defaulted on their loans.

So how does this affect us?

The crisis spread because many sub prime mortgages in the US have been "packaged" by lenders with the help of investment banks and sold around the world to financial institutions and hedge fund managers. In basic terms, as the value in the US real estate market began to decrease and the level of defaults began to increase, these investments became non viable to the point where many major investors lost substantial amounts of money.

But how does this cause my interest rate to increase?

Many Australian non bank lenders and some banks raise the money they lend out for housing from overseas investment markets. As these markets have become more cautious and nervous because of the US sub prime problems, the rates which the non bank lenders can borrow at have increased.

In addition most loans in Australia are for 30 years whereas the money raised on overseas investment markets is usually only purchased for short periods meaning the non banks have to go back into the market every 90 days or so to "reborrow" the money they have lent out. As the cost of funds increases then they are forced to raise the interest rates on their existing and new loans to cover their costs.

What about Lo Doc Loans?

Australian Low Doc criteria are traditionally much stricter than that applied to "sub prime" borrowers in the US. However, the US crisis has resulted in a tightening of Low Doc criteria.

If you would like any more information please call us to discuss your individual circumstance.

Can Shire First Mortgages also help me with:
Personal loans ?
Leasing ?
Business Finance ?
Commercial Loans ?
Equipment Finance ?

YES WE CAN !

We can help with any type of finance. Just give us a call!

Spouse taking you to the cleaners? Divorce is expensive but the Japanese have it covered. The first-ever divorce loan is now available in Japan – helping couples cover compensation and legal payments at a lower interest rate than credit card financing!

Rental Property Deductions: ATO

If you have a rental property, The Tax Office has some advice about what exactly constitutes rental income and deductions you can claim in your income tax return for the period that your property is rented or available to rent.

There are three categories of rental expenses:

- Expenses you can't claim such as costs of acquiring and disposing of the property, water and electricity costs that the tenant pays or expenses that aren't directly related to the rental of the property;
- Expenses for which you can claim an immediate deduction in the year you incur the expense—such as advertising and leasing costs, cleaning and pest control, council rates, water rates, body corporate fees, property agent's management fees, property repairs, etc; and
- Expenses which are deductible over a number of income years. These include borrowing expenses (such as loan establishment or title search fees), capital works' deductions, and the decline in value of depreciating assets.

On the other side, the ATO states that rental income includes "the full amount of:

- Rent money you receive, or become entitled to, when you rent out your property, whether it is paid to you or to an agent
- Rental bond money retained because a tenant defaulted on the rent, or because of damage to the rental property requiring repairs or maintenance
- Insurance payouts—for example, if you received an insurance payout to compensate you for lost rent
- A letting or booking fee you derived
- Reimbursements of any deductible rental expenses you have incurred in relation to your rental activity—for example, if a tenant pays you an amount to cover the cost of repairing damage to some part of your rental property and you can claim a deduction for the repairs
- Any assessable amounts relating to hire purchase and limited recourse debt arrangements involving your rental property, and
- Associated payments, including all amounts you receive, or become entitled to, as part of the normal, and repetitive and recurrent activities through which you intend to generate profit from the use of your rental property."

For more detailed information, see the ATO website. It is also recommended that you seek the advice of a qualified taxation accountant who is familiar with your individual circumstances before lodging your tax return.

Clean up your act for a loan!

There are ways of improving your credit profile—and it makes sense to do so before applying for a mortgage.

If you think there has been a mistake, or you simply want a note put on your file to say a debt has been cleared, contact the credit agency and tell it.

Credit bureau Veda Advantage says customers need proof that a bill was paid.

If you don't have the paperwork to say so, you can simply tell the agency which bank you made the payment to. The agency will investigate and clarify the matter within 30 days.

Once it has been established that a debt has been cleared, it will say so on your file.

You can also put notes on your record, giving reasons for a particular debt or default. For example, if you moved house and didn't receive notification of the debt, that can be noted on your file and can help your credit profile.

Current credit laws mean that only negative information is held, so credit agencies cannot demonstrate that you have been maintaining payments well.

If you can improve your credit profile by clarifying debt situations or any errors, it could mean the difference between getting a mortgage or being turned down.

You can find out more information at www.mycreditfile.com.au.

Borrower tips to save money

There are always steps borrowers can take to pay their loan off faster, This is the first of a 2 part series giving you a few ideas that will help you along the way. Look out for our March 2008 newsletter for the second part of this series.

Skip the honeymoon

There are 2 problems with honeymoons. First the variable rate is often higher than some of the lower basic loans available so you could end up paying more. Second, you need to clearly understand that a honeymoon rate applies only for the first year or two of the loan and is a minor consideration compared to the actual variable rate that will determine your repayments over the next 20 or so years.

Make repayments at a higher rate

A good way to get ahead of mortgage commitments is to pay it off as if you had a higher rate of interest. Get a loan at the lowest interest rate you can and add 2 or 3 percentage points to your repayment amount. So if you have a loan at about 7% and pay it off at 10%, you wont even notice if rates go up. Best of all, you'll be paying off your loan quicker and saving yourself a packet.

Every dollar you put into your mortgage above your repayment amount attacks capital, which means down the track you'll be paying interest on a smaller amount. Extra lump sums or regular additional repayments will help cut many years off the term of your loan

To look at just how much you could save log onto our website www.shirefirstmortgages.com.au and click into our easy to use mortgage calculators.

Pay it off quickly.

Time is money. There are all sorts of strategies for paying less interest on your loan, but most of them boil down to one thing: Pay your loan off as fast as you can. For example, if you take out a loan of $300,000 at 7.07% for 25 years, your monthly repayment will be about $2,134.

This equates to a total repayment of $640,126 over the term of your loan.

If you pay the loan out over 10 years rather than 25, your payment will be $3,494 a month (ouch!). But the total amount you will repay over the term of the loan will be only $419,290—saving you a whopping $220,836!

With most new loans, the first instalment may not become due for a month after settlement. If you can manage it (and your lender will let you), pay this first instalment on the settlement date. If you do this, you will be one step ahead of the lender for the term of your loan. Every little bit counts.

Run an offset account

Instead of earning interest, any money you have in your offset account works to offset the interest you are paying on your home loan. For example you may have a mortgage of $300,000 at 7.07% and an offset account with $50,000 in it earning 3%.

This means that $250,000 of your loan is accruing interest at 7.07% but the rest is accruing interest at just over 4% (7.07% on your loan less the 3% the $50,000 in your offset account is earning). Imagine how much you can save!

Of course the best sort of offset account pays the same rate as your loan (100% offset).

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.

Debt to income ratio

What is my debt to income ratio & why is it important?

When determining your ability to qualify for a mortgage, a lender looks at what is called your "debt to income" ratio.

A debt to income ratio is the percentage of your gross monthly income (before taxes) that you spend on debt. This will include interest payment, principal payments, taxes, insurance, credit card debts, student loans and car payments etc.

This is why, if you are thinking about buying property, it is very important not to spend money on items which will increase your debt to income ratio.

For example, if you earn $5,000 a month and you have a car payment of $400, you would qualify for approximately $55,000 less than if you did not have the car payment (using an interest rate of 8 per cent),

Even if you feel you can easily afford the car payment, lenders approve your mortgage based on their guidelines, not yours. So, if the thought of buying a car or splurging on that big screen plasma TV enters your mind, think ahead.

For your future financial well being, perhaps you should buy a property first!

What our customers say

"Thank you for the recent refinancing you arranged for us. This change will mean a big difference to us and our life style and we really appreciate the work that you had to put in to make it happen. We will certainly recommend your services to our friends and wish you all the best".– Julie & Paul **Barden Ridge**

FOR ANYONE WHO HAS EVER NEEDED A LOAN

Your first choice for a smarter mortgage.

Established since 1999

1/96 Gymea Bay Road
Gymea NSW 2227

Ph 02 9531 7503
Fax 02 9531 7628
Email:
loans@shirefirstmortgages.com.au

Visit our website:
www.shirefirstmortgages.com.au

MFAA FULL MEMBER

FBAA Finance Brokers Association of Australia ACCREDITED MEMBER

ACCREDITED MEMBER OF PLAN AUSTRALIA

Mortgage News —For anyone who has ever needed a loan

Welcome to our final Mortgage News Newsletter for 2007

After months of waiting the Federal Election is finally over. We have a change of government. It is fair to say there is a lot of discussion in mortgage circles over what is going to happen now. Without a crystal ball it would be foolish to speculate. What can be said is that uncertainty in the market is a natural consequence of an election campaign and now that is over we will hopefully see a little more confidence and stability returning.

2007 has seen the Reserve Bank continue to increase the Cash Rate. We have also seen some of our lenders impacted by a global credit squeeze triggered by sub-prime mortgage problems in the USA (for more information on this see our article on page 1). For borrowers this has resulted in increased variable and fixed rates. There has also been a general tightening of credit requirements by some lenders which has restricted the options available to low doc borrowers.

On the positive side, however we have continued to see great competition between lenders for your business with many lenders offering excellent fee discounts and other rate based benefits to new borrowers. Any activity which puts dollars back into the borrower's pocket is definitely a good thing. If you ever want to know about what specials are available simply give our office a call. Our software is updated daily and we are in constant contact with lender representatives searching for the best deal for you.

Thank you all who visited us and entered our competition at the Gymea Village Fair. It was a fantastic day and we received lots of great feedback from you. Thanks to Gymea Scouts for drawing the contest and congratulations to our prize winners:

Justin Timberlake tickets	- Mr M Snowdon, Menai
Sony Walkman MP3 player	- Mrs T Loy, Cronulla
Suncorp Wallabies Supporters Pack	- Ms S Mason, Sans Souci

Our sincere thanks to HomeSide Lending and Suncorp Metway for providing major prizes and to all our wonderful lenders for donating pens, notepads, balloons, lollies and other goodies for our show bags.

Finally we would like to wish you all a very Merry Christmas. We hope you are able to spend some time in the company of your loved ones and reflect on the importance of family.

We look forward to assisting you with your finance and loans throughout 2008.

Neil

Susanne

Deanne

Vantreigh

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, log onto our website to subscribe, or give us a call and we will mail one out to them.

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