

FOR ANYONE  
WHO HAS EVER  
NEEDED A LOAN

# SHIRE *first* MORTGAGES

## MORTGAGE NEWS

Issue 11

Summer 2008/9

### Briefly:

- Rates keep coming down. How low can they go?
- We can now offer you home and contents insurance. Call for a quote.
- Our office will be closed from 24th December 2008 until 12th January 2009. We will be available on the phone so if you need us please call the office number and it will divert to our mobiles.

### Inside this issue:

- Government Changes to the First Home Buyers Grant 2
- Positive Cash Flow Properties 2
- Breaking your Fixed Rate 3
- Interest Rates Keep Falling.- What Next? 3
- All the Winners from the Gyemea Village Fair 4



## Welcome to Summer 2008/2009 Mortgage News



A quick joke for the Christmas Season. What do you call Santa's helpers? - *Subordinate Clauses!*

What a bumpy ride we have had over the past 2 months. The rollercoaster shows no signs of slowing down either. What we are experiencing now will be written about in text books when our grandchildren are at university. The drop in interest rates is certainly a great relief for many borrowers and helps free up some much needed cash. For those who are locked in to a fixed rate read our article on page 3. One unfortunate outcome of the credit "crunch" is that many people are finding their mortgage brokers are no longer in business. If you have any friends or family in this situation we would be honoured to be able to help them with their finances.

The dramatic drop in interest rates has resulted in an increase in people buying homes and investment properties. We have been extremely busy arranging finance for property purchases. If you are thinking of buying an investment property read our article on page 2 regarding Cash Flow Positive Investments.

In closing we wish you and your families a Happy and Peaceful Christmas Season and hope 2009 proves to be a successful year for everyone.



Deanne

*Susanne & Neil Massingham*



## Banks take in the welcome mat

The "good old days" of easy home loans are now well behind us. Funders are looking for rock solid incomes and security.

Getting a home loan is trickier now the credit crunch has swept through the banking system. It has reduced the amount many institutions are prepared to lend, forced greater scrutiny of applications and reduced the overall number of lenders in the marketplace.

Many lenders have amended their lending policies and adopted a more conservative approach. One lender now requires a deposit of at least 20 per cent for interest only loans and 10 per cent for principal and interest loans whereas previously it had offered up to 90 per cent

of a property's purchase price for interest only mortgages and 100 per cent for principal and interest debt.

Gone too are the days of 100 per cent finance. Borrowers are more likely to be offered 95 per cent plus capitalized lenders mortgage insurance.

Loan application to approval turnaround has increased as have requests for further information. According to one source "Our credit managers are not moving even one millimeter outside of policy at the moment". One lender is taking up to 15 working days to pick up a loan application. Another important trend to emerge is the almost total disappearance of so-called low doc loans. Many funders have pulled

out of this space altogether and those that are left have tightened their lending criteria dramatically. We will include an article in our Autumn 2009 newsletter about the changes to low doc loans as the market is still changing on an almost daily basis.

The advantage of using a broker in this environment is that we can advise you of any delays the lenders are experiencing and any additional requirements they have. As part of our normal service we also provide advice on the best structures for your loan.

It is not all doom and gloom out there and there is still plenty of money to be lent as long as you are a strong and solid borrower.

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

## Government Changes to First Home Buyers Grant.



According to RP Data recent changes to the First Home Buyers Grant have seen the level of activity in the first home buyer market increase to levels not seen since 2003. But exactly what are the changes?

If you are a NSW first home buyer and enter into a contract to buy a new or existing home between 14th October 2008 & 30th June 2009 you are eligible to receive up to \$14,000 in combined Federal & State Government grants. If you are a NSW first home buyer purchasing a new or off the plan property you are eligible to receive up to \$24,000.

For first home buyers in NSW, purchasing a property for less than \$500,000 can

also save up to \$17,990 in stamp duty because purchases under \$500,000 are exempt from stamp duty. Pro rata stamp duty is payable for purchases between \$500,000 & \$600,000 and full stamp duty for purchases of \$600,000 and above.

To be eligible for the First Home Buyers Grant you cannot buy the property for investment purposes and must live in the property for a minimum of 6 months. You must occupy the property within the first 12 months of ownership.

Since the grants have been announced we have also had a lot of enquiries from people wanting to purchase properties together with friends or siblings. This can be a great

idea to increase your affordability but you can only claim the First Home Buyer's Grant once. If you are thinking of buying with another person talk to one of our senior lending managers to ensure you get the best advice on how to proceed.

Our Lending Managers are fully trained and will take all the stress out of applying for the grant. Once you have found a property and we have arranged your loan approval we will help you complete all the necessary paperwork. We will then submit the paperwork to the lender on your behalf and make sure the money is available at settlement of your new home.

For more information on the grant or eligibility criteria call our office today.

### 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. Why not enquire today?

	Federal Govt	NSW Govt
<b>Established Homes</b>	\$7,000 for contracts entered into between 14 Oct 2008 & 30 Jun 2009.	\$7,000 for properties valued under \$750,000 plus NIL stamp duty under \$500,000 and pro rata stamp duty for purchases between \$500,000 & \$600,000
<b>New Homes</b>	\$14,000 for contracts entered into between 14 Oct 2008 & 30 Jun 2009. Properties purchased off the plan must be completed by 31 Dec 2010.	\$7,000 for properties valued under \$750,000 plus NIL stamp duty under \$500,000 and pro rata stamp duty for purchases between \$500,000 & \$600,000 PLUS \$3000 for contracts entered into between 11 Nov 2008 & 10 Nov 2009.

## Positive Cash Flow Properties

Positive cash flow properties are becoming more and more common as interest rates fall and rental rates continue to rise.

A cash flow positive property is one which enjoys a net gain based on the rental income being greater than the costs associated with owning the property. These costs may include the expenses associated with purchase, land tax, management fees, rates, electricity and upkeep of the property. A cash flow positive property is often what many investors aspire towards with their investment property actually generat-

ing a profit rather than recording a loss.

The current conditions are creating a market where positive cash flow properties are now becoming more common. Property values have fallen in many regions while at the same time rental yields are increasing at a rapid pace and interest rates are falling. The combined effect is that rental yields are trending upwards.

On a net basis across Australia, RP Data estimates that there are now 45 suburbs which are averaging a cash flow positive return with 69% of cash flow positive suburbs located in

Queensland or NSW.

The most important thing is to know how much income is required to offset the expenses associated with owning the property. This will vary depending on your individual circumstances. It is also important to ensure you research the rental market and get a firm understanding of what the expenses will be and pay the best possible price for the property.

For more information on cash flow positive investment properties please give our office a call.

Taken from RP Data Property Pulse 14/11/08.



# Breaking your fixed rate

Did you do the right thing and fix your interest rate over the past 18 months? Is that fixed rate now higher than the current variable rates?

Over the past 2 months we have seen interest rates decrease at an unprecedented rate. This has resulted in many borrowers looking to break their fixed rate facilities in order to obtain a lower interest rate.

The most important factor to take into consideration when considering whether to break a fixed rate facility is what the Early Repayment Penalties or Break Costs will be. You then need to take into account how much interest you will potentially save over the remainder of the fixed term. If the interest saving is greater than the break costs then it becomes an easy decision.

Unfortunately many borrowers are finding that this is not the case. In fact, they are being quoted up to tens of thousands of dollars to break fixed rate loans.

Why is breaking a fixed rate loan so expensive?

When a funder receives a request to break a fixed rate loan they look at the economic costs. Economic costs are the funder's calculation of its loss on a fixed rate loan due to the movements in the cost of funds.

As an example when you take out a fixed rate loan the funder will "buy" those funds on the money market to lend to you. They will buy the funds at the current "swap" rate. If you want to break the fixed rate before the expiry of the fixed term the funder will look at what the "swap" rate is at that time. The difference in "swap" rates is important in calculating your break costs. Issues the funder will take into consideration when working out your break costs include:

- The amount of the loan being repaid;
- The contracted loan repayments;
- The cost of funds at the start of the fixed rate term of your loan (the original cost of funds);
- The cost of funds at the time you break the fixed rate or repay the loan (the current cost of funds) adjusted for the remaining fixed term of the loan.

Over the past 3 months we have seen a dramatic drop in "swap" rates which has resulted in an increase in break costs. In August this year, one of our clients had a quote of approximately \$4,700 to break a fixed rate loan of \$265,000 which had 2 years left to run. By November this year that quote had increased

by almost \$10,000 to \$14,000.

### Quick reference table

The table below gives an indication of the economic cost in \$ for every \$1000 principal repaid early.

For example

		Months before fixed period of loan expires				
		1	6	12	18	24
Original cost of funds minus current cost of funds	1%	1	5	10	15	20
	2%	2	10	20	30	40
	3%	3	15	30	45	60
	4%	4	20	40	60	80
	5%	25	50	75	100	125

A customer takes a 3 year fixed rate interest only loan for \$300,000 when the 3 year cost of funds is 7.5%. With 2 years of the loan term to go they decide to take advantage of low variable rates and break the loan. The 2 year cost of funds at that time is 4.5%. In this instance the early repayment cost is based on a \$300,000 payment with a rate difference of 3% over a remaining term of 24 months. The early repayment cost would be approximately 300x \$60 = \$18,000.

The above table and example should be used as a guide only. Every lender applies their own formula when determining break costs for fixed rate loans.

For more information please contact our office for a confidential discussion.



**Access your loan online through our website!**

**Simply log onto [www.shirefirstmortgages.com.au](http://www.shirefirstmortgages.com.au) and click on "Client Access" where you will find links to your lender's internet banking site.**

## Interest Rates keep falling—What next?

"The outlook for the cash rate in 2009 remains firmly in a downward cycle with levels as low as 2.75 per cent by April priced in by the markets – the lowest seen in Australia since the 1960s"

This quote from Mortgage Business magazine shows how far we have come in the past 6 months. In August this year the cash rate was 7.25% and we have seen a drop by 3% to the current rate of 4.25%pa. If market analysts are correct a further 1.5%pa drop will have a dramatic effect on the home loan market.

Currently variable rates are around 6%pa. A further drop of 1.5% will see variable rates below 5% and save a borrower with an average \$200,000 loan a whopping \$5000 per annum in interest.

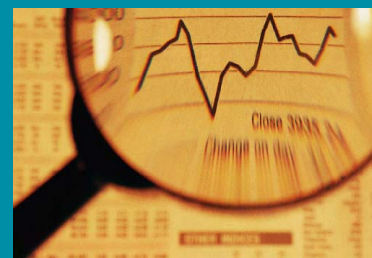
Depending on what happens with the global economy it is predicted that rates will begin to move upwards towards the middle to end of next year.

Fixed rates move independently of the variable rates. At the moment short term fixed interest rates are continuing to move downwards. The best time to fix your rate is at the bottom of the

cycle. Historically fixed rates begin to move upwards before variable rates as lenders begin to anticipate market movement.

As part of our service to our customers Shire First Mortgages will monitor the market and advise you either through our quarterly newsletter or in a separate letter when fixed rates begin to increase so you can make an informed decision about fixing your loan.

For more information on rates please consult your crystal ball or give us a call.



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



## Mortgage News —For anyone who has ever needed a loan

### Fun and Games at the Gymea Village Fair

Thanks to everyone who visited our stand at the Gymea Village Fair which was held on 26th October. It was a hot and sunny day and with estimates of over 20,000 people attending the Fair we were kept very busy. Our special helpers Jessica and Chantal did a fantastic job blowing up and giving out over 600 Shire First balloons before sadly the gas ran out. But it was great to see the familiar blue Shire First balloons standing out amongst the sea of people on the front page of the following Tuesday's St George & Sutherland Shire Leader.

The "Shire First Mortgages" cash booth proved to be an extremely popular attraction. Over 500 people entered the competition throughout the day for their chance to go into the booth and win cash and prizes. There were 10 chances to enter the booth throughout the day and everyone who entered then went into the draw to win our Gold tickets to see Kylie Minogue at Acer Arena. Congratulations to the 10 lucky people who shared in over \$1000 cash and prizes and to the winner of our Kylie tickets. Once again a big thank you to our business partners HomeSide Lending (A division of NAB) for kindly donating these tickets. We also need to thank the helpful Scouts from 1st Bangor Scout Troop who helped out by drawing all the winners for us. Here are some pictures of the winners. More pictures are available on our website.



The Shire First stand



Next chance to win



Drawing a winner



Winner 1 Lee Jeanneret



Winner 2 Anthony Smith



Winner 3 Kim Greig



Winner 4 Keith Lister



Winner 5 Marie Wall



Winner 6 Aaron Jackson



Winner 7 Lauren Deacon



Winner 8 Elizabeth Burke



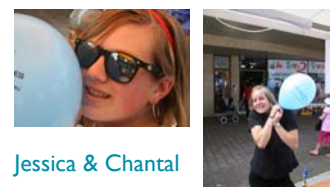
Winner 9 Loren Burrows



Winner 10 Dian Blades



Winner of the Kylie tickets Rod Caire



Jessica & Chantal

Thanks to our business partners for their support on the day: HomeSide Lending, PLAN Australia, PLAN Financial Services, St George Bank, ING Bank, CBA, & Westpac Bank.

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