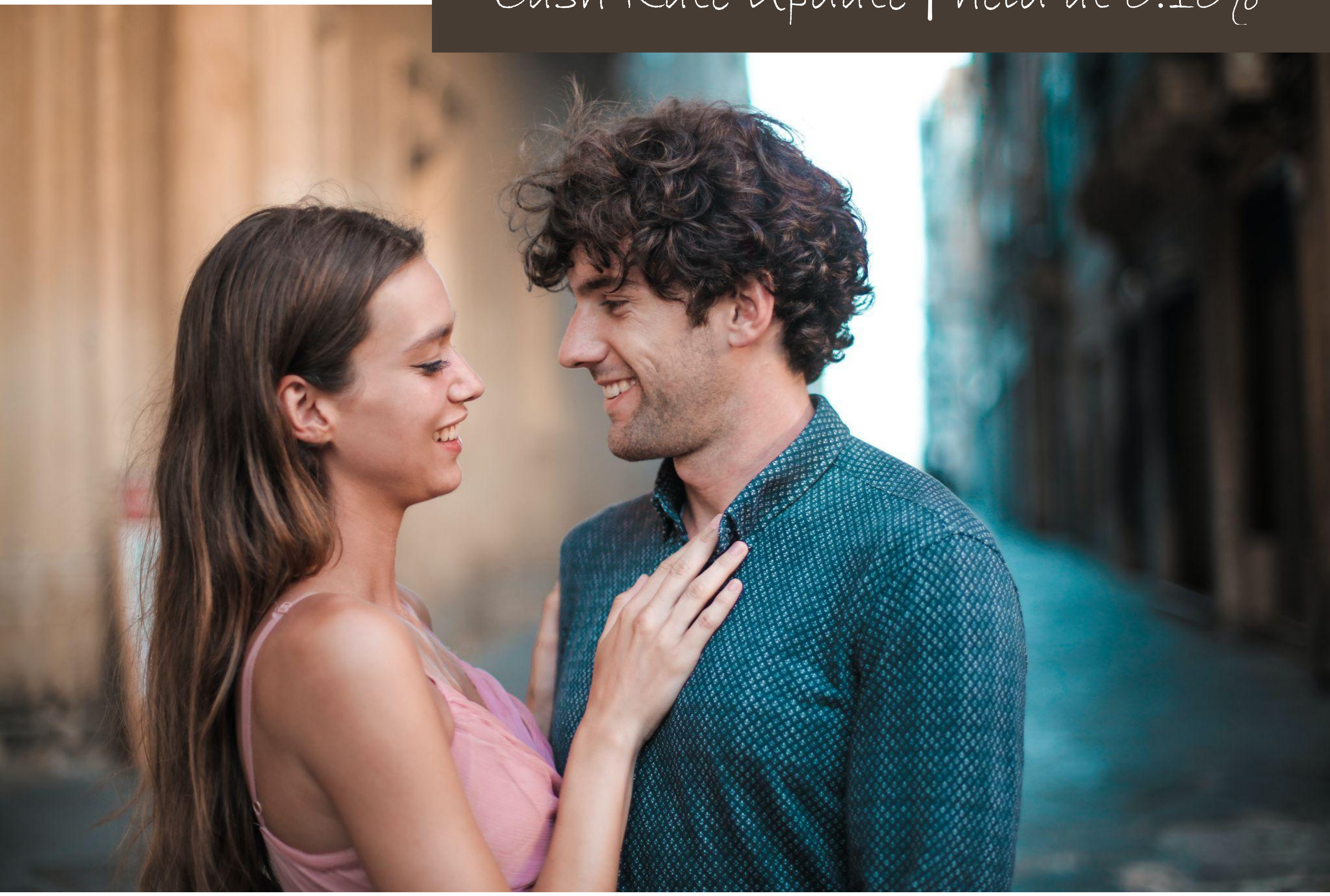
THE MORTGAGE MONTHLY

RESIDENTIAL

Cash Rate Update | held at 0.10%



BUYING YOUR FIRST HOUSE

There are few bigger milestones in life than the purchase of your first home. While it is certainly an exciting process there are a number of considerations you'll need to take into account before you can begin your journey. Most first home buyers will be looking at using finance to buy a property, and with that comes some important factors that they'll need to check off.

Work out your budget

When purchasing a home you need two things – a deposit and the ability to borrow money from a lender. For first home buyers, the biggest hurdle is often getting a deposit together. While most people assume you need to come up with a 20 per cent deposit, for first-time buyers, there are a range of options that can help you get started sooner.

While lenders will want you to typically have some genuine savings together, there are programs in place that can help you get a loan with as little as a 5 per cent deposit. The Federal Government's First Home Loan Deposit Scheme (FHLDS) allows first home buyers to put down just five per cent. With this loan product, the Government will effectively guarantee the loan, helping first home buyers avoid Lender's Mortgage Insurance.

It's also possible to get the help of your family with a guarantor loan. This works in a similar fashion to the FHLDS, in that your family member will use the equity in their home to guarantee that deposit amount and avoid LMI.

Get pre-approved

A good idea for a first home buyer is to start having a conversation with their mortgage broker very early on in the process and discuss getting a preapproval.

A pre-approval is a conditional loan approval that gives borrowers an indication they can potentially get finance, assuming their chosen property meets certain criteria. While it's not a guarantee, it is very helpful as it gives the borrower clarity around exactly what they are able to borrow. It also makes sure they've got all their financials and documentation together.

This will help when the time comes to make an offer or bid at auction, as the buyer has a very clear understanding of what they're able to pay and how that is going to impact their monthly spending habits.

Understand additional costs

When buying a property there are normally a lot more costs than just the purchase price of the home. First home buyers can sometimes make the mistake of not budgeting appropriately for all the additional expenses that can come up early on.

The main cost for most buyers is normally stamp duty, however, a first home buyer can be exempt based on their circumstances and the purchase price of the property. Similarly, a first home buyer can avoid LMI if they are able to qualify for one of the previously mentioned loan programs.

However, there are other costs that will be required to pay upfront, including building and pest inspections and conveyancing costs. When you settle on the property, you'll also have to pay for things like your share of the rates, strata fees, water, as well as insurance.

Being aware of what costs are likely to be involved before making an offer will put you in the best position to budget and move into your new home without any financial stress.

HOW TO INCREASE YOUR RENTAL YIELD

With the sharp rise in houses prices across Australia over the past 18 months, rental yields have been driven lower and lower. For investors, a strong rental yield should be an important part of their overall investment strategy, as it allows them to hold onto the property with less out of pocket costs. Here are a few ways to boost your rental yield:

Adding appliances

Depending on where your investment property is located, the addition of a few different appliances can make a property incredibly appealing. Something as simple and relatively inexpensive as a dishwasher makes a property far more in demand than one without.

The same is also true for air conditioning. If you live somewhere in Australia with relatively hot summers, air conditioning is almost a must. You don't need to go all the way with a large ducted system – a modest reverse cycle unit will suffice in most instances and is a good way to get a slightly higher weekly rent.

Another idea for smaller apartments is to have a built-in washer/dryer unit. Many older apartments don't have space for a washing machine, let alone a laundry. People appreciate the added convenience of having a laundry ready to go.

Timing of your lease

Just like when you're selling a property, *when* you put a property on the market to rent is equally as important. Typically, the summer months are when there is the most demand for rental properties. If your goal is to maximise your rental income, then you should look to find new tenants when there are the most people looking.

While you can't control something like a tenant leaving, you don't always have to go with a standard 6 or 12-month lease. You can stagger the lease so that it comes out of its tenancy during summer to give yourself the best opportunity to attract a solid tenant and obtain a good price.

Renovations

While most people understand that a renovation can add overall property value, it can also improve rental yield. The most obvious place to start with any renovation is the kitchen and bathroom, but depending on your budget, that might not be viable.

In terms of value for money, floor coverings, window coverings and a coat of paint can be a cost-effective way to really improve the presentation of your property and potentially make it more attractive to would-be tenants. With house prices drifting higher to start the new year, trying to afford your dream home is getting harder. Fortunately, there are a number of things you can do to maximise your borrowing capacity without needing to increase your income.

Start budgeting

When lenders assess your borrowing capacity, they look closely at your fixed expenses as well as monthly living expenses. While it might not be easy to reduce all your costs, it's worth examining some of your ongoing expenses that you can potentially trim. Subscriptions and memberships can easily stack up, as well as other non-essential costs. If you're looking at buying a property, it might be worth sacrificing a few luxury items in the short term to make that happen.

Consolidate debt

These days, people often buy things on credit. The main issue with this is that purchases with something like a credit card often attract high interest rates. Things like car loans, personal loans and credit cards can really dent your borrowing capacity. It's worth looking at consolidating your debts and rolling them over to a lower interest rate loan product. This will free up some serviceability. It could also be worth getting rid of your credit cards if you don't really need them, as lenders assess these as if they are maxed out – regardless of how you use them.

Watch your credit score

Your credit score is like a track record of how you have managed credit in the past. If you've got a history of not paying your bills on time, then a lender will likely want to apply a higher interest rate to any loan you take out. This in turn, means you will be able to borrow less money. The good news is that you can start to repair your credit and lift your credit score. Simply paying your bills as soon as you receive them and staying on top of your credit card will help accomplish this. By always paying bills on time, you're showing that you can manage money, which will mean lenders are more likely to want to work with you.

Choose the right home loan product

Depending on the loan features you need and the type of home loan product you want, your interest rate will vary. If borrowing capacity is an issue, it's worth talking to your broker so they can compare home loan products and you can work towards your goals.

A mortgage broker should always be the first person you speak to, as they can assess all of your personal requirements and compare loan products that will suit your needs.

3 WAYS TO GET FINANCIALLY FIT

If you're trying to save money for a house deposit, or simply want to expand your property portfolio, it's more important than ever to get financially fit. By getting your finances together and building a plan that will help you achieve your goals, you'll be well on track to not only purchase that next property but begin the process of securing your financial future.

Here are three things you should do to get financially fit.

Build your budget

We all know the importance of a budget, but when you're trying to achieve big financial goals, a budget takes on added importance. It's even more critical for first home buyers to have an airtight budget as lenders like to see that a potential borrower has the ability to manage money.

When building out your budget it's important to know where all your expenses are going. Start by breaking down the different costs you have each week and then take a close look at what you consider to be necessary and which ones might not be so important.

If you've got a number that you need to reach with your savings then it's important that you are putting aside enough each week to get you to your goal. If you're not, it's time to tighten your belt and look to cut down on things that you don't need.

Consolidate debt

One of the most effective ways to improve your financial situation in a hurry is by getting rid of high-interest debt. It's always advisable to speak to a mortgage broker about your options when it comes to debt consolidation.

Debt consolidation typically involves rolling over your higher-interest debts like credit cards and other unsecured loans into one easy to manage loan with a lower interest rate. This can free up extra cash that you can use to help pay down those debts faster, leaving you in a far stronger financial position.

Review your credit

One of the first things a lender is going to do is take a close look at your credit report to get a sense of what type of borrower you are. If you've been a little sloppy when paying bills and other debts in the past, then that might show up negatively on your credit report.

One of the good things about taking control of your finances is that you can work to improve your credit score. By paying things like bills early, your credit score will improve. It's also important to examine your credit report to make sure it doesn't contain any errors, such as any outstanding debt that you've already paid off.

While these steps might seem small, when you're financially fit, you will be in a far stronger position to approach lenders and start (or continue) to grow your property portfolio.

WHAT TO DO IF YOUR FIXED-RATE LOAN TERM IS ENDING

If you're currently on a fixed-rate loan and the term is coming to an end, you're going to have a few options to consider. Coming out of a fixed term is usually a great time to review your loan with a mortgage broker so you can compare what the best options are for your current situation. Things can change in just a few years, so it's worth examining your financial plan going forward. Here are some potential options you can explore:

Refinance

When you refinance you are effectively paying out your old loan and taking out a new one. This doesn't have to be another fixed-rate loan and you can compare the most suitable options with the help of your mortgage broker. While it is important to consider both fixed and variable interest rate options, there are also a lot of other features that you could be looking at that might save you money. Things like offset accounts and access to other savings through credit cards can be beneficial, and these may not be available with a fixed interest rate loan.

Refix
With fixed interest rates rising, it could be time to consider a lower variable option. Alternatively, if you like the security of fixing your loan and knowing what your repayments are going to be, then you might appraise another fixed interest rate loan. However, a key consideration will be how much flexibility you might need in the near term, as fixed-rate products are typically not that flexible. They often charge fees for additional repayments, or if you want to exit the loan. If your income has increased, then you might not want to stay with a fixed-rate plan either. This is because you can look to pay down a lump sum and reduce the principal component of your loan.

Revert
When a fixed interest rate loan term ends, the loan will typically revert to a standard variable interest rate. While this might be the type of loan you want to go with, the reverted interest rate might not be the lowest available and the loan features might not be what you need. Before reverting, it is worth reviewing your options, goals and what type of flexibility and options you need from a home loan. It might even be possible to obtain a lower interest rate by looking at different lenders, so it's a good idea to assess your loan and compare potential options with your mortgage broker.

FIXED VS VARIABLE RATE CAR LOANS

While most car loans are fixed-rate products, there are also options for variable loans as well. Deciding between a fixed or variable car loan is a matter of weighing up the pros and cons of each and seeing which is more suited to your situation.

Fixed
One of the main advantages of a fixed-rate car loan is the fact you know what your costs are going to look like every month and can budget accordingly. If cash rates move, your car loan won't be impacted so you can have confidence that you will be able to afford any repayments – assuming you're staying within your household budget. However, it is worth considering that if rates fall, your current interest rate will be locked in so there won't be any benefit.

The main downside of a fixed rate car loan is they typically don't allow you to pay off the loan early. On top of this, there is likely going to be charges for any additional repayments you might make. However, all lenders and loan products are slightly different so it's always worth speaking to a broker so they can compare which fixed-rate product might be best for your personal circumstances. Depending on the current interest rate environment, fixed-rate loan products could have higher interest rates than what is on offer for a variable product, as lenders will need to protect their margins.

Variable

While less common, it is also possible to get a variable-rate car loan, which means the interest rate that you're paying will fluctuate with market conditions. That could mean if rates fall, you'll be in a position to save money on your interest repayments. On the flip side, if interest rates start rising, then you will be in a position where your monthly repayments will likely go up.

The main benefit of a variable loan is that it is flexible. If you want to pay off your car early or if you want to make additional repayments, that is normally something you can do without the extra costs and fees that come along with a fixed-rate loan. Depending on the interest rate environment, there can be attractive deals on variable loan products, but again, it's always worth discussing your personal circumstances with your mortgage broker.

At the end of the day, the decision around variable versus fixed really comes down to what you want and whether you value the flexibility of a variable loan or the clarity that comes with having a fixed rate and knowing what your repayments are going to be.

This is general information only and is subject to change at any given time.
Your complete financial situation will need to be assessed before acceptance of any proposal or product.