THE MORTGAGE MONTHLY

RESIDENTIAL

Cash Rate Update | increased to 0.85%

TAX TIPS FOR PROPERTY INVESTORS

With the end of the financial year fast approaching, it's important to consider any tax obligations ahead of June 30.

While property investors should be looking to work with an accountant and other professionals, here are some things to think about ahead of the deadline.

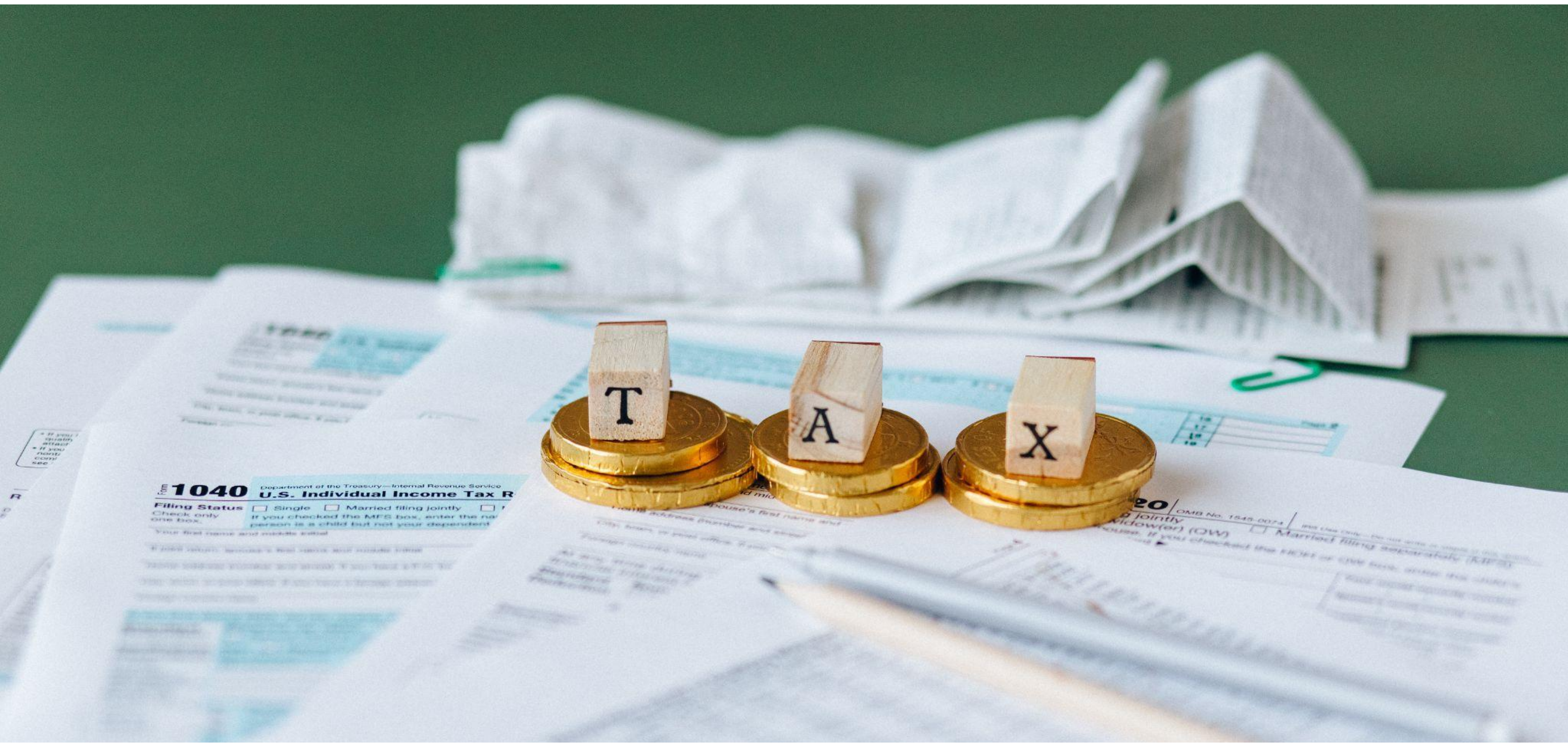
Know your deductions
Property investors are able to claim a host of deductions against their rental income. Knowing what deductions you can claim is important, as is keeping a record of all the work that has been done to your property over the course of the financial year. Some of the most common deductions are:

- Mortgage interest payments
- Property advertising fees
- Real estate management fees
- Renters insurance
- Council and water rates
- Cleaning at the end of a tenancy
- Taxation advice relating to the property
- Gardening and maintenance fees
- Building and asset depreciation

Pre-pay expenses
Depending on your financial circumstances, it might be worth considering pre-paying some of your property-related expenses before the end of this financial year. This could help lower your assessable income, which could be beneficial if you expect a lower level of income next financial year.

Save your receipts
If you're going to be making claims for expenses related to your property, it's important that you keep a record of everything that has been done, including dates, costs and receipts. Many investors might not know that it's possible to keep digital records of all of your receipts. This can be an easy way to effectively manage all your receipts and ensure your records are in order in case you need them.

If you haven't got everything sorted just yet, the sooner you start with good record-keeping the easier it will be in the long run. It's also important to keep track of any input costs, because things such as renovations can be considered capital expenses and may help reduce capital gains taxes.



HOW NEW INVESTORS CAN LEVERAGE EQUITY

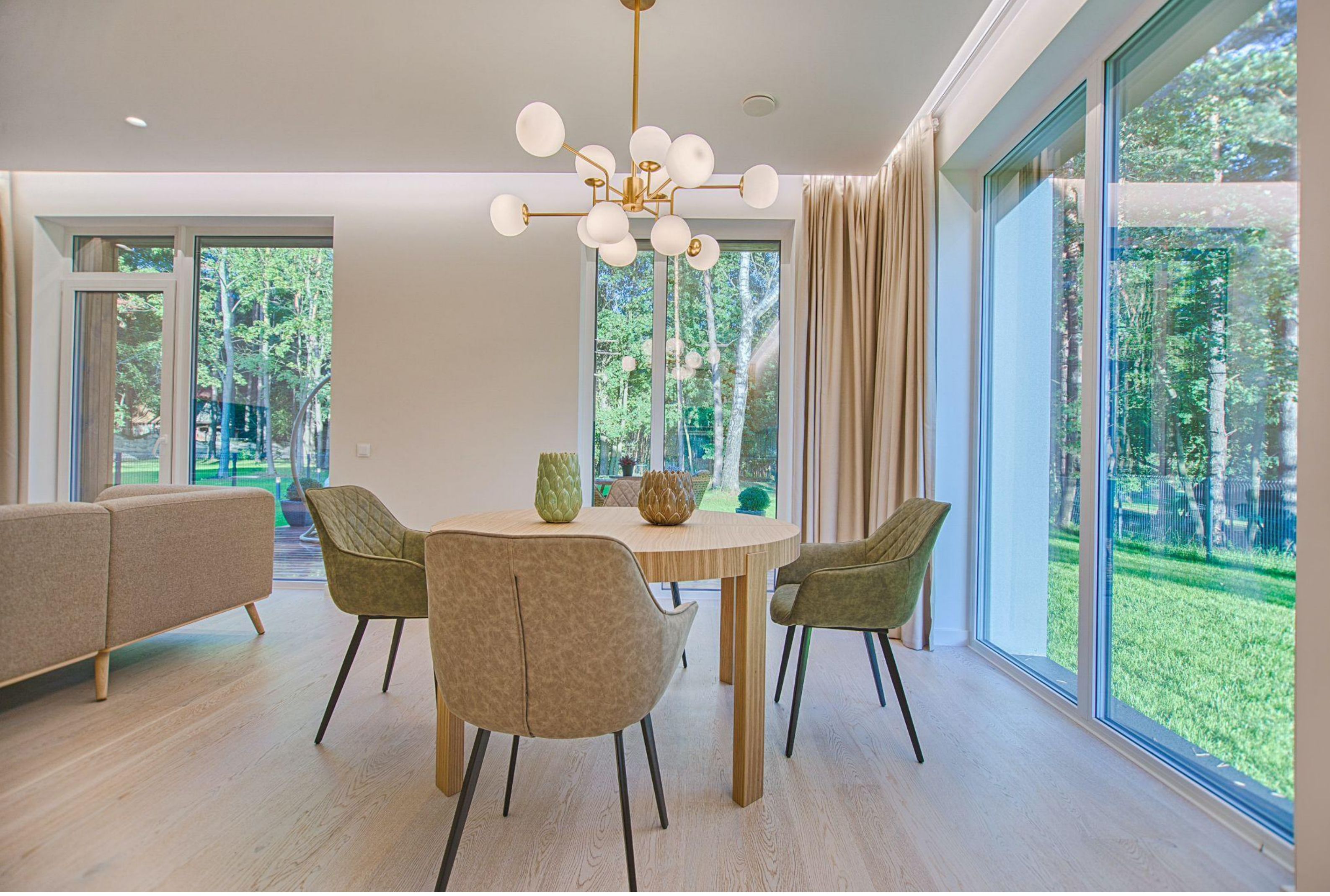
With home prices rising in value over the past few years, you might find yourself in a position where you can use that newly created equity to expand your property portfolio. One of the most powerful elements of owning property is the ability to access equity and put it towards the purchase of an investment property. If you're thinking about starting to grow your property portfolio, this is how you can potentially do it.

Know the equity in your property
The first thing to check is that you actually have accessible equity in your property. Lenders typically like to see that you can put down 20 per cent of the value of your home when you first take out a mortgage. Similarly, if you want to access the equity in your property, they will probably need to see that you have this amount.

If your property has increased in value since you purchased it while you've been making regular principal and interest repayments, you might be in a position where you have extra equity you can use. Sometimes there is the ability to buy a home and refinance with less than 20 per cent equity through tools like Lenders Mortgage Insurance (LMI), however, it's best to speak to a mortgage broker and compare your options if you are under that level.

Refinance
This strategy accesses the equity in your property by refinancing, which is effectively taking out another loan (or multiple loans) and paying out your current mortgage. If you purchased a $500,000 property using a $100,000 deposit and the value of the home has increased to $800,000, you've seen an equity uplift to $400,000.

If you refinance the property, you can leave 20 per cent of the value of the property and potentially access up to $240,000 that you could put towards an investment property. Tapping into your equity through refinancing is an incredibly powerful tool to expand your portfolio.



Use your equity
Once you've refinanced and freed up the equity from your property, you can use it as a deposit on an investment property. The main consideration here is that you will still be required to service both the refinance and the purchase of another property. For example, even if you can access $240,000 in equity, you might not be able to afford a million-dollar-plus property unless your income plus any rent you receive can support that. If you do have the serviceability, you can choose the best way to move forward with growing your property portfolio.

INTEREST-ONLY INVESTMENT TERM ABOUT TO EXPIRE?

If you're currently paying interest-only on your home loan, at some point in the future it will expire and you'll be required to pay off both principal and interest.

Interest-only loans typically only run for a period of 4–5 years depending on your lender, so it's worth planning in advance what you'll do when it expires. Here are some of your options.

Get an extension
It might be possible to get an extension on your interest-only period and continue to pay just interest for another fixed term. This is something that you will need to speak to your lender about and each one will vary in how they might handle this request. They will likely want to see you move to principal and interest at some point, but this will come down to your personal circumstances and your lender.

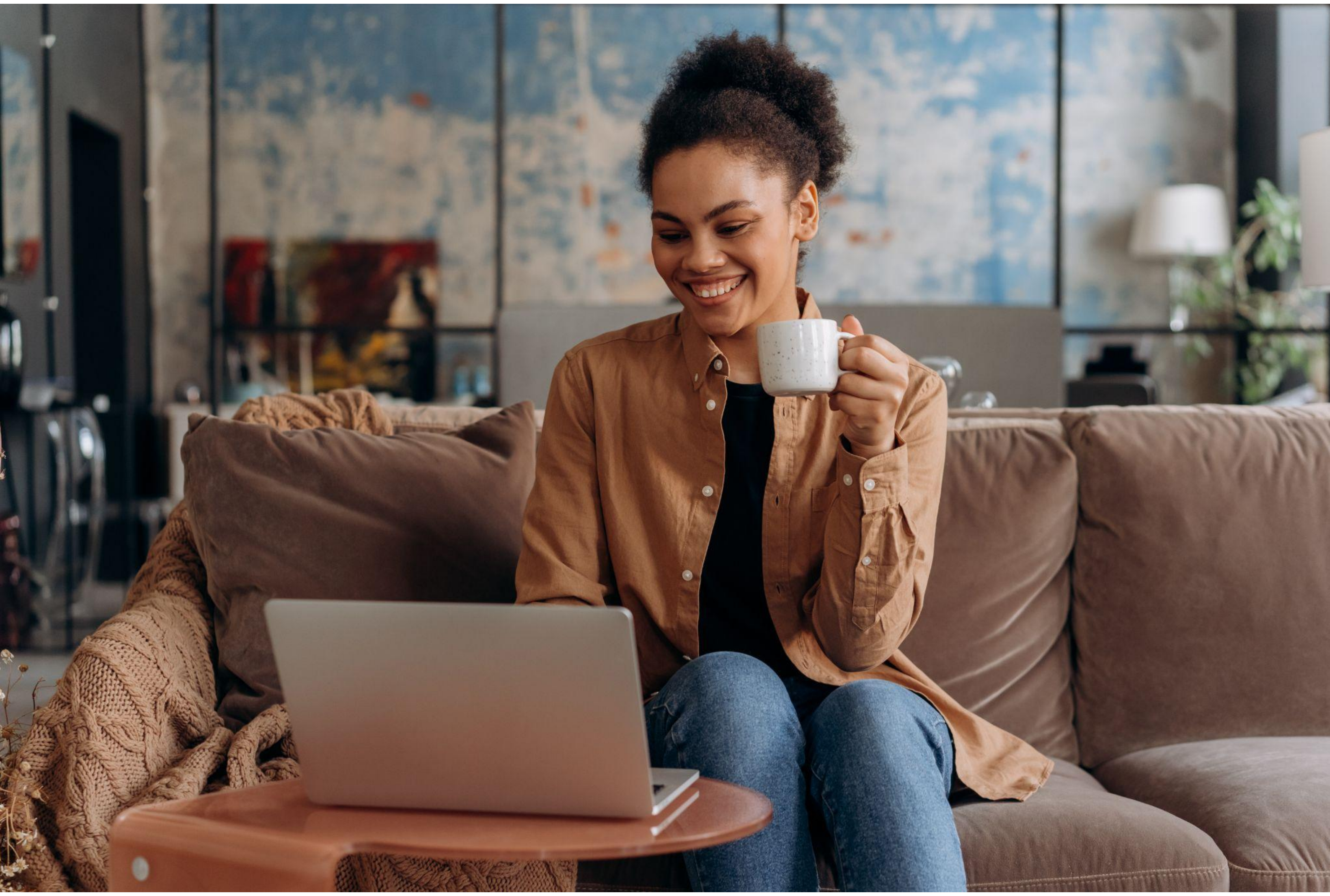
Start repaying principal and interest
Depending on your goals and financial situation, moving across to principal and interest might be an option for you. If you've owned your property for some period of time, you might now be in a position where you're earning higher wages or seen your rental income increase.

However, there are some things you will need to consider beforehand, including how much time is left on your loan. If you had a five-year interest-only period with the total length of the loan being 30 years, then you'll have 25 years to pay down the principal which would mean higher repayments than a 30-year loan term.

Another important consideration is that with a principal and interest loan, you may be able to get a lower interest rate. Lenders might perceive a principal and interest loan as being lower risk and therefore offer a lower interest rate.

Refinance
If you want to keep on paying interest-only, or even if you want to switch, it's worth talking to a mortgage broker and comparing your options. Just because you want to revert to a principal and interest loan doesn't necessarily mean you're going to be getting the most competitive interest rate or the right loan features to suit your needs.

If your intention is to continue paying interest-only, it's worth having a mortgage broker assess the market and see what the right solution might be for your situation. The other important considerations if you choose to refinance are if there are any costs involved, as well as thinking about the new loan term you want to take on and the costs that might be associated with that.



HOW TO ENTER THE PROPERTY MARKET WITH A SMALL DEPOSIT

With the steady rise in house prices we've seen over the past decades, many new home buyers and investors are wondering how they can get their foot on the ladder. Fortunately, there are still ways you can purchase a property without needing a large deposit.

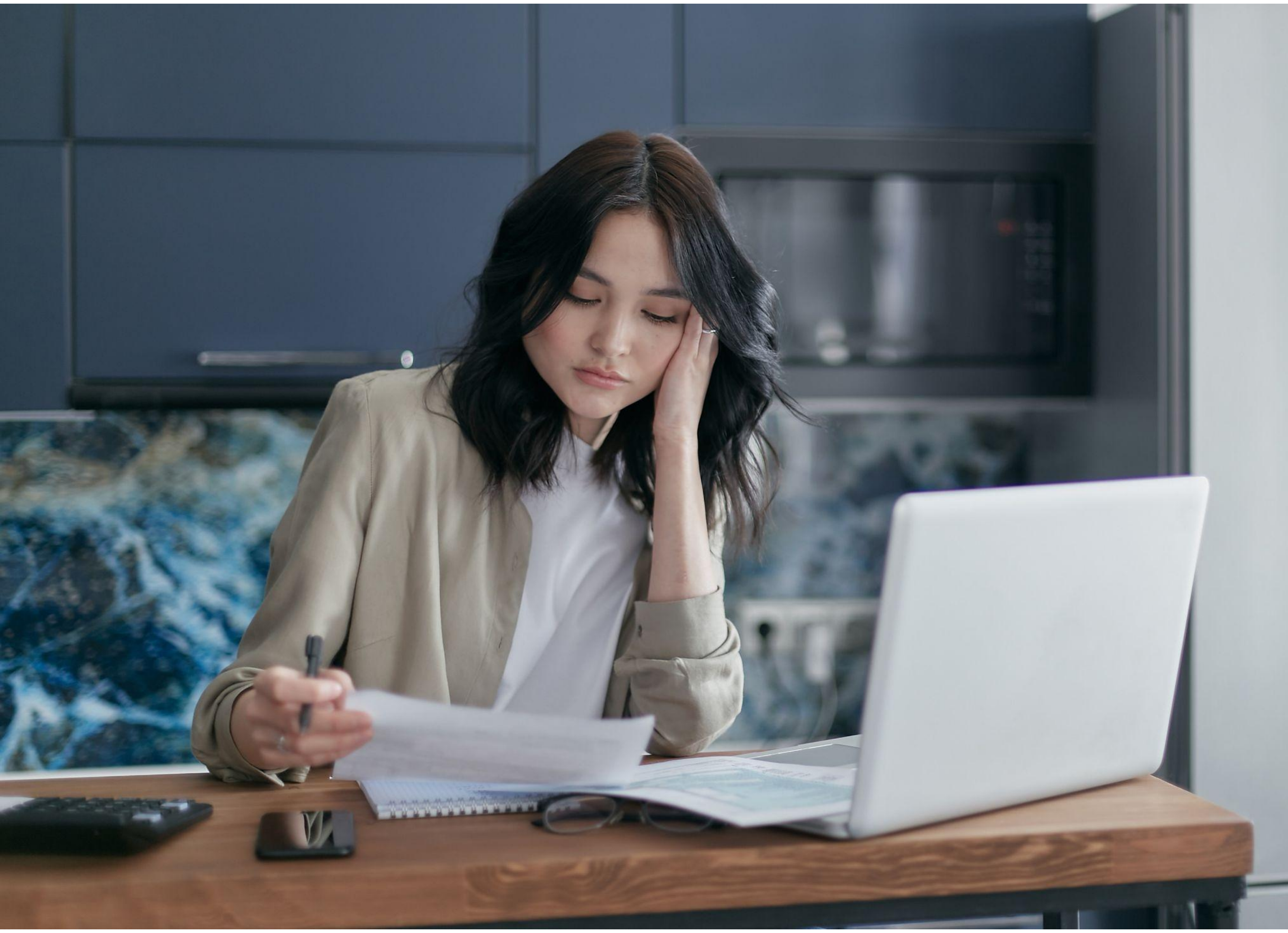
Here are four ways to get started purchasing a property earlier than you might have thought.

Lenders Mortgage Insurance
Lenders Mortgage Insurance (LMI) is a one-off upfront premium that's added to your home loan balance. It is put in place to protect the lender. LMI allows a borrower to take out a mortgage on a property with a deposit less than 20 per cent. The cost of LMI will vary depending on the amount of money you're borrowing, as well as your LVR.

Home guarantee scheme
The home guarantee scheme is a federal government program to help first home buyers enter the property market. The scheme works by requiring a borrower to put down as little as a 5 per cent deposit while the Government will act as the guarantor for the remaining 15 per cent. The goal of this is to help get the borrower up to the lender's 20 per cent threshold. There are also other schemes that fall under this program that allow single parents to borrow with as little as a 2 per cent deposit. Applications are limited to first home buyers that meet certain income and eligibility criteria, and there are certain price caps on homes.

Guarantor loan
A guarantor loan works by having another person, typically a close family member, provide equity or security in their property to fund a portion of the deposit for your home. This is normally only available to first home buyers and it's important to understand that a borrower is still required to manage the repayments and meet serviceability requirements based on their own income.

Purchasing with someone else
If you can't qualify for a loan on your own, it might be possible to buy a home with the help of someone else. If one person has a good income and strong serviceability while the other has a cash deposit saved, you might be able to partner up. This type of arrangement will depend a lot on the goals of the individuals and if you can put a plan in place. This strategy requires knowing how you're going to manage the property and any ongoing expenses, as well as what you're going to do with it if one party needs to sell.



4 WAYS TO BEAT DEALERSHIP FINANCE

When people buy a car these days, many will use some form of finance. While using finance to purchase a car can help you get the vehicle you want now, it's important to make sure you're properly comparing loan options and not just taking what a dealership has to offer. Here are four ways to improve on dealer finance.

Don't be fooled by new cars
Used car dealers can at time have a bad reputation and many buyers will have their guards up when buying a second-hand vehicle. However, it's important to take a close look at any finance being offered from a new car dealership as well. It's always worth comparing any finance on offer with the help of a finance broker rather than just assuming dealership finance is your best option – especially on new cars.

0% or low interest rates
If a deal looks too good to be true, then it probably is. This can often be the case with low introductory offers from dealerships. Typically, a loan product with a low introductory rate might come with higher fees or other higher rates at some point in the future. Be sure to read over the details of the contract prior to signing. It's also worth looking at the details of any dealership finance offer well before taking a car for a test drive.

Base rate vs effective rate
When comparing any loan product, it’s important to examine the interest rate and compare it to other loan products. Sometimes, dealers might quote you the base rate which could vary substantially depending on the way it is structured. It’s far more important to look at the effective or comparison rate to get a clear idea of what you are going to be paying in interest. If in doubt, use a dollar figure to gauge and compare.

Pre-approval
The most effective way to make sure you’re getting a good deal on a loan product is to have already compared the different options from numerous lenders. Generally, the best way to compare loans is with the help of an independent mortgage broker who can help identify suitable products. Taking this one step further, a mortgage broker can help you get pre-approved for a loan which you could then compare to the dealer’s financing offer.