THE MORTGAGE MONTHLY

RESIDENTIAL

Cash Rate Update | increased to 0.35%

HOW TO PREPARE FOR AN INTEREST RATE RISE

With interest rates tipped to rise as the RBA begins to return the cash rate to a more normal level, homeowners are wondering what the best way to handle this new environment might be. Many borrowers would never have faced a cash rate rise, given the RBA hasn't hiked rates in over a decade. Fortunately, there are a number of things you can do to prepare for an interest rate rise.

Look for a lower rate

If you haven't reviewed your home loan in a while, it might be worth speaking to a mortgage broker so you can compare other interest rates and home loan products on the market.

There can at times be lenders that offer competitive introductory rates, or there might be more suitable home loan products for your personal circumstances. You never know unless you speak to a broker and compare your options.

Think about the end of your fixed rate

Over the past few years, there has been a big rise in the number of people taking out fixed-rate home loans. This has proven to be a beneficial move in the short-term, with many borrowers having been able to lock in record-low interest rates.

However, as these loan products come to the end of their term, borrowers will have to look closely at their options. Typically, at the end of a loan term, you can revert to the standard variable rate that comes with the lender's loan product, refinance to a new home loan product or look to fix your rate again at what will potentially be a higher interest rate.

It's well worth comparing your options ahead of time so you know what you are likely going to need to think about beforehand. You can compare your options and how the subsequent repayments might change in the future so you can position yourself with a solution that is right for your personal circumstances.

Get ahead

If your repayments are likely to move higher, then it's worth being proactive and making sure you have a good financial plan already in place. Speak to a broker about what that might look like, so you know what you need to do.

You can look to put money away in advance if required or put together a budget that will help you manage your repayments.

If you've taken out a loan in the past few years, it's likely your rate has been assessed with a serviceability buffer on your loan application. That should give you the confidence that the future repayments are still well within your budget.

HOW TO PAY OFF YOUR MORTGAGE SOONER

The faster you're able to pay off your mortgage the more money you're saving on interest in the long run.

Any chance you have to improve your mortgage or pay down your principal will allow you to fast track the repayments process. However, the most important elements are always increasing repayments and decreasing spending. Here are some ways to help pay off your mortgage sooner.

Offset account

Many loan products come with an offset account, and this is a great way to help save on interest. If you're able to have your income or spare cash put into an offset account, it will effectively save you on interest.

Lower interest rate

One of the most obvious ways to save money is to pay less interest. In today's competitive lending environment, it's well worth talking to your mortgage broker and comparing loan options to see if it's possible to find a lower interest rate.

Flexibility

If you're trying to get ahead on your loan by making additional repayments, you need to be sure your loan product has the flexibility to allow that to happen. Some products, such as fixed rate loans, might not allow you to make additional repayments without a penalty. It's important to discuss your needs with your broker before you take out a loan so you can find a product that matches your goals.

Pay off in lump sums

If you're fortunate enough to receive a bonus, a nice windfall, or an inheritance, it could be well worth paying that off your mortgage. When you reduce your principal component, your interest also drops. This means you will be able to continue to make the same level of repayment as normal, but still pay down the loan faster.

Right features

When you're first looking at your loan options it's vital that you get the right features for your needs. There are a host of different products and packages available, but some of these come with added costs and fees. Only add on what you need, which will let you put any savings towards paying off your principal if you desire.

Increase your repayment frequency

The more often you're able to make your repayments the faster you'll end up paying down your home loan. Paying fortnightly means you're making 26 annual payments compared to 24 if you were paying on a monthly basis. These extra repayments, while seemingly small, will add up over the course of a 30-year mortgage.

3 FACTORS TO CHECK BEFORE BUYING YOUR NEXT PROPERTY

With national property prices growing strongly over the past 18 months, most of the country has seen strong growth in property prices.

However, not all locations move in sync with the national market and some areas will likely perform better than others in the short term. Fortunately, there are some key data points you can check that will determine how likely your new property could see growth in the years ahead.

Like all markets, property prices are a product of supply and demand. If you track what the supply and demand equation looks like in your area, you can get an indication of whether the buyers or sellers are in control of the market at any given moment.

Listings

On the supply side, current listings are a great indicator of how many people are looking to sell in the current market. The higher the level of listings, the more choice a buyer is likely to have and the stronger the position they are going to be in.

In recent years, many markets have seen very limited supply and that has led to upward pressure on prices, as buyers were forced to compete for properties.

Sales

A good metric to determine how much demand there is for a certain location is overall transactions. The more transactions there are, the higher the level of buyer demand. This generally gives an indication that people want to purchase in a certain area. However, if transactions are rising, that figure alone is not always enough to determine that prices could see a rise.

Typically, you need to combine the number of sales on an annual basis with the level of current listings. The more the relationship between the two changes, the more we know that prices will potentially follow whichever side is in control.

For example, if listings are falling and sales are rising, that means properties are being sold quickly and supply is coming under pressure from eager buyers. As that ratio continues to change, we know that upward pressure on prices can potentially follow.

New stock

The wildcard with listings is that it measures only what we can see for sale at that point in time and not what might be coming onto the market. For that reason, it's vital to check if there are large developments in the pipeline that might suggest the market could be flooded in that area in the near future.

Most local Government websites track building approvals, and that can give you an idea of what is coming down the track. You don't want to get into a position where you purchase a property, only to find a large apartment building (or multiple) planned to be built down the street.

GETTING INTO THE PROPERTY MARKET SOONER

With house prices rising sharply it's growing more difficult for homebuyers to come up with a deposit.

Fortunately, there are options out there that allow people to purchase a property without needing to save the traditional 20 per cent deposit that lenders look for.

Lender's Mortgage Insurance (LMI)

If you're unable to come up with the full deposit, it could be worth considering Lender's Mortgage Insurance (LMI). LMI is a premium that is put in place to help protect the lender in the event the borrower is unable to manage their repayments.

LMI allows borrowers to take out a loan with a lender when they have a deposit of less than 20 per cent. The rate of LMI that a borrower is required to pay changes based on the amount of the loan, the property's location and how far off the 20 per cent deposit the borrower is.

The main advantage of a tool such as LMI is that it allows buyers to get into the market sooner. This is especially relevant when prices are rising rapidly like we've seen in recent years, as it can mean a homebuyer is able to purchase a property earlier than they might have otherwise been able to.

If it takes a homebuyer two to three years to save up the required deposit, property prices in their favoured location might have moved beyond their reach.

Federal Government Schemes

If you're a first home buyer, you may have other options worth exploring that will allow you to buy sooner while avoiding LMI altogether.

The latest Federal Budget has seen the First Home Loan Deposit Scheme expanded and rebadged as the Home Guarantee Scheme. Under the scheme, the Federal Government effectively acts as a guarantor for the first home buyer's deposit shortfall.

There are certain criteria that first home buyers must meet, but the program allows you to purchase a property with as little as a five per cent deposit. You will still need to meet serviceability requirements.

Another family home guarantee scheme for single parents works in a similar fashion and allows people to purchase a home with just a two per cent deposit.

The latest budget also included assistance for those looking to purchase in regional areas. Under the scheme, you must be purchasing a new home in a regional location and have not owned a home for at least five years. Under this program, you don't have to be a first home buyer.

Guarantor Loan

The final way to get into a home sooner is with the assistance of family. A guarantor loan works by using the equity in a family member's home as the shortfall for your deposit.

This is for first home buyers who can use the equity in their parent's home to help them grab a rung on the property ladder.

3 'TO-DOS' WHEN BUYING A CAR

Buying a new or second-hand car is not something we typically do all that much, so for many car buyers it can be easy to make a mistake. Fortunately, there are some simple steps you can take to help reduce those chances and get the best deal you can.

Have the right strategy

Before starting your search for a new or second-hand car, you should spend a bit of time comparing the market. Understand what make and model of car you're looking for, as well as how they can vary in price based on features, condition and kilometres travelled.

When you've got an idea of the price that you're prepared to pay, make sure you stick to that budget and hunt down the car that meets your criteria. When you go to a dealership or meet with a private seller, discuss the details around price upfront and don't fall into the trap of taking a car for a test drive first.

Know what you want and what the car is worth before you ever go and have a look at it.

Check the mechanical quality

When you're doing your research on makes and models it's a good idea to look for common issues that come up with that type of car. That can give you an idea of what to look out for.

While it's hard for most people to assess the mechanical quality of a vehicle, a good starting point is to look at the overall condition and make sure there is a full service history.

If you want to be certain, it's worth getting your car inspected by a third-party mechanic who can check that everything is in order.

While dealerships do offer standard warranties for used cars, this varies in each state and only covers you for cars that meet certain criteria such as the number of kilometres travelled.

Organise finance in advance

If you're borrowing money to pay for your car it's very important to organise your finance well ahead of time.

Speak to an independent finance broker and they can help compare your options and start the process of getting preapproved. When preapproved, you know how much you can spend on a car and what your repayments are going to be like.

Dealerships all offer finance, but it's normally only through one lender. This means you might not have access to the best features or interest rates available. Knowing your budget can put you in a stronger negotiating position. It's also possible to get finance to buy a car from a private seller.