

# Market Update

It's looking positive for the mortgage market in 2014. Mortgage enquiries reached four-year highs in the fourth quarter of 2013 and they are forecast to continue rising in the near term, according to Veda Insights<sup>1</sup>.

All states saw year-on-year growth in terms of volume of mortgage enquiries. According to Veda's Quarterly Consumer Credit Demand Index, enquiries rose by 15.3 per cent year-on-year, and four states enjoyed double-digit growth: New South Wales with 22.2 per cent, Victoria with 15.2 per cent, and Queensland and Western Australia, both with 11.9 per cent.

Veda's General Manager of consumer risk, Angus Luffman, said mortgage enquiries and house prices should continue to rise in the "near term".

"An extended period of low interest rates is supporting the lift in mortgage enquiries, which have stepped up a level and are now showing the strongest growth since late 2009," said Mr Luffman.

Driven not only by continued low interest rates, RP Data's Craig Mackenzie suggests strong consumer confidence and public expectations that property values in markets such as Sydney, Melbourne and Brisbane will continue to rise in 2014, will all contribute to a strong mortgage market in the year ahead.<sup>2</sup>

The cash rate is expected to remain on hold well into the year, as weak employment figures continue to offset the strengthening

property market. AMP Chief Economist Shane Oliver said employment is a lagging indicator.<sup>3</sup>

"With more forward-looking economic indicators showing signs of improvement – for example, housing approvals, retail sales and consumer and business confidence – jobs growth should start to improve by around mid-year," he said.

"We have seen housing pick up quite solidly, retail sales figures are now looking pretty good, and while confidence levels are not fantastic, they are now off their lows."

This is supported by recent Roy Morgan Consumer Confidence Ratings suggesting consumer confidence is stable, with Australians being slightly more confident about their personal finances over the next 12 months. The results show 41 per cent of Australians are expecting to be 'better off' financially this time next year, compared to only 13 per cent that expect their family to be 'worse off' financially.<sup>4</sup>

<sup>1</sup> <http://www.veda.com.au/insights/mortgage-demand-double-digits-consumer-credit-relatively-flatccdi-oct-dec-2013>

<sup>2</sup> <http://www.theadviser.com.au/blog/29681-mortgage-market-overview-2014>

<sup>3</sup> <http://www.theadviser.com.au/breaking-news/29634-2014-rate-cut-months-away-economists>

<sup>4</sup> [http://www.rpmonline.com.au/news/11959-consumer-confidence-stable?utm\\_source=Residential+Property+Manager&utm\\_campaign=Residential\\_Property\\_Manager\\_Bulletin30\\_01\\_2014&utm\\_medium=email](http://www.rpmonline.com.au/news/11959-consumer-confidence-stable?utm_source=Residential+Property+Manager&utm_campaign=Residential_Property_Manager_Bulletin30_01_2014&utm_medium=email)

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Is your home loan still meeting your needs?

If your financial or personal situation has changed, or you are considering renovating, it's time to review your loan.

Contact us today to chat about your options.



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# Mortgage Focus

Your guide to mortgages, finance and property

Autumn 2014

Welcome to the Autumn edition of Mortgage Focus.

If the thought of a home loan application puts your head into a spin, this edition can help you get organised and make the whole process much less nerve racking.

We also look at an alternative lending option for the self-employed who may not have the standard documents necessary to apply for a loan. We discuss a simple, low-risk repayment method that could prove to be an effective way to make a dent in your loan.

If you wish to discuss anything outlined in this newsletter, or simply want to chat, give us a call today!

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## Taking the stress out of home loan applications

**The thought of completing a loan application may seem overwhelming, but it doesn't have to be a stressful process. As with many things in life, a little preparation goes a long way...**

Home loan applications need not be a daunting thought! During the application process there are a few things you can expect to encounter. Lenders approve your home loan based on the information provided in your application, so familiarising yourself with the information needed, requirements you need to meet and some general home loan terms, can help ease the process and relieve any anxiety you may be experiencing.

### Identity requirements

Lenders typically ask for as much information as possible. You will require

photographic proof of identity, such as a passport or driving licence, although proof of age card may also be adequate. Secondary documentation is also likely to be needed, such as a Medicare card, rates notice or utility bills no more than three months old.

### Proof of income

It is important that you can fully illustrate your financial situation. To determine the total borrowing available, your payslips, employer references and bank statements will be important elements to include in your application.

### Declaration of assets

For lenders to fully establish borrowing capacity, it is important to declare anything you own. Bank statements for your savings accounts and term deposit accounts are worth bringing with you when applying.



### Establishing liabilities or debts

It is also imperative to establish any outstanding debt you have at the time of the loan application. Financial obligations you should consider can include other loans, credit cards and Higher Education Contribution Schemes (HECS). You must also consider all other repayments or debts you may have in the future.

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## We can help you...

- Get a home loan
- Reassess your current loan
- Refinance your existing loan
- Find a commercial or business loan
- Consolidate debt and free up equity

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### Your expenses and budgeting

Establishing your ability to make your loan repayments, whether monthly or otherwise, is crucial to lenders when approving your home loan application.

When applying, be prepared to account for all your monthly outgoings and expenses. You should document all outgoings, whether they seem small or large. Account for rent, utility bills, phone bills, travel and living expenses. Also factor in leisure activities and expenses such as gym memberships, plus any insurance premiums you pay.

Being realistic and thorough in your preparation before your home loan application will not only help your lender evaluate your situation, it will also give you a good indication of what you can realistically afford.

While you may need to overcome a few obstacles in the application process, arriving prepared can make the whole process run a lot smoother. If you would like to discuss home loan application requirements further, please don't hesitate to contact us for more information.

### Stress relievers

Top tips to help you 'de-stress' whilst carrying out your daily routine

#### Swap coffee for green tea

Green tea contains Theanine, an amino acid that gives flavour to green tea and also promotes relaxation. Theanine is also thought to counteract the stimulating effects of caffeine. Caffeine can worsen the stress response, so take a few deep breaths, sip on some green tea and relax!

#### Exercise daily

Exercise helps to boost endorphins and reduce stress. As little as 20 minutes each day is all that is needed to experience benefits, so try and squeeze some exercise into your daily routine.

#### Listen to music

Listening to soothing music can help you relax! Slow the tempo and you can begin to induce a calm state of mind in life's stressful situations.

#### Arrive early, arrive calm

Leave home earlier than normal – the less rushed you feel in the morning, the less stressed you'll be for the whole day.

# Achieving financial freedom

## With a variety of mortgage reduction techniques available, simple, low-risk fortnightly repayments could prove to be a very effective way to help you reach financial freedom sooner

Whilst line of credit mortgages can be very effective, it is often only the well disciplined who will reap the rewards. A simple solution to reach the goal of financial freedom is to make your repayments fortnightly, which most lenders will allow.

### How it works

With fortnightly payments, essentially the concept is very simple. You make a payment every two weeks, there are 26 fortnights in a year, therefore annually you make 13 payments rather than the 12 you would make with monthly repayments.

### The benefits

Fortnightly payments seem remarkably simple, yet could make a profound difference in the overall repayments during the loan term. This method of repayment could help you wipe up to four years off your 25-year loan term, and may help you save thousands of dollars.

If you can factor the extra repayment into your budget, you'll hardly feel the pinch. Unlike other mortgage reduction techniques, which involve actively managing your mortgage on a monthly – even daily – basis, the fortnightly payment plan can be set up as a direct debit, so you can simply 'set and forget'.

Whilst other mortgage reduction options, such as line of credit mortgages may be effective in mortgage reduction, unless you are a disciplined spender, these may actually be more risky. If you start using your personal savings to buy essentials, the line of credit mortgage loses effectiveness as a method of reducing debt.

It's important to check your chosen lender credits you with 26 payments per year, as opposed to 24 or twice-per-month payments, which are effectively the same as monthly payments. Some lenders also only offer monthly repayments on interest-only

loans during the interest-only period, so be sure to check with your lender that your loan facility allows you to make fortnightly repayments without any extra fees or charges.

If you are really keen to reduce your mortgage amount, your lender may allow you to set up payments over the minimum repayment, whilst keeping the amount manageable. Be sure to ask what your options are.

With fortnightly repayments, not only will you better absorb the impact of interest rate movements, the extra repayments will help reduce the remaining principal balance. Overall, it will reduce the interest you pay and the term of your loan.

## Piggy bank goals

Saving a small amount every day, week or fortnight in a piggy bank or jar can be a great way to save for little treats each month. This is money you can spend guilt free, knowing you have taken care of all your expenses and your new compulsory savings.

### Empty your pockets

At the end of each week, empty your pockets and pop the small change in your wallet/purse, the loose change on your desk or in your car in a savings jar or piggy bank. On a day-to-day basis you won't miss this money, but at the end of a month you could have a nice sum to treat yourself!

### Save for a monthly goal

If you would like to go for a special meal or have an activity in mind that you'd like to have a go at, put away a few dollars every day to help pay for it. This way, you can treat yourself without noticing a chunk of your bank balance disappearing! For example, saving \$4 a day could give you around \$120 with which to treat yourself at the end of the month!



# Attracting long-term tenants

## Whether you have a single property or many, no investor wants an empty rental property to become a drag on their portfolio. Planning, effective management and investing a little effort can help investors find quality, long-term tenants

### Planning

If you have yet to purchase a potential rental property, an important factor is to investigate rental demand and potential. If you buy in a location with high demand, you are more likely to secure a continued flow of interested tenants. Beyond this, you should also consider how property size, type and character will impact on appeal.

### Effort to find a quality tenant

It is important to put effort into finding a quality tenant from the outset.

Whilst bypassing screening procedures may fill the property quicker, selecting poor tenants could cost a lot more. Don't rush – effort invested in finding the right tenants will pay off in the long term.



### Management – keep the property in good condition

Always ensure your rental properties are well maintained and nicely presented – even when vacant – as this could be a crucial deciding factor for a potential tenant.

When leased, keep the property in good repair to encourage your tenants to stay for longer. Preventative maintenance to keep the property fresh, such as regular painting and new carpets, will benefit you as a landlord in the long term.

### Management – good rapport with tenants

Try to develop a good rapport with tenants – engage with them and find out how they are getting on. Nurturing this relationship may mean that you receive more notice regarding changes to the tenancy, and it may make them more amenable to future inspections.

# Self-employed does not mean 'on your own'

## For many Australians, self-employment can allow flexibility and more freedom. However, a drawback for some self-employed individuals is difficulty in obtaining home loans

With many lenders tightening their credit policies, borrowing can become tricky, especially for the self-employed.

For the self-employed, meeting the standard home loan lending criteria can be difficult, the process can take longer and larger deposits are required due to the increased risk of cash-flow fluctuation.

### 'Low-doc' home loan option

The low-doc home loan option is a more flexible financing solution for the self-employed who have income and assets, but may not have the usual paperwork and

standard income verification documents necessary to apply for a loan.

They generally do not require traditional proof of income. Lender dependant, borrowers will normally need to provide confirmation of their self-employment status – such as a registered ABN held for over two years.

Up-to-date tax returns and financial statements are generally needed to confirm and verify income. Lenders may even require business activity statements (BAS), trading statements or a letter from your accountant.

However, there are often limits on the borrowing total, with lenders only allowing you to borrow up to 80 per cent of the total purchase price before the additional requirement of lender's mortgage insurance.

Traditionally, the interest rate offered is higher than for the standard variable rate,



but recently this has been changing to bring these to the same level. Also, you can often transfer to a better rate once you are able to demonstrate your income.

Not every lender will accept home loans from low-doc borrowers and some will require more documentation, but this shouldn't deter self-employed borrowers from seeking home loan approval. To help improve your chances of low-doc loan approval, you may want to consider talking to a mortgage broker about your options.