



Govind Sami
Director

Interest rates are the topic on everyone's lips. We're often asked for advice from clients worried about what the rise in interest rates will mean for their home loan repayments.

It's with this in mind that we have dedicated two articles to the topic of interest rates – 'watching rates with interest' and 'fixed vs variable rate home loans'. These articles provide a background to the factors that affect interest rate fluctuation, as well as outlining the pros and cons of moving to a fixed rate home loan.

The article below deals with another topical issue – the housing affordability crisis and how it has prompted increased innovation and flexibility in home loan lending.

Lastly an article on non-bank lenders and their position in the aftermath of the US credit crisis.

Enjoy this newsletter and feel free to share it with family and friends.



INNOVATIVE
FUNDING



WATCHING RATES
WITH INTEREST



FIXED VS VARIABLE
HOME LOANS



NON-BANK
LENDERS

Innovative Funding

With housing affordability at a record low, you may be wondering how you will ever make a go of it in the home ownership market.

Thankfully the rise of innovative lending products is creating more options for borrowers starting out. As housing prices continue to rise, lenders have begun developing products that put home ownership back within easy reach.

One such product is Equity Finance Mortgage (EFM), a new type of home loan that is still hot off the press.

Using EFM, you can buy a home for as little as 5% of the deposit because the EFM lender provides a loan for up to 20% of the value of the house. You don't pay interest on this 20%, which significantly reduces your

monthly repayments. As you now have a larger deposit, made up of both your savings and the EFM loan, you may not have to pay any Lenders Mortgage Insurance (LMI). This may save you thousands initially when compared to a traditional loan arrangement.

When you sell the property, you repay the EFM amount you originally borrowed plus up to a 40% share of any increase in the value of the property. If there is a loss in value, the EFM lender wears some of that too. This type of loan may not suit all borrowers but it does offer an innovative alternative to establishing a traditional mortgage requiring either a large saved deposit, or a large LMI premium payable.

As your broker, we stay abreast of all new lending products and are more than happy to discuss these with you.



We are members of the Mortgage & Finance Association of Australia (MFAA), the peak industry body.

All members are bound by a strict code of ethics to ensure the highest levels of service, integrity and professionalism.

Watching Rates with Interest



If there's one thing most of us don't like hearing about, it's another rise in interest rates.

While no one can predict whether rates will keep rising, the Reserve Bank (RBA) has indicated that further hikes are on the cards.

The RBA's latest quarterly review of the economy* reveals inflation is moving upward to reach levels of 3.5 to 3.75 per cent through next year and into 2010.

"If this is not reversed reasonably quickly, the recent pick-up in inflation carries the risk of generating an upward drift in inflation expectations, which could feed back into wage- and price-setting behaviour," the February RBA Statement on Monetary Policy says.

"Absent a further shift in economic risks to the downside, monetary policy is likely to need to be tighter in the period ahead."

As Australia's chief regulator of monetary policy, it is the Reserve Bank's role to encourage economic growth by

keeping inflation within a target band of 2 to 3 per cent. The main tool of monetary policy is setting interest rates, so when inflation is forecast to move over 3% in the long term, the RBA puts on the brakes and raises rates.

When interest rates go up, banks and other lenders have to pay more interest on the money they owe, so these costs are fed on to consumers. This means the interest rate you're charged on your home loan, personal loan or credit card move largely in line with the RBA's interest rate changes.

The idea behind raising rates is to put a lid on consumer spending. The more interest we pay for our borrowings, the less likely we are to borrow as much or spend as much - hence a slow-down in consumer demand.

The Reserve Bank states that low unemployment, above-average growth in real wages and tax cuts are helping to boost spending power. The expansion of the Chinese economy is fuelling growth in global commodity prices,

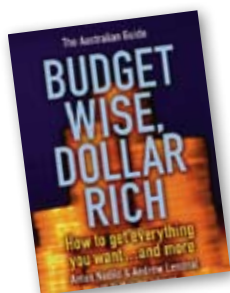
particularly for Australia's mineral exports. This in turn stimulates business investment and national incomes.

On the other side of the equation the bank warns that global economy and financial markets remains a major source of uncertainty. Should the tighter credit supply negatively impact on Australia, inflation would fall more quickly than is currently forecast.

Given the uncertainty about the future, we are committed to providing you with the best possible lending deal for any given situation. Whether interest rates rise or lower we can advise you of the best course of action for your financial situation. Bring us your wish list and you may be surprised what solutions we have to offer.

*Source: 11 February 08 RBA Statement on Monetary Policy (http://www.rba.gov.au/PublicationsAndResearch/StatementsOnMonetaryPolicy/statement_on_monetary_0208.html)

Book Review



Author - Andrew Lendhal

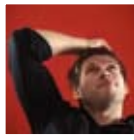
RRP - \$24.95

Publisher - Exisle Publishing Ltd

Source - www.dymocks.com.au

Budget Wise, Dollar Rich - An Australian Guide

Budget Wise, Dollar Rich is the book that thousands of ordinary Australians have been waiting for: a book that explains in simple terms how to budget effectively in the short term, for the longer term and also for retirement. The authors have had years of experience in giving people basic budgeting advice. They go through every stage in the process: how to manage your income, how to pay off debts, how to set goals, how to save money, how to pay off your student loan. Full of handy practical tips, Budget Wise, Dollar Rich also includes many worksheets for the reader to fill in, making this book both a financial guide and a personal workbook.



Fixed vs Variable Home Loans

To fix or not to fix? It's a question that has become increasingly common in the wake of rising interest rates.

Unfortunately there's no simple answer, as your decision to choose a fixed or variable home loan largely depends on your financial situation and personal preference.

The good news is that as your broker we can assess your individual situation and help you make an informed decision that will bring long term benefits. For example, we can advise you whether the advantages of switching to a fixed loan outweigh the fees you will encounter along the way. We can also outline the pros and cons of switching loans based on your income stream, lifestyle needs and financial goals.

Fixed rate loan

Fixed rate loans best suit home owners who are on a tight budget and like the certainty of knowing exactly how much each repayment will be.

On the downside, many fixed loans charge for extra repayments and early payout. This means you will be financially penalised if you want to pay off more than you originally planned.

Also consider that fixed rates are generally higher than the cheapest variable rate, so by locking your loan into a fixed rate for three to five years you are gambling that you will come out ahead. Without a crystal ball no one can know whether interest rates will go up or down over this time!

Variable rate loan

Variable rate loans have more features and greater flexibility than fixed rates but can be risky if you've overcapitalised on your loan. If you are sticking with a variable loan in this climate of rising interest rates, it's important to plan for the possibility of having to make increased repayments. Should rates rise, you need to feel confident that you will be able to adjust your budget accordingly.

Split rate loan

If you can't make a decision between fixed or variable, a split rate loan is a good option. It allows you to divide your loan between fixed and variable interest rates, which gives you a foot in both camps.

The fixed rate part of your loan is protected against interest rate rises, and the variable part of your loan allows for the flexibility of making additional payments without penalties.



Did you know?

Fixing the interest rates on your home loan is not the only way to protect against rate hikes. Here are a few more strategies worth trying:

- ▶ Review your budget. Work out where you can cut spending to free up funds for extra repayments.
- ▶ Ask for help. Talk to us as soon as you start having trouble making repayments and we'll work with you to help you keep paying off your loan.
- ▶ Review your mortgage. Consider whether you have the best product for your changing financial needs.
- ▶ Use redraw. Top up your loan when times are good, giving you readily-available funds to call on when finances are tight.

Non-bank lenders

When the US credit crisis hit, the safety of non-bank lenders came under question.

As non-bank lenders generally fund their operations through offshore investors, it was thought that they would be more vulnerable to the global credit squeeze.

Time has since proved the critics wrong, as non-bank lenders have demonstrated their ability to weather the storm.

The reality is that we have seen interest rate rises from both bank and non-bank lenders alike. While banks predominately fund their home loans through their retail deposit books (the savings of their customers), they also supplement these deposits through offshore investors. This means that like non-banks lenders, banks are also impacted by the pricing in credit markets.

The degree of exposure to global funding (also known as wholesale funding) varies from bank to bank, just as it does from one non-bank lender to the next. Some non-bank lenders, for example, receive their funds from financial institutions rather than wholesale markets, which removes much of their short term funding risk.

Non-bank lenders have an important place in the mortgage market because they have increased the choice available to you as the borrower. If you were shopping around for a mortgage 15 years ago, your options would have been mostly limited to the four big banks. The emergence of non-bank lenders has seen better interest rates for home buyers and more innovative products appear on the market.

It's a common mistake to confuse non-bank lenders (also known as mortgage managers) with mortgage brokers, when in fact their roles are quite different. While non-bank lenders go into the financial markets, obtain funds and then offer these funds to borrowers, mortgage brokers don't actually source the funds themselves.

Our role as your mortgage broker is to work with a large panel of lenders to find a loan that best suits your needs. Because we have access to many different lenders and hundreds of home loan products, we can give you the security of sourcing loans that most closely match your personal financial situation.



Profile

With over a decade of mortgage brokering experience and with over 35 lenders, we will find you the most suitable and cost effective loans. We strive to become the personal banker for life for all our customers by making the application process as hassle free as possible. We are also about facilitating your financial goals and plans for the future. We provide an efficient and honest service to all our customers.

We have a reputation for tailoring loans to all types of borrowers including newly arrived migrants, customers with no savings, Lo doc loans for self employed customers etc.

Depending on your particular situation we can usually arrange ongoing interest rate discounts between 0.5% to 0.8% off the standard variable rate.

Pacific Home Loans is a Full Member of the Mortgage and Finance Association of Australia (MFAA) and a Member of Credit Ombudsman Service Limited (COSL).

Our main strength and the reason for its continued success is loyalty to you, the client and the capacity to handle all your needs.

BRISBANE BRANCH DETAILS

Pacific Home Loans Krishna Swamy
7 Mackie Road Branch Manager
Narangba QLD 4504 p: (07) 3888 8943
f: (07) 3888 7432
PO Box 445 m: 0424 223 018
Narangba QLD 4504 e: kwamy@people.net.au

DISCLAIMER: This newsletter is intended to provide general news and information only. Readers should rely on their own enquiries before making any decisions touching their own interests. Please do not rely on any part of this newsletter as a substitute for specific legal or financial advice.



Pacific Home Loans
PO Box 227
Liverpool NSW 1871

With compliments

t

02 9822 5333

f

02 9824 1922

m

0419 242 305

e

govind@phls.com.au

w

www.phls.com.au