



SEPTEMBER/OCTOBER 2008 | NEWSLETTER



Govind Sami
Director

It has been a while since we've been able to bring you the good news story – that interest rates are heading down. Read our lead article to find out why rates are predicted to be cut and what our economists predict will happen in the coming year.

We also cover another important trend – the fall in housing prices. In this increasingly strong buyers' market, we look at the issues involved with both buying and selling your home.

Our article, "Steps to Home Ownership", walks you through the process of buying a home

from start-to-finish for those just entering the home ownership market.

"Renovating to sell" outlines how renovation can be used as an option for increasing the value of your home and maximising its saleable potential.

Lastly we review the topic of interest-only loans and how they can be useful for a variety of applications.

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



**RATES
HEADING DOWN**



**STEPS TO
HOME OWNERSHIP**



**RENOVATING
TO SELL**



**PAYING
INTEREST ONLY**

▶ Rates heading Down

Interest rates could sink as low as 8 per cent within a year. It's the sort of news that just a few months ago would have been inconceivable, yet now economists believe rates will be cut repeatedly until they are at 2006 levels.

A Reuters survey of 20 financial institutions found virtually all expect the Reserve Bank to make between three and six rate cuts over the next year. The U-turn on interest rates comes as the domestic economy continues to cool, bringing about a reduction in inflation over time and opening the door for interest rate cuts.

Many experts now say that a big rate cut is needed to kick-start economic activity and avoid a further slowdown.

The Westpac-Melbourne Institute leading index of economic activity points to growth being well below trend and at its slowest pace since mid-2001. The Reserve Bank forecast for economic growth has also been revised down to just two per cent. Weaker consumer spending

and home-building activity, higher fuel costs and deteriorating global conditions are all believed to have played a role.

Of course interest rate reductions spell good news for borrowers. Now may be the right time to review your mortgage and finance options, and as your Mortgage Broker we can advise you how best to benefit from these changes now occurring in the marketplace.



The Mortgage and Finance Association of Australia is the peak industry body for the mortgage and finance industry. Members are bound by a code of ethics to ensure the highest levels of service integrity and professionalism.

"WHAT'S HOT"

Pacific home loans has launched their website.

www.phls.com.au

Visit our website and register your details in "Contact Us" to

win a trip for TWO to Fiji.

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Steps to Home Ownership

As Australian house prices start to fall, more people are being encouraged into home ownership.

The market conditions make the decision to buy a lot easier—now you just need the right house, at the right price with the right finance. Follow these steps and you should be able to achieve all three!

Step 1: Set a realistic budget

Being realistic about what you can afford to buy is an important place to start. Even if you have to compromise on the area or type of property, at least you'll have your foot in the door of the property market.

When calculating your budget, remember to include the costs involved in buying a property

like stamp duty, mortgage and establishment fees, conveyancing, valuations and building inspections.

Also keep in mind that when lenders evaluate your borrowing capacity they look at your credit rating and your income earning ability. The way you've managed your credit arrangements and your capacity to repay the loan through a regular income will count for more than the strength of your assets.

Step 2: Find the right loan

By researching your mortgage before you shop for a house, you'll be in a better position to know how much you can borrow.

We can save you a lot of time and effort by doing the hard work for you.

By researching the type of loans that would suit your lifestyle and financial position, we can provide you with the details necessary for you to make an informed decision.

We can also discuss getting pre-approval for your borrowing capacity before you begin your search.

Step 3: Make use of government rebates

The Federal Government's \$7,000 First Home Owner Grant can go a long way to reducing the amount of deposit you need to save. There are also additional incentives provided by state governments where stamp duty or transfer duty is waived or reduced for first home buyers.

Not everyone is eligible for these grants so check this out before you start looking.

Step 4: Do your research

Be prepared to look at a lot of houses to get an idea of quality and price. Research the three Ps – position, price and potential – by subscribing to property research reports and checking out property guides.

When you find a property you're serious about, make sure you commission a building and pest inspection. It also makes good sense to hire a professional valuer to provide their opinion on whether the asking price is in keeping with the value of the home.



Book Review

100 Great Extensions & Renovations

By Philip Jodidio • RRP \$ 85.00 • Publisher: The Images Publishing Group



This book looks exclusively at extensions and renovations. There could hardly be a more topical subject in contemporary architecture. A colourful new book showing that the trend today is towards extensions that are modern but not aggressively different from their 'parent' structures. Making spaces work together, and making old spaces seem new, the examples selected in this exceptional book vary intentionally, from the modest to the spectacular, from the purely contextual to the willfully contradictory. More precisely, there is a taste for making the past new, for celebrating the juncture between old and the modern, yesterday and today.

100 Great Extensions & Renovations is a must have for all those currently renovating or planning to do so.



Did you know?

Spending too much on renovation carries the risk that you'll never recoup these costs when you sell.

Avoid over-capitalising by calculating your costs backwards. First research what sale price you think you could achieve by looking at the sale prices of other similar sized renovated homes in your area. Then work out the maximum you can spend to make a return on your investment.

For example, if \$600,000 seemed a common selling price and you calculate the renovation costs to improve your property would be \$60,000 – plus purchasing and selling costs of \$40,000 – then every dollar below \$500,000 down to what you purchased would be your profit.

Renovating to Sell

Renovating your home can put it ahead of the competition in today's buyers' market.

The secret to success is to make sure your renovations are realistic, achievable and ultimately add value. Don't fall into the trap of over-capitalising and ending up with a home that costs substantially more than its market price.

Establish a budget and stick to it

Take the time upfront to work out the costs in detail and you are less likely to run out of cash mid-way through the project. Your budget should take into account labour, materials, council fees, design fees and inspection costs, plus include up to 20 per cent as a contingency fund.

Make a commitment to stick to your budget and stay true to what you originally planned.

Spend your money wisely

Bathrooms, kitchens and backyards are the top three areas of your property to focus on when renovating as these will

usually give you the best return on your investment. A modern kitchen, a large functional bathroom and a landscaped garden with outdoor entertaining area are all saleable improvements.

Other in-demand features include accommodation for the car (garage preferable) and additional living areas like home theatres. Most experts agree that natural light, open spaces, fresh air and noise control will maximise resale value.

Always take into account the tastes of potential buyers – renovate to your target market, not to your personal tastes.

Protect your investment

Make sure your builder has a licence number that is current and adequate for the type of work being carried out (check online through the Department of Fair Trading or equivalent). They should also have building insurance that will cover you for defective or incomplete work.

Sign a contract before you start that outlines what the job entails, how

much it will cost and the payment schedule. Ensure it covers all potential requirements and leaves no room for builders to claim for variations.

Get the right financial advice

There are lending products that suit most renovation situations, whether it's a small project like upgrading your kitchen, or a larger job like an upstairs extension. As your mortgage broker we can talk you through the options – such as using the equity in your home, making use of a revolving line of credit or applying for a construction loan.



Paying Interest Only



You may have heard of an interest-only loan and wondered if it is as good as it sounds.

As its name suggests, an interest-only loan is a type of loan in which you pay only the interest on the principal balance. This doesn't mean you will never pay the principle, it simply means that for a set term – usually 5, 10 or 15 years – you can make interest-only payments.

As you are only repaying the interest component, these loans have lower repayments than principal and interest loans. They offer most of the same features as standard loans and their interest rate is dependant on whether your loan is fixed or variable.

Interest-only loans are suitable for any number of applications—from buying a new home or refinancing an existing loan to paying for home renovations or obtaining bridging finance.

Reducing your loan commitments has the advantage of generating cash flow and freeing up your disposable income for other family commitments or alternative investment opportunities.

If you are looking at maximising the tax benefits of property investment you

may want to consider taking an interest-only loan, as only the interest portion of your payment is tax deductible.

This type of loan also allows you to buy investment properties with a lower loan commitment. However, you need to consider the risk that the property could decrease in value over the interest only term.

During the interest-only years of the loan, the loan balance will not decrease unless you make additional payments towards the principal. This means at the end of the interest-only period you must repay the principal in full or refinance to another loan.

Keep in mind that interest-only loans require careful management, so are best suited to investors and borrowers with a good head for money. They should only ever be considered a short term option that can be used to your financial advantage.

Contact us if you wish to talk through the pros and cons to work out whether it's the right loan type for your 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.

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With compliments

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Now may be the time to REFINANCE your HOME

Refinancing can

- * Lower your monthly payments
- * Lock in a lower rate
- * Clear your credit card debts and save \$\$\$'s
- * Get additional funds for home improvements or for any other worthwhile purpose.

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