

Home Financing



Paul Woodley



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I've just moved into my home at Matraville. Isn't packing-moving-unpacking a whole barrel of fun?

It's hard to believe Summer's just around the corner. Historically this is a busy time for buying and selling property. At present there appears to be some conflicting market forces at play. High interest rates & uncertainty in financial markets are keeping a lid on demand. But counteracting this is a critical undersupply of property, highlighted by skyrocketing rentals. Add to that, government forecasts of 1 million extra people living in Sydney by 2020 and you'd have to guess that sooner or later the current flat Sydney residential market will start to head north. All eyes will be on the RBA's interest rate setting over the coming months.

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Choosing A Home Loan

A recent report highlights the multitude of home loan options on the market. Here are some tips to help make your choice less of a gamble.



The Australian Consumers' Association has just released a report on the complex world of home loans. In the report they state that, whilst the interest rate is still a very important feature for most borrowers, other fees and charges, flexibility and peace of mind are also important.

Look out for fees

Fees and establishment costs can make a big difference to the amount you pay. The comparison rate, or annualised average percentage rate (AAPR) is an 'effective interest rate' that takes into account these charges, making it easier to compare loans.

Typical fees include:

- **Application fees.** Lenders may charge an upfront establishment fee and application fee.
- **Valuation fees.** Lenders may also charge for a valuation of the property. This is normally payable even if your loan doesn't get approved.
- **Exit penalties.** Check the costs for early repayment of the loan or refinancing. They can be

a flat fee, several months' interest or a percentage (around 1%) of the original amount borrowed.

- **Lender's mortgage insurance.** Depending on how much you borrow compared with the amount you paid for your house, you may be required to take out lender's mortgage insurance. Typically you will have to insure if the Loan to Value Ratio ("LVR") is over 80%, although for some lenders the bar is set at 85%. This insurance can be expensive, especially if you want to borrow up to 100% of the value of the property.

Features

Home loans have many different features which can affect their overall cost and convenience:

- **Extra repayments.** Some loans, particularly those with a fixed interest rate, may limit the amount you can pay off your loan without having to pay a break fee.
- **Redraw facility.** If you make extra payments you can get the money back later. This can have considerable tax advantages and provide useful security as you can store your savings in your mortgage. Some redraw facilities are much easier to access than others and may involve some costs.
- **Mortgage offset accounts.** This lets you deposit money in an account and receive interest in the form of a reduction in the interest due on your loan. Because offset accounts don't actually

pay you any money they don't add to your taxable income, so offering some tax advantages. Some offset accounts can be used as your everyday transaction account, while others are only suitable for putting your savings into.

- **Repayment holidays.** Some home loans allow you to take a 'repayment holiday' for a short period such as six months. Sometimes you can only make use of this feature if you've made extra repayments, or you may have to make higher repayments after the repayment holiday to make up for it.
- **Fee Exemption.** Some lenders may give you an exemption from the fees and charges on other accounts such as a free transaction account.

Expert assistance

According to Cannex, the financial research company, there are over 2,000 home loan products on the market today with varying features, fees and interest rates.

Finding the right home loan will take some time, but it can save a lot of money. This is where a mortgage broker can help. As the Australian Consumers' Association states:

"They explain your options, match your needs with lenders' products, and assist with paperwork and loan application forms."

The Skill of Negotiation

So you have found the dream house and now its time to get down to business and clinch that deal. This is where it becomes interesting and often games are played. Realise how to be the winner and come out on top with your effective negotiation skills.

Negotiating the sale of a house involves a lot of preparation and fact finding to ensure you are happy with the final outcome. With an uncertain and volatile property market it becomes an even more important skill to have so here are a few tips to help you along the way.

Do your research

If you asked twenty people what they thought a particular house was worth you would probably get twenty different numbers!

Before you even think about putting an offer on the table gather as much information as possible. Start by looking at recent sales for similar houses in the street and suburb, and do some on-line research of houses currently on the market. Then back that up with actual inspections of some of those houses. You want to ensure you are comparing houses in very similar conditions which you can only realise by inspections.

Once you have looked at the general market, start to look into the specific property itself. How long has it been on the market, has it dropped from an original price, has there been any prior serious offers that have fallen through and why? The agent will be able to provide you with this information.

Remember that information is power and will also give you the confidence to complete the deal.

Make the offer

Now that you are armed with knowledge, it's time to put in an initial offer. But first establish a few boundaries such as what are acceptable settlement periods for you as well as a maximum price you are prepared to offer.

Establish a starting offer that is realistic for both yourself and the vendor, as the last thing you want to do is kill the negotiation at the beginning by insulting them with a ridiculously low price. Don't forget to have the contract reviewed by your solicitor prior to an offer being made.

Riding out the negotiation process

It is rare for a vendor to say yes to the initial



offer, so accept that this could take some time. In the meantime ask the vendor's agent many questions such as what offer the vendor would accept, their motivation for selling and ideal settlement terms. You may be able to discover some particular terms that could motivate the vendor to accept your offer.

"Remember that information is power."

Stick to your original boundaries and if this means that the deal fails don't assume this is the end, but be happy with the fact that you stuck to your guns. The last thing you want to do is

make an offer that you feel is too high and then feel resentful afterwards.

If the vendors don't end up selling you may find them contacting you later down the track for further negotiations. Often vendors start out with high expectations that need to be levelled out by a month or more of being on the market.

Conclusion

Negotiating, and hopefully successfully completing, the sale of a house requires research, patience and perseverance. Any failed negotiations will only make you a better negotiator next time.

Remember that this is a long term purchase decision, so try to make the negotiation process one that leaves you with a feeling of success.



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