



# Mortgage Insights

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Though borrowers again face an increase in their mortgage repayments, rates are still below historical averages

## Welcome to our April newsletter

**The Reserve Bank of Australia (RBA) pushed interest rates up again earlier this month, increasing the official cash rate to 4.25 per cent.**

The Australian economy is continuing to move forward with pace. While this certainly bodes well for employees and employers alike, it has also prompted the RBA to look closely at containing inflation.

Gross Domestic Product (GDP) grew 0.9 per cent in the December quarter last year – the fastest growth in almost two years. This took the annual pace to 2.7 per cent, close to the historical trend growth of 3 per cent.

Business conditions have also improved, climbing five points to eight, reflecting better trading conditions and employment opportunities.

In line with improving business conditions, employers added 194,600 jobs in the five months through January, the biggest increase in more than three years, driving unemployment down to 5.3 per cent in March 2010.

However despite the current strong economic performance, some economists believe that rates may have already peaked this year.

Westpac's chief economist Bill Evans recently said that after a further 25 basis point move in May or June, the RBA may pause for the remainder of 2010.

According to Mr Evans the RBA will "buy time to assess the complicated interaction of the resources boom and a heavily indebted household sector coming to terms with a rapid increase in interest rates."

Though borrowers again face an increase in their mortgage repayments, interest rates are still below historical averages.

To hedge against further rate increases, there has never been a better time to look closely at your household budget and consider where there may be scope to trim back on discretionary spending, channelling additional funds into savings, or better still, into your mortgage.

If you'd like to review your current commitments – or to simply chat through current market conditions – please feel free to give us a call.

Sincerely,

**Pat Cranshaw**



## Outsource or in-house – property management for investors

### Do you have the time or inclination to manage your investment property?

A key element of long term successful property investment lies in the management of your property.

Finding good tenants is essential for any landlord, but keeping them happy can be a challenge. Successful property management is not just down to collecting the rent on time, it's also ensuring the property is well maintained and that problems are dealt with in a timely manner.

The question is: do you take the job on yourself or bring in the professionals?

#### Benefits of doing it yourself

Without doubt a major draw card for self-managing your property is that you will save money as agents typically charge around five to seven per cent of the monthly rent for their services.

If you live within close proximity to your investment property you may also feel that you'd like to build a personal relationship with your tenants and be available to fix problems when they arise.

If you own a new house or unit there is likely to be less need for maintenance, or if you're a dab hand with a hammer and saw you may be able to keep costs down on repairs on an older property.

#### Benefits of engaging an agent

But not every landlord wants to deal directly with their tenants and many prefer to hire a property manager.

Some landlords may feel uncomfortable negotiating increases in the rent whereas a property manager can remain detached. A property manager is also likely to be more familiar with market rental rates, which can be reassuring for the tenant when pushing up the rental price.

In addition, a property manager will ensure that there is a structured process to regular inspections, which can help reassure tenants that their interests are also being considered.

And when your tenants decide it's time to move on, a professional is likely to have access to a bigger pool of potential tenants – which could mean cutting down the time that your property lies vacant.

If you're seeking a good manager for your investment property, we have some great relationships with local agents, so give us a call.



## Line of credit mortgages

**Whether you're looking to move quickly to capitalise on property investment opportunities or drive down your home loan, a line of credit can be a powerful tool – but it is not without risk.**

#### How does it work?

A line of credit is an interest-only home loan that can offer borrowers instant access to any repayments made to the principal sum.

Borrowers can choose how much or how little of their loan they repay each month – as long as the monthly interest repayments are met.

#### Who is it for?

A line of credit is essentially for investors and borrowers who aim for aggressive mortgage reduction.

Investors favour this flexible product because they can quickly redraw money up to

the original agreed loan amount without making a new application to the lender.

Used with self-discipline, it is also possible to take years off the life of your loan, but be warned: it can also add years to your repayments if you dip into the loan too regularly.

Borrowers may pay their full salary directly into their loan each month to drive down the principal, using a credit card with an interest free period that is linked to the account to pay for monthly living expenses.

At the end of the month, the required amount can be withdrawn from the loan to pay off the credit card and the cycle begins again. But if you don't repay more than you would with a principal and interest loan you'll end up multiplying – not cutting – the amount you end up repaying.

The interest rate on a line of credit is also generally higher than a standard variable rate loan as you're paying for a lot of features. So make sure that you use the features available, otherwise it's worth considering a different type of mortgage. Please give us a call to determine whether a line of credit mortgage is right for you.



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## Give your children a financial education

**Money is one of life's most valuable commodities, so it is important to develop good saving skills from a young age. Try these simple tips to help educate your kids about money.**

Almost one third of all personal insolvencies in Australia last financial year occurred among people aged 35 and under. More obviously needs to be done to educate young people about money management and debt, and the best place to start is at home.

Here are a few helpful tips to get your kids thinking about investing in their future:

- **Have an allowance scheme:** Rather than buying your children items on demand, give them a small sum (say \$10 to \$15) each week to manage. This will get them working to a budget (and you won't always feel like their personal ATM).
  - **Create a savings account:** Open a savings account for your children with a passbook rather than a card, as this will make it more difficult for them to withdraw money once it has been deposited.
  - **Talk to their school:** Find out from your children's school whether it has a money education program and see how you can help your child put these initiatives into practice at home. For example, the Commonwealth Bank offers a program called 'StartSmart' for primary and secondary school children to educate them on the importance of saving.
  - **Encourage your child to get an after school job:** If your children are at an eligible age, encourage them to get an after school job with minimal working hours. Not only will this give them a sense of freedom and independence, it will also help them to understand how money is earned – which may help change their perception on unnecessary spending. It will also help boost their CV when it comes to securing a full time role.
  - **Talk about money:** Most importantly, be a sounding board for your children's questions and concerns regarding money. If they know they can come to you if they experience money problems at an early stage, it will be easier to help guide them back on track.
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## Wine review

### Kirrihill Clare Valley Cabernet Sauvignon 2008

This hearty red from the South Australian Clare Valley region carries classic Cabernet characters of blackcurrant and crushed violets on the nose and a palate of plum, mulberry and dark cherry. Fermented in separate parcels to maximise the extraction of colour, flavour and skin tannins, this wine represents the best varietal expression of the diversified Clare Valley region.



RRP \$14.99

[www.kirrihillwines.com.au](http://www.kirrihillwines.com.au)

## Book review

### Making \$#IT Happen

Everyone has an idea. But how do you turn that idea into great results? This book gives you the confidence you might be looking for to take that entrepreneurial leap to achieve success. It's time to take the good ideas in your head and make them a reality, starting with this motivational piece.



**Author:** Peter Sheahan

**Publisher:** William Heinemann Australia

**RRP:** \$34.95

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## Contact us



You can contact Patrick Cranshaw and the Perigee Financial team on the details below:

**P:** 07 3889 9719

**F:** 07 3889 9716

**M:** 0400 422 300

**A:** PO Box 5661, Brendale, QLD, 4500

**E:** [pat@perigeefinance.com.au](mailto:pat@perigeefinance.com.au)

**W:** [www.perigeefinance.com.au](http://www.perigeefinance.com.au)

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