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Welcome to our December newsletter

Borrowers are again starting to feel the pinch of higher rates and the December rate hike will certainly put the brakes on Christmas spending for some.

The Reserve Bank of Australia (RBA) has now bumped rates up by three quarters of a per cent over the last three months and there are indications that there will be further increases next year.

What is perhaps most worrying to some borrowers is the decision by some lenders to hike their rates above the RBA's quarter of a per cent. Some borrowers now face almost half a per cent extra on their repayments, which will certainly put more pressure on their household budget.

Though we are now firmly in an upward rate cycle there is no indication that rates will go up as quickly as they came down at the end of 2008.

While the Australian economy can look forward to a period of growth, the global outlook remains bleak.

The RBA will be cautious about denting fragile confidence through heavy-handed rate rises however it will seek to curb excessive consumer spending with the moderate tightening of the cash rate.

So over the coming six months it is well worth looking at how you can tighten up on your own household budget to either free up extra cash flow for savings, or alternatively channel more funds into reducing your high interest debt such as credit or store cards.

Look first at where you can trim your spending in the most painless areas and put those extra funds to good use.

And as the banks react in different ways to interest rate rises, it is also worth keeping an eye on what you're being charged in comparison to what other lenders are offering. You could be looking at the difference of as much as a quarter of a per cent between bank home loans, so now just might be a good time to switch to a different lender.

If you'd like to chat through the current interest rate environment, or you're curious to see what rates other lenders are offering, feel free to drop us a line.

I hope you enjoy the holiday season,

Sincerely,

Pat Cranshaw

The facts about negative gearing



Negative gearing is a popular technique with Australian property investors because of its tax advantages, but it is not without risk.

There's no doubt negative gearing has been one of property's biggest buzz words in recent years. And there's good reason why: with the right approach it can provide great tax advantages and cash flow benefits favoured by many landlords

So what exactly is negative gearing and how does it work? Gearing essentially refers to the act of borrowing to invest. A property becomes *negatively* geared when the costs of owning it exceed the income it produces – i.e. you are making a loss.

Why would you choose this approach? For investors there is one key reason – to maximise the return on their initial investment, or in other words, minimise the amount of money that they put down on the property from their own pocket.

For a simplified example, an investor buys a \$500,000 property, puts down \$100,000 (or 20 per cent of the value) of their own money, and takes out a \$400,000 interest only loan.

Over a 12 year period let's say the property doubles in value, so it is now worth \$1 million. When the investor sells the property, and repays their \$400,000 interest only loan, they will recoup a gross figure of around \$600,000.

That represents a gross return of \$500,000 on their initial \$100,000 investment. But remember that out of this figure there will be selling costs, any rental shortfall over the period and of course capital gains tax.

Nonetheless this opportunity to significantly magnify a small investment by gearing (or borrowing) remains popular as an investment strategy.

There are also associated tax benefits for negatively geared properties as there may be an opportunity for the landlord to offset any loss against their taxable income.

Take care however: negative gearing is a game that requires caution.

Be very wary of developers' promises about the potential for future returns on an investment, and do as much research as possible to ensure you are making a sound investment.

It is also essential that you seek professional advice on the tax issues associated with negative gearing and never borrow beyond your means. If you have some concerns, or would like some more information, please feel free to get in touch.



Deposit bonds – the cash alternative

If you've got cash but it's all tied up, a deposit bond could be the solution you need to secure that new property.

Whether you already own property, managed funds or collectables you may find that when the perfect opportunity arises, the cash you'd like to put down as a deposit on property is locked away elsewhere.

In the worst case scenario, liquidating assets at short notice may mean making a loss – or at the least not maximising potential returns. In such instances a deposit bond may be the perfect solution to raising a deposit to secure a property.

What is a deposit bond?

Put simply, a deposit bond is an alternative to a cash deposit. It is in fact an insurance policy whereby an insurer guarantees the vendor that it will pay the deposit at settlement without any cash actually changing hands.

Deposit bonds are particularly useful for property investors who may be rich in terms of assets but cash poor.

Deposit bonds can be well suited to long settlement terms or if you're purchasing property off-the-plan. This can allow you to liquidate other investments once they have matured, or are at their peak rather than when the situation dictates.

Another advantage of a deposit bond is that the associated costs are generally low, especially when compared to other finance solutions such as bridging finance or personal loans, where interest rates can be high.

What to consider

Like any financial product you need to exercise caution and consideration when using a deposit bond.

While they may sound like a perfect way around your cash problem, they aren't a guaranteed green light; moreover, some vendors, developers or real estate agents may not accept them.

To avoid any misunderstandings and contract disagreements discuss the use of a deposit bond with the vendor and / or agent to ensure they are willing to accept it before you progress too far into your negotiations.

There is also the unlikely but possible scenario that you default on your deposit bond. While the insurer will only provide the bond if they are reasonably satisfied you can support it, these things do happen.

In this case the insurer will provide the funds to the vendor and then seek the recovery of the deposit from you.

If you'd like more info on deposit bonds please give us a call and we'll run through your options.



Selecting an agent

When it comes to selling your property the help of a professional real estate agent is invaluable, but it's important you choose one carefully.

Selling a home or investment property is a major step. Employing the assistance of an agent can ensure a smoother, quicker, and less stressful process as well as attracting the best sale price.

While there is always the temptation to sell your property privately to save on fees, this can be a false economy in the long run.

A good agent can generally offer a much wider forum through which to promote your property; they also have a network of prospective buyers that can be pointed in your direction.

There is also the added incentive of engaging a veteran negotiator who can maximise your chances of selling for top dollar, therefore offsetting their agency fee.

Of course, the degree to which an estate agent will be able to assist you will vary, so it's important to select your agent carefully.

Ask around – Check with friends and family about their experiences with local agents. They may be able to recommend an agent they really liked working with or know of one with a good reputation.

Test the water – Approach at least three agents and compare, first of all, how they make you feel. Did you like them? Did you trust them? Are you confident in the way they approached your meeting and how they might interact with prospective buyers? What about their office and receptionist? Listen to your instincts and avoid any agents who make you feel uncomfortable.

Plan of action – A professional agent should be able to produce a formal marketing strategy to show exactly how they are going to market your home. Also ask for a list of recent sales to demonstrate their performance.

The whole package – Although it's tempting to choose the agent who tells you they'll get the highest price, don't be fooled into choosing an agent on price alone. There are agents who will inflate this figure just to secure your listing, leaving you disappointed when they cannot in fact sell your property for that price. The best way to know what your property is worth is to have it valued by a professional, unbiased valuer. This will also put you in a stronger position when liaising with prospective agents.

A fair price – Agents charge a commission anywhere from between one and three per cent of the selling price. While this is a point to consider, don't let it be the deciding factor.

Wine review

The Crossings Marlborough Sauvignon Blanc 2003

This Sav Blanc is sourced 100 per cent from the Crossings Brackenfield and Medway River vineyards in Marlborough's Awatere Valley, where the fruit is ripened uniformly and with maximum flavour intensity. It reveals tangy lime flavours on a finely textured palate with a lovely aroma of vine passionfruit mixed with citrus notes.



RRP \$19.95

www.thecrossings.co.nz

Book review

Borrowing brilliance

Imagine being able to solve all your business and personal problems with one book. Former aerospace scientist, Fortune 500 executive, inventor and software entrepreneur David Kord Murray shows you how in *Borrowing Brilliance*. Murray outlines a six-step process he is confident that anyone can use to create their own business innovations. Each chapter contains real-life examples of how the best ideas are actually someone else's. And if brilliance can indeed be borrowed, Murray says it is easily within reach of all of us.

**BORROWING
BRILLIANCE**

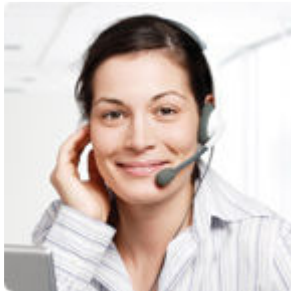


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