



# "The Insider"

*Growing together*

*Edition 2 2006*



*Mortgage News and Tips for you*

## First-time investor rush hits the local market

**We thought last year was a busy one. If the amount of transactions being processed in our office is any indication, this market seems unstoppable.**

A staggering number of people have contacted us looking at purchasing investment properties over the last few months.

These have been predominantly mum-and-dad ventures motivated by significant increases in their home equity. There are also a number of new immigrants who

have brought large cash deposits to Australia. Both groups want to know what is the best investment move for them to make.

**Some of the questions that we are being asked are:**

1. Where should we buy? Should we be looking north or south?
2. Should we buy a unit in a larger complex requiring less maintenance or a single residential house?



### Have you ever heard about the benefits of a buyer's agent?

**Perth property buyers now have access to what are called "Buyers Agents".**

Upon signing a listing agreement for a property, a real estate agent is agreeing to work in the best interest of their seller.

A buyer's agent works in reverse, negotiating on behalf of the purchaser, not the vendor.

We can put you in touch with a group of Perth Buyer's Agents, who are part of a licensed valuation firm and can work on your behalf when you're negotiating a property purchase.

These agents offer varying packages from simply negotiating a purchase



contract on your behalf down to a complete property purchase analysis. They can provide a list of properties in your price range, which have been analysed for the best capital growth, rental yield and tax benefits.

Contact your Accrete Finance Broker to be put in touch with a buyer's agent now.

3. Should we be buying land and building an investment property?
4. Which of these will give us the better rent return and capital growth?

Although Lorrelle and Lisa are licensed to be able to give clients investment advice it isn't something that we really practice on a regular basis.

Our main focus at Accrete is, and has always been, on structuring our clients' mortgages in the best possible way to maximise convenience, tax benefits and more.

There are obviously pros and cons for all of the above scenarios that clients are inquiring about and it will really depend on your individual circumstances as to which is the best way for you to go.

That's why some of you may want to enlist the help of a buyers agent - read about them on this page.

# “My home is worth...”

**Choice Home Loans has been in this business for many years, and while some things never change, something very important certainly has. It's about the value of your home.**

In the past, when we would ask clients during a refinance, or when they were looking at selling their home and financing a new one, 95% of people always thought their home was worth thousands more than it really was.

No wonder banks ask for official valuations rather than just asking the owner!

## **What's happening now?**

For the first time, due to such rapidly rising property values, many clients are underestimating their home's value, by THOUSANDS!

If you've been thinking you might have some equity to be able to purchase an investment, a car or to use for any other worthwhile purchase, you might have even more equity than you think!

## **Get rid of those high interest debts**

While interest rates have risen .25%, they're certainly better than personal loan or credit card rates, so now might be the time to combine your debts under one low rate.

Keep in mind, since you would likely be saving a few hundred dollars in payments per month by doing so, it's a smart financial move to make some extra payments when you can.



Call us now to discuss your own financial situation and find out the real value of your home.

## Tips for Homeowners

### **Why would you want insurance that only covers some of your belongings?**

Doesn't that sound like a crazy concept? Of course, we understand few people would do this on purpose, but it happens often.

Are you renewing the same home contents insurance policy year-after-year, without considering what new belongings you might have accrued in the mean time?

That new plasma TV, piece of jewellery, painting, or even expensive additions to your wardrobe all need to be considered for insurance purposes. What if a fire took it all away tomorrow? Would you be comfortable replacing some of these items out of your own pocket?

### **And don't forget the home itself!**

Remember also that your home's structure rises in value each year and so should your home building insurance. This is not in relation to your home's market value, but the cost of rebuilding the entire structure.

Building costs continue to rise year-after-year. So it's a good idea to have your property valued by someone qualified to value for insurance (replacement) purposes or seek the assistance of a quantity surveyor.

Should your home be damaged, your insurance company will consider what percentage of your home's value is insured and will likely cover that percentage of the damage incurred.

The Australian Securities & Investments Commission (ASIC) prepared a detailed

report on *Getting Home Building Insurance Right* in September 2005. It can be accessed at: [www.asic.gov.au](http://www.asic.gov.au)

Click on Publications, then Reports and Papers.



**Make sure your home and all of its contents are properly insured.**

**WATCH THIS SPACE!**  
**Accrete Financial Solutions**  
**will have our website up-and-**  
**running by the time you**  
**receive your next edition of**  
**The Insider.**

## What good is a rising market?

**A rising market does plenty to increase a homeowner's personal wealth - or does it?**

If your house was worth \$250,000 two years ago and your suburb has risen 10-15% on average per year it could be worth well over \$300,000 by now, depending on your home and the suburb in which it's located. How could this NOT be good news?

Well, if you decide to sell your home and upgrade, the home you purchase will have risen during that time as well. So, while you'll be receiving more money for your current house, you'll also be paying more for the new one.

It's actually investment property owners who really benefit the most from real estate booms.

If you own an investment property that has risen 10-15% over the last two years, you could retain that property and use the equity that's built up as a deposit on another investment property.

As you can imagine, if you did this a number of times at the right point in the real estate cycle, you could build yourself a substantial real estate portfolio.

So, your next question must be, "do I qualify for an investment property?"

Read our example on page 3 and call us to discuss your own eligibility for an investment purchase.

To grow together

## Investor's corner

# How does Mr John Investor land himself an investment property?

**Yes, while most first time real estate investors will end up in a "negatively geared" situation (where they must contribute a sum of money to the investment each week), the capital growth potential and tax deductions make it worthwhile.**

John Investor would like to purchase his first investment property.

John earns \$60,000 per year and would like to purchase a house for \$250,000, which he expects to rent out for \$200 per week. Including Stamp Duty and other purchase costs, he needs to borrow \$261,500.

Based on a sample rate of 6.9% on an interest only loan over 20 years, John's payments toward the investment property would be \$104 per week.

This takes into account incoming rent and the outgoing mortgage interest payments, accounting costs, insurance, land tax, a maintenance budget, council and water rates and a \$500 sundry budget.

Provided the property's value rises roughly 10% per year, John would be able to use the 20% equity in two years' time to purchase another investment property, increasing his portfolio.



## Why investors are attracted to 'interest-in-advance' loans

**It's coming closer. Tax time. It's also the time of year when many investors come to us for 'interest-in-advance' loans. Why would you want to pay interest in advance? Well, there is a major tax advantage in doing so...**

Interest-in-advance loans are similar to most standard fixed-rate, interest-only residential investment loans but with one key difference: borrowers can pre-pay the next year's interest and claim it as a deduction in the current year.

This means that come July, eligible investors can get a portion of their interest back in the form of a tax deduction.

### Who does it suit?

Interest-in-advance loans suit property investors who are eligible for tax

deductions on interest paid and wish to bring their deduction forward to an earlier financial year.

They most benefit investors who have a big tax liability one year but not the next. By pre-paying next year's interest and claiming it now, they can legally maximise the tax benefits of investing.

Therefore, interest-in-advance loans can be beneficial for more experienced investors with a well-researched and planned long-term strategy. Healthy cash flow or good savings habits are needed in order to pay the fixed sum of interest (often \$10,000 or more) at a set time each year.

Call us to discuss whether this strategy will suit your financial situation.

Do it quickly though, as tax time is just around the corner!

## Is there such a thing as 'good debt'?

**Have you ever heard of investment property loans being referred to as 'good debt'? This is because the mortgage interest and a number of other specific expenses qualify as tax deductions, giving you a huge savings on your tax bill each year.**

The loans on your own residence, cars, boats and other personal debts are considered 'bad debt' because there is no tax benefit involved, and because the asset depreciates.

This is why it's a good idea to make your investment property loan 'interest only' allowing the smallest repayment and the biggest tax benefit, while you pay the most you can toward your home loan, reducing the interest as much as possible.

Why would you want to pay off your investment loan quicker, when all it does is reduce the interest and therefore the deductions you'll be entitled to at tax time?

Contact us if you would like to discuss this example as it relates to your personal finance situation.

# Should you purchase Consumer Credit Insurance? Read this...

We have noticed that due to relatively low interest rates, banks are looking at other ways to increase their bottom line profits. One of the ways is via commission from selling Consumer Credit Insurance (CCI Insurance), which covers a customer's loan repayments in such situations as unemployment, trauma and life cover.

Many banks are now marketing to our clients directly at the time their loans are being submitted and trying to "upsell" this insurance package.

Whilst we acknowledge it's important for you to protect yourselves and your biggest assets against unforeseen circumstances, you need to be aware of what this type of cover does and the

potential pitfalls it can have...

1. Most CCI policies are not underwritten until the time of claim which means you don't know if you are actually covered until you need to claim against the policy.
2. The policy is added to your loan amount - usually for a maximum term of 5 years - which has a compounding effect on your loan interest.
3. They can be quite expensive policies.

We definitely recommend that you look at all options but, generally speaking, it is more cost effective for you to take out an "income protection" policy through a reputable financial planner.



## What's the difference?

- Your policy covers 75% of your income - not just your loan repayment amount.
- The premium is charged monthly and is generally cheaper.
- The policy is underwritten at the time of application.

Feel free to contact us if you'd like some direction on this matter. We can put you in touch with someone who can

## WATCH THIS SPACE!

Accrete Financial Solutions will have our website up-and-running by the time you receive your next edition of *The Insider*.

## Staff Stuff

Kylie and Sharon are in the process of sitting their exams for the second part of their Certificate 4 in Financial Services. This is a Bridging Module, meaning, once they have passed it, they can apply for their 'restricted Finance Brokers Licence'. We're sure that they will pass with flying colours!

Lisa has been invited by Brendan O'Donnell (Head of Sales & marketing) to be part of the Choice Aggregation Services 'Platinum Achievers Programme', which recognises and rewards Choice Brokers' contributions to the Choice Home Loans Group. "Obviously, it is a huge honour to be recognised by your peers in such a competitive industry," said Lisa.

Lorrelle and Lisa will be flying the banner for Accrete Financial Solutions at Choice Home Loans' annual national conference on Queensland's Sunshine Coast in October 2006.

## To our self-employed clients:

Don't forget to send us your contact details!

As mentioned in last edition, we are keen to set up a "classifieds" section of our newsletter, displaying ads from our self-employed clients who provide a trade- or other home-related service.

We want to hear from you.

All you have to do is post, fax or email

in your business contact details.

Post them to:

Joanne Drozd, Administration Manager  
Accrete Financial Solutions  
PO Box 957, Balcatta WA 6914

Or fax: (08) 9240 6770

Or email: [jo@accretefinance.com.au](mailto:jo@accretefinance.com.au)



**Lorrelle McCormack**  
0411 084 557

[lorrelle@accretefinance.com.au](mailto:lorrelle@accretefinance.com.au)



**Lisa Welch**  
0417 969 845

[lisa@accretefinance.com.au](mailto:lisa@accretefinance.com.au)



**Kylie Symonds**  
0408 628 605

[kylie@accretefinance.com.au](mailto:kylie@accretefinance.com.au)



**Joanne Drozd**  
0411 610 078

[jo@accretefinance.com.au](mailto:jo@accretefinance.com.au)



**Sharon Cocklin**  
0424 286 725

[sharon@accretefinance.com.au](mailto:sharon@accretefinance.com.au)

