

# Redraw and Offset: a step ahead



**While interest rates remain low, it pays to stay ahead of your minimum monthly repayments by using a redraw facility or offset account.**

Since mortgage rates have dropped, nearly one in three suburban families continue to make more than the minimum required monthly home loan repayment\*, a choice that will save years off their mortgage and thousands of dollars in interest.

Borrowers who are tempted to lower their repayments and put the money into a savings account should keep in mind that savings are taxable and paying off the mortgage is not.

If you are able to do without the additional funds, redraw and offset accounts offer a convenient place to store money that you can still access for a rainy day. For as long as you have extra funds in your mortgage you have the security of knowing you have a buffer to cope with hard times as well as the financial stability to weather any future interest rate rises.

**What is a redraw facility?**

It is a way of making additional repayments on your mortgage

and then having access to this money again when you need it, such as for a new car or holiday.

Redraw is offered as a feature of most home loan products, with fees and conditions varying from one lender to the next.

**What is an offset account?**

It is a savings account that is connected to your home loan, where you deposit money into it and use it to pay off your bills and daily expenses. You don't earn interest on the money sitting in your offset account; instead the balance is offset against your mortgage amount.

Like redraw, offset accounts differ in their fees, terms and conditions. Some are fully offset (100%) while others are only partially offset and may be conditional on a minimum account balance or withdrawal amount.

As your mortgage broker we can advise you of the suitability of different lenders' redraw and offset accounts. Contact us to discuss the best option for your needs.

*\* May 2009 Mortgage Stress-O-Meter, Fujitsu Consulting.*

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A good mortgage broker is one that listens to your needs and provides expert advice based on your goals, lifestyle and personal financial situation. It's anticipated this is what the industry will be seeing more of with the introduction of Australia's first standard national laws for the responsible lending of consumer credit – see article below.

As your mortgage broker it is our role to save you time, effort and leg work. We are here to help demystify the loan process – refer to page 3 article on genuine savings – as well as ensure your loan works for you – refer to page 4 article about making the most of redraw and offset.

Don't forget we are also a reliable source of the latest news and trends as they affect the industry – such as our article on page 2 that outlines what the 2009 Federal Budget means for you as an investor and home owner.

	<b>RESPONSIBLE LENDING LAWS</b>
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	<b>REDRAW &amp; OFFSET – A STEP AHEAD</b>

## ▶ Responsible Lending Laws

**When you take out a home loan you want the peace of mind to know you are dealing with a broker who has demonstrated knowledge, experience and integrity.**

It's with this in mind that the federal government has introduced the National Consumer Credit Protection Bill 2009, which puts in place new national responsible lending laws for all consumer credit.

While strong consumer protection standards already exist in the mortgage industry, consistency varies from state to state. This is the first time Australia will have one national, standard system of regulation.

Under the legislation, both lenders and brokers will need to be registered with ASIC by the end of this year and apply for an Australian Credit License by 30 June next year. It is a condition of holding a license that lending is done responsibly - extending credit to a consumer that is unsuitable based on their needs and financial capacity will become an offence. Licensees must also be members of an external dispute resolution scheme.

In practice little will change for brokers who are members of the MFAA and FBAA industry bodies and already adhere to code of practice standards, but it is good news for the industry as it will weed out unscrupulous operators and ban them from operating across all states of Australia.



Quote for the month...**"Discover your passion. Define your purpose. Design your life. Do your very best. But, don't delay."** Keith Abraham, CSP



# Serious About Saving

**From childhood most of us are taught the value of saving money, a lesson that can now pay dividends for those entering the home loan market.**

As banks and other lenders tighten their lending criteria in the face of the global economic crisis, the requirement for borrowers to show genuine savings to secure a home loan is fast becoming the norm.

Although the criteria for what constitutes genuine savings varies for different lenders, it most commonly means you will need to show at least 3 to 6 months evidence of a regular amount being put away to build up your deposit.

Savings could be in the form of bank deposits, shares, equity in another property or even rent paid over

a 12-month period. Lenders won't count as savings any bulk deposits like tax returns, gifts, inheritance, sale of assets, borrowed money or the First Home Owners Grant. While these funds are allowed to form part of your total deposit, typically around 5 per cent of the purchase price (in some cases 10 per cent, depending on the Loan-to-Valuation ratio) must come from genuine savings. If you are looking to purchase a \$300,000 property, for example, you are required to contribute a minimum of \$15,000 in savings towards your deposit on top of any government contributions.

Documents you might be asked to provide to demonstrate your savings include:

- Bank statements in your name
- Sale of shares (net of any tax due)

- Equity from property like additional borrowings or sale proceeds
- Non-preserved superannuation contributions (provided they can be accessed in cash form)
- After-tax bonus from employer.

Not all lenders require genuine savings for a successful application, but there is a definite shift in this direction. In the current economic climate, evidence of genuine savings gives the lender confidence in your ability to maintain a savings pattern similar to maintaining a loan repayment. It also demonstrates you have adequate finances to complete the purchase after the loan is applied.

Give us a call to find out more about how you can meet your genuine saving requirements.



## Budget Boost for Home Buyers

**The Federal Government's 2009 Budget has generated optimism in the property market thanks to a \$22 billion infrastructure program and extension of the First Home Owner's Grant.**

Both initiatives are considered as positive steps in the move to stimulate our economy and give first home buyers a foothold in the housing market.

Designed originally to cut out at the end of June, the First Home Owners Boost has now been extended. Buyers have until 30 September 2009 to receive a \$21,000 rebate for the purchase of a new home or \$14,000 for the purchase of an existing home. From 1 October 2009 the First Home Owner's Boost will be reduced to \$14,000 for new homes and \$10,500 for existing homes, and will cease on 31 December 2009.

It's a second chance for those who haven't already taken advantage of the First Home Owner Boost. As your mortgage broker we can assist you with your application and advise you of any other state-specific entitlements you may be eligible for.

The Boost has already achieved considerable success in encouraging activity in the housing market (see Did You Know box) and the extension is expected to help thousands more new home buyers.

Similarly the \$22 billion Building Australia Fund is hoped to give a push-start to the building and construction industries, in turn supporting employment and improving the accessibility and supply of housing.

The news that the budget deficit may hit a record \$57.6 billion in 2009-10 paints a sobering picture of the tough times ahead and emphasises the importance of any moves to prop up Australia's property market in a way that positively impacts jobs, housing and consumer sentiment.

## Did you know?

Home loan affordability has improved. The proportion of family income required to meet home loan repayments has decreased to just over a quarter of the average Australian pay packet (28.6%). This compared to 32.4% in the December quarter last year and 38% in the March quarter 2008. (Source: the Real Estate Institute of Australia Affordability Report).

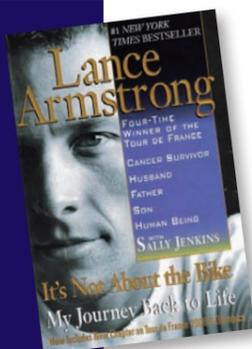
Home values have increased significantly over the first few months of this year and gross rental yields are expected to peak over the coming months. Overall, national dwelling values were up 2.8% in April from the start of the year, with only Perth failing to show an increase. (Source: RP Data/Rismark Australian Home Value Index).

The number of first home buyers has nearly doubled compared to one year ago. In the March quarter first home buyers represented 27.3% of all buyers, compared to 16.4% in March last year. (Source: ABS Housing Finance, March 2009).



## It's Not Just About The Bike: My Journey Back To Life — Lance Armstrong

Book Review



In 1996, 24-year-old Lance Armstrong was ranked the number one cyclist in the world. But that October the Golden Boy of American cycling was sidelined by advanced testicular cancer that had spread to his lungs and brain. His chance for recovery was as low as twenty per cent. Armstrong embarked on the most aggressive form of chemotherapy available and underwent surgery-including brain surgery-to remove cancer that the treatments could not reach. Five months after his diagnosis he resumed training under a cloud of uncertainty. This is the story of a journey, from inauspicious beginnings through triumph, tragedy, transformation and transcendence. It is a story of early success, near fatal cancer, survival, recovery, victory in the 1999, 2000 and now 2001 Tour de France, the Sydney Olympics, marriage and first-time fatherhood. Filled with the physical, emotional and spiritual details of his recovery, It's Not About the Bike traces the remarkable journey of this great athlete to a singularly inspiring appreciation of life lived to the fullest.