

# Newsletter

AAA+ Financial Solutions



## TAKING THE FIRST STEP

Entering the property market for the first time can be a daunting prospect but it seems rising rents are encouraging more and more people to take the plunge.

A quick glance at the home loan products available shows that there are 100 per cent mortgages - and some even greater than 100 per cent - on offer.

Nonetheless, the recent spate of mortgage sales in areas like Sydney's outer-west should send a cautionary message to those champing at the bit to get started.

Michael Yardney, the director of Metropole Property Investment Strategists and co-author of the book 'All You Need to Know About Buying and Selling Your Home', says setting a realistic and affordable budget is absolutely key, and all acquisition and ongoing costs should be carefully considered.

"An awful lot of people overspend because they don't realise the ongoing costs," he says. People shouldn't forget to factor in stamp duty and other costs like insurance when making their decision. I advise people to allow 5 per cent of the purchase price."

When it comes to assessing outgoings, Yardney urges people to allow for things like rates, taxes, insurance and even gas and electricity - costs that may previously have been covered by parents or landlords.

"You also need a buffer to allow for things like a loss of job, a new baby, or an interest rate hike," he says.

"You obviously have to be aware that certain things like an interest rate rise may occur, but that shouldn't stop you making the important decision to get into the market. You can't allow yourself to worry too much about what may or may not happen."

## TIPS

- Don't buy **too emotionally**, you may not be able to get your dream property immediately.
- Don't **over-commit** yourself financially.
- Work out a **budget** and try living on it for a few months before buying.
- If you're not comfortable **negotiating**, get somebody else - a parent or maybe a buyers agent - to do it for you.
- Check to see if you're eligible for the **First Home Owner Grant**.
- Check that your **credit rating** is in order before approaching a lending institution.
- Do your **homework** and look at all of your **finance options**.
- Look at your investment on a micro level. Properties close to **services, transport** or with lifestyle appeal tend to be easier to sell.
- Always get an **independent valuation**. It will tell you previous sales figures and give you some demographic information.

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## MISLEADING ADS CLEANED UP

The Australian Securities and Investments Commission (ASIC) has found five cases of misleading advertisements for reverse mortgages.

The market for reverse mortgages had more than doubled in the past 12 months, ASIC said, and a review of advertising had uncovered five promotions that made claims suggesting reverse mortgages didn't need to be repaid.

Reverse mortgages allow people to borrow money against the value of their home. Usually borrowers don't have to make regular repayments until the home is sold or it's no longer occupied.

"Although reverse mortgages don't usually require the borrower to make regular repayments, they certainly require repayment."

The misleading statements used in the advertisements included, 'There are no repayments', '...no loan repayments ever' and 'No need to make repayments!!'.

"Although reverse mortgages don't usually require the borrower to make regular repayments, they certainly require repayment," ASIC said in a statement.

The promoters all took steps to withdraw or amend their advertising once ASIC raised concerns.

ASIC also targeted a potentially misleading claim for a reverse mortgage that read, 'Centrelink payments aren't affected'.

"ASIC considered that this claim could be misleading as taking out a reverse mortgage may affect a consumer's Centrelink payments, depending on their individual circumstances and how they use the money they receive," the statement said.

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Remember, if you have any friends or family who need help with their finance, call us!

*Details over page*

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## AAA+ Financial Solutions

### COLLECTIVE OWNERSHIP GETS SINGLES INTO MARKET

**There are many ways to counter the affordability concerns that exist in capital cities across our country.**

While governments, real estate bodies and financial institutions are coming up with suggestions, individuals, it seems, are simply finding someone to share the costs and pushing ahead with home ownership.

In many cases, families are helping younger people, but sharing property ownership with a like-minded person or two (or even three) is also happening.

It's an old idea: if you can't afford it, look for someone else who wants to buy but also can't afford it, and join forces.

PodProperty, for example, which began operations last year, helps groups of first-home buyers, family members, partners or friends to buy within a secure legal framework.

It has a co-ownership agreement that costs \$250 a person and sets out the rights and obligations of each person sharing the property.

Another website, called Club Propertyshare, has just been started.

Editor Patricia Farrell, who has a background in property writing, says the website is aimed at guiding people through the process of fractional ownership -- both for holiday homes and primary places of residence. The site, which costs \$39 to join for one year, is also a meeting point to link people interested in the same sorts of properties

"Single people or young couples without children often share a property anyway to save on rental costs, so it makes sense to turn that into an investment option," she says.

"Obviously, you've got to like the person you're sharing a home with -- that goes without saying.

"But it's crucial to have a structured terms of agreement where important issues, such as an exit strategy, the on-selling of shares and sinking funds, are addressed." Ms Farrell says the concept works for first-home owners, too.

"My son bought an apartment in Sydney three years ago with a mate from his school days," she says. "It's been a great arrangement, they bought a large apartment with two bedrooms and two bathrooms, so they've both got their own space. They're now ready to move on, but they have decided to keep the property as an investment."

Given that single households made up 24 per cent of the population in the last census, and most live in houses, this style of ownership is set to become more common.

And as Matusik Property Insights director Michael Matusik says in his mid-July assessment of the 2006 census figures, the tendency for single-person households to still occupy a detached house leaves spare bedrooms across the country.

By Majella Corrigan. Published in The Weekend Australian. Copyright News Ltd.

### FORECLOSURES: WHAT NOT TO DO IF YOU GET INTO TROUBLE

**Have you heard the old good debt bad debt theory?**

This is the one that says good debt is whenever you borrow to invest, because that's a good thing, and whenever you borrow for any other purpose, it's not. The theory says avoid borrowing for anything that doesn't generate income and appreciate in value. Anything you like is basically out.

But it's hard to disagree with this sensible advice. Afterall, where's the sense in borrowing, where the interest you pay decreases your net wealth, and the thing you borrowed to purchase is worth less and less every day? There are two lessons here:

**Lesson 1:** Sensible financial advisors want to suck the fun out of life

**Lesson 2:** Look beyond the obvious because what may start out as good debt in theory (borrowing to invest) could end up feeling an awful lot like bad debt if things go pear shaped.

So what should you do if things go bad and that ostrich farm you borrowed to buy into turns out to be a bunch of pigeons on stilts and you just can't make the repayments? The first thing to do is talk to your lender straight away; be honest and keep your lender informed, they can be remarkably patient. After all, the last thing any lender wants is to end up owning your house.

There are all sorts of options available from adding missed payments onto the loan term to temporary payment relief. **Also don't go it alone, if you need help call us.** We may be able to solve your problem by consolidating all your loans. Do these simple things and there's every chance you can weather the storm.

### USEFUL WEBSITES:

#### Club Property Share

[www.clubpropertyshare.com](http://www.clubpropertyshare.com)

#### Pod Property

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

#### ASIC

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



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