

## April 2009 Newsletter

### Interest Rates Decision

The Reserve Bank announced today that the Cash Rate would be cut by 25 basis points to 3.00%.

This decision brings rate to record lows, as Australia's economy moves into recession, after a record period of economic growth.

The big question is will the banks be passing on any of this latest cut, as they are still claiming the costs of funds are still very high. We expect the majors to announce their decision on what level of cut they will make by the end of the week.

### Rate Cuts - Impact on Existing Mortgage Repayments

The current series of dramatic rate cuts on variable loans is welcome news to households managing their mortgage repayments. However, as some of our clients have realised, most lenders don't automatically adjust repayments to reflect the lower interest rates. Let us explain further with a time line example:

As of today and over the next week or two, all lenders should announce how much of the rate cut they are passing on and what date this interest rate will be effective by.

Example:

April 6th - Current home loan of \$250,000 @ 5% principal and interest repayment with 28 years remaining: Repayments per month are: \$1,383.93

If we took a snapshot of what the breakdown of this repayment is, it would look like this:

Interest Amount = \$1,041.67

Principal Reduction amount = \$342.36

April 7th – The RBA has announced a 1% cut in the official cash rate

April 10<sup>th</sup> – Bank A announces they are passing on 50% onto its customers (4.5%), effective from 20<sup>th</sup> April.

April 20<sup>th</sup> – Bank A internally reduces the variable rate to 4.5%, but doesn't automatically reduce your repayments to the lower level instead it has authority to direct debit your repayment at the higher amount (\$1,383.93). Yet the calculation

of the new (lower) interest rate will look like this \$1,309.95 principal and interest repayments.

Breakdown:

Interest amount now = \$937.50

Principal amount if you paid the lower amount = \$372.45

POSSIBLE ADVANTAGE:

The upside of this is you are paying down your mortgage faster as you will have paid interest on the lower rate of 4.5% but a higher overall repayment which means the principal of the loan would reduce by \$104.17 (the difference between the higher interest 5% and the lower interest 4.5% over a standard monthly period).

And as the loan is amortising lower over the loan term, the interest is also reducing on a regular basis, due to the lower principal amount for which it is calculated against on a daily basis.

POSSIBLE DISADVANTAGE:

We may require these additional savings made on the interest rate cut to be put back into the household budget to improve cash flow for items or bills now, so you may not want to make the higher (Extra Principal) repayments.

That's fine as all is not lost, you simply need to contact your lender and advise them that you wish for your repayments to be adjusted to reflect the new interest rate. Most lenders will be happy to oblige.

### Repayment Holidays – Unemployment, Pregnancy, Hardship etc.....

There has been a lot of media coverage over the last couple of days about the big banks moving to allow for a 12 month repayment holiday for those who have unfortunately lost their jobs as the economy contracts. These types of features are not new, as some banks, credit unions and building societies have offered this feature already for events such as pregnancy, short term unemployment, illness, and even death of a shared borrower. Usually they are for shorter terms such as 3 or 6 months, allowing the borrower to organise their affairs and then move forward with either the continued servicing of the loan or in some cases the borrower may realise this event no longer allows them to keep servicing the loan so they choose to sell up.

This latest offering by the big 4 banks is a very wise move for both the borrower and the bank themselves. Why?

The banks don't want to see house prices fall in the outer suburbs 'Mortgage Belt', as they don't want a situation where they have a property that is worth less than the loan outstanding on that property. By offering a repayment holiday, they will reduce the number of properties that would otherwise be sold as Mortgagee/Repossession Sales, which hopefully, as far as the banks are concerned, will ensure house prices in the riskier outer suburbs will remain stable.

As far as the borrowers are concerned, a repayment holiday is not about freezing your repayments, it's simply the banks saying that instead of repaying the interest now, we will capitalise the interest and add it to your loan, and you can pay us later, when you get a new job. However you get to keep your house, which I'm sure in the long run, is a far better outcome!

## ANZ Releases Property Outlook Report

Late last month ANZ's economic team released their major report on the outlook for property in Australia for 2009 and into 2010.

The key tone of the report is 'upbeat' on residential house prices, due to the lack of supply (Housing Shortage), historically low interest rates, leading to better affordability. Unemployment and the overall economic outlook is where some continued risk lies.

State by state the report provides excellent insight into the macro situation. Click on the link to our website <http://www.empowerwealth.com.au/research> to download the full report – A very worthwhile read indeed.

## Next Educational Workshop dates

Wednesday, 15<sup>th</sup> April – 6pm - Money, Investing & Finance  
Tuesday, 21<sup>st</sup> April – 6pm – Introduction to Property Investing  
Monday, 27<sup>th</sup> April – 6pm – eSearch Superior Property  
Monday, 4<sup>th</sup> May – 6pm – First Home Buyers Workshop

<http://www.empowerwealth.com.au/workshops>

## My Comment

A shortage of good property and increased interest from First Home Buyers leading up to the June 30 deadline for the Boost Package to lapse is making it hard going for both home buyers and investors in the 'quality' locations both in Melbourne and within all major Australian Cities.

My comment is twofold this month:

1. Staying the course: - Buying well is all about solid research and consistency in collecting and using this research. In some cases it has taken Jane and I over 6 months to secure an 'outperform' property in a great location, and that also meant that almost every weekend we were out and about looking at localised neighbourhoods, attending auctions to get a range of price levels, quality of stock, etc, etc.

2. Look at Expanding Search Area: - As most of you who read my comments each month know, my wife and I are currently in the market to purchase again, as we too have been frustrated by the lack of quality around. Good locations and great 'classic' properties will always generate great competition, so you just have to accept that, yet if the time is 'now' in terms of securing a property, then like Jane and I, we opted to open up our location search to over 11 suburbs, within the inner circle of Melbourne. By doing this we were able to increase the number of properties that met our criteria, and given we are seeing signs of increased interest and price growth for these properties now, we didn't want to sit on the fence for another couple of months and then pay tens of thousands of dollars more as the market upswing gathers momentum.

Fortunately for us, our search is almost over, having purchased last week, subject to a couple of outstanding items on the contract. So be open minded, as there are many great residential pockets within a lot of great suburbs within 10 – 15km from all major cities, offering excellent lifestyle, amenities, schools etc, etc.

If you want to learn how to conduct better searches and fast track your locations, make sure you book into our eSearch Superior Property Workshop – It will be the best \$99 you ever spend when it comes to research and property education <http://www.empowerwealth.com.au/workshops>

***Wishing you all a Happy Easter and a safe and enjoyable long weekend!***

The Empower Wealth Team

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