MORTGAGE FOCUS

MENTOR LENDING SOLUTIONS

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Welcome to our February newsletter!

Now the school year has started and we're all back at work, it's time to get ready for a great year ahead in our property markets. It looks as though market conditions will be more favourable for buyers this year, and we're excited about helping you make your next move in 2016!

Last week, the Reserve Bank of Australia (RBA) met for its first meeting for 2016 and decided to keep the official cash rate on hold at 2.0%. According to RBA Governor Glenn Stevens in his statement after the meeting, the RBA Board is waiting for more economic data to come in before deciding if further cuts to the cash rate are necessary.

The RBA cut the official cash rate in February and May last year, bringing it to historical lows. However many economists and market analysts are predicting that another cut is on the horizon in 2016 and is most likely to occur mid-year.

As expected, property markets around the country have not been seeing much activity during January. Summer is traditionally a slower time of year for property sales and this has been reflected in low auction numbers, with only 336 auctions reported nationwide for the final week of January.

After a very fast and furious year in 2015, NSW only saw 59 auctions in the last week of January, with a clearance rate of just 45%. It is interesting to note that 22 of these properties were passed in, indicating that sellers may be struggling to achieve their expected price.

Victoria held 151 auctions with a clearance rate of 71%, Queensland held 60 auctions with a clearance rate of 50%, South Australia held 97 auctions with a clearance rate of 68%, Western Australia just 29 auctions with a clearance rate of 56%, Canberra had 27 auctions with a clearance rate of 78% and Tasmania held 12 auctions with a clearance rate of 13%.

Clearance rates are significantly lower than we were seeing last year, indicating that the rapid rises in home values we saw in 2015 are slowing considerably, which is good news for first home buyers. During January, Sydney's home values only increased by 0.51%. However they are still up by 10.52% compared to this time last year. By contrast, Melbourne's home value growth is still strong, showing a 2.47% increase in January and a 10.97% increase over this time last year.

Other property markets showing a strong performance in January were Hobart, with a rise in home values of 4.67% last month, and Canberra with a 2.76% rise. All other cities showed very marginal movements of less than one per cent.

We can expect to see auction numbers rising again towards the end of February and a busy month in March. Real estate search sites are showing a good supply of housing stock with Domain currently listing over 363,300 properties on the market for sale nationwide.

If you're planning to purchase a property in 2016, whether you're a first home buyer, next home buyer or a property investor, we look forward to talking with you about your plans. If you're thinking about refinancing your home, now is also a very good time to talk with us, as the lenders are offering very competitive rates across the board and some interesting incentive deals. Whatever your plans for 2016, remember we're here to support you and help you reach your goals, so please give us a call today!

Sincerely , **Mentor Lending**

What are the costs involved with buying a home?

Saving up your deposit is the first step in buying a home and when your bank account balance starts to look good it's easy to get excited. But it pays to be realistic. Exactly how much money is enough? In this article we take a look at some of the upfront costs involved with buying a home to help you set a proper savings goal before you make your move.

The deposit you contribute towards your mortgage is only part of the funds you need to purchase a property. Many first-time buyers assume that 10% of the purchase price will be enough to cover everything, but unfortunately that isn't necessarily the case. There are many costs involved in purchasing a property, let's take a look at other things you need to think about as part of your purchase.

1. Deposit on your mortgage

It used to be possible to borrow nearly 100% of the purchase price of the property, and use your savings to cover the other expenses, but these days that's usually no longer the case. Most lenders require you to have at least 5% of the purchase price to put towards your mortgage. Depending on the home you want to purchase, the lender may even require you to put 10 - 20% of the purchase price towards your mortgage. Have a chat to us about different lender's criteria to ensure you know what you can afford.

2. Stamp duty

Stamp duty is a cost that varies from state to state and it is calculated against the price of the property you wish to buy. We can help you calculate approximately what your stamp duty costs will be on the price range of home you're looking at, so talk to us when you're planning your budget.

3. Lenders mortgage insurance

Unless you have a deposit of 20% or more to contribute towards your mortgage, the lender who is providing your loan will require you to pay lender's mortgage insurance (LMI). Unfortunately, the cost of this will also vary. LMI is calculated according to how much deposit you have, how much you intend to borrow and how much the home costs to purchase.

4. Borrowing costs

There are a range of different fees that apply to getting a mortgage. These differ from lender to lender and loan to loan, but generally speaking, you will need to allow for things such as application fees, lender valuation fees and a settlement fee. Some lenders also charge for legal supervision at settlement and document processing. Again, ask us what these costs could be with your chosen lender, and we'll help you to fit them into your budget.

5. Pest and building inspections

Getting a building and pest inspection usually costs around $400, but this will vary depending on the size of the property. It really is worth the expense because it could cost you a lot of money to fix any problems the property may have after you purchase it. By getting a building and pest inspection before you buy, you'll know exactly what you're up against and have the opportunity to choose a different property if it looks like you can't afford the repairs.

6. Conveyancing

You will need to employ a solicitor or conveyancer to legally transfer ownership of the property you are buying. They will also perform all the property and title searches necessary and take care of the documentation. Conveyancers can also explain sales contracts, take a look at your section 32, auction terms and any other legal elements of purchasing a property so that you fully understand what you're getting into.

7. Insurance

Your lender may require you to take out building insurance on any property you wish to purchase. This is not only an upfront cost, it is ongoing and you'll need to maintain this cost annually. You have the freedom to shop around amongst the various insurance carriers to get yourself a good price. Once you move in, it is also a good idea to get contents insurance as well. Usually the two can be bundled together so you can save on purchasing them individually.

8. Moving-in costs

Many people get so excited about getting their first home they forget to calculate their moving in costs and include them in their budget. Remember that you may need to hire the services of a removalist to move in your stuff, and that can be expensive! There's also likely to be items of furniture you'll need to buy and most people want curtains and blinds at the windows.

You'll also need to pay to have your utilities connected. These may include telephone, internet, gas and electricity.

9. Contingency funds

Last but not least, it's important that you have some funds put aside for any unexpected expenses. Of course, it's difficult for us to predict what these may be, but you never know when you might encounter a problem. Perhaps you'll have a blocked drain that requires a plumber, or light sockets that don't work and require an electrician. It's all part of the fun of owning a home!

Although this may sound daunting, remember, we're here to help you budget to purchase your property and help to make sure there are no hidden surprises. If you're getting ready to purchase a home, please don't hesitate to give us a call for a chat. We'll help you determine whether you've saved enough money to cover your deposit and all your expenses. We can also help you get pre-approval for your home loan so you can get started on searching for your dream home! Please call us today.

What is a depreciation schedule and why do I need one?

Are you thinking about investing in property this year? One of the reasons why investing in property helps you to build wealth is that it offers you various tax deductions. But many first time investors are unaware of all the tax deductions that may be available.

One of the tax deductions you can claim on your investment property that is frequently overlooked, particularly by first time investors, is depreciation. For this you need to organise a depreciation schedule when you purchase the property, so you can start claiming the tax break as soon as possible. In this article we explain what a depreciation schedule is and how to obtain one.

What is depreciation?

Depreciation occurs as an item's worth becomes less over time as it is used and it wears out. When you're talking about a tax deduction, depreciation is a method of allocating the cost of an item over its useful life. For example, if your property has an oven that is valued at $1,000 and has a ten year life, you can claim $100 against your taxable income for 10 years on that individual item.

With an investment property, you are only allowed to claim depreciation on certain items against your taxable income. There are two types of depreciation tax deductions that you can claim:

- **Depreciation on plant & equipment:** this refers to items within the building like ovens, hot water heaters, air conditioners, carpets, blinds and so on.
- **Depreciation on buildings or 'building allowance':** this refers to the construction costs of the building itself, such as concrete and brickwork.

What is a depreciation schedule?

In order to make a tax claim for depreciation, you need a report that identifies all the things that may be claimed against your tax and the current value of each item. The report must separate all the different items into the two categories mentioned above, and each item depreciates at a different rate.

Each property will be different from the next and will contain a wide variety of different items that fall into these categories. The amount of tax benefit you receive will depend entirely on the property you purchase. Many experienced property investors will deliberately choose properties that will give them the most depreciation benefits.

When should I get a depreciation schedule?

You should create a depreciation schedule as soon as possible after settlement, preferably before tenants move in. This will allow you to maximise your tax benefits and will help you to avoid causing disruption to your tenants.

If you didn't get a depreciation schedule when you first purchased your investment property, you can still get one now and start claiming your deductions moving forward.

How do I create a depreciation schedule?

When you purchase a property, all the assets within the property are not itemised by value. What's more, the government will not take your word for the value of the items. That means you can't create a depreciation schedule yourself.

In order to claim any tax deductions, you will need to employ a qualified Quantity Surveyor to do a thorough inspection to identify what can be claimed and to make valuations in order to create a depreciation schedule for you. This is the only way you can legitimately claim tax deductions for depreciation.

If you purchase a brand new property, preparing a depreciation schedule is much easier as the value of the items can be easily determined. If you have an older property though, things become more complicated and that's another reason why it is important to use a reliable professional.

A Quantity Surveyor will prepare your depreciation schedule report with a view to maximising your financial position in relation to your property assets. And their fees are fully tax deductible. If you need help locating a professional Quantity Surveyor, then please give us a call and ask us for a referral.

This article looked at just one way you could benefit financially from purchasing an investment property, but there are many reasons you may want to invest! If you're thinking about getting into the investment property market this year, then give us a call.

We're here to help you get your financing in place, but we can also help you put together the team of professionals you need to invest profitably. Now is a good time to get started on your plans for the year, so get in touch!

What's the best way to finance a new car?

Are you in the market for a new car? If you are, you've probably been shopping for the make and model you want already! But what about your car financing? There are quite a few car finance options available that most people don't know about. Talking to us could help you find a new way to finance your car purchase that saves you money. One thing is for sure, you don't want to jump straight in with the finance a car dealership offers without checking out your other options first! This article tells you more about the car finance options we can provide.

Why you should check out all your options first

When you buy a home, your home loan is considered a 'good' form of debt because you are purchasing an asset that is most likely appreciating and making you wealthier. But when you purchase a car, you are purchasing an asset that is depreciating and this is considered 'bad' because it is costing you money - so it is really important to minimise your borrowing and the amount of interest you have pay. Here's some car financing options that could help you to do just that!

Option 1 – get a car loan

A car loan is a straight forward option that's great for most people. With a car loan, the funds are secured against the car and you can usually pay it down at about the same rate that the car depreciates at. You can get flexible contract terms ranging from two to seven years, and a choice of fixed or variable interest rates. You may also get to trade-in your old car or use a deposit, which can considerably reduce your monthly repayment amount.

Because the loan is secured against the car itself, you can usually get a lower interest rate compared to other borrowing options like a personal loan for example. We don't usually recommend a personal loan to buy a car, because next to credit cards, they carry the highest interest rates of any type of loan available in Australia because they are unsecured debt.

Option 2 – take out a lease

A lease differs to a car loan in that the lender retains actual ownership of the car. They purchase the car on your behalf and you lease it back from them, paying a fixed monthly rental for the term of the lease. At the end of the lease, you can pay a ‘residual value’ final payment and take ownership of the car, trade it in, or if the residual is larger than a payment, refinance the residual and continue leasing.

The benefit of this method of buying a car is that you can reduce the size of your payments by increasing the residual amount you have to pay at the end. Plus, you know what your payments will be in advance. Leasing may also allow you to get a better car than you may otherwise be able to afford.

Additionally, the GST that is usually contained in the car’s purchase price is claimed back by the lender, which reduces the purchase price for you, and could further reduce your payments.

A lease also has some tax benefits if you are self-employed or a business owner, particularly if you usually use the car for business purposes. You can even make advance lease payments for tax deduction or cash-flow purposes. (Check with your accountant to ensure this applies to you).

If you are a salaried employee of a company, you can also enjoy some tax relief by using a novated lease. In this kind of lease, your employer pays the lease payments from your pre-tax income. You can take the vehicle and lease with you if you switch employers and you always retain the equity you build up in the vehicle, not the employer. (Again, you should check with your accountant to ensure a novated lease will give you a tax benefit.)

Option 3 – use the equity in your home

If you own your home, you could consider refinancing your home loan to use some of your equity to pay cash for a car. Having cash in your hand when you go out to purchase a car could help you to negotiate a better price, which could save a great deal of money.

You may think that using the equity in your home to buy a car is a good idea if your home has substantially increased in value since you purchased it. However, you need to be aware that if you take some equity out of your home loan, your home loan repayments will increase. Whilst this is unlikely to increase the cost of your home loan repayments more than covering the monthly repayments on a car loan in addition to your home loan, you need to consider that you will be paying the home loan for an extended period of time. It could be as much as 30 years, which may end up costing you a lot more in interest and repayments than a regular car loan over five years, for example.

Option 4 – a chattel mortgage

Many people have never heard of a chattel mortgage and that’s probably because it’s usually used by businesses. If you have a company, business partnership or are a sole trader, you can use a chattel mortgage to buy a vehicle provided it is primarily used for business purposes.

A chattel mortgage is great if you use the cash method of accounting in your business, as it allows you to claim the GST in the vehicle’s price up-front. That means you can claim some or all of the GST charged in the purchase price of the car as soon as you lodge your next BAS, rather than over the term of the loan. You may also be able to claim the interest charges on your chattel mortgage as a tax deduction and also depreciation on the car. (Of course, you’ll need to check with your accountant first.)

With a chattel mortgage, the lender advances funds to purchase a car and you take ownership. Then the lender takes out a ‘mortgage’ using the car as security for the loan. This mortgage is registered with ASIC and once the contract is completed, it is removed giving you ownership of the car. You can finance the chattel mortgage over two to five years, arrange for a residual value to reduce the cost of your payments, and use a trade-in or cash as a deposit to further reduce your payments.

If you’re planning on buying a car, it pays to talk with us about which option will be most beneficial to you. Car dealerships can only provide one kind of finance and they don’t have an obligation to take your personal financial circumstances into consideration and recommend what’s right for you. If you’ve been shopping for a new car of late, just give us a call. We’ll be happy to talk you through all of the car financing options available for you.

Wine review

Tiger Tiger Chardonnay 2012/2013

Tiger Tiger Chardonnay is produced from grapes lovingly grown at the boutique Collector Winery near Tumbarumba in New South Wales, high in the foothills of the Snowy Mountains. This Chardonnay is truly something special, with subtle aromas of white flowers, grapefruit and flint. The palate is delightfully fresh, with the french oak maturation adding to the citrus and peach overtones, producing a perfectly balanced wine that is surprisingly easy to drink. Tiger Tiger is absolutely delicious with fresh seafood like crab or prawns, so it makes the perfect summer drop when dining out, or entertaining friends at home.

Rating : 4 stars
RRP : $38.00

App review

Money Health Check

The Money Health Check App from ASIC is one of their helpful Money Smart range of tools. You just answer some quick questions and the app will tell you if your finances are under control or could be better, and what areas need attention. It covers your financial goals, income and expenses tracking, debt management, savings and investments, superannuation and retirement, and much more. You get a personalised assessment of your financial health and a list of your top 5 actions to improve your personal finances, with tips for each one. It also allows you to save or email your actions so that you can tick them off as you complete them.

MONEY SMART

RRP : FREE
Available on : iPhone or Android

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