

Welcome to Mortgage Watch

I hope you find the information in this issue useful and informative. Please feel free to pass this newsletter to family or friends.

Regards,
Christopher Brown



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mortgage watch

Cash rate remains at historic low.

The Reserve Bank of Australia (RBA) has kept the cash rate unchanged at a record-low 1.50%.

Governor Philip Lowe had this to say in his official statement:

"The latest inflation data were in line with the Bank's expectations. Over the past year, the CPI increased by 2.1 per cent, and in underlying terms, inflation was close to 2 per cent. The central forecast is for inflation to be higher in 2019 and 2020 than it is currently. In the interim, once-off declines in some administered prices in the September quarter are expected to result in headline inflation in 2018 being a little lower than earlier expected, at 1¾ per cent."

"Conditions in the Sydney and Melbourne housing markets have continued to ease and nationwide measures of rent inflation remain low. Housing credit growth has declined to an annual rate of 5½ per cent. This is largely due to reduced demand by investors as the dynamics of the housing market have changed. Lending standards are also tighter than they were a few years ago, partly reflecting APRA's earlier supervisory measures to help contain the build-up of risk in household balance sheets. There is competition for borrowers of high credit quality."

What does this mean for you? As the cash rate stands still at 1.50%, there have been a number of lenders including four of Australia's biggest lenders who've changed their interest rates at their own discretion. Over the next few months make sure you keep an eye on any rate movement, and consider whether your current loan is still right for you.



Super fund changes that affect the housing market

Recent changes to superannuation funds may start to affect the housing market. Two such measures are the First Home Super Saver (FHSS) Scheme, and the downsizing contributions into superannuation funds. These changes were introduced by the Australian Government in the 2017-2018 Federal Budget.

Here is a brief look at what these two super housing measures are and what they could mean moving forward.

First Home Super Saver Scheme

The FHSS Scheme, which went into effect in July of 2017, allows those who have never purchased a home before to make voluntary concessions into their super funds to help save for a home. And as of July 1, 2018, you can now apply to release those contributions to go towards buying a home.

No matter your age, you can make eligible contributions into your super, according to the Australian Taxation Office. However, only those over 18 will be able to withdraw the funds. You must also meet the following criteria:

- Have never owned property of any kind in Australia.
- Must plan to live in the property at least 6 months out of the first 12 months of ownership.
- Have never released FHSS funds previously.

Note that, under the scheme, you can only save a maximum of \$30,000 toward a home in your super contributions, and per year, the maximum you can save for this purpose is \$15,000.

Downsizing contributions

Another change to super housing measures is downsizing contributions to supers. Beginning July 1, 2018, if you sell a home that you or your spouse has owned for at least 10 years continuously, you may be able to contribute some or all the money you make into your super. This figure is capped at \$300,000 each or \$600,000 between a couple. You must be 65 years of age or older to take advantage of this measure, according to the Australian Taxation Office.

This contribution will not count toward your caps. You can only take advantage of the amount for one home and cannot access it again if you sell another home. You must make the contribution within 90 days of selling the home.

Effects on the market

If new home buyers take advantage of the FHSS Scheme, it could mean that less home loans will be granted in Australia overall in the coming years, since people will be able to save about 30 per cent more towards a home, according to Treasurer Scott Morrison. And it could mean that more people will be buying homes.

The Australian housing market is currently in a minor downturn, according to Business Insider Australia. Whether or not that will turn around with the super changes has yet to be seen.

For more information about the new super housing measures and your options, contact our team today.



What kinds of debt affects your home loan application?

If you are considering buying a house, you will likely need a home loan. If you already owe on previous advances, whether higher education debt, credit card debt, or personal loan debt, it could impact your home loan application.

Australia has some of the highest household debt in the world. The average household debt is \$250,000, according to a recent report from Finder. The ratio of debt to income is 212 per cent, meaning that if a person is earning \$80,000 per year, they are spending \$169,600.

So, how much does this debt affect you when applying for a home loan? Here is a brief look at each most common type and their possible effects.

Higher education debt

It is common for Australians to have student debt under the Higher Education Contribution Scheme (HECS). The average four-year bachelor's degree costs between \$18,000 to \$30,000, according to the Australian Scholarship Group (ASG). The guidelines of the HECS are such that your employer will begin to take out percentages of your salary once you reach an annual income of \$51,309.

When applying for a home loan, lenders will see these numbers and may make decisions accordingly. Because your salary will be reduced to make student loan payments, that means you'll have less borrowing power. This could have negative impacts on your loan application, especially if you have other forms of debt on top of it.

Credit card debt

Somewhat surprisingly, credit card debt makes up only 1.9 per cent of the average household debt. This is largely because mortgages and investment debts are going to be much higher numbers than what you've accumulated through credit card purchases.

Nonetheless, credit card debt can have a big impact on your credit report. If you have a lot, and don't have a large income, this can look bad to lenders. In addition, if you have made late payments on a credit card or have defaulted, this is a big red flag.

Personal loans

Just like credit card debt, if you owe a lot of money in personal loans, applying for a home loan may be difficult. If you are making big payments each month to pay off this personal loan, lenders may think you're unable to afford a large home loan payment.

It will look much better to lenders if you have been able to pay off personal loans in the past. Consider trying to pay down personal loans before applying for a home, and you'll have a much better chance of getting approved.

If you have questions about debt or loan applications, contact our team today.



Reasons why you should refinance your home loan

Saving money and unlocking equity – those are two good reasons why you should consider refinancing your home loan. Before we start talking interest rates, it's important to know if you can achieve one of these two things.

Unlocking equity

There are countless reasons why you might want to unlock equity in your home. These could include:

- Renovating or adding to your property.
- Buying an investment property.
- Paying off other debts or bills.
- Financing your education or your child's.
- Paying for medical treatment.

The first thing you need to consider is whether unlocking equity is the best way to fund your venture. While it's a great way to access cash when you really need it, using home equity does mean you could pay more interest on your home loan over its life as well as increasing its length.

A personal loan is also an option for smaller purchases and renovations.

Saving money

Refinancing could save you money in a variety of ways by:

- Securing a lower rate and paying less interest.
- Switching from a fixed to a variable interest rate so that you can make extra repayments without incurring fees and pay your loan off earlier.
- Consolidating high interest debt such as credit cards or personal loans.
- Locking in a fixed rate at an opportune time.

If you would like to find out whether refinancing is suitable for you, our professional mortgage brokers are here to help you work out the details. Contact our team today and learn more about options.



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