Spring 2024 Newsletter

MORTGAGE & FINANCE

- UPDATE -

Better Choice Mortgage Services

HACK YOUR HOME LOAN AS THE RESERVE BANK WON'T HELP YOU OUT ANY TIME SOON

The RBA isn't going to hand out an interest cut any time soon.That is the very clear message from RBA governor Michelle Bullock. It's up to borrowers to get their own

Rather than wait for a future official rate cut to ease the cost-of-living crisis it's now up to us to negotiate our own rate cut.

Inflation is staying too high because governments are spending too much money which is pushing up costs and soaking up jobs. Some optimistic economists were predicting one rate cut before the end of the year. But that has been rejected by the RBA and it is unlikely to move until well into next year.

Since the rates tightening cycle began in May 2022, a borrower with an average loan size of $626,000 is potentially paying $1,619 more each month. That is financially crippling.

Here are four ways to cut your loan repayments. I can almost guarantee they will deliver at least a 0.25% cut in your current repayments.

1 RING YOUR BROKER/LENDER AND ASK FOR A DISCOUNT ON THE INTEREST RATE

All borrowers have to be sceptical of their home loan interest rate and compare it against what their lender, and other lenders, are offering new customers. If you've been with your lender for more than a couple of years, there's a good chance you've fallen on a higher back book rate and are paying more than you need to be.

2 BECAUSE OF THE PROPERTY BOOM YOUR RATE SHOULD COME DOWN AS YOUR EQUITY GOES UP

The general rule of thumb is that the more equity you have in your property, the better the interest rate you'll get from a lender. Over the past few years, many people who took out a loan based on a small level of equity in their property would now have a much larger stake given Australia's property boom. And that could mean a better interest rate.

Lenders base your home loan rate on your loan-to-valuation ratio – the size of the loan against the value of the property. Interest rates for borrowers with an LVR of 50 to 60% could be up to 0.4% less than some of the rates on offer for borrowers with an LVR of 80-90%.

The national median dwelling value was 32% higher in June 24 compared to May 19, according to CoreLogic,meaning a large number of Australian property owners could be sitting on untapped equity.

3 PUT SAVINGS INTO AN OFFSET ACCOUNT

If you keep a decent balance, an offset account has the potential to help you save money in loan interest and pay off your mortgage sooner. Rather than a normal savings account, an offset account is the perfect place to keep that emergency fund for unexpected bills or any spare cash. It's a great incentive to save. And unlike regular savings accounts, you won't pay tax on the interest you offset.

Having just $25,000 in an offset account for a $500,000 loan with an interest rate of 6.19% could reduce your loan term by three years and 1 month and save more than $110,000 in interest over the life of the loan.

4 SWITCH TO FORTNIGHTLY REPAYMENTS

Making a small change to your repayment schedule, could save homeowners tens of thousands of dollars and pay off their loans faster.

A person with a $600,000 loan could save over $160,000 in interest over the life of the loan and cut down their loan term by over five years if they were to switch to fortnightly payments instead of monthly.

You're not just paying slightly more; you're paying it back early. You'll need to tell your bank that you want to pay half of your monthly repayments fortnightly, because if you simply switch to a fortnightly repayment plan, this could be a smaller payment amount, and then this hack might not work for you. For example, if your monthly payments are $3,694 you will want to pay $1,847 per fortnight. This means you'll be paying an extra $3,694 each year, which will cut down your principal and interest owed to the bank.

– THE NIGHTLY –

WELCOME TO OUR SPRING EDITION

It has now been more than two years since the RBA started raising interest rates. Thirteen interest rate increases. This is despite telling us that rates would not start increasing until 2024.

Mortgage holders were hopeful that we would get a rate cut before Christmas2024, but the rhetoric from the RBA seems to indicate that the first rate cut will be in the first half of 2025.

The RBA says that inflation is still too high, and they are determined to get inflation down to 2-3% asap. This is not easy given the massive, reckless stimulus of $600 billion injected into the economy because of Covid.

As a positive sign of where rates will possibly be going in the future, in the last weeks, across the board, lenders have been dropping their fixed interest rates. Movement in fixed interest rates is generally an indication of what official interest rates [variable] will be doing in the future.

So hopefully this is a positive sign that the RBA will start cutting interest rates in the first half of 2025. The downside is the considerable damage to the economy due to the rate rises and the hit to household budgets.

Research into spending habits show that consumers have 'tightened their belts" when it comes to spending on retail [except groceries], hospitality, travel and fast food. Coles and Woolworths have been relatively resilient as people eat out less. Spending habits demographically also differ.

Mortgage holders are spending more than people renting. Given the escalation in property prices, mortgage holders are experiencing the 'wealth effect' which reinforces their spending habits. Millenials/Gen Z's are spending less that their peers. Again, this is probably as a result of millennials/Gen Z's having less of an asset base.

Anecdotally we are hearing that the Perth real estate market has slowed ever so slightly and mainly in the higher priced properties. But the slowdown is minimal.

Month on month there are more Perth properties listed for sale, but year on year total listings are still down approximately 20%. The Perth real estate market continues to remain very tight.

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WA AFFORDABLE INVESTMENT MARKETS

1 JOONDALUP

Joondalup, Perth - North West, has a median house price of $875,000, with an 18% increase over the past 24 months. The low inventory forecast of 2.16 months and a median rent of $680 per week yield 4.0%. Suburbs like Hillarys and Mullaloo are popular for their coastal lifestyle and community facilities, with a rent affordability index of 31%.

2 KALAMUNDA

Kalamunda, Perth - South East, offers a median house price of $700,000, with a 25% increase over the past 24 months. The inventory forecast of 2.59 months and a median rent of $600 per week yield 4.5%. Suburbs such as Forrestfield and Lesmurdie are known for their natural beauty and spacious properties, with a rent affordability index of 32%.

3 MUNDARING

Mundaring, Perth - North East, has a median house price of $732,000, with a 20% increase over the past 24 months. The inventory forecast of 2.51 months and a median rent of $600 per week yield 4.3%. Suburbs like Glen Forrest and Darlington are popular for their semi-rural lifestyle and community spirit, with a rent affordability index of 33%.

4 ALBANY

Albany, Western Australia - Wheat Belt region, offers a median house price of $505,000, with a 20% increase over the past 24 months. The inventory forecast of 3.35 months and a median rent of $470 per week yield 4.8%. Suburbs such as Denmark and Emu Point are known for their scenic views and relaxed lifestyle, with a rent affordability index of 36%.

5 CANNING

Canning, Perth - South East, has a median house price of $816,000, with a 31% increase over the past 24 months. The higher inventory forecast of 3.66 months and a median rent of $650 per week yield 4.1%. Suburbs like Willetton and Rossmoyne are popular for their family-friendly amenities and schools, with a rent affordability index of 36%.

6 STIRLING

Stirling, Perth - North West, offers a median house price of $890,000, with a 13% increase over the past 24 months. The inventory forecast of 3.43 months and a median rent of $650 per week yield 3.8%. Suburbs like Scarborough and Innaloo are known for their vibrant lifestyle and coastal proximity, with a rent affordability index of 36%.

7 BUNBURY

Bunbury, Western Australia, offers a median house price of $505,000, with a significant 28% increase over the past 24 months. The inventory forecast of 2.80 months and a median rent of $570 per week yield 5.9%. Suburbs such as Eaton and Dalyellup provide a blend of affordability and family-friendly amenities, with a rent affordability index of 37%.

- PROPERTY INVESTOR -

WHAT IS THE FIRST HOME LOAN DEPOSIT SCHEME?

Find out more or Download FHLDS Fact Sheet

UNDER-35S TRUST SOCIAL MEDIA OVER PROFESSIONAL ADVICE

New research from the Association of Superannuation Funds of Australia (ASFA) has revealed that young Australians increasingly turn to and trust social media for financial advice, potentially exacerbating financial cyber crime risks.

It found that for 51% of Australians aged 18–34, who sought advice relating to retirement or super, social media was the second-most common (15%) source of advice after friends and family (36%).

Just 6% of this cohort had seen a professional adviser, and another 6% had been advised through their superannuation fund.

"It's alarming to see the reliance of social media so prevalent for people under 35 but it also illustrates their desire for information," said ASFA chief executive Mary Delahunty.

> *The under-35s demographic were nearly twice as likely to trust financial advice from social media than those aged 35–49.*

Delahunty continued: "We are seeing a much higher degree of trust in social media-sourced advice from younger Australians, with 33% of those in the 18–34 cohort saying they trust social media advice, compared to 18% in the 35–49 cohort."

Younger Australians' trust in online advice sources, such as through a finfluencer, could open them up to higher cyber crime risk, with this cohort more likely to report having been cyber crime victims than their older counterparts, according to the Australian Institute of Criminology.

"As an industry, we have seen a number of examples of high-pressure marketing tactics, including targeting account holders through social media, which ASIC has identified as a growing concern," the ASFA chief executive remarked.

Finfluencers have fallen under ASIC's regulatory spotlight in the past, such as ASX Wolf Tyson Robert Scholz who carried on a financial services business without an Australian financial services licence (AFSL) and was permanently prohibited.

"Anyone who recommends financial products or provides financial advice on social media must ensure they are complying with the law and may face ASIC enforcement action when they are not," said ASIC deputy chair Sarah Court in April 2023.

Young people's personal trust in social media advice, most commonly in platforms such as Reddit, TikTok, and X/Twitter, and their increased likelihood to seek advice over social media make them particularly vulnerable to cyber crime and exploitation, Delahunty continued.

"This threatens their superannuation balances and consequently a comfortable retirement."

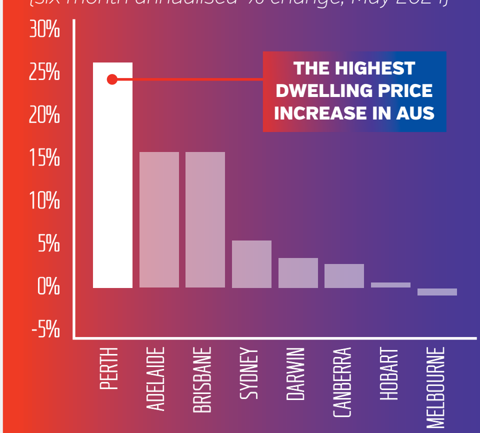
The CEO cited the cost of advice as the main barrier preventing younger Australians from seeking the help of a professional adviser. Adviser Ratings' research indicates that the median annual adviser fee has risen by nearly 60% over the past five years, up from $2,510 in 2018 to $3,960 in 2023.

"The problem that underpins both young Australians' reliance on social media for financial advice and all age groups' lack of advice is that advice from trusted sources is too costly and difficult to access."

- MONEYMANAGEMENT.COM.AU -

DWELLING PRICES

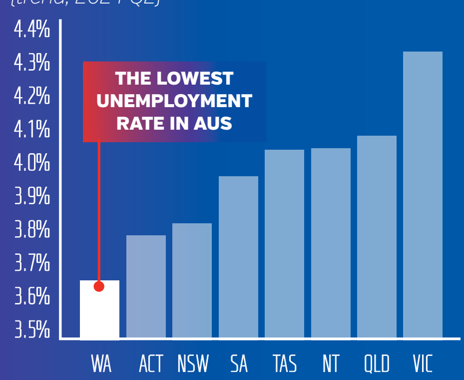
[six month annualised % change, May 2024]



- CORELOGIC AUSTRALIA, CBA, MACROBOND -

UNEMPLOYMENT RATE

[trend, 2024 Q2]



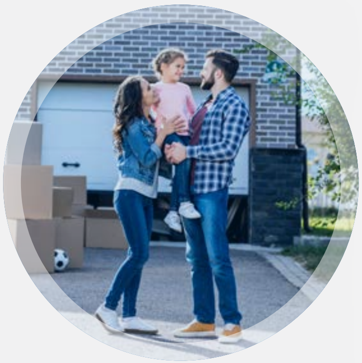
- ABS, CBA, MACROBOND -

BANK OF MUM AND DAD – THE RISKS AND REWARD

Recently the Bank of Mum and Dad was ranked the biggest player in the Australian property market.

According to Housing Monitor Research, 40% of parents in 2024 aided their first home buyer kids with housing contributions.

From pre-nuptial agreements to gifted deposits, the landscape is changing. Legal considerations are also a point of contention for some beneficiaries.



VARIOUS WAYS PARENTS HELP CHILDREN INTO HOME OWNERSHIP

Assistance can range from outright gifting of a home to gifting of a deposit. Some assist with a contribution towards a deposit, while others may come up with a tailored loan arrangement.

And then there is the guarantor option.

Lenders cater well to the parental third party guarantor arrangement, whereby parents with available equity in their property lend a helping hand by releasing that equity to their child(ren).

The way that this technically operates has a lot of nervous parents flummoxed, and for good reason. Parents who have scrimped and saved to secure their home will be particularly nervous about risking that asset.

GUARANTOR IS NO GIFT

The guarantor arrangement is not well understood by parents and children. Marketers pitch this to recipients as a no deposit option.

But what does it really mean? These days, 'Family Pledge Loans' or 'Parental Loan Guarantees' are highly detailed, legally regulated and particularly effective for those parents and children who can take up the opportunity.

Banks will generally allow an eligible borrower to access up to 80% of the value of their home, and in many cases, parents have this amount available due to the combination of debt repayments and capital growth.

> *The part many assume wrongly is that their entire equity position is at risk when supporting a child.*

In fact, lenders broadly rely on up to 25% of a parent's home for this equity. It represents the deposit and the stamp duty for the purchase of a home. In many cases, children have already amassed savings to cover a portion of the deposit obligation, so sometimes the parent's equity obligation is even lower.

The equity loan is just that, a loan. Children can access it, but they must pay for it.

MORTGAGE ARREARS AND RISK

Importantly, the lender is clear about the risks that the guarantor takes on in the event of mortgage default (i.e. borrower not making their loan repayments).

The parental loan component is restricted to the percentage that they offer up in equity, being a limited amount, and not the full debt obligation. The security property (i.e. their children's property) would be sold first in the event of mortgage default, not their property. As alarming as this sounds, Australian mortgages arrears are sitting around 1-2%.

In recent years, thanks to rising house prices, borrowers have been able to quickly arrange the Lender to release security over their parents' property as the borrower has built up sufficient equity within their own property to secure the loan. This will not always be the case. Any person looking at guaranteeing the loan of another, (parent or not) should seek independent legal and financial advice.

The parents who assist in non-direct financial ways are often those who spot the government incentive opportunities; and there are plenty of these in our various states/territories and national offerings.

PARENTAL GUIDANCE RECOMMENDED

Then there are the parents who help with the strategy, the inspections and the self-education.

From pocket money incentives for their young ones to moral support as their twenty-somethings embark on their home ownership adventure, they are the parents who are by their side, offering advice.

There are those children who cherish the opportunity to have a deposit secured from parental equity, and I can relate to the prospective buyers who have mum and/or dad by their side, helping with the inspection checklist or backing them on auction day.

> *We can't underestimate the power of self-achievement. Sometimes cheering from the sidelines is the best gift we can give.*

- PROPERTY INVESTOR -

DISTRESSED BORROWERS SEEKING TO ACCESS SUPER TO HELP REPAY MORTGAGES

Distressed customers are contacting AMP's call centre seeking to draw down their superannuation to help fund their mortgage repayments, as economic uncertainty and high-interest rates continue to weigh on Australians.

While the proportion of AMP mortgage holders behind on repayments is only 3%, it has gone up from 1% six months ago, and is expected to rise as an increasing number of customers come off their fixed-interest loan over the next few months, chief executive Alexis George said after releasing the group's 2024 half-year results.

> *"If you look at our customer base, there is an element of customers and the community doing it really tough, and you can see that in the arrears showing up in our [loan] book," George said.*

"You can see it in our call centre, you can hear it in our customers' voices. People are looking for avenues to draw down their super. We're in a situation economically, it's still OK, but there is an element in our community doing it tough."

The proportion of AMP Bank customers who are on time with their mortgage repayments has fallen 1 percentage point to 14% in the past six months, while those who are ahead has increased 1 percentage point to 27%.

AMP BANK CUSTOMERS

3%	MORTGAGE HOLDERS BEHIND ON REPAYMENTS
▲ 1%	THIS HAS GONE UP IN THE PAST 6 MONTHS
14%	MORTGAGE HOLDERS ON TIME ON REPAYMENTS
▼ 1%	THIS HAS GONE DOWN IN THE PAST 6 MONTHS
27%	MORTGAGE HOLDERS AHEAD ON REPAYMENTS
▲ 1%	THIS HAS GONE UP IN THE PAST 6 MONTHS

The group's banking division reported net profit after tax of $35 million, a 40% fall compared to the same period last year. Its net interest margin – a measure of profitability comparing its funding costs with what it charges for loans – fell from 1.39% to 1.14% in a year amid continued competitive pressures.

- WA TODAY -

APPLY NOW

HOME LOANS

BUSINESS LOANS

CAR AND EQUIPMENT LOANS

INTEREST RATES

5.99%

VARIABLE

BASIC HOME LOAN WITH REDRAW

AVAILABLE TO FIRST HOMEBUYERS

COMPARISON RATE

6.02%

WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison.

BLOCKS SMASH $300K

The price of a block of land in Perth is set to smash its historic peak this quarter – potentially within weeks – after crashing through the $300k mark for the first time since 2007.

Data from the Urban Development Institute of Australia (WA) shows Perth is becoming increasingly unaffordable with the average price of a new block hitting $305,177. It is the highest average price recorded by the UDIA's index since the December quarter of 2007, when the average price was $317,000.

At the current rate of growth – after a 9.5% jump in the past year – Perth blocks are on track to smash the historic high within months – or sooner. It follows a similar pattern in the unit market, with the Real Estate Institute of WA revealing this week unit prices had finally returned to their 2014 high of $450 000.

The patterns indicate the pressure on different sectors now that many buyers and investors have been priced out of the established housing market.

UDIA chief executive Tanya Steinbeck said the land market was feeling the knock-on impact of the high sales volumes and the lack of housing supply in the forward pipeline. The extraordinary mismatch between supply and demand is shown by the 54% increase in land sales during the June quarter, compared with the same period last year.

The hike coincides with a 71% decrease in the number of lots on the market. The squeeze has already affected value for money, with 364sqm marking the average lot size in the June quarter this year compared with 527sqm in the December quarter of 2007.

"While the established market has experienced significant price escalation since 2020, the new house and land market has managed to retain a level of price stability,: Mr Steinbeck said. "That is all starting to change with a 9.5% lift in the average price of land this quarter, and that is 25% lift year on year," Ms Steinbeck said.

While prices are returning to 2007 prices, there is now less bang for our buck. The average lot size in the June quarter 2024 was 364sqm while in December quarter 2007 it was 527sqm.

UDIA WA's figures show construction activity has lifted this quarter, but it appears the increased activity is not sustainable.

"We know that developers are struggling to keep up with demand, and they just don't have the depth in their forward pipeline to keep construction up to the current levels, or indeed to increase construction levels further, which is what the market really needs," Ms Steinbeck said.

Urbis director David Cresp said that there was only a small pipeline for Perth's apartment development, which will further drive customers to house and land packages.

"Whilst 2024 will see the highest year of apartment completions that we have seen for some time, with 2,566 apartments forecast to be completed, the forward supply pipeline is at much lower levels," Mr Cresp advised.

In the first six months of 2024, only 661 apartments commenced construction in developments of 25 or more apartments," Mr Cresp said.

"This compares to an average year between 2014 and 2022 where almost 2000 apartments were commencing construction each year."

UDIA will formally launch its State election wish list this week, calling for property tax reform, reduced red tape and investments in infrastructure.

"Our campaign will focus on three key pillars – making it easier to create the homes we need: keeping the cost of new homes down and ensuring we plan for our housing needs now, and for the future," Ms Steinbeck said.

- THE WEST AUSTRALIAN -

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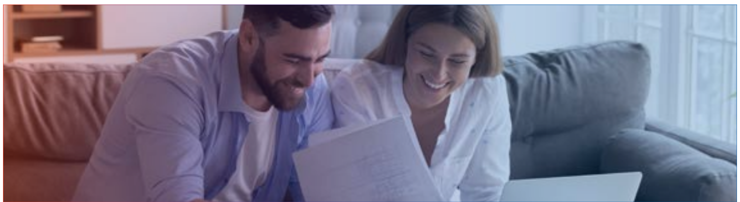

CASH BACK UP TO

$3,000

1ST HOME BUYERS*

*CONDITIONS APPLY