

Stress VS Cheer

Which will it be this Christmas?

While Christmas is a time of joy and goodwill, it can also be a period of stress, family conflict and financial hardship.

The easiest way to keep a cool head in the lead up to Christmas is to set realistic expectations and understand that the festive season cannot suddenly resolve family differences or life pressures. Do the best you can, but don't expect everything – relationships, food, decorations or presents – to be perfect.

Make a plan

Chances are your calendar is already filling up with end-of-year events. Work may also be ramping up as everyone races to finalise projects before the Christmas break. On top of that, you probably have a long list of gifts to buy, festivities to host and holidays to organise.

With so many activities to accomplish, it's important you plan your time. Use your weekly planner to start working out right now what you can achieve in advance. Allocate time each week to achieve these tasks, aiming to finish the week before Christmas.

By taking control of your time, you can avoid that overwhelmed feeling you get when you leave it all to the last minute.

Be honest about what you can afford

The essence of Christmas is sharing, but that doesn't mean running your bank account dry with gifts you can't afford. Write down a list of who you are going to buy gifts for and next to each name put down a maximum dollar value for the gift. Stick to this budget by giving yourself plenty of time to do your Christmas shopping rather than resorting to last-minute expensive purchases.

If funds are short, remember that a home-made present or a gift of your time can show your love and appreciation far more than a gift from your wallet.

Take care of yourself

Keep your rituals for managing stress, healthy eating and relaxation in place. Don't be tempted to reduce the time you spend exercising and staying healthy – these are essential strategies for surviving the frenzy of Christmas.

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We're nearly at the end of 2017 and the countdown to Christmas has begun. Stress VS Cheer: which will it be this Christmas looks at what you can do right now to avoid the pressures of a busy festive season.

When lenders evaluate a borrower's ability to service a home loan, they consider figures like debt to income ratio. Find out how you rate in our article How Debt to Income Ratios affect Home Loans.

If you're considering buying a new home before you've sold your existing property, here are 3 Questions About Bridging Loans You Need to Ask.

Find out why there are Doubts about Reverse Mortgages and whether you should be concerned.

Feel free to share this newsletter with family and friends.



**DOUBTS ABOUT
REVERSE MORTGAGES**



**HOW DEBT TO INCOME
RATIOS AFFECT HOME
LOANS**



**3 QUESTIONS ABOUT
BRIDGING LOANS YOU
NEED TO ASK**



**STRESS VS CHEER:
WHICH WILL IT BE THIS
CHRISTMAS?**

Doubts about Reverse Mortgages

Reverse mortgages are under the spotlight as the Australian Securities and Investments Commission (ASIC) zero in on financial products and services that target older Australians.

The concern is that people are signing up to reverse mortgages without really understanding the pros and cons. For some cash-strapped retirees, reverse mortgages may be the perfect solution for generating cashflow, but for others, downsizing might be a better option.

Seniors who own their homes can take out reverse mortgages, borrowing money by using the equity in their home as security. The loan can be taken as a lump sum, a regular income stream, a line of credit or some combination of the three.

The pros are that no income is required to qualify and you don't have to make interest repayments while you live in your home. Instead, the interest compounds over time and is added to your loan balance. You remain the owner of your house and can stay in it for as long as you want. Lenders get repaid when the owner either moves or dies, and the home is sold.

The cons are that taking out a reverse mortgage may impact your pension eligibility or that the compound interest eats too quickly into your equity.

Call us – your mortgage broker. We'll explain in simple terms what a reverse mortgage will mean for you, which are the best products on the market, and what to look for before deciding to commit.



We're a member of the Mortgage & Finance Association of Australia (MFAA), the peak industry body. As a member, we adhere to the industry Code of Practice which requires high standards, fair business practices, ethical behavior and compliance with the letter and spirit of relevant laws and regulations.

How Debt to Income Ratios affect Home Loans

Debt to income ratio is an important figure that lenders consider when calculating your ability to service a home loan. It refers to your monthly debt expenses as a proportion of your monthly income.

As household debt in Australia grows, lenders are becoming increasingly cautious about allowing you to borrow beyond your means. A high debt to income ratio singles you out as a default risk because you're spending more of your income on your debts, with not much left for living expenses.

What is your ratio?

Start by calculating your total monthly income. Depending on lender criteria, this may include regular salary, shift allowances, government benefits, rental income from investments, a company car, bonuses and commissions.

Lenders calculate debt to income ratios using gross income (pre-tax), but you

may prefer to use net income if this helps form a clearer picture of your finances.

Next, add up your existing monthly debt. Include credit card minimum payment amount, home loan repayments, lines of credit, personal loans, child support, car loans, and student loans.

Your credit card monthly minimum repayments are taken into account, even if you rarely reach their limit. Similarly, a line of credit will be calculated as if fully drawn down even if it isn't.

To calculate debt to income ratio, take your debt payment figure and divide it by your monthly income figure. Multiply by one hundred to make it a percentage.

How high is too high?

So now you have your debt to income ratio, how do you know whether it's too high?

The answer is that there is no single pass or fails mark. Every lender has different

assessment criteria, which is why online serviceability calculators routinely show different outcomes from lender to lender.

It's often said that if you spend more than 30 per cent of your pre-tax income on your home loan repayments, you are in the danger zone for 'mortgage stress'. Many lenders set a maximum debt service ratio of between 30 and 35 percent of your gross income, but some lenders will accept higher ratios if there are compensating factors. These factors include a high credit score, large savings and a good deposit.

Your living expenses will also be taken into consideration when assessing your ability to service a loan. Each lender has their own method for estimating living expenses depending on the number of adults and children in your family.

An experienced mortgage broker will talk you through your options. Call us today for help with finding a home loan package that suits your circumstance.



3 Questions About Bridging Loans You Need to Ask...

A bridging loan is a great option for transitioning between the purchase of a new home and the sale of your existing one. It provides you with the funds you need to buy your new home before you've sold your current property, but as with any financial decision, it's important to be sure bridging finance is right for you.

Ask these three questions to help determine whether you'd be better off with or without a bridging loan.

1. How will my home loan repayments be calculated during the bridging period?

The size of the loan (principal) is worked out by adding the value of your new home to your existing home loan then subtracting the likely sales price of your existing home. Include the usual buying and selling costs such as stamp duty and the result is the principal of your new bridging loan.

Most lenders won't require you to make principal payments until you sell your home. This means that while the sale of your existing home goes through, the minimum repayments are usually calculated on an interest-only basis. The interest rate you pay will depend on your circumstance and the level of financial risk you represent.

2. How much will my home sell for?

This is an important question to ask yourself. If you overestimate the sales price and end up selling for less, you may struggle to pay off your loan. When deciding on the likely sales price, do your research of other similar properties in the area and have realistic expectations.

3. Do I have a backup plan if my home takes ages to sell?

Bridging loan borrowers are typically given six months to sell their existing property or 12 months if they are constructing a new home. Interest is compounded on a monthly basis, so the longer it takes to sell your property, the more interest you will accrue and pay.

Many lenders will start to charge higher interest rates if your property is not sold within the bridging loan timeframe. Some will also require you to start paying principal and interest repayments.

A good backup plan is to make as many repayments as you can during the bridging stage to help reduce your total debt. Another plan is to rent your property out to short-term tenants to help cover the loan repayments.

As your mortgage broker, we can answer any of your questions about bridging loans. Give us a call and we'll go over the details with you.



Did you know?

When applying for a bridging loan, it pays to have at least 50% equity in your existing property.

The more equity you have in your current home, the less you will need to borrow and the lower the interest repayments.

If you owe more than 80% of the value of your existing home, you may not qualify for bridging finance.

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WHAT IS A SPLIT LOAN?

It combines the benefits of both variable and fixed interest rates within the same home loan.

The loan is split into two portions each with a customised interest rate model. There are many ways the loan can be split with some common combinations being 60% variable 40% fixed or 50% each way.

A split loan allows for the opportunity to reduce the effect of interest rate changes whilst being able to take advantage of low interest rates.

