

## **A boost for savings that's on the house**

Here's how to save money fast.

A couple who use the federal government's new First Home Saver Accounts to the max would have a deposit of nearly \$50,000 in just under three years.

Under the home saver accounts scheme that started on October 1, the Government pays 17 per cent into your account gratis.

The main condition is you eventually use it to buy a home or unit, even a block of land if you start building on it within a year.

The Government's contribution is capped at \$850 a year tax free but you have to put in \$5000 in a year to get it.

You must deposit at least \$1000 in each of four financial years although they don't have to be consecutive.

Technically you can't touch the money for four years but in practice it's available in just under three years.

Tony Beck, head of corporate affairs at Members Equity Bank, says: "You can access your cash in July 2011 after making your fourth contribution in early July 2011 - only 23/4 years from now.

"It means first home buyers can start looking for their first home in spring 2010 and can buy from April 2011 - 21/2 years away - with a 90-day settlement."

By putting in \$5000 a year and receiving the maximum \$850, your home savings account will have swelled to \$23,400 plus interest.

And unlike the home savings grant, a couple get two bites of the cherry. So by both saving \$40,000 you get an extra \$6800 plus interest taxed at only 15 per cent, irrespective of how much you earn.

If you've already saved, say, \$6000, put \$5000 in straight away, and leave the other \$1000 for after July 1 so as to get the Government contribution and a credit for two years' saving. But watch out if you change your mind about buying a home. Your savings will be scooped up into your super fund.

The rules for the Commonwealth's savings scheme are less onerous than for the state grants. For example, either partner can have owned an investment property previously.

The \$5000-\$850 Government contribution will be indexed.

By the way, notice the similarities between the home savings scheme and super? One can even morph into the other.

In both cases the Government pays its contribution after you've filed your tax return and not before. But unlike super, you can't salary sacrifice into the new accounts.

By the same token, when you withdraw the money for your deposit (or legal fees, a block of land or whatever expenses you like so long as they're connected to buying a property) they're tax free just like a normal bank account. But not all banks offer them.

The most generous is Members Equity Bank's 8 per cent. Other banks to offer the accounts are ANZ and Commonwealth.

**Author:** David Potts

**Date:** November 9, 2008

**Publication:** The Sun-Herald

## **First home buyers have no shortage of options.**

First home buyers should take out an interest-only mortgage but make higher repayments so they cut the principal. That's the advice of managing director of Opportune Home Loans, Paul Ryan, who says this gives more flexibility than taking out a traditional loan.

"There's this stigma that you will never pay off an interest-only loan," Ryan says.

"But if you set up a direct debit, paying more than the interest due so you're paying off some of the principal, it gives you more breathing space to cut back for a month or two to buy furniture or pay for the landscaping.

"When the kids come along you cut the repayments and just fall back to the interest payment," he says.



Most lenders will let you either make a separate payment off the principal or take out an effective interest and principal loan when you set it up, he added.

Another option is packaging your mortgage up with your other banking products, such as having an offset account. This will give extra savings as well as a reduction in credit card and transaction account fees.

Despite the credit crisis, the banks are happily lending to first home buyers although they're asking more questions.

If you're borrowing more than \$250,000 lenders will usually offer a discount off their standard rate. It pays to shop around.

Reputable mortgage brokers do not charge for finding a loan for you. Their fees are paid by the lender they sign up.

Some banks, such as Westpac and St George, are still offering 100 per cent loans when combined with the first home owner grants.

But as a general rule you need to show a lender that you've developed a savings pattern.

"You also need to show you can do it yourself," Ryan says.

Savings can include what you pay in rent.

"Once you buy and you're not paying rent, which you can put on the mortgage, the lender will accept this as evidence of savings," he says.

### **How to apply**

For the \$14,000 or \$21,000 first home owner grants you must apply before June 30 and meet these conditions:

- Must be over 18.
- You or your partner cannot have owned or had interest in a property before 2000.
- Have not owned and lived for six months continuously in a property bought since 2000.
- Will live in the property for at least six months continuously within a year of settlement or construction of a home.
- Never been paid the grant before.

You can lodge your application with your lender or through the Office of State Revenue.

**Author:** David Potts

**Date:** November 9, 2008

**Publication:** The Sun-Herald

## **You call that a cut?**

Home-loan borrowers who shop around can be rewarded with even more interest rate relief.

The size of the Reserve Bank's recent cut to interest rates of three-quarters of a percentage point caught everybody by surprise. It was the third cut in three months and takes the cash rate to 5.25 per cent. With economic conditions deteriorating, it is likely there are more cuts to come as the central bank pulls out all the stops to try to avoid Australia dipping into recession.

The big banks say their cost of funding is still high and have not been passing on the full cuts to their home-loan borrowers. The Commonwealth Bank, Australia's biggest mortgage lender, was the first of the big banks to announce a lowering of its standard variable mortgage rate, by 0.58 of a percentage point to 7.74 per cent.

For home-loan customers with a \$200,000 mortgage, that represents a saving of just above \$70 a month and a saving for those with a \$400,000 mortgage of more than \$140. The total monthly saving of the past three rate cuts by the Commonwealth Bank on a \$400,000 mortgage is more than \$540.

NAB and Westpac followed the Commonwealth Bank's lead and have not passed on the full 0.75 percentage point cut. NAB will pass on 0.62 percentage points and Westpac will cut its interest rate by 0.65 percentage points.

Members Equity Bank has announced it will pass on the full 0.75 percentage point cut to its borrowers.

While that is good news for borrowers, experts who research the lenders say that even bigger savings can be made by shopping around. With a bit of arm twisting, the lender may even pass on the full cut.

The first step for borrowers is to go to research websites [cannex.com.au](http://cannex.com.au) and [infochoice.com.au](http://infochoice.com.au) to find out how their mortgage compares with what is offered

by other lenders. Armed with this information, they can approach their existing lender and ask for a discount. If the borrower uses a lot of the lender's services, then they should remember to point that out.

Andrew Inwood, founder of financial services industry market researcher Brandmanagement, says most people never bother to ask but many lenders will offer discounts to retain business. He says some of the big banks are "routinely" discounting their interest rates by a quarter of a percentage point and some will discount by more.

While going to a mortgage broker is convenient, be careful because they do not always offer the best deals.

Consumer watchdog Choice recently shopped around on behalf of three borrowers. It found the best deals came through switching to mortgages offered by credit unions and the online lending channels of the big banks. However, these deals were not always offered through mortgage brokers. Choice found credit unions and building societies have, on average, "lower variable interest rates and lower fees than the Big Four banks".

Frank Lopez, an analyst with researcher Cannex, says those who took out fixed-rate mortgages before the middle of the year when the expectation was for rate increases would be kicking themselves now rates are falling. "Borrowers on fixed rates likely face huge break costs if they want to get out to take advantage of further possible rate cuts," he says.

They need to carefully consider whether the savings in interest rates will outweigh the break costs. Cannex data shows the cheapest three-year fixed rates are about 7 per cent. While the big banks' standard rates are about 7.7 per cent, most borrowers receive a discount of about 0.5 of a percentage point. That makes the variable rate most people pay, at 7.2 per cent, only slightly higher than three-year fixed rates.

With interest rates likely to fall further, choosing variable rates looks like the better option.

**Author:** John Collett

**Date:** November 12, 2008