

MORTGAGE

MATTERS - "making it happen"



THE JUGGLING GAME

Struggling with multiple credit card bills every month? Juggling a car loan, personal loan and a mortgage? You're not alone. As Australia huffs and puffs to become debt-free, Iain Hopkins looks at consolidation as a possible solution.

Anyone who's attempting to juggle multiple balls knows it's much harder than it looks. Behind the beaming smile of the circus performer lies intense concentrating – a loss of control can see the whole show come screaming to a halt.

Debt consolidation has become an appealing escape route for those buckling under piles of debt. But what exactly does consolidation involve and are there any hidden dangers to be aware of?

What is debt consolidation?

Essentially, debt consolidation involves combining some or all of your unsecured high interest debts into one loan. This removes the need for multiple payments each month and hopefully reduces the amount of interest you end up paying.

Why consolidate?

There are two obvious benefits to debt consolidation. Financial planner and co-principal of Wealth Partners Financial Solutions Andrew Heaven encounters clients looking to consolidate debts every day. The primary benefit, he says, is to clear debt.

"The key word is reduce your outgoings," he says. "You can't have debt and save. It doesn't work. It's like being half pregnant. If you've got debt, your number-one priority is to clear it."

The second benefit lies in making savings from a lower interest rate, or switching from fixed to variable rates or vice versa, depending on market conditions.

Not a cure

But it's not all roses. While Heaven acknowledges there are benefits to consolidation, he warns that it can be a band-aid fix, especially if the behaviour that brought upon the need to consolidate isn't changed.

"Consolidation of debts often forms a natural conclusion to the spring-clean you do to tidy things up. But it's only a medication for fixing the illness," he says.

"Addressing the symptoms of the illness, by say, prioritizing paying off the debt is just as important as consolidating the debt. Don't fall into the trap of thinking that consolidating debt will allow you to release capital to allow you to go and buy other things."

There are benefits to be had if debt consolidation is handled correctly. With sound financial advice, and provided you make the right choice for your circumstances, you can truly reap the benefits.

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BITE THE BULLET

If indecision is the bane of your life, investing can be very difficult. Here are some strategies to help you navigate the decision making process.

1. Know what you want

"You absolutely have to be able to make a decision quickly. Therefore you have to know: what's your strategy?" says investor and property author Dolf De Roos.

In the case of buying a property: "You have to be able to specify which sort of real estate you want – how old; in which areas; what you're willing to pay; what the cash flow needs to be."

2. The perfect property doesn't exist

Margaret Lomas, director of Destiny Financial Solutions and property author, says, "Obviously we all have different risk profiles. Someone who's risk averse is going to take longer to invest."

She says people who take a long time to invest are often waiting for the perfect property to come along.

"They're thinking... they can somehow totally remove the risk that's involved."

But as Lomas points out, you can never totally remove the risk. However, your worst-case scenario probably isn't anywhere near as bad as you're imagining.

3. It's a numbers game

So how many properties do you need to look at before putting in an offer?

You could follow De Roos' famous 100:10:3:1 rule.



Remember, if you have any friends or family who need help with their finance, call us!

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BITE THE BULLET (cont)

He believes that on average a person considers around 100 properties before finding 10 which are worth putting offers on. Not all your offers will be accepted (if they are, you might be offering too much, he suggests). So you might try to finance three of these properties, and you're likely to get finance for at least one.

You don't need to inspect all 100 properties in person – you just need to consider 100, De Roos says. You can do that by looking at internet listings doing a 'drive-by', calling the agent to ask some questions and, of course, attending some open homes.

De Roos believes when you look at enough properties, you'll suddenly be able to recognize a great property when it comes along. He says you'll ask yourself, "Why hasn't this one sold yet?"

4. Keep your emotions out of it

You've finally found a property you want, but the vendor rejects your first offer. How do you know whether to increase it? Or in auction scenario, how do you make sure you stop bidding at the right time?

Let's assume you've researched your market beforehand by considering lots of properties, and perhaps by looking at sales data from Australian Property Monitors, RP Data or Residex. You might even have had a professional valuation done.

So you know how much the property's worth – all you need to do now is keep your emotions out of it.

Lomas says, "I think what happens is people find the one property and for whatever reason, they fall in love with it... and that's a normal reaction because property is very physical."



Lomas says to be wary of "invalid emotions" – such as falling in love with a bathroom, or a kitchen, or the tenants. "Those sorts of invalid emotions make you a bad negotiator. I highly recommend that in that decision making process you try to think of it as a commodity and not a property."

Lomas' personal strategy is to find three or four potential opportunities in the same area.

For some people, property software can help take the emotions out of the equation. You punch in the numbers – the purchase price, the market rental etc – and you can evaluate the properties' viability more objectively.

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REAL ESTATE INDUSTRY DAMP ON WATER REFORM

Archicentre, the building advisory service of the Royal Australian Institute of Architects rejected statements by the Real Estate Institute of Australia in the media that introducing compulsory water saving "roadworthy" for homes for sale would deter investment."

Mr Robert Caulfield, Managing Director of Archicentre said, "Being able to save 20,000 litres of drinking water

a year per person by installing a \$50.00 water efficient showerhead before a home is sold we believe would not have any affect on property investment."

"The issue is about the cost which is minimal and the fact that the house has water saving, water efficient fittings installed is a selling advantage."

Mr Caulfield said that with Australia in the middle of a water crisis that is predicted to continue, there is a need for all sectors of the property market to look at innovative ways of saving water.

"We believe once the real estate industry has a close look at the 'water roadworthy' concept which spreads the responsibility of water saving across all sectors of the property market, they will see the advantages to the clients and the selling advantages of a water efficient home".

"The reality is the installation of a \$50.00 showerhead or double flush toilet that is in many cases subsidised by government, is a drop in the bucket when most houses being sold average between \$300,000 to \$1 million plus.

"The bathroom and toilet are water consumption hot spots. Of all the water consumed in the home, approximately 40% per cent is attributed to the bathroom and toilet (about 20% each).

Three star rated showerheads use no more than 9 litres of water per minute, while old style showerheads use 15 - 20 litres per minute. If you shower for six minutes, a water efficient showerhead can save up to 50 litres of water for each shower, or up to 20,000 litres of water per person per year.

"With each water efficient showerhead saving 19,000 to 20,000 litres of water annually per person this was one of the cheapest and most effective water-saving strategies".

www.archicentre.com.au



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