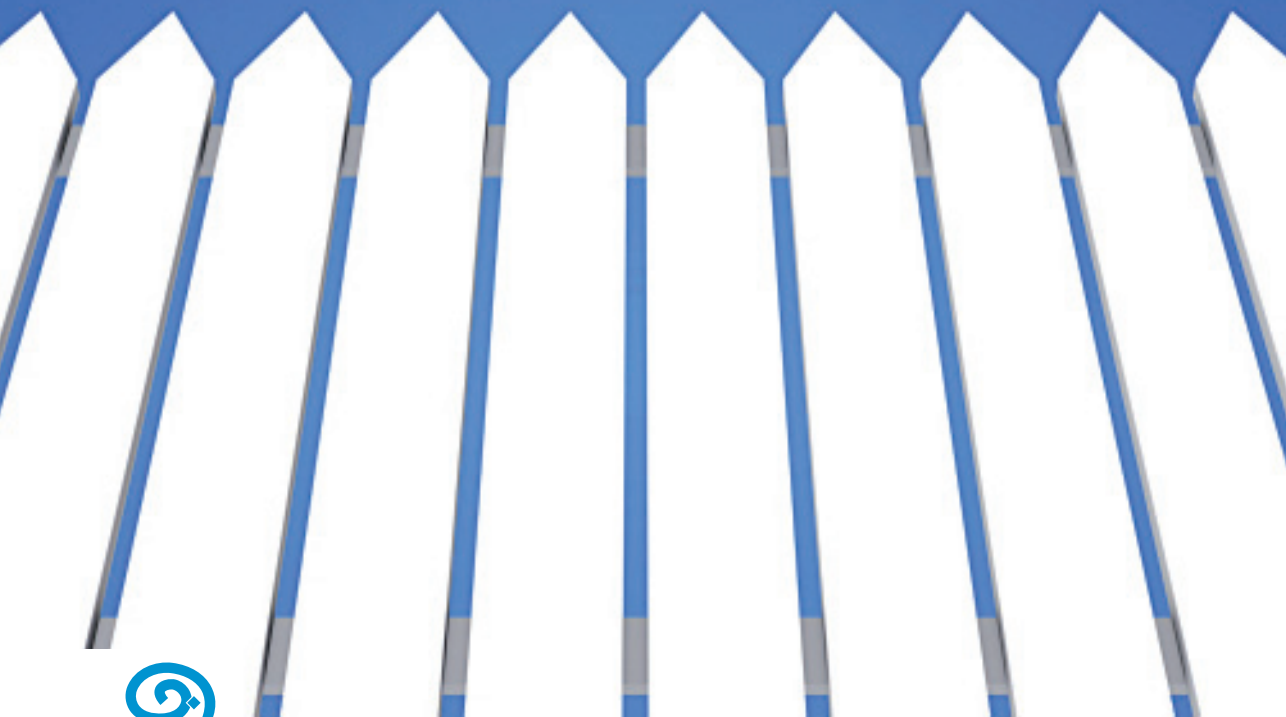


THE PERFECT HOME LOAN

3 EASY-TO-FOLLOW STEPS
MAKE IT SO SIMPLE



THE PERFECT HOME LOAN

Money's guide shows you how to find and secure the right loan for you in three simple steps

THE PERFECT HOME LOAN really does exist. With more than 2000 different mortgages available in Australia, there's bound to be at least one that's perfect for you. The challenge is finding the right mortgage among the maze of lenders and loans.

We've made it easy with a three-step process that lets you cut through the clutter. We explain how to research the market to find the home loan you want at a rate you can afford, and then secure loan approval. You'll find plenty of useful tips, plus traps to avoid.

STEP 1 - RESEARCH

Do-it-yourself research costs nothing but it plays a vital role when it comes to tracking down the home loan that's right for you. A good starting point is thinking about the type of loan you want. Here's a rundown:

Basic loan

Basic home loans offer a low rate. While you can expect fewer features than with a standard variable loan, most basic loans offer a redraw facility plus flexible repayment options (includ-

ing fee-free additional payments) and in some cases a mortgage offset. This can make it an ideal option for first-home buyers.

Standard variable loan

This is Australia's most popular type of loan. You'll pay a higher rate than with a basic loan but the reward is a wider choice of features and greater flexibility. It's possible to cut the rate on a standard variable mortgage by choosing a "package" loan.

These combine a mortgage, everyday account and credit card bundled into one package. You can expect to pay an annual fee on a package loan, typically around \$400, but the sweetener is an interest rate discount of up to 0.7%.

Fixed loan

A fixed loan charges a set interest rate for a particular term - usually one to five years. If market rates rise, you'll be ahead. But if rates fall, you could end up paying a much higher rate than necessary. If you're concerned

that possible future rate hikes could break your budget, fixing your loan can offer peace of mind.

Capped loan

A capped loan lets you benefit from falls in interest rates but, if market rates rise, the loan interest rate is capped at a particular level.

Introductory loan

Introductory or "honeymoon rate" loans offer a low interest rate for a certain period, after which the interest charge usually reverts to a higher rate. It's essential your budget can handle the extra repayments once the honeymoon period is over.

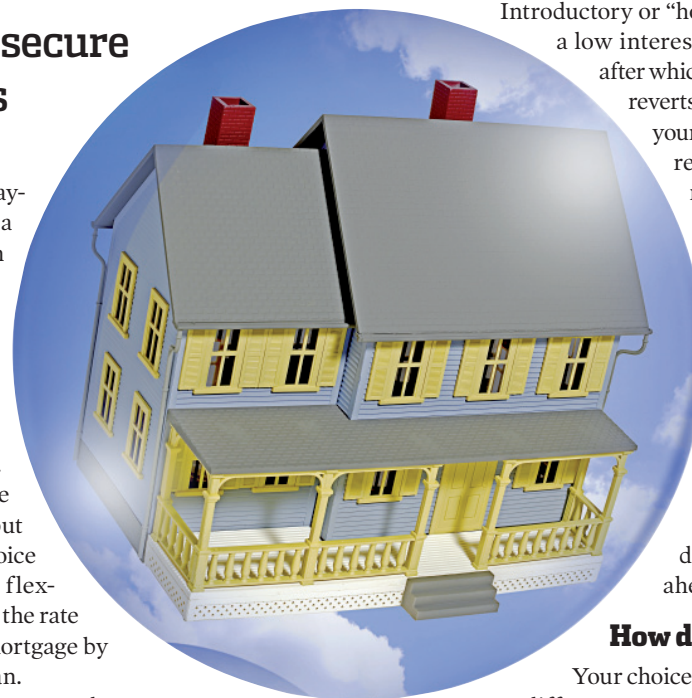
Line of credit loan

These loans offer a way to access home equity. You can draw on the loan whenever you need extra cash - there's no need to get special approval, and there are no fixed repayments. This may sound like a good deal but unless you're disciplined you may never get ahead with your mortgage.

How do they compare?

Your choice of mortgage can make a big difference to your monthly repayments and the overall cost of the loan. As the table on the right shows, on a \$300,000 mortgage repaid over 30 years, opting for a basic rather than standard loan can reduce your monthly repayments by around \$132 and cut up to \$47,285 off the interest cost.

Much the same savings can be achieved on a package loan. Be aware, though, that a fee generally applies so if you don't use all the benefits of a package loan you may be better off with a basic loan that doesn't charge a package fee.



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LOAN FEATURES

Some can really save you money

Used wisely, many loan features offer convenience plus the opportunity to save money.

Additional repayments: The option to make extra payments at no extra charge is a must-have. Even small additional payments can generate substantial interest savings over the long term of a mortgage.

Redraw facility: This lets you withdraw any extra payments made on the loan. It's extremely useful if unexpected bills arise. Redraw fees can apply.

Split: Dividing your loan between variable- and fixed-rate components lets you benefit from falls in rates while offering protection against rate rises.

Portability: This lets you take your home loan with you if you move, providing savings on fees applicable to a new loan or charges that may apply when you exit your current loan.

Mortgage offset: An offset account is a savings account linked to your home loan. Instead of being paid interest on your savings, the amount in the account is deducted from, or "offset" against, the outstanding amount of your mortgage when interest is calculated. If you have a mortgage of \$300,000 and \$10,000 in the offset savings account, interest will be based on \$290,000. On a home loan charging 7.4% this could mean cutting \$48,390 off the total cost of the loan and almost two years off the term. Many lenders have mortgage offset calculators on their websites, showing how much you can save for a particular loan and level of savings.

\$300,000 HOME LOAN, 30-YEAR TERM

	BASIC VARIABLE	STANDARD VARIABLE	FIXED 3 YEARS
Interest rate ¹	6.75%	7.40%	7.15%
Monthly repayment	\$1945	\$2077	\$2026
Total interest	\$400,485	\$447,770	N/A
Saving	\$47,285		

Source: Reserve Bank of Australia as at 8-Sep-10. ¹Average bank mortgage rates as at August 2010. Calculations made at www.infochoice.com.au.

STEP 2 - FIND

Researching the mortgage market is easy thanks to a variety of “comparison” websites that show the rate, fees and features applicable to a wide selection of home loans. Here are some worth a look:

Canstar Cannex (www.canstar.com.au). It provides “star ratings” of home loans that take into account rates and features.

InfoChoice (www.infochoice.com.au). It lists loans according to the cheapest rate. The site also features useful calculators.

Mozo (mozo.com.au). The site lists rates, fees and loan features plus a customer rating for a variety of mortgages.

RateCity (www.ratecity.com.au). It sets out the cheapest loans and allows direct online applications.

What type of lender?

The table above provides a snapshot of some of the loans you can see listed on the popular comparison sites. The mortgages rated as best or cheapest may differ, but the common thread is that you won't see many of the big banks listed.

Some of the best-value loans are offered by building societies and credit unions or non-banks such as RAMS or State Custodians. And over the past two years, plenty of new lenders have emerged that you may not have heard of – but they're all hungry for your business.

That makes it important to look beyond the big banks. Chances are, you'll get a cheaper rate or a more flexible loan with a smaller lender.

COMPARING THE SITES

CANSTAR CANNEX 5-STAR		RATE CITY CHEAPEST		INFOCHOICE CHEAPEST	
ANZ	6.71%	State Custodians	6.39%	Beat HL	6.57%
Holiday Coast CU	6.75%	Homestar	6.47%	Homestar	6.47%
IMB	6.52%	Newcastle Permanent	6.49%	MyRate	6.63%
Pacific Mortgage Gp	6.31%	IMB	6.52%	Once	6.41%
State Custodians	6.39%	RAMS	6.54%	Heritage BS	6.64%

Source: research house websites as at 8-Sep-10.

There are pros and cons associated with each type of lender. If you're taking a direct approach and organising your own home loan, it's important to cast your net wide. Don't be put off if a lender doesn't offer a big branch network – loan applications can easily be made online or over the phone.

Banks

Approaching one of the big banks gives you the reassurance of a familiar name. In fact, our major banks currently account for around 76% of the home loan market, and many borrowers are attracted by the availability of package loans (see “Standard variable loan”). However it's important to cast your net wide to discover what's available through other lenders, rather than simply opting for a well-known brand.

Mutuals

Credit unions and building societies (collectively known as “mutuals”) work for their members, not shareholders, and that means they focus on providing flexible home loans at low rates. Most credit unions are open to the general public, and it's not necessary to live in an area serviced by a building society or credit union to apply for a mortgage.

Non-banks

Non-bank lenders have become a driving force in the home loan market, and by focusing solely on home loans, many such as RAMS and Homestar offer some of the cheapest mortgages available. On the downside, the non-banks typically only offer loan products, so you won't have the option to bundle your mortgage and other financial products such as a transaction account, with the same institution.

Can a mortgage broker help?

If you're time poor, your circumstances are unusual or you're simply not comfortable taking a direct approach, it may be worth using a mortgage broker.

A good broker will help you identify what you need in a home loan, track down the loans best suited to your needs and negotiate on your behalf with the lender of your choice as well as offer assistance completing



your loan application. It shouldn't cost you anything to use a broker – they earn a commission from the lenders they recommend. However you need to be sure a broker is recommending the loan that suits you, rather than pushing the lender who pays the highest commission.

Our list of questions below will help you determine if a broker is likely to act in

your best interest.

- What kinds of services do you provide?
- Do you charge any fees?
- What is your experience and qualifications?
- How do lenders pay you?
- How many lenders do you have access to?
- Are there any restrictions or incentives placed on you for selling particular products?
- How long does it normally take to arrange a loan?

TIP

Some of the cheapest lenders do not offer loans through brokers. You may get a better rate by taking a direct approach and organising your own loan.

STEP 3 - SECURE

You've researched the market, found the ideal lender and loan – all that remains is getting your loan application over the line.

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Better off with RAMS.**



Call 13 RAMS, that's 13 7267





Taking some time to get your finances in order can boost your chance of securing loan approval.

Check your credit history

Credit reference agencies such as Veda Advantage and Dun & Bradstreet maintain credit records that show if your credit history is clean, so it's one of the first things a lender will want to see.

It's a good idea to order a copy of your own credit record before applying for a loan – you'll be able to check if everything on it is accurate and the lender is getting a true picture.

To request a copy of your credit record, log on to www.mycreditfile.com.au or www.dnb.com.au. Both offer a free service if you're prepared to wait 10 days, but if you're in a hurry you can pay about \$30 to speed up the process.

TIP

The limit on your credit card could be the reason you're not getting a home loan. Lenders look at your overall credit limit – not the amount you actually owe on the card, when assessing your ability to repay a loan. Play it safe by getting in touch with your card issuer and asking them to cut back the card limit before you apply for a mortgage.

Get your paperwork together

Having everything for your meeting with a lender will prevent delays on approval. Get together:

- Income details – either a copy of your employment contract or several weeks of pay slips
- Savings details – preferably bank statements showing at least six months of steady saving
- Phone number of the real estate agency handling the property you wish to buy
- Your solicitor's contact details
- Your accountant's details.

What your lender will ask

It pays to be prepared for the types of questions that might be thrown at you from a lender in an interview. Here are a few possibilities:

- How many dependent children do you have?
- How long have you lived at your current address?
- What do you own (your assets) and what do you owe (your other debts including credit cards, personal loans or car loans)?
- What type of title applies to the property you are intent on purchasing?
- Do you have income protection insurance or life insurance?
- What credit cards do you have?

TIP

Securing loan preapproval is a smart idea, giving you a clear idea of your borrowing capacity, but it's not a green light. A change in interest rates, for instance, could alter your borrowing capacity.

How much can you borrow?

Individual lenders take a range of factors into account when determining how much you can borrow. The main issues that will determine your borrowing capacity include how much you earn – your wage or salary plus investment income – your everyday living expenses and the repayments that apply to any other debts.

Online calculators provide a useful guide of your borrowing capacity. Take a look at the calculators on:

- www.money.ninemsn.com.au
- www.aussie.com.au
- www.realestate.com.au
- www.rams.com.au

These sites also feature repayment calculators that show how much you can expect to repay each month for different mortgage amounts, rates and loan terms.

BUYING A \$400,000 MELBOURNE HOME

Purchase price	\$400,000
Deposit of 20%	\$80,000
Mortgage ¹	\$320,000
Estimated lender charges	
Application fee	\$600
Valuation fee ²	\$0
Mortgage insurance	N/A
Estimated government charges	
Stamp duty (concessions may apply)	\$16,370
Transfer of land registration	\$1106
Mortgage registration	\$100
Title search	\$15
Mortgage discharge registration	\$100
Total costs excluding deposit	\$18,291

¹As well as the monthly mortgage repayment, the lender may charge a monthly service fee of up to \$35. ²The fee could be \$250+ but many lenders don't charge for it. Other costs to budget for: solicitor or conveyancing, building report, pest report, home and contents insurance, utilities transfer or connection, removalist.

Budget for the total cost

Buying a home involves more than saving an initial deposit. The table above shows the expenses you need to budget for assuming the purchase of a \$400,000 home. We've allowed for a 20% deposit, which means saving on lenders mortgage insurance – an expense that can run into thousands of dollars. And as you can see, stamp duty will be one of the biggest costs you'll need to consider – although if you're a first-home buyer you may be eligible for concessions.

First-home buyer concessions

In addition to the First Home Owner Grant of \$7000, first-home buyers may be entitled to state stamp duty concessions. Check the website of the office of state revenue in your state or territory for details.

- ACT:** www.revenue.act.gov.au
- QLD:** www.osr.qld.gov.au
- NSW:** www.osr.nsw.gov.au
- NT:** www.nt.gov.au/ntt/revenue
- SA:** www.revenuesa.sa.gov.au
- Tas:** www.treasury.tas.gov.au
- Vic:** www.sro.vic.gov.au
- WA:** www.dtf.wa.gov.au

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TRAPS TO AVOID

Don't pay the standard rate

Use a lender's advertised rate as a starting point to negotiate a cheaper rate. Shop around and stay on top of the rates being charged by a range of lenders. Check out the comparison sites – Canstar Cannex, InfoChoice, Mozo and RateCity (see page 4).

If you find a better deal go back to your preferred lender and ask "Can you match it?" Smaller lenders are especially open to discounts – and if you don't ask, you don't get.

Watch out for exit fees

If you refinance your loan within the first three to five years you could face costly exit fees, which tend to be higher with non-banks than major lenders or mutuals. Ask your lender or broker about these, or check out the fine print of your loan contract. It's important to know what you could be up for if you refinance further down the track. The fees could be high enough to outweigh the benefits of switching to a cheaper loan.

Think before you fix

In an environment of interest rate uncertainty it can be tempting to lock into a fixed rate. Trouble is, interest rates are notoriously hard to predict and opting for a fixed rate can work against you if market rates fall. Expensive break charges could also apply if you bail out before the fixed term expires. Splitting your loan between fixed and variable rates may offer a more flexible alternative.

Understand how mortgages work

Mortgage interest is calculated daily, and in the early years of your loan the bulk of repayments goes towards meeting the interest charges. Any extra payments come straight off the principal and reduce the daily interest cost. This is why additional payments are so effective at whittling away the loan and generating savings on interest. Put lump sums such as tax refunds on your mortgage or make higher monthly repayments if you can.

Better Rates. Better Deals. Better off with RAMS.

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- [REDACTED]
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Call 13 RAMS, *that's* 13 7267



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