NEWSLETTER

FORT KNOX home loans

ROBERT KNOX

SUMMER 09

What a year!

Thank you for your support throughout 2008 and we look forward to doing business with you again during 2009.

As we look back over the past 12 months it has been quite a ride of highs and lows – the magnitude of which even the experts were not predicting.

What a difference a year makes in terms of economic data and business trading conditions. It is almost unbelievable.

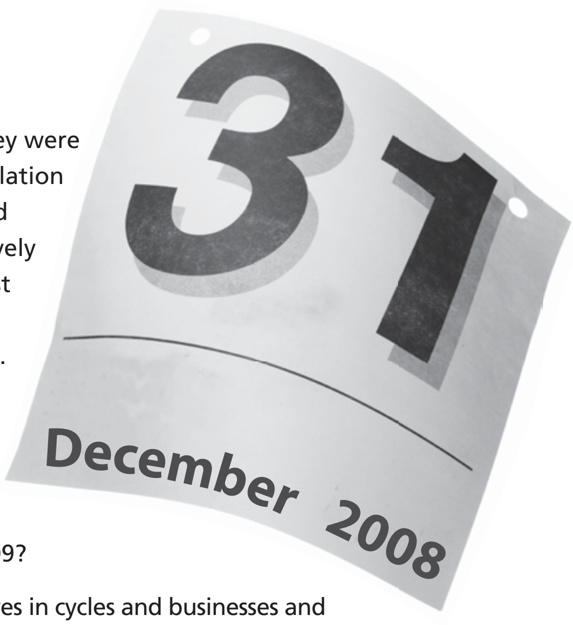
Interest rates started out the year with all predictions of rates rising above 10%. Then towards the end of the year, rates had done an about-face and predictions were of rates at 5%. In fact as of 8 December, one of the best fixed rates available is a three-year fixed interest rate of 4.99%. Predictions for the new year are even lower.

How low can they go? The interest rates we are seeing and are predicted to see in coming months will be among the lowest in history. I think all anyone can say at this uncertain time is 'watch this space'.

We have seen the price of oil per barrel plummet from the highs of US$147 a barrel in July 2008 to a low in early December 2008 of US$41 a barrel.

We have seen the all ordinaries index on the Australian share market go from a high of 6873 points in November 2007 to a low of 3202 points in November 2008.

Governments and reserve banks around the world have done about faces in monetary policy. At the beginning of the year they were terrified of inflation and by the end were aggressively cutting interest rates to stave off a recession.



So the big question is what does this mean to all of us in 2009?

The world moves in cycles and businesses and economies will go through growth and retraction times. There is no doubt that over time these current times of turmoil will end, the big question however is when? The trouble is when governments and media put fear in the consumer, slower growth and contraction become a self fulfilling prophecy.

Why wait for the government to tell us it is OK to spend and invest? We should all do what is comfortable for each of us and the world will find its feet.

We hope that 2009 is a great year for all of you and we look forward to speaking with you in the new year.

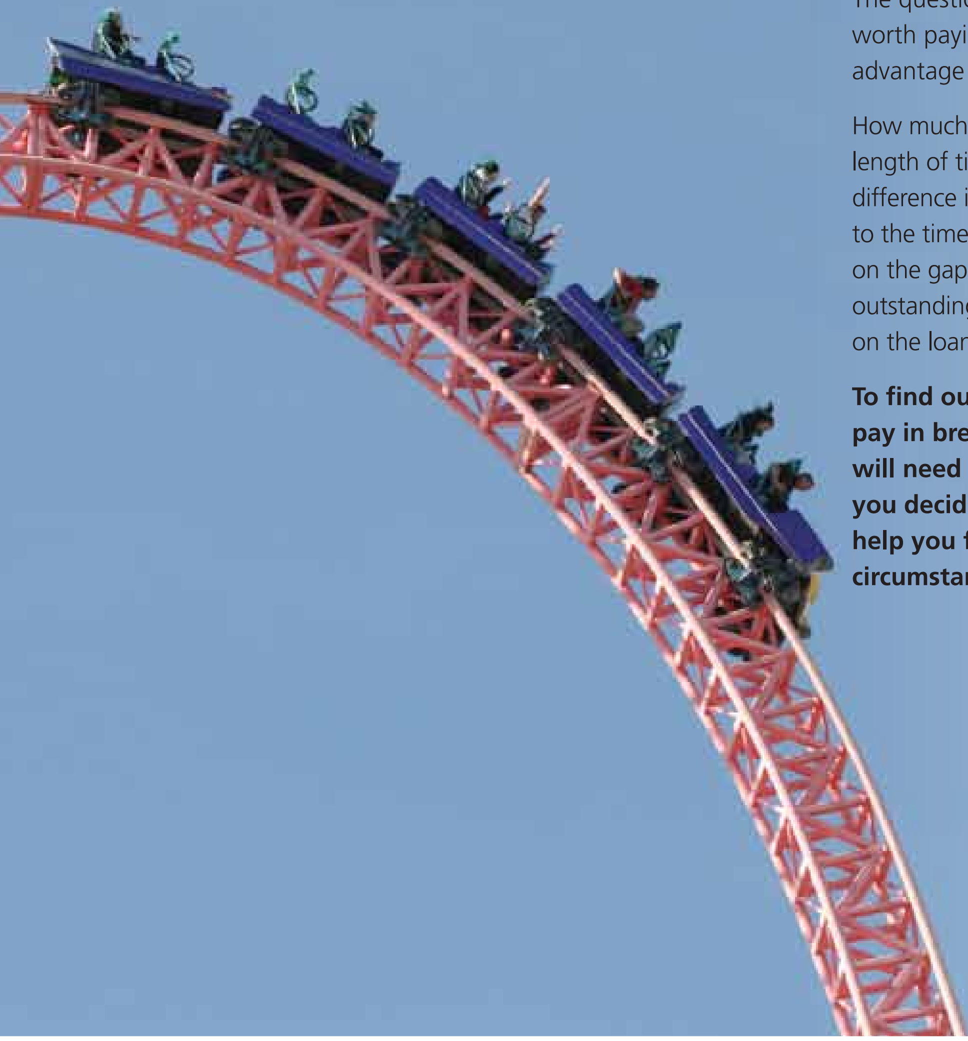
We hope you find this newsletter useful and welcome any feedback on past stories or suggestions for future items.

Once again thank you for your patronage and your referrals.

Fixed loan dilemma

If you're one of those unlucky people who fixed their loan's interest rate when all indications were that rates were on their way up – you are not alone.

Many people opted for fixed rates of two, three or even five years in the first half of 2008 only to watch in horror as six years of interest rate rises were reversed in just four months by the end of the year.



With the variable interest rate now close to historic lows, you may be considering refinancing your loan.

The bad news is that there will be hefty exit fees, also known as break fees, which may be in the thousands of dollars if you decide to break your loan contract.

There is little room for negotiation with the banks or specialist lenders on these fees, especially after interest rates have dropped.

The question is whether these additional fees are worth paying in order to refinance your loan and take advantage of current low interest rates.

How much you will be required to pay depends on the length of time remaining on your fixed loan and the difference in the interest rate from the time you fixed to the time you refinance. The fee is usually calculated on the gap between the rates, multiplied by the outstanding balance multiplied by the years remaining on the loan term.

To find out exactly how much you will need to pay in break costs, and any other exit fees, you will need to speak directly with your lender. If you decide to refinance your current loan, let us help you find the best loan for your individual circumstances.

Boost for first home buyers

First home buyers are now eligible for grants of up to $21 000 toward the purchase of their home.

Under the First Home Owners Boost (FHOB), announced by the Federal Government in October 2008:

- First home buyers who purchase established dwellings will have their grant doubled from $7000 to $14 000; and
- First home buyers who purchase a newly constructed house or apartment will receive an extra $14 000 to take their grant to $21 000.

To be eligible for the FHOB, first home buyers must enter into a contract to buy a property by 30 June 2009.

The bigger grant is intended to stimulate housing activity and give first home buyers a better chance in the housing market in light of the subdued housing market and housing affordability levels being at record lows.

The initial First Home Owners Grant scheme was introduced on 1 July 2000 with a one-off grant of up to $7000 payable to first home owners.

While some say the FHOB is the shot in the arm that is needed for the real estate market, particularly for new homes, others are more wary and are waiting to see what the new year holds in terms of the global economic crisis and job cuts.

To be eligible for the national FHOB, you:

- Must be at least 18;
- Must be an Australian citizen or permanent resident;
- Must not have received an earlier grant (this also applies to your spouse);
- Must not have had relevant interest in residential property (this also applies to your spouse); and
- Must live in the home continuously for at least six months and within 12 months after purchase.

In addition, the NSW Government in its recent mini budget added a further $3000 to the newly boosted grant for first home buyers. The $3000 will be available for one year and then reassessed.

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Super Investment Loans

Borrowing money to purchase real estate as an investment is now possible for people with self-managed super funds (SMSFs).

As a result of recent legislative changes, an authorised Australian SMSF can purchase residential and commercial property. Previously the fund would have to buy the property outright.

Some of the major banks as well as specialist lenders offer super fund home loans to SMSFs for around 70% of the value of the property, although the highest loan-to-value ratio offered is 85% for residential and 75% for commercial.

While the trustee of the SMSF has control of the property, the fund is the owner and it is held in trust until the loan is paid out or the property sold. You are not able to live in the residential property but you can rent the commercial property from the fund.

Borrowing can be up to 30 years for residential property and 15 years for commercial property with options to pay principal and interest or interest only. Some lenders also offer a security trustee service as part of the loan package.

The benefits of SMSF property investment include:

- Adding property to the fund's investment strategy;
- Diversifying the fund's risk;
- Other assets in the fund are not affected as any debt is limited to the property itself; and
- Gearing and Capital Gains tax benefits.

Other considerations when buying property through SMSFs include:

- Higher interest rates for super fund loans;
- The costs associated with having the property held in trust during the term of the loan; and
- The usual initial and ongoing costs associated with purchasing an investment property such as rates, repairs and maintenance.

There are in excess of 370 000 SMSFs in Australia and more and more people are taking control of their superannuation through self-managed funds.

For more information about SMSF loans or for details on the variety of loan packages and interest rates on offer, give us a call. It is also worth talking to your accountant about the advantages of both SMSFs and purchasing property with a super fund loan.