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FINANCIAL PLANNING QUARTERLY

Wealth Strategies for Young Guns

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What's in this Issue?

Christmas Sprint

The Silly season is upon us! Here are some quick tips to help you power through it;

Keep well hydrated - start Christmas drinks with a sparkling water rather than sparkling wine - try it with ice and a twist of lemon

Give to those less fortunate – whether it be your time or money, it will bring a smile to your face to help others.

Get plenty of sleep - don't burn the candle at both ends.

Make a List - and Check it Twice - Make a list of all your family and friends who have been good girls and boys. Once you decide who is deserving of a gift from you, determine how much money you can realistically afford to spend in total and then allocate the spend to each gift to stop you from overspending. Or potentially put a limit on your present spending with family and friends.

Pay in Cold, Hard Cash - One way to force yourself to stick to your holiday budget is to pay for all your gifts with cash. Simply withdraw the amount that you can afford to spend on your holiday gifts. When that money is gone, Christmas shopping time is over. Plus this could result in a store discount!

Become a Lone-Wolf Shopper - People who shop alone generally spend less money than those who shop with friends and family members – stops you from getting caught up in the moment but they may also pressure you into buying items you really don't need.

Don't Buy Presents for Yourself - When you're out shopping for friends and relatives, you're bound to come across some glorious item that you absolutely must have. However, remind yourself that this is the season for *giving*, not *receiving*. If that doesn't console you, you could always call one of your other procrastinating family members and tell him to add the item to your Christmas wish-list.

Eat well - Those crisps, dips and tasty little fried morsels can go straight to your hips!

Exercise - don't pass up your exercise for socialising! Exercise boosts your energy levels and helps manage stress.

Get Creative - If you're really strapped for cash this Christmas, consider giving out non-monetary gifts. You can print out home made gift certificates. For example, setting up Itunes for your Mum or baby sitting a family member's kid.

Start buying for 2010 now - Buy Xmas paper and cards in the sales for 2010.

Source: Investopedia

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How to Manage on one income – the strategy to manage your mortgage when you start a family.

Now there's a big ask. How can anyone afford both - a big mortgage and a family? While lower interest rates have temporarily eased home loan affordability, there's no question that juggling a mortgage and a family can be tough. Many first-home buyers in particular find they've just got on top of making regular mortgage payments so how do you set yourself up in advance to reduce the stress?

1) **Budgeting** (don't groan - we all hate it) is going to be critical. There are really two parts to this – saving prior to having a family and understand all the assistance you'll be entitled to - government benefits, holiday, maternity and long-service leave and any other cash you can get your hands on. How effectively will this plug the gap while you're living on a reduced income? On the bright side, you probably won't be spending a lot on entertainment in the early stages of parenthood, though you will have to meet other expenses such as medical care and items for the baby. Understanding how much money you'll need - and how much you'll have - will help you decide whether you can afford your current mortgage repayments and how long you can afford to be off work for.

2) **Building a buffer by building up your offset account** so that you can cope when you drop down to one income for a period of time. One strategy used by some couples is to live off one income prior to actually dropping down to one income and ensure your offset account is going up by the other.

What's better, a loan with redraw or an offset account? The offset account offers more flexibility and options in the long run for you and your family if you situation should change. But key is to ensure that your offset account is 100% offset!

Some people switch to a fixed-rate loan when they start a family to guard against interest-rate rises and to have certainty of repayments during the one income period. If you are considering this you may want to look at a combination option – i.e. part variable and part fixed. Plus if interest rates don't go the way you thought you need to be very aware of any charges (such as break fees) to adjust the structure. Just remember why you made the decision in the first place and forget that interest rates are moving ☺.

Source: the Age

Guarantor's – risks and benefits

Obtaining assistance from your parents to get into the house market is a serious commitment for your parents.

The first home buyers market has been running hot with the government handouts which are about decrease 1st Jan 2010;

- Established homes will reduce from $12,500 to **$9,000**
- Newly constructed homes in Metropolitan Victoria will reduce from $25,000 to **$18,000**
- Newly constructed homes in Regional Victoria will reduce from $29,500 to **$22,500**

Note also that to be eligible to receive the First Home Owners Grant the value of the property must not exceed $600,000.

If you are going to ask your parents to assist there are several options for consideration – below are just a few. The key point in all of these strategies is *to get legal advice and document precisely the conditions under which your parents are providing the assistance.* Also consider the possibility that your parents might need the money back one day;

- Gifting money
- Registering a second mortgage
- Using equity in your loan
- Going guarantor – which seems to have grown in popularity lately, so we thought it might be beneficial to understand how this can impact your parents.

Why would you consider a guarantor? Usually these buyers are professional couples where both are working, so it's seldom an income issue, but they struggle because they don't have the mandatory 10% deposit. So mum and dad offer security support where the lender takes a limited mortgage over their home or investment property, rather than paying lenders' mortgage insurance.

There are two main types of guarantee:

1) a **supported guarantee (Mum and Dad)**, where the guarantor's home or investment property is provided as security for the borrower's home loan and an

2) **unsupported guarantee**, where the guarantor services the loan if the borrower is unable to meet his or her repayment schedule.

So what are the risks that you and your parents need to be aware of? Rising property values, the prospect of a rapid hike in interest rates and growing unemployment put guarantors at risk of losing their own home if children can no longer meet repayments.

If the borrower divorces, loses his or her job or is injured and unable to work and can't meet the loan repayments, the lender can sell the home to settle the mortgage. If there is a shortfall, the bank then calls on the guarantor to service the debt. Mum and dad then have one month to come up with the cash before the property they put up as security for the loan is sold to repay the debt. Or that's the theory.

The banks obligation - Banks are also currently required to provide the guarantor with copies of the loan contract and any credit reports on the borrower. They must also explain the risks involved and recommend that guarantors seek independent legal and financial advice.

SECURITY CHECKLIST

It's important, to **factor in a rise in interest rates of at least 2%**, so that you know you are comfortable to continue to make the repayments if rates change or otherwise look at fixing a portion to safeguard against this.

Consider your parents and what stage of life they are at – i.e. still working or are they retired. You probably wouldn't want to put your parents under pressure when they are close to or already retired. When parents are under pressure to bail out adult children, not only does their relationship suffer but siblings may also resent the pressure being put on their parents.

Guarantors can limit their liability to a certain amount. For example say you buy a home for $400,000 with no deposit and your parents go guarantor for $80,000 – the borrower takes out a loan for the full $400,000 (so repayments will be higher than if you had cash to put in) but you avoid paying mortgage insurance or saving for another few months to increase your deposit and risk missing out on the home you wanted.

Guarantors should also be aware that they can have their **home released** from the arrangement before the end of the loan term either by;

1) the borrower has built up equity in the property – i.e. the property has increased in value OR

2) the borrower has paid down the loan sufficiently.

Borrowers should also **consider taking out life, trauma/ TPD and income protection insurance** to protect your ability to continue making loan repayments if you are unable to work due to sickness or injury. This would also safeguard mum and dad's property.

Source: The Age & Consumer Credit Legal Centre NSW

The Resilience of Melbourne's Property Market

2009 may well be remembered as the year that the residential property market defied gravity. It certainly was a year in which it proved its resilience against all expectations. The turnaround in residential property, after the global financial crisis, began in April and continued unabated for the rest of the year. Even when stock levels began to increase, clearance rates at auction hovered around 80%, week in week out.

A snapshot of Melbourne's residential housing market in 2009 reveals its underlying strength and sustained recovery.

- In the 12 months to September this year Melbourne's median house price has risen by 8.4% according to the ABS to a record $480,000.
- Properties are selling on average in 41 days compared to 53 days a year ago.
- Vendors are discounting their prices by 5.45% compared to 7% at the same time last year
- Clearance rates at auctions in Melbourne have hovered around or over 80% since the recovery began in April 2009
- In 2009-10 premium suburbs are likely to see the largest price increases because they were the ones hardest hit in 2008. Prices in these suburbs are rebounding on the back of improved business confidence and share market performance.
- Melbourne's robust residential property market can be attributed to rapid population growth and our broad economic base underpinned by a persistent shortage of housing.
- Pressure on house prices is set to continue with the HIA reporting a 13% fall in housing starts in 2009.

If you would like assistance on any property related matter please feel free to contact Marshall White on 9822 9999.

Source: Marshall White

Wishing you a Merry Christmas

We would like to wish you all a very Merry Christmas and a Happy New Year.

Over the Festive Season, our office will close on Wednesday 23rd December and re-open on Monday 4th January 2009.

HAPPY HOLIDAYS and I look forward to seeing you in the New Year.