Let's go shopping

is now the time to refinance?

Australia's cash rate is at its lowest level in history. Does that mean the time is right to make the most of the low cash rate environment and refinance your mortgage?

When discussing the Reserve Bank of Australia's February decision to hold rates, Governor Philip Lowe was unambiguous in his take. He explained that if you took your loan out a while ago, it is worth shopping around and checking in with your Broker to see if they can now get you a bigger discount.

While we were already at record lows, the decision by the RBA this month to lower the cash rate even further to 0.25%, sets a new low. With unemployment rising 0.2% to 5.3% in January, and the effects of coronavirus and bushfires becoming more apparent, the RBA is using what it has at its disposal – monetary policy – to try and boost the economy.

With this decision in mind, it's worth talking to your Broker and seeing if you can take advantage of the low-interest-rate environment as an existing home loan customer.

Refinancing your mortgage can be beneficial in several ways. It can give you a better interest rate, saving you money, allow you to access improved loan features, or be used as a way to consolidate several debts into one mortgage.

How much could you save?

Some banks are offering even greater discounts to their advertised standard variable rates. These cuts can be as high as 2 per cent, compared to 1 per cent five years ago.

Your Broker may be able to negotiate further discounts on the interest rate applied to your loan.

Should I stay or should I go?

With increased competition comes the choice of whether to move to a new lender with a better rate or to use that better rate as leverage to refinance with your current bank. Loan exit fees have been abolished, so this has reduced the barriers for borrowers to switch lenders, and if you are a responsible borrower, your current bank will be keen to retain your business. They may offer discounts to increase customer retention and save on marketing and promotional costs. It can be as simple as just asking your Broker to review.

There are advantages to staying at your current bank. You can avoid fees, like discharge fees or early exit fees. A new lender might charge fees too, such as application, settlement and valuation fees.

How to refinance

Your Broker will be able to provide advice about the best loan and features for you, and how much you can borrow. They can also help with assessing the different loans in the market and guide you through the refinancing process towards the best outcome.

Many banks are offering "cash back" offers of up to $4,000 to refinance your loan. Contact your Broker to find out if this would be in your best interest, and if you qualify for this cash back offer.

COVID-19 (coronavirus)

As this situation continues to evolve, we understand that many of our clients will be impacted at this difficult time. Lenders are instigating new support packages to assist customers suffering financial hardship as a result of Covid-19.

At imfs, we are here to support our clients. If you have any questions or concerns, please don't hesitate to contact your imfs Broker.

In view of increased restrictions and social distancing requirements being enforced, we will restrict our appointments to non-face to face mediums ie phone, skype and face-time.

We hope you and your family are keeping safe and we wish you well in these unprecedented times.

Please refer to our facebook page "imfs" or this link www.facebook.com/InMortgageFinanceServices/ and our website www.imfs.com.au for regular advice in relation to assistance with your finances through this Covid-19 situation.

Variable Rates best in market at time of going to print **2.74 % PA** comparison rate **2.76 % PA** *

Building not buying

Do you need a mortgage or a construction loan?

Building a new home that looks and feels just right – or making big changes to the place you live – is a goal for many. But it can be a more complicated process and a very different experience to buying an existing property. And it can require a specific type of financing – a construction loan.

Maybe you already know how a standard mortgage works. Broadly speaking, you take out a loan to pay for an existing property, give that money to the owner of the property in one lump sum, then pay back what you've borrowed overtime – plus interest to the lender.

But when you need money to build, buy a house-and-land-package or make significant renovations or structural changes to your current home, that all changes – especially in regards to the approval process and the structure of the loan itself.

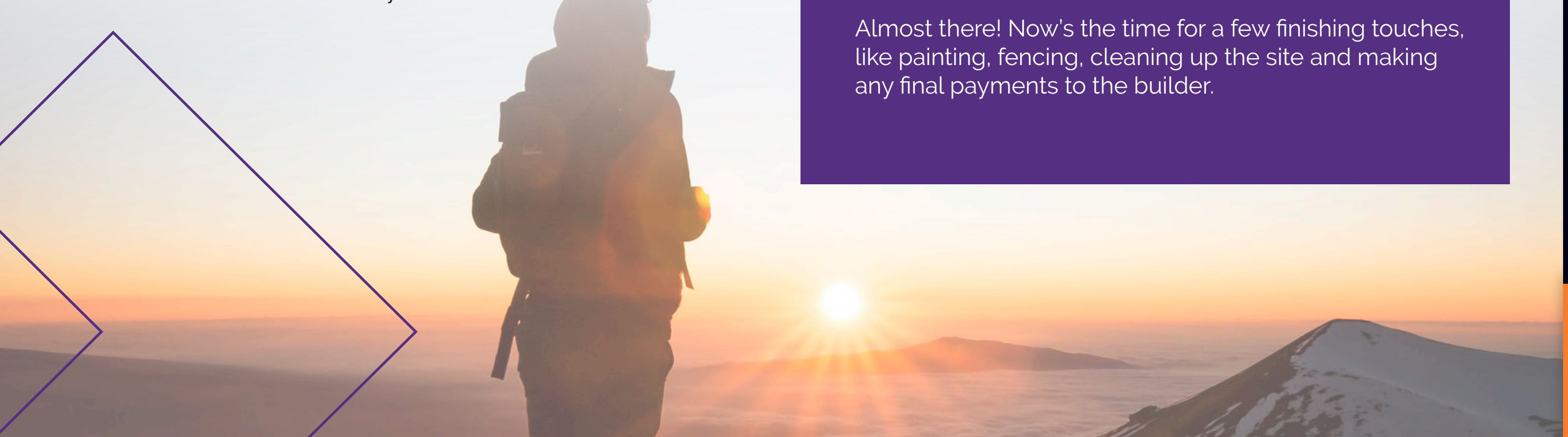
Instead of borrowing a lump sum, you take out a loan with what's known as 'progressive draw-down' or 'progress payments' – meaning your lender will give you the money to start the process, then pay for each stage of the build or renovation when that stage is completed. Read on to learn more about the stages set out by many construction loans.

With many construction loans, you'll just be paying interest on the amount you've received so far for the first 12 months. After that, the loan structure will switch to you paying both principal and any further interest accrued.

Setting yourself up for success

Applying for a construction loan can be a more complex process than applying for a mortgage. The first thing many lenders will need to request is what's called an 'as if complete' valuation of your property – put simply, this is an estimate of the market value of the land AND your new or renovated home after the work is carried out.

One thing to be mindful of is keeping tabs on your costs, and trying to keep your build within budget. Having a fixed cost contract doesn't mean there aren't other expenses that can arise – it could be as simple as changing the kitchen benchtop from laminate to marble. If costs blow out further than what your lender has approved for each stage, you will need to cover those additional costs yourself, outside of the loan.



Progress Payments

Depending on the process set out by your chosen lender, there are usually five or six stages of draw-down progress payments you'll receive during the build.

Deposit

With some lenders, you're required to pay the deposit to the builder to begin construction. Others will give you this first payment to pass on.

Base or Slab-down

During this stage, your land is prepared for the build. Foundations or slabs are laid, and some initial plumbing work is done.

Frame or Plate-Height

This is when the skeleton of your new home is built. Basic brickwork is laid, roofing may be installed, and some windows may be fitted.

Lockup

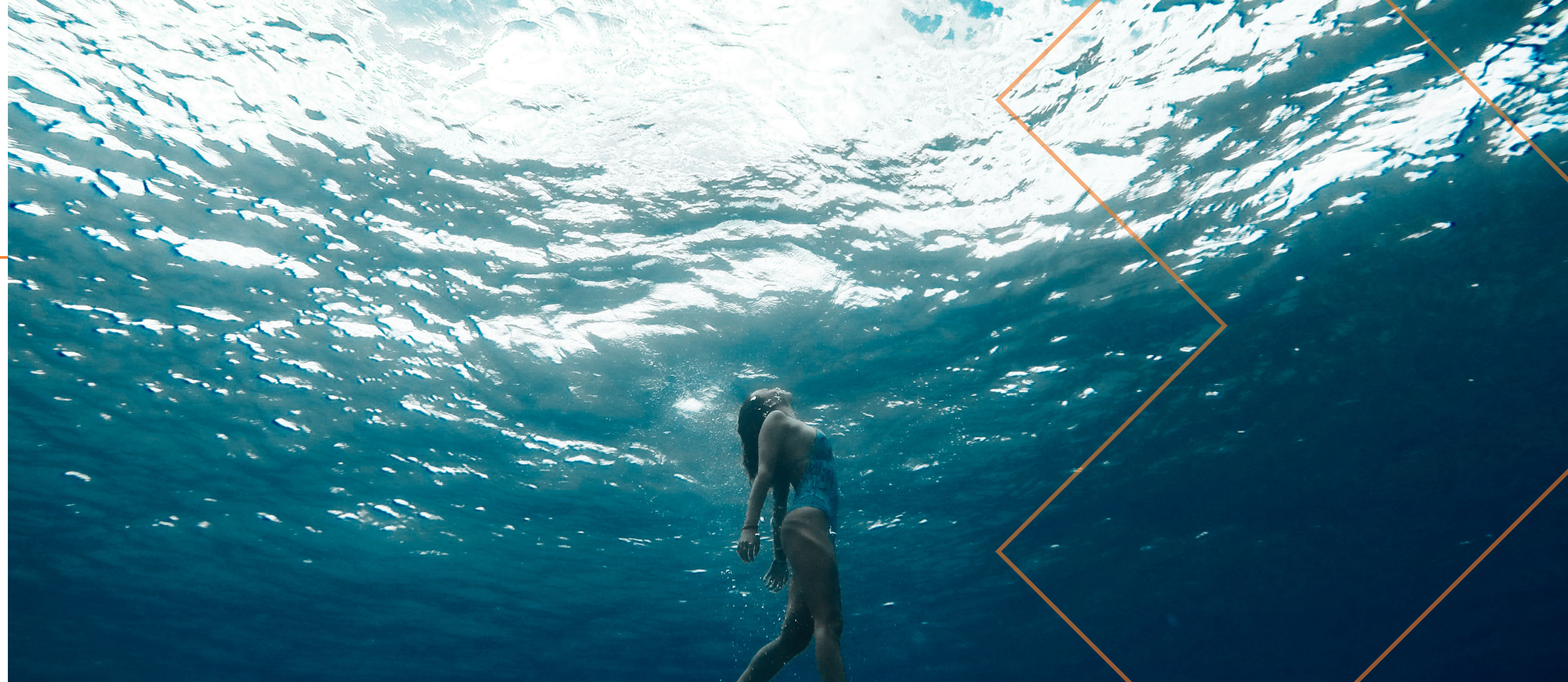
The installation of external doors and any remaining windows, brickwork and roofing gets finished. Put simply, your house can be locked up.

Fixing

Walls and roofs are plastered. Gutters, downpipes, cupboards and appliances are installed and plumbing and electrical is finished.

Completion

Almost there! Now's the time for a few finishing touches, like painting, fencing, cleaning up the site and making any final payments to the builder.



Uncharted waters

what happens if rates go sub-zero?

Since the start of the financial year, the RBA has cut rates to an unprecedented 0.25%. What happens if rates crash through zero and into negative territory?

In August 2019, Reserve Bank Governor Philip Lowe told Federal Parliament's Standing Committee on Economics that the RBA was prepared to do "unconventional things" to kick-start a flailing economy.

It may be that unconventional measures are needed for unconventional economic times. At the time when early signs were showing that the housing market was starting to find its feet in a low-rate environment, the government slashed its expected revenue during December – erasing almost half the surpluses originally predicted through to 2023.

The Australian unemployment rate ended 2019 at 5.25%, wage growth has again been revised down and our GDP is tipped to fall. These types of indicators are not what the RBA wants to see after such dramatic cuts to the cash rate. It could mean rates will drop further during 2020.

"Overseas, we see some central banks have very low interest rates and some countries have negative interest rates. So, some central banks have gone negative. That's one possibility," the Governor said.

What happens when rates go sub-zero?

Under a negative interest rate, the rules start to look a little topsy-turvy.

We're used to higher rates meaning returns on cash investments are stronger and borrowers needing to pay back more on their home loans. As rates fall, cash sees weaker returns on savings, and those with mortgages can find themselves with extra money to spend.

Negative interest rates are intended to encourage spending even more than low interest rates. That's because customers receive benefits for borrowing – those who borrow money would see their lender potentially paying them interest. Strange days, indeed.

The logic is that if you take what you have from the bank, spend or then borrow more, you'll be helping to stimulate the economy.

So what does that look like?

A $100,000 loan at a fixed interest rate of minus one per cent – as an example – would earn a borrower almost $85 in interest each month. And it's this freeing up of capital that makes negative rates a viable option.

For the banks, losing money when lending could mean a big dent in profit margins, and a less favourable landscape in which to lend. Likewise, zero-to-slim returns on savings accounts means banks risk having customers remove their money to invest elsewhere.

In countries where rates have gone into negative territory, banks have done everything possible to hold interest rates on savings accounts just above zero.

Where have negative rates become reality?

Fixed Rates best in market at time of going to print 2.19 % PA comparison rate 3.94 % * PA

Where have **negative rates** become reality?

Continued from page 3.

In 2016, Japan became the latest country to introduce negative interest rates. The move was designed to stop a rise in the value of the Yen hurting the country's export-reliant economy.

The European Central Bank – the central bank for the 19 member states of the European Union – has been "charging" commercial banks to hold deposits since mid-2014, and negative interest rates have also been introduced in Sweden, Switzerland and Denmark.

In August 2019, a Danish bank offered the world's first negative interest rate mortgage. Taking one out means that you're still required to make regular payments to repay the principal, but instead of interest being calculated and added to the value of the loan each month, it's subtracted.

This sounds counter-intuitive, but the argument is that it's more beneficial for a bank to take a small, guaranteed loss than seeing thousands of customers default on their loans. The downside for customers comes when banks are required to keep up the bottom line in other ways, such as increased fees and high interest credit cards.

And as well as encouraging spending, negative rates are also designed to keep a country's central currency value low, with the aim of bringing in overseas spending and boosting exports.

In the US, where economic policy seems to have curbed unemployment and is holding off the risk of a recession – at least for now – President Donald Trump openly floated a desire for negative rates during a speech to the Economic Club of New York in November 2019.

"We are actively competing with nations who openly cut interest rates so that now many are actually getting paid when they pay off their loan, known as negative interest," he said. "Give me some of that. Give me some of that money."

Have sub-zero rates worked in the countries that have adopted them? The jury is out, with the decision clouded by the way banks look for other ways to generate income in negative rate climates.

Heading into negative territory is traditionally something done out of necessity, not choice. And the countries that have gone sub-zero all seem to be finding it difficult to drive rates back into the positive again.

Ultimately, the biggest unknown about negative rates is if the extra money it puts into Australian wallets would actually be spent in ways that drive the economy into a higher gear, rather than sitting in savings accounts.

And if our economic issues persist, negative rates could turn out to be a long-standing feature of the Australian financial landscape.

Winners of our monthly customer satisfaction survey draws:

Nov - A Ishak & C Seow **Jan** - S McHugh & B Drew

Dec - B Gerrick & T Melo **Feb** - M Martin

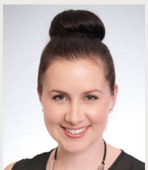
These wonderful **imfs** clients each receive a $100 Miss Chow's voucher to use at their leisure. We thank all of our clients for taking the time to complete the survey and provide us with invaluable feedback.

*The comparison rate quoted in this publication is based on a secured loan of $150,000 over a term of 25 years. This comparison rate is only true in this example given, and may not include all fees and charges. Different terms, fees or other loan amounts may result in a different comparison rate.

HAVE YOU MET THE IMFS TEAM?


Janine Carpenter *Director*


Lisa Corlett *General Manager*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David Collins *Finance Consultant*


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