Buy Now Pay Later?

The **hidden danger** potentially stopping you from owning your own home

The Buy Now Pay Later sector is winning-over the youth demographic with the promise of instant gratification, but these facilities should come with a warning that with every sugar-high comes the risk of a corresponding low.

'Buy Now Pay Later' providers such as AfterPay and Zip Pay have experienced massive growth in popularity, with the number of users jumping from 400,000 to approximately 2 million between 2015 and 2018.

Driven by a simple proposition whereby the Buy Now Pay Later provider pays the merchant on behalf of the customer, allowing the customer to obtain the goods or receive a service immediately while subsequently paying off the debt generally through instalments, Buy Now Pay Later presents a tempting offering.

But as the sector's breakneck growth continues, mortgage professionals are warning users, particularly in the younger demographic, to be cautious of overdoing it as this could risk effecting their chances of securing a home loan further down the track.

It's the layby of the past. It's your forward credit for an item, and in theory it makes sense. You get the item or service and pay it off over instalments, so you're actually putting forward your liability.

This might be ok for someone that manages their money well, if they pay off the item on time and use their mortgage offset account correctly. This way they're delaying expenses and offsetting more of their savings against their home loan. However, there's probably one per cent of people doing that and the rest of them are spending beyond their means.

As a result, there may also be a stigma associated with using Buy Now Pay Later schemes rather than paying up-front and in-full.

Utilising this payment method may potentially send the wrong message to a bank.

If a lender sees a 'buy now pay later' provider frequently on a client's bank statements, that can trigger more questions about their spending behaviours and ultimately may mean they choose to decline the application.

It is always preferable for consumers to save for the item and demonstrate those good habits.

If you are concerned about your level of expenditure or your ability to secure a home loan, a conversation with us could set you on the right path.

It's important to appropriately manage your expenses well in advance of applying for a home loan, that way you can show the bank that you can save and afford to service a mortgage when the time comes.

Is a family guarantee right for you?

Entering the property market is no easy feat for a first homebuyer, but even parents who aren't prepared to hand over cash for a deposit may help by being a guarantor on a loan. Here are three questions to ask yourself to see if a family guarantee is right for you.

1 Am I financially fit to be a guarantor?

The very first thing you should be certain of is whether or not you are in a financially capable position to pay off the loan if the borrower finds that they can no longer do so. There can be many disruptions to an income, such as loss of employment or a serious accident, and some types of guarantor loans hold the guarantor legally accountable to ensure the mortgage is paid off.

You need to be in a strong financial position and have enough equity in your property to be a guarantor. Some banks even want to make sure that the guarantor can service the full debt as well, so it's always advisable to get independent legal or financial advice if you're considering it.

2 Do the benefits outweigh the risks?

It's no secret that it can take a long time to save for a deposit and by becoming a guarantor, you offer the borrower the chance to enter the property market sooner.

Lenders treat the loan like an 80 per cent lend, so you avoid the costly lender's mortgage insurance (LMI). You also don't have to save up for a full deposit for the purchase, or sometimes any deposit at all.

However, any time you borrow money or a bank places a mortgage over your property, there are definitely things that need to be taken into account. Your ability to borrow will also be reduced after becoming a guarantor.

3 Are there other ways I can help without being a guarantor?

If contributing a cash deposit is an option, then this would allow you to assist without needing to put yourself or your property at risk, but there are some extra hoops to jump through if a deposit comprises of gifted funds.

With gifted funds, if [the deposit is] less than 20 per cent of the property's purchase price, then the banks will still most likely want to see five per cent of genuine savings. Having said that, there are a few lenders that will allow you to use rent as genuine savings. So, if you've been renting for a while, it shows that you have the propensity to make repayments and then the reduced (less than 20 per cent) deposit may be used in that regard.

Fixed versus Variable rates
the ins and outs

With interest rates at an all-time low, and many lender's fixed rates lower than their variable options, locking in an interest rate on your home loan to guard against possible future fluctuation may be attractive. However, it pays to know the ins and outs of fixed-rate loans before committing to one.

When purchasing a property, refinancing or just renegotiating with your current lender, borrowers can generally decide between fixed-interest loans that maintain the same interest rate over a specific period of time, or variable-rate loans that charge interest according to market rate fluctuations.

Fixed-rate loans usually come with a few provisos: borrowers may be restricted to maximum payments during the fixed term and can face hefty break fees for paying off the loan early, selling the property or switching to variable interest during the fixed rate period.

For those conscious of a budget and who want to take a medium-to-long term position on a fixed rate, they can protect themselves from the volatility of potential rate movement.

Fixed rates are locked in for an amount of time that is prearranged between you and your lender.

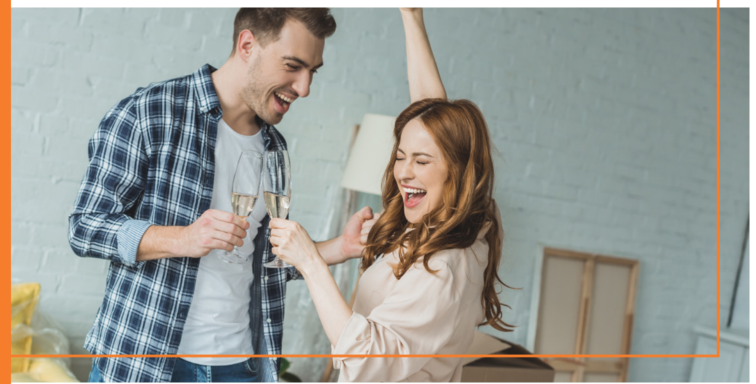
There are some lenders that offer seven-year or 10-year fixed terms, but generally one to five years are the most popular.

The two and three-year terms are generally the most popular for customers because a lot can change in that time.

When you apply for a fixed rate, you can pay a fixed rate lock-in fee also known as a 'rate lock', which will, depending on the lender, give you between 60 and 90 days from the time of application to settle the loan at that fixed rate.

It will also depend on the lender as to whether the rate lock will be applied on application or approval.

In addition, borrowers should consider the possibility of arranging a 'split' loan. This option allows you to split your loan between fixed and variable rates – either 70/30 or at some other ratio. This can allow you to 'lock in' a fixed interest rate on a portion of your loan, while the remainder is on a variable rate which may give you more flexibility when interest rates change and potentially minimise the risks associated with interest rate movements. Also, be aware that at the end of the fixed-rate term, your loan agreement will include information about how the loan will then be managed by the lender, usually to a 'revert' variable rate.



First-home buyers are **big budget winners**

There is an the increase in the First Home Buyer Super Saver Scheme to a maximum of $50,000, up from $30,000, that can be withdrawn from superannuation to put towards a house deposit. The increase comes into effect on July 1, 2022.

Josh Frydenberg's budget includes measures to stimulate home building activity and to assist first-home buyers, single parents and downsizers.

There are annual contribution caps to how much can be made in voluntary contributions that have to be saved in super first, under the scheme, before the money can be withdrawn.

Pension loan scheme

There are changes to the Pension Loan Scheme which allows almost anyone who owns a property and has reached pension age to take out a "reverse mortgage" from the government, where the balance of the loan is repaid when the property is sold.

Under changes that come into effect from July 1, 2022, up to 50 per cent of the maximum annual age pension can be accessed as a lump sum each year. The total amount accessible under the scheme has not changed.

"[The change] is important as it could allow older Australians to access the capital in their home to pay for large, one-off items, such as medical services or home repairs, which they may not otherwise be able to afford," says Colonial First State general manager Kelly Power.

Downsizer contribution

To help free-up homes for younger families, from July 1, 2022, those aged at least 60 will be able to make a one-off contribution of up to $300,000 per person, or $600,000 per couple, to their super when they sell a home that they have owned for at least 10 years. The qualifying age is currently 65.

Jason Murray, Chief of Member Experience at QSuper, says the downsizer contribution allows retirees to move to more suitable housing as their family size drops and to turn the capital tied up in their home into retirement income.

continued next page

First-home buyers are big budget winners
(continued)

Family Home Guarantee
The newly introduced Family Home Guarantee (FHG) allows single parents with a maximum annual income of $125,000 to purchase a new or existing home with a minimum deposit of 2 per cent. It is available for property purchases in WA of $400k in Perth Metro Area and Regional Centres, and $300k in the rest of the state.

The scheme is limited to 10,000 places over four years; though, if the uptake is strong, the government could well add more places. The scheme starts on July 1.

Eliza Owen, head of research Australia at CoreLogic, says single parent households are largely headed by women, making up about 64 per cent of lone parent and lone-adult households.

"As a result, this policy may contribute toward narrowing the gender wealth gap," she says.

Andrew Wilson, consultant economist at Archistar, estimates a single parent earning $125,000 using the FHG would be able to borrow about $500,000 at current interest rates to purchase a home.

New Home Guarantee
The government has also extended and renamed a scheme where first-home buyers with a maximum income for couples of $200,000 can purchase a home with a deposit of just 5 per cent, with 10,000 places becoming available from July 1 to those seeking to build a new home or purchase a newly built home.

Dr Wilson says the measures to assist first-home buyers are a bit "ho-hum", given recent rocketing property prices. "They are narrowly targeted and are unlikely to significantly stem an ongoing decline in activity from first-home buyers", Dr Wilson says.

"Increasing activity from investors and rising property prices are likely to see first-home buyer activity fall by 20 per cent next year, and that is assuming full uptake of the schemes announced in the budget", he says.

Winners of our monthly customer satisfaction survey draws:

Mar - D Bell & I Mabalatan

May - M & D Dabala

Apr - N Young & J Bertucci

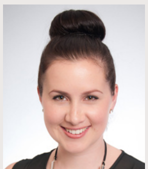
These wonderful **imfs** clients each receive a $100 voucher. We thank all of our clients for taking the time to complete the survey and provide us with invaluable feedback.

*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*


Charlotte Rubbo *Finance Consultant*


Cheryl Kopec *Finance Consultant*


Jeffrey Delbridge *Finance Consultant*


David Collins *Finance Consultant*


Graeme Chalmers *Finance Consultant*


Shayne Goldfinch *Finance Consultant*


Tanya Stapleton *Finance Consultant*


Tim Bowler *Finance Consultant*


Mia Pernechele *Administration Manager*


Lidia Macri *Personal Assistant*


Sharon Lowry *Personal Assistant*


Tarah Long *Administration Assistant*

Are you happy to be receiving this newsletter? If not, you can opt-out by contacting us: **info@imfs.com.au**

In Mortgage & Finance Services (imfs)
Suite 6, 9 Cleaver Street, West Perth WA 6005 | PO Box 207 Leederville, WA 6903
t +61 (8) 9228 1000 f +61 (8) 9228 1555 e info@imfs.com.au w imfs.com.au
ABN 83 079 756 059