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## Will house prices go up or down?

At Blue Key Finance we often get asked the question about whether Australian house prices will continue to fall or rise. The answer is: it depends. Read on to find out why ...

### Property prices only matter at the local level

While Australian house prices as a whole may rise or fall in price by five percentage points, some houses in suburbs may fall in value by as much as 30 per cent and others may increase by 10 per cent. These suburbs may even be next door to each other! It's the nature of this stage of the property cycle that price volatility will continue during times of economic uncertainty.

### What stage of the cycle is your suburb at?

Right now, the Australian property market is generally doing well at the lower end, with first home buyer demand supported by first home grants, low interest rates and lots of pent up demand.

Conversely, expensive premium properties on the market are discounting prices as global economic weaknesses takes the gloss of years of booming prices.

Which suburb is your property in?

### Supply and demand is the key

There are many segmented markets within the property market which all can react differently, even in different areas depending on how many buyers are chasing the number of properties available.

If supply is low but demand for a particular property then the buyers are likely to compete to secure the property and that is likely to increase the price of the property.

### Other influences on the market

It's obvious that falling incomes, unemployment and negative market sentiment could lead to softening prices. And if you turn that equation around and have rising incomes, jobs growth and population growth then it's likely prices could rise.

### What does the future hold?

The key reasons for property prices increasing in the long term is an overall shortage of properties versus demand.

If population rises faster than the number of properties that exist and new houses don't keep up with demand then prices will rise. Each local suburb has different supply and demand equations.

The state of the rental market also affects how the buying market works. When demand for rental properties exceeds supply and rents start to increase, this increased cost of renting makes purchasing a home a more attractive proposition and encourages people to look at this as an alternative.

The level of interest rates also has a huge impact on home prices. When interest rates rise and houses become less affordable, property values tend to drop, particularly in suburbs where young families live, as they are often the hardest hit by increasing mortgage payments.

So the answers are never as simple as we'd like them to be.



Enjoy a coffee while taking in the following article ...

*“In relation to mortgages, postponement for up to 12 months of repayments may be allowed”.*

## Assistance for borrowers during financial hardship

The banks could not have asked for better public relations help from the Government a few months ago when Kevin Rudd announced that an agreement for unemployment mortgage relief had been reached with the Big Four banks.

Let it be said now, that under the Unified Consumer Credit Code (UCCC), which was developed nationwide over ten years ago to standardise credit practice in Australia, covers mortgage hardship relief, by way of allowing borrowers who fall below a hardship threshold to apply for assistance.

The hardship threshold at present is \$312,400. This means that legally, under the UCCC, borrowers of any loan falling below that amount—regardless of lending institution—are eligible to apply for hardship relief or postponement of enforcement proceedings.

### The Government’s plan

Borrowers who lose their jobs or run into financial difficulty due to the recession will be granted assistance. The government has reached agreement with the country’s four largest banks to offer “temporary relief and provide assistance options” that suit the needs of those borrowers that fall into financial hardship.

### Options for assistance that the banks can offer include:

- In relation to mortgages, postponement for up to 12 months of the dates on which payments are due under the contract (with interest to be capitalized into the loan)
- An extension of the period of the contract and a reduction in the amount of each payment due under the contract
- Interest-only breaks on loan repayments
- Fee waivers

Any decision about offering some form of relief or assistance, however, will be made by the bank after having assessed the borrower’s ability to meet new contractual obligations in the long term.

Let’s face it, it would be irresponsible and inappropriate to postpone repayments and capitalize interest if a customer had little, or no, prospect of regaining employment on the same or higher income levels in the short term foreseeable future.

# Break costs are a problem

Over the last eight months at Blue Key Finance we have been inundated with enquiries into breaking a fixed rate mortgage to avail of a much lower variable rate. What most borrowers are surprised with is the huge 'break cost' involved if interest rates differ significantly from their current fix rate to the current standard variable rate.

This is why we put into practice during our initial consultation with a client the impact a break cost can have for those interested in applying for a fixed rate. On the flip side, we also talk about the impact a variable rate increase will have on repayments for those who opt for a variable rate home loan.

We've consistently informed all those enquiring into breaking their expensive fixed-rate loan in favour of another, cheaper fixed rate, they'd be no better off—if not worse off. In most cases, because the break cost is high, they'd only break even after about 1 year and 9 months.

On a \$300,000 mortgage at a fixed rate of 9% with one year left to run you'd be up for over \$10,000 in break cost fees. Sure, you'd save around \$7,800 in the first year by just refinancing to the current variable rate of around 5.7%.

## Why are break cost fees so high and why can't they be waived?

Break costs go up as interest rates come down. That's because break costs represent the difference between the total interest you agreed to pay for the fixed term of the loan and the current interest rate. On our earlier example, the lender would need to charge you the difference between 9% (the rate you agreed to pay) and 5.7% (the current variable rate at what they could on lend). The difference between these two rates and the size of the loan determines how many thousands you'd be up for. And as for waiving the fee the answer is fairly logical: banks would lose out as they couldn't re-lend the money at the same high rate.

Having said all that, if on the other hand the current standard variable rate was higher than the 9% fixed rate that you locked in and for whatever reason you had to break your contract (let's say you're selling your home) the bank would pay you the difference.

The good news with home loans is that most will allow you to split your lending across fixed and variable rates. Many fixed loans even accept additional repayments of up to \$10,000 per year.

***“Most home loans will allow you to split your lending across fixed and variable rates to avoid future potentially high break costs”***

# FAQ

## Q) What a client needs to post to us with their FHOG application:

1. **Certified** copy of the Contract of sale, dated and signed by the vendor as well;
2. **Certified** copy of identification for each applicant **and their spouse/partner and** it has to be a 'Category I' identification which is one of the following:  
**An Australian citizen:** Australian birth certificate, Australian passport or citizenship certificate  
**Citizen of another country:** Current passport, evidence of permanent residency or permanent residence visa  
**A New Zealand citizen:** Current passport (and they must be living in Australia at settlement date). Passports without an electronic tag, a certified copy of the page displaying the stamp of last date of entry in Australia is also required.  
**Change of name:** If your name is different to that recorded on FHOG application and/or supporting documents then evidence is required and to be certified;
3. Certified copies are properly certified by an authorised person (i.e. a legal practitioner, JP, Magistrate, Police Officer, Dentist, Veterinarian, Pharmacist, CPA, Minister of Religion, or a Medical Practitioner). On the photocopied document the certifier writes the following: **'I certify that I have sighted the original document and this is a true copy of it'**. This certification must also have the certifier's name, title, and be signed and dated;
4. Double check that your FHOG application has been completely filled in (for e.g. dates of birth, maiden name, declarations signed and dated after the contract of sale date, all boxes ticked, volume and folio number provided);
5. Ensure that the 'witness' provides their full name and is not related to you, or your spouse, or your partner;
6. Statutory declarations (if applicable) must be original only;
7. Additional supporting evidence required if any of the following applies:  
 Now married – a certified copy of your marriage certificate  
 Now divorced – a certified copy of your divorce certificate  
 Now widowed – a certified copy of the death certificate of your spouse/partner, or  
 Now separated – a statutory declaration with the following information:
  - The name and date of birth of your former spouse/partner
  - The date you were married or commenced your domestic relationship
  - The date you separated
  - Your former spouse/partner's current address (if known), and a statement to the effect that you do not live together and have no intention of resuming cohabitation

A popular question for borrowers



## Blue Key Finance Pty Ltd

We are a full member of the Mortgage & Finance Association of Australia (MFAA). We liaise with our panel of over 25 residential lenders and 15 commercial lenders offering over 400 home loan products to find you the best finance structure and product to suit your specific needs. We specialise in housing loans, commercial finance, personal loans, lease finance, deposit bonds, general insurance and mortgage protection insurance. We organise immediate preapprovals, unconditional approvals, refinancing and answer any enquiries you may have. You deal with one professional from interview to settlement and beyond.

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