



**BERG
FINANCIAL SERVICES**

NEWSLETTER

Managing Interest Rate Rises

We saw Interest Rates rise in July to the highest they have been in six years and this places extra, unwelcome strain on your daily budget. Welcome news however, is that there are steps that can be taken to reduce Interest charges.

Listed below are suggestions and alternatives to help you manage the latest Interest Rate Rise. It is important that the 'big picture' is considered and that changes fit in with your lifestyle. Berg Financial Services can guide you through your options to help reduce the hassle, and the amount of Interest that you pay.

Review and/or Refinance Current Facilities

We all have different financial goals, situations, needs and budgets. At different times in our lives these fluctuate and change as well, so it is vital that our financial facilities evolve to keep pace with our lifestyle.

Berg Financial Services recommends a yearly review of your entire financial Portfolio.

In some instances it may be of financial advantage to refinance your existing facilities to secure more relevant loan features and more attractive Interest Rates. Again it is important that you don't lose sight of the 'big picture' as sometimes exiting (or getting out of) a loan may be more expensive than setting up a new one.

If you have Credit Cards and/or small Personal Loans it may be cost effective to consolidate all of your lending into one facility to minimise the interest that you pay – generally Home Loan Interest Rates are much less than Credit Card and Personal Loan rates. This can only be done if you have enough equity in your property to support your total debt.

Berg Financial Services can lead you through the maze of bank jargon to calculate the best option for you. We can help you to determine how much equity you have in your property/ies and work with you to select the most cost effective alternative for your individual budget and lifestyle.

Fixed Rate Options

Fixed Interest Rate is where the Rate relevant to your Home Loan remains the same for a set period of time. This means that for this period your repayments will remain the same and if Interest Rates rise you will be unaffected for the duration of your fixed term. Usually you are able to lock in for a set period of your choice, sometimes up to 10 years.

However if Interest Rates drop, the reduction will not be applicable to your Loan until the fixed term has expired.

It is possible to structure a Loan with a combination of both Fixed and Variable facilities. This is called a Split Home Loan.

Base Variable Rate – No Frills Home Loan

Most Financial Providers offer a basic – no frills Home Loan that is known as Base Variable Rate Home Loan.

Base Variable Rate can be up to 0.60% less than Standard Variable Rate which effectively means you could save thousands on Interest.

Base Variable Rate Home Loans have little, if no flexibility. This varies from Bank to Bank with different options in each case. Some may offer Redraw Facility for a charge or some may exclude weekly or fortnightly repayments.

It is essential that you determine if a Base Variable Rate Loan would fit your lifestyle before you proceed with this option. Berg Financial Services is able to assess if this is a possible alternative for your situation.

Repayments

One of the easiest ways to reduce your Interest costs is to make fortnightly or weekly repayments in lieu of monthly. There are 26 fortnights / 52 weeks in one year but only 12 months. If you split your monthly repayment into two or four, paying fortnightly/weekly means that you actually make 13 monthly repayments in one year.

It is also prudent to increase the amount that you are paying for each installment, whether it is monthly, fortnightly or weekly, even it is only by \$10- or \$20-. This also assists in reducing the term of your loan and paying it off sooner.

You should also consider making lump sum payments to your Home Loan such as Tax Refunds.

Mortgage Offset Account and Redraw Facility

A Mortgage Offset Account is an account that may be used for day to day Banking transactions that is linked to your Home Loan, but not a part of it. Funds deposited into an Offset Account do not earn credit interest however the balance is “off-set” against the balance of your Home Loan, reducing the amount of interest paid. For example if you have a Home loan with a balance of \$200,000- and a balance of \$2,000- in your Offset account: Home Loan Interest will only be calculated on \$198,000- ($\$200,000 - \$2,000 = \$198,000$)

Because a Mortgage Offset Account does not earn credit interest you are minimising your taxable income making it a tax effective alternative.

Redraw is an option that is available with most Variable Home Loans. It is not usually available with Fixed Rate Loans. Redraw facility allows you to pay additional funds to your Home Loan but still be able to access it (or redraw it) in an emergency. Because you are reducing the amount of the debt with extra payments, Interest is charged on a lesser amount making it a smaller cost.

To build up the amount available for redraw you can either increase the amount of your regular payment and / or make lump sum payments.

Mortgage Offset Accounts and Redraw facility are closely related in that they essentially achieve the same outcome.

Did you know?

Mortgage Stamp Duty

Owner Occupied Home Loans

Mortgage Stamp Duty on Owner - Occupied Home Loans in NSW was abolished from 1st September 2007.

This means that on a new \$300,000- Home Loan approximately \$1,141- will be saved.

This tax cut applies only to Owner – Occupied homes for mortgages that will be held in personal name/s. It does not apply to mortgages that will be held in the name of a company.

Investment Home Loans

Mortgage Stamp Duty will be abolished on Investment Home Loans in NSW from July 2008. Again this will only be relevant for mortgages that are to be held in personal name/s; it will not be applicable for mortgages that are to be held in company names.

Abolition of ALL Mortgage Stamp Duty

From 1st July 2009 ALL Mortgage Stamp Duty is to be abolished. This means that NO Mortgage Stamp Duty will be charged after this date regardless of whether mortgage is to be held in personal name/s and/or a company name.



**BERG
FINANCIAL SERVICES**

Suite 13 (Upstairs)
41 Wharf Street FORSTER NSW 2428
Ph 02 6555 6534
Fax 02 6555 8646
Freecall 1800 46 33 85
Email bergs@pnc.com.au
www.bergfinance.com.au