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LTD. (COSL)

Brian Hastings welcomes you to the latest edition of Wisdom Watch. The aim of our newsletter is to provide clients of Mortgage Wisdom with information on what is happening in the home loan and residential property market. We hope you find the contents of Wisdom Watch both informative and helpful. Please feel free to share our newsletter with your friends, relatives and work colleagues. If you have any lending questions or need assistance with a lending matter please call us.

INTEREST RATE INCREASE

The Reserve Bank in May surprised many commentators by ending a 13 month run of interest rate stability with the imposition of a 0.25 per cent increase.

The RBA Board decision surprised commentators because it came just a week before the Federal Treasurer, Peter Costello, was due to hand down the Federal Budget.

The Board's decision followed more than a month of speculation by market economists that the Reserve Bank would move to lift rates because of the continuing strength of the domestic and international economies.

The question now being posed is whether any tax cuts included in the May Budget will prompt the Reserve Bank to consider a further 0.25 per cent increase before the end of the financial year.

It will be remembered that the Federal Government used its 2005-2006 Budget to offset the impact of the last round of interest rate rises imposed by the Reserve Bank in March last year.



In its most recent financial stability statement the RBA said it was continuing to pay close attention to household balance sheets.

It explained its previous approach to interest rates by saying that "during the period in which house prices and housing credit were increasing at rates of around 20 per cent per annum, the concern was that should growth continue at an unsustainable pace, it could pose significant risks to the stability of the economy."

"The change of sentiment that occurred at the end of 2003, however, generated a slowdown in household credit growth and a more subdued housing market, with prices at the national level moving sideways," it said. "The issue is thus less one of unsustainably fast growth in house prices and household debt, than of the implications of the much higher level of debt that has resulted from more than a decade of strong credit growth."

HOUSING FINANCE

The Australian home building industry appears to have made a strong start to 2006 with both building approvals and housing finance data painting a positive picture.

The Australian Bureau of Statistics Housing Finance data for February revealed a 2.2 per cent increase in the value of housing loans with the most significant element of that figure being a 7.1 per cent increase in the number of loans approved for the purchase of new dwellings and a two per cent increase in the number of loans for investment housing.

While the strength of the NSW market tended to underpin the rest of Australia there was a modest decline recorded in the February figures, with the ABA data noting a 2.3 per cent decline.

The state recording to the most robust housing finance figures in February was South Australia which recorded an increase of 8.7 per cent followed by Western Australia with 3.8 per cent.

The Housing Finance data also indicated that the first home buyers were continuing to return to the market albeit at levels slightly below those of January.

In original terms, the number of first home buyer commitments as a percentage of total owner occupied housing finance commitments fell from 18.6per cent in January 2006 to 17.9per cent in February 2006. The average loan size for owner occupied housing commitments remained steady in February 2006 at \$216,900

RETIREMENT COSTS RISE

It's getting more expensive to retire comfortably.

That is the bottom line of the latest Association of Superannuation Funds of Australia/Westpac Retirement Cost of Living Update issued in February.



Want to know how much it costs to retire in Sydney these days? Well, according to the ASFA/Westpac data it will cost you a cool \$34,563 to retire comfortably and \$46,297 to do so if you are a couple.

Of course it's a bit cheaper elsewhere so you might consider moving to Melbourne or Brisbane. However you would be making a mistake moving to Perth which rates as the most expensive place in Australia to manage your retirement.

On a national basis the cost of comfortable living for a retired couple increased by 2.3per cent to \$46,192 a year. However, the increase in living costs was not uniform across the country, with increases ranging from 2.2per cent in Sydney and 4.5 per cent in Perth.

In comparison, on a national basis the cost of a "modest" retirement lifestyle for a single female rose 2.5 per cent to \$17,826. The increase for single female with a modest lifestyle was higher than that for a couple with a comfortable lifestyle, as those on a modest budget spend a greater proportion of their income on basic items.

The Westpac-ASFA Retirement Living Standard benchmarks the annual budget needed by Australians for the post-work years.

The increase in costs experienced by retiree couples with a comfortable lifestyle was slightly less than that for the population generally, who faced a cost increase of 2.5 per cent in Sydney and 4 per cent in Perth, with a similar pattern in the other capitals.



The prices of basic living items tended to go up more than "the fun stuff" (discretionary and leisure items). Health services rose by a substantial 4.2 per cent nationally, with food costs up by 3.6 per cent. Petrol prices were up a massive 15.2 per cent over the year, which would come as no surprise to most of us. Pet owners also fared badly, with cost of pets and pet foods up 10 per cent.

Yet it was a good year for fans of electronic gear and travel. Prices of audio, video and computing equipment fell by 6.3 per cent, on top of a whopping 13.1per cent fall the year before. The strength of the Australian dollar meant that the cost of overseas holiday travel

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and accommodation fell by 2.9 per cent, while the cost of domestic holidays rose by 4.9 per cent.

REVERSE MORTGAGES

Reverse Mortgages allow borrowers - provided you are aged 60 years and over - to have access to the equity in their residential property. In other words, they can convert



the equity in their home into available cash that can be spent on day-to-day activities and plans.

- No repayment or interest is due during the lifetime of a Reverse Mortgage.
- The balance of the Reverse Mortgage is repaid in the event of:
 - a) the property secured as part of the reverse mortgage is sold;
 - b) the borrower - or in the case of joint borrowers, the last surviving borrower permanently moves out; or,
 - c) the death of the borrower or, in the case of joint borrowers, the death of the last surviving and inhabiting borrower.
- Any interest and fees are capitalised back into your Reverse Mortgage.

This means that instead of making monthly repayments, the costs are simply added to the reverse mortgage total. The final amount does not have to be repaid until one of the three events listed above occurs.

It allows the financial freedom to do a range of things home-

owners may not be currently able to do. This could include increasing monthly disposable income, renovating their home, buying a new car, taking grandchildren on holidays; or investing funds. A Reverse Mortgage gives homeowners the financial freedom and the freedom of choice they have worked hard for over the years, right here and now.

So if you are a property owner who is 60 or over and you are seeking financial freedom and the opportunity to enjoy your life in the way you deserve, talk to your broker today.

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