NEWEALTH

AUSTRALIAN FINANCIAL SERVICES LICENSEE

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Information Guide Booklet

Home Loans

This Information Guide booklet provides you with general information only.

It will also help you to better understand any recommendations we have made for you.

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About Us

Newealth is an independently owned Australian private company. Not being owned by any banks, life insurance companies or fund managers has permitted Newealth to better service clients, identify strategies and recommend solutions that meet their needs.

This Information Guide provides you with general information only about borrowing to purchase a residential property. It will also to help you to better understand any recommendations we have made for you in this regard.

Do I need a loan pre-approval?

Strictly speaking you do not have to get your loan pre-approved before signing a contract to buy a home. However if your loan is pre-approved then you can be comfortable in the knowledge that you will have little trouble obtaining finance.

What is LMI?

LMI is an acronym for Lenders Mortgage Insurance. If you are borrowing over 80% of the value of a property then your lender will probably require that your loan is insured due to the increased risk. This insurance protects the lender, not you and the lender will pass this premium on to you as a once off fee when your loan is advanced.

If you were to default on the loan and your lender was to lose money then they can claim on their LMI policy to recover their loss.

What does LVR mean?

LVR is an acronym for Loan to Valuation Ratio. This is a term used by lenders to describe the percentage of the property value you are borrowing.

It is calculated by dividing the loan amount by the value of the property or the purchase price, whichever is the lesser. For example if your home was worth $1,000,000 and you decided to borrow $600,000 then your loan would have an LVR of 60%.

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P&I loans

Variable principal and interest loans are where the interest rate is charged on a variable basis and moves up or down in accordance with movements in interest rates as set by the Reserve Bank.

Advantages- Variable P&I loan	**Disadvantages- Variable P&I loan**
○ Monthly repayment falls when official interest rates fall ○ Able to make additional repayments ○ Redraw facility which lets you take out any additional principal repayments ○ Low introductory or honeymoon rate ○ Lower interest rate versus equity type loans	○ Monthly repayment rise when official interest rates increase

Fixed rate loans

A fixed rate loan is a loan that has a fixed interest rate and therefore fixed loan repayments. The time period of these loans can vary but you can usually "lock in" your repayments for between 1-5 years. Although the fixed rate period may be 5 years, the total length of the loan itself will generally still be for 25 or 30 years. At the end of the fixed loan period you can decide whether to fix the loan again at the then market interest rates or convert to a variable interest rate for the remaining term.

Advantages- Fixed rate P&I loan	**Disadvantages- Fixed rate P&I loan**
○ Monthly repayments do not rise if the official interest rate rises ○ Provides predictability ○ Allows more precise budgeting	○ Monthly repayments do not fall if the official interest rate reduces ○ Allows only limited additional payments ○ Penalises early payout of the loan

Interest Only loans

Interest only loan do not require any principal to be repaid during the term of the loan and so you have more money to renovate/improve the property. At the end of the interest only period however, usually for 1 to 5 years you must start making principal and interest repayments for the remaining term of the loan.

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Line of Credit loans

Uses the equity in your property and allows access to funds when needed. These products are ways to raise funds for investment by providing cash up to a pre-arranged credit limit. Each month the loan account balance is reduced by the amount of cash coming in and increased by the interest cost and withdrawals.

Advantages- Line of Credit loan	Disadvantages- Line of Credit loan
○ Flexibility to use the money you need and pay it back when you can ○ Interest rate tend to be lower than credit cards or personal loans rates ○ Improved cash flow because it only requires at minimum an interest-only repayment each month	○ Usually higher interest rate than a P&I loan ○ Need to be disciplined to make principal payments regularly ○ Can be very expensive over the long term if the outstanding loan balance is not reduced.

Low-doc Loans

A low-doc or no-doc mortgage can suit investors or self-employed borrowers looking to refinance, purchase or renovate. No tax returns or financial reports are required but they come at the cost of a higher interest rate.

Non-conforming loan

People with poor credit ratings often have trouble sourcing a home loan. Many lenders now offer what are known as 'non-conforming loans' for people in this type of situation but at the cost of a higher interest rate than traditional loans. While lenders are willing to overlook prior credit problems, they will want to see some evidence of your ability to repay the loan. A larger deposit/equity is also required compared to traditional loans.

Why do people refinance?

Refinancing is the process of repaying your old home loan with a new home loan, usually from a different lender.

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Refinancing to save money is the main reason why people choose to refinance. If your lender is no longer competitive then you may have little alternative but to move on. The difference between lenders can be stark and it's possible to save money just by changing home loans.

Other people refinance to consolidate debt. This is the process of paying off multiple debts such as your home loan, credit card, personal loan, HECS debt and so on in into one home loan. The more expensive unsecured loans are paid out by your new loan which means that overall you will have a lower interest rate and longer loan term which will reduce the size of the monthly repayments and the amount of interest you pay.

Other reasons include for refinancing include your current lender not being able to approve a loan increase, to release equity in the property and or because your current lender doesn't give you a good level of service.

Why won't my bank match the offer from the lender you are suggesting?

Most lenders tend to offer you the world when you first apply for your home loan but then stop giving you a high level of service and good interest rate discounts when you have been with them for a few years.

Banks know that if you have your home loan, bank account and credit card all with the one bank then you are unlikely to go to through the hassle of changing all your accounts.

Because of this they often refuse to give you the same discount that they are giving new customers, even when you threaten to leave.

Review

Your home loan should be reviewed at a minimum of once per annum.