

# 43



## MONEY RULES TO LIVE BY

If you're finding it tough to keep your financial planning on the straight and narrow, our 43 money rules might just be what you need to help you get back on track

### HOME

#### Negotiating your purchase price

**1** Be prepared to negotiate on the price of your home or investment. Take a friendly and subtle approach and have evidence to support your argument. Don't rush into the process. If you're not confident about your negotiating skills, consider employing a buyer's agent.

#### Buying property

**2** Always get a building and pest inspection. It will be \$500 well spent. Attend the inspection so that you can further understand why the condition of the home is what it is, and what repairs or renovations may

be needed in the future. This also provides you with ammunition for your price negotiations.

**3** If you're bidding at auction, know your limit before arriving and always stop there. If you can't afford it now you won't be able to afford it when settlement comes through!

**4** Before purchasing or attending auctions, make all offers in writing. This will ensure that the vendor recognises your interest and possible clauses. The vendor will then have all of your details and the exact figure of your offer, not just what the real estate agent tells them.

**5** Do your research and gain a solid understanding of the value of the property that you're considering buying. Reports such as comparable sales in the area and indicative valuation reports are available online.

#### Home loan repayments

**6** Commit no more than 30% of your total income to your loan repayments. This amount should include mortgage repayments as well as any other loans or credit cards that you might have. Lenders might offer more than you feel you can comfortably repay, so you should work out how much your monthly repayments are going to be ahead of time.

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**7** Directing your income into an offset account can help you counterbalance the effect of rate rises and keep you on your 30% target.

**8** If you opt for a variable rate, make sure your 30% includes a buffer to deal with at least 2–3% worth of interest rate rises.

#### Building equity or value

**9** One of the most valuable home improvements is adding space to your property and improving the functionality of the home. Adding a room can add substantial value if time, money and existing layouts allow.

#### Refinancing

**10** Make sure you look at the entire cost of exiting one loan and taking up another. Exit costs for some products could easily wipe out the potential savings you get from the lower rate of the new loan product. Read the article on page 62 for an in-depth look at exit costs.

**11** Keep in mind that if switching loans won't put you in a better financial position after 12 months, it isn't worth refinancing at all.

**12** If your calculations put you ahead with the new loan, make sure the product has flexible features such as the ability to make extra repayments. This will allow you to pay off your mortgage faster and reduce your interest.

#### Household saving tips

**13** Cut \$3 off every category in your budget each week. Across 20 categories that's \$60 a week – put

it straight into your mortgage. On a \$300,000 loan at 9.46% taken over 30 years, this would mean an interest saving of \$219,894, and nine years and three months off your loan term.

**14** Cut back on ALL non-essential spending and put every cent of your savings into your mortgage. This can ensure some protection from interest rate rises or unexpected financial interruptions.

**15** Writing a budget is no use unless you track it. Monitor your spending each week and make cuts immediately if you overspend in any area.

#### INVESTING

##### Planning

**16** Set an investment goal and become as educated as you can before you begin.

**17** Save to invest and invest to retire. Make an effort to save portions of your income regularly (even if these portions are small) and build up a savings routine.

**18** Plan to invest a portion of these savings and/or your income before you allocate any spending.

**19** Give up something to make money available for investing.

##### Investing in shares

**20** Be prepared to commit a lot of time to educating yourself. Being a share trader requires a lot of learning.

**21** Don't get stressed about short-term losses but be prepared for big losses at some stage.

**22** Consider investing in shares through a managed fund to which you contribute on a regular basis. This way the experts are doing the investing for you.

#### Investing in property

**23** Don't take property advice from anyone who has a vested interest in selling you the property. Make sure your advice is taken from multiple experts independent of the sale.

**24** Don't purchase a property until you've researched the home and area thoroughly. This will include finding sales histories, getting a building and pest inspection, talking to locals and inspecting the property several times, day and night.

**25** Factor into your budget the additional costs of buying a property and research the exemptions you may be eligible for. Stamp duty and government charges can cost thousands, but various grants, exemptions and tax benefits can save you thousands.

**26** Read *Your Investment Property* magazine regularly for unbiased reports and practical advice about investing in property.

#### Retirement

**27** The average retirement is 25 years long. For every \$10,000 you make in your current annual salary, you'll need to have saved \$200,000. If

# Keeping your savings safe

Aaron and Sarah Simpson from Doreen in Melbourne had been planning to buy a house for some time before they took the plunge. Mixed reports about the property market discouraged them at first, but didn't stand in their way for long.

"One newspaper says the property market is fantastic and others say the market is going to die and you're a fool for buying a house. I think the bottom line is there's something to be said for owning your own home, good market or bad," Aaron says.

By mid-2007, the couple had put together a sure-fire savings strategy to begin building a deposit. Aaron says they wanted the security of an 80% loan to value ratio (LVR) home loan instead of 100% LVR, despite already being pre-approved for almost double what they needed.

"If you can't save 20% of the mortgage then how are you going to meet the repayments? Saving a 20% deposit reduces your risk as a borrower and your final expense towards the mortgage," Aaron says.

The couple saved \$2,000 a month by direct crediting 10% of Aaron's income into a nominated bank account yielding high interest. Aaron says this was good preparation for their future mortgage repayments.

"We were renting for \$1,500 and the mortgage is now \$2,200 a month, so if we were saving that \$2,000 a month we knew that we could afford the repayments," he says.

Aaron warns that prospective homebuyers must be very careful about how they invest their deposit in order to achieve maximum growth. The 7.5% interest-bearing ING Savings Maximiser emerged as the best savings strategy for the Simpsons, while an investment in blue chip shares was a short-term failure.

"The blue chip investment portfolio – organised through an investment advisor – lost about \$1,000, but in the long term it might earn more," Aaron

## Aaron and Sarah's loan details

**Lender:** St. George

**Mortgage broker:** Darryl Simms of Access Loans in Lower Templestowe, Melbourne

**Loan amount:** \$316,000

**Deposit:** \$77,000

**Land price:** \$165,000 (587m<sup>2</sup> block of land)

**Cost to build:** \$213,000

says. "If you're dealing with your deposit, put it somewhere ultra safe where it might be earning less interest but it definitely won't decrease. Make it easily accessible and not stuck in a long-term account."

The couple now own a block of land in Doreen, 25km from Melbourne's CBD, and are in the process of building their first home. They signed their mortgage contract with a huge \$77,000 deposit after an interest-free boost from Sarah's parents.

Their mortgage broker, Darryl Simms from Access Loans in Melbourne, organised a \$316,000 home loan with St. George Bank. The mortgage includes a maternity clause allowing the couple to make reduced monthly repayments when they decide to have their first child not too far down the track.

## Aaron's money rules

1. Organise a 10% direct deposit from your income straight into a bank account so you save without even noticing
2. Set your own borrowing limit and stick to it, regardless of what the lender offers you
3. Look to buy in growth suburbs
4. Choose your advisors wisely – spend time getting to know them first
5. Get a good conveyancer
6. Research your desired area and speak to locals about the property market
7. Set yourself a buffer for life's surprises and for future plans. Have a long-term plan for property and life

you're replacing a \$40,000 salary, you'll need to invest about \$800,000 in your retirement.

**28** The 9% compulsory employer contribution towards your superannuation will most probably cover less than 75% of your current annual salary. You'll need to top up your super yourself.

**29** Every time you start a new job, roll your super into the one fund so it can earn more as a lump sum and reduce costs spent on fund fees. There is nearly \$10bn in lost super sitting in various funds out there. That's 5.7 million Australians missing out on bigger returns.

## Saving

**30** You should try and put aside 10–15% of your income as general savings.

## Life insurance

**31** Life insurance needs to be enough to pay out your current debt, plus enough to invest at 5% to replace your income. So a person on \$60,000 with a \$200,000 debt would need a \$1.4m life insurance policy.

**32** Don't underinsure yourself. Consider your debts, level of income and the needs of your family.

**33** Budget for large life expenses: weddings for your children (\$15,000 each), major overseas holiday (\$20,000), an updated car every five to seven years (\$10,000–20,000).

## SPENDING

### Cars

**34** A car is a depreciating asset. Generally, cars lose a third of their value within six months. Buying a second-hand car will not only save you money, but you'll also be helping to preserve the environment.

**35** Car finance is expensive and will double the price of your car. Save the full cost before purchasing.

### Consumer items

**36** In Australia, a manufacturer's warranty is compulsory.

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**37** You have the right to a repair or replacement (your choice) on any faulty item that you buy new. The store must provide this and then they have to seek recompense from the manufacturer. Don't let the store tell you they have no responsibility.

#### Holidays

**38** Use the internet to check the quality of any accommodation you might be interested in and to get some great bargains.

**39** Usually, using an ATM overseas gives you a fairly competitive exchange rate.

#### Credit cards

**40** Pay your credit card off each month to avoid having to pay hefty interest rates.

**41** If you have to leave an unpaid balance on your credit card one month, try to switch your card to a low rate.

**42** Consider other options such as pre-paid credit cards or debit cards.

#### Get educated

**43** Buy *Your Mortgage* magazine every month for the most comprehensive and practical advice on how to make the most of your home loan. **YM**

*Sources: Your Mortgage; Margaret Lomas, founder of Destiny Financial; Andrew Russell, product portfolio director for Virgin Money*