

MortgageInsights

with Australian Unity Personal Financial Services

e-Newsletter September 2011

Why consolidating your loans *could help you pay them off sooner*

Do you have a number of loans with differing terms and interest rate charges?

If you do, it might pay to consolidate them all into one loan (usually your mortgage because it usually has the cheapest interest).

Here's an example based on an Australian Unity client. Let's say they have three loans as shown in Table 1:

Table 1:	Amount	Interest & Term	Monthly
Car Loan	\$35,000	13% for 5 yrs	\$797
Credit Card	\$25,000	18%	\$375
Mortgage	\$300,000	7.7% for 30 yrs	\$2,139
Total	\$360,000		\$3,311

We would advise and help this person to:

- Find a home loan with a lower interest rate
- Borrow the entire \$360,000 as a home loan (using equity in their home to borrow against for the extra \$60,000)
- Pay off the car loan & credit card.

Their monthly repayments will then be as shown in Table 2.

Table 2:	Amount	Interest & Term	Monthly Repayment
Home Loan	\$360,000	7.0% for 30 years	\$2,395

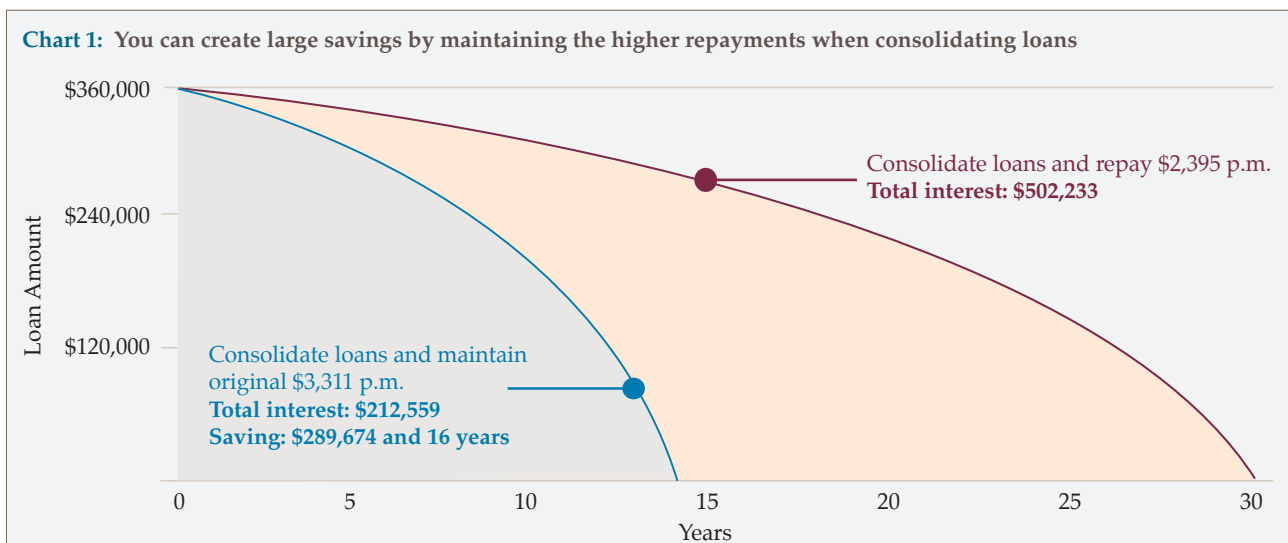
This is a saving of \$916 per month.

How to best use the \$916 saving per month

A trap many people fall into is to allow the \$916 saving per month to become spending money. As a result, the \$60,000 they have borrowed for the car loan and credit card will now be paid off over 30 years and they will pay interest on that of \$59,754.

They have turned short term debt into long term debt – and that always ends up being expensive. The solution is to maintain the repayments of \$3,311 a month they had originally.

This strategy ensures they quickly pay off the part of the new loan that relates to the car and credit cards, and it also gets them ahead on the rest of the new loan. If they maintain the extra repayments of \$3,311 per month, they will pay off the \$360,000 home loan in just 14 years... and save \$289,674 in interest repayments, when compared to paying off the loan at the required \$2,395 per month, as shown in Chart 1.



Interest rate *tables*

The tables below indicate the type of interest rates we are currently negotiating on behalf of our clients, as well as the monthly repayments for those loans.

Home Loan rates as at 28 September 2011*	Rates From	Monthly repayments for 30 year loans (unless fixed term) for loan amounts of:		
		\$300,000	\$500,000	\$1,000,000
Basic Variable Rate	6.88%	\$1,972	\$3,286	\$6,573
Offset Home Loans	6.80%	\$1,956	\$3,260	\$6,519
Line of Credit	6.80%	\$1,956	\$3,260	\$6,519
Professional Packages	6.80%	\$1,956	\$3,260	\$6,519
1 Year Fixed Rate	5.99%	\$1,797	\$2,995	\$5,989
2 Years Fixed Rate	6.24%	\$1,845	\$3,075	\$6,151
3 Years Fixed Rate	6.29%	\$1,855	\$3,092	\$6,183
4 Years Fixed Rate	6.74%	\$1,944	\$3,240	\$6,479
5 Years Fixed Rate	6.84%	\$1,964	\$3,273	\$6,546

Commercial Loan rates 28 September 2011*	Rates From	Notes
Motor Vehicle Finance	8.83%	This rate for finance over \$60,000
Equipment Finance	7.71%	This rate for finance over \$100,000
New Business Investment	7.6%	Subject to credit assesment
Commercial Property Finance	7.6%	Subject to credit assesment
Agri Business Finance	7.6%	Subject to credit assesment

*Please note, these rates do not include any fees and charges payable by the borrower. Comparison rates for individual products are available on request. Whilst these rates are the lowest rates in each category, the product and lender may not necessarily be available for you or be suitable for your needs. A full analysis of your needs is required before suggesting a suitable loan product.

Are you paying the lowest rate you can for your home or car loan? Or your commercial loan?

If you are buying a home or car, or borrowing for your business, or if the interest rate on your current loan is too high, we invite you to have your loan position 'health checked' by us.

All you have to do is give your Australian Unity mortgage broker the details about your financial objectives and loan position - we'll then analyse loans from the banks and other leading lenders to find you the most suitable loan we can. We'll call you with the result no later than five business days after you call us.

It's quick, it's easy... and it won't cost you a cent.

Our five-step loan process

- 1 We help you work out how much you can borrow... and which type of loan is right for you
- 2 We search the major lenders to find you the best rate we can
- 3 We use our 'buying power' to reduce interest rates even more
- 4 We do all the paperwork for you
- 5 You save on your new loan repayments every month - and our service hasn't cost you anything

FREE Superannuation *Health Check*

Find out if your superannuation plans are on track to deliver you the retirement of your dreams. Our free Superannuation Health Check will help you determine:

- ✓ How much money you need before you retire
- ✓ Whether or not you are on track to reach that goal
- ✓ What you need to do to get on track (if you are not)
- ✓ Whether the investment options in your fund suit your retirement goals
- ✓ If a self managed super fund might be an option for you

To make an appointment for your Superannuation Health Check with our financial adviser, please call us and we will arrange for our adviser to meet with you to assess whether or not you are on track for a financially secure retirement.

When you borrow money to buy a home, the bank makes you insure your home. But they don't make you insure your ability to pay off the mortgage. *Why is that?*

It's strange, isn't it. The bank makes sure your home is insured against flood and fire – because the bank needs to know they won't be out of pocket if your home burns down. But they don't care if you are not insured against serious injury, illness or death – the three things that could stop you earning an income and paying off the mortgage.

The reason for this is that if you were to become seriously ill or injured – or if you died – and couldn't make your mortgage repayments, the bank would simply sell your home and get their money back. Which would leave you and/or your family homeless. The solution, of course, is for you to make sure you have sufficient personal risk

insurance. It provides the money to cover your mortgage, as well as your other bills, your living expenses and more if the unexpected were to happen.

If you think you need to consider purchasing risk insurance, please contact us. We will answer any questions you have about risk insurance, and then calculate how much risk insurance you need to safeguard you and your family in the event something should happen to you or your spouse. And, if you wish, we will use our sophisticated computer program to shop around the major insurers to find you the right cover at a competitive price.

Why your business needs an estate plan

Business estate planning is the process of arranging your business affairs now to help ensure there is no unnecessary deterioration or loss of continuity in your business should you or one of the other stakeholders/owners or other key people leave through illness, accident or death.

A business estate plan is important for these reasons:

- Each owner (and their spouse) know in advance how the business will be valued – and what their share will be. So there should be less risk of a former owner, or their spouse or estate, taking legal action over a valuation or pay-out figure.
- It should avoid the possibility of a deceased owner's spouse or child deciding – against the wishes of the continuing owners – to become an active hands-on partner of the business (rather than taking the pay-out).
- It should ensure that the deceased owner's spouse or family does not take their legal right to claim a share of the profits without having to work in the business.
- It should prevent a deceased owner's spouse or estate from selling their share of the business to a third

party that may be unsatisfactory or unknown to the continuing owners.

- It should ensure the control of the business or its assets are not frozen due to legal difficulties created by the former owner, or their spouse or estate.
- If you or one of the other owners were to die, any loans or leases your business has may be immediately callable by the lender. A business estate plan can help ensure that debt can be retired by the continuing owners.
- It should help the continuing owners to afford to keep running the business, find a replacement for the departing owner, and cover loss of profitability and business momentum due to the loss of the owner.

How is a business estate plan funded?

Insurance is often used to finance a business estate plan so that the continuing owners have sufficient money to buy the departing owner's share of the business, keep the business running, and cover loss of profitability due to the loss of the owner.

Redundancy Case Study: Qualifying for Centrelink benefits whilst unemployed

Jane, 45, has just accepted a redundancy offer. Her husband, Bill, is a home-maker who looks after the couple's two young children. Jane receives the following payments:

Holiday pay (after tax)	\$25,000
Employer termination payment (after tax)	\$61,650
Preserved super	<u>\$120,000</u>
	\$206,650

Jane and Bill have a mortgage that still has \$160,000 outstanding. They have recently received an inheritance of \$120,000 that they were intending to use as a deposit on an investment property before the unexpected redundancy. Jane expects to be unemployed for a while because she has skills which suit an industry which is in a downturn. However, Jane's non-super payout of \$86,650, plus the \$120,000 inheritance and the \$60,000

insured value of their car and home contents, means she exceeds the Newstart Allowance assets test cut-off limit for a married homeowner.

Our advice to Jane might be:

- Park the \$120,000 inheritance and \$20,000 of cash in their mortgage which has a re-draw facility
- Put the balance of \$66,650 of non-super money into a cash account
- Roll over the \$120,000 of preserved super into a super fund with an appropriate asset allocation for the long term
- Value their car and home contents at \$30,000 (i.e. at garage sale value) for Centrelink purposes.

The couple's assessable assets for Centrelink are now only \$96,650 and they should qualify for benefits of \$22,292 p.a. after a 13-week waiting period.

How much can you invest *in super by 30 June 2012*

Here are the superannuation contribution caps which apply for the 2011/12 financial year.

- **Contributions which qualify for a tax deduction**

The limits below include any Super Guarantee your employer pays on your behalf:

Age	Tax Deductible Limit 2011/12
Up to 49	\$25,000
50+	\$50,000

- **Contributions which do not qualify for a tax deduction**

You could also invest up to \$150,000 p.a. in super as a non-concessional contribution (i.e. you do not receive a tax deduction on this contribution). If you are under age 65,

you can bring forward up to two years of non-concessional contributions.

- **The Government co-contribution**

If you are working, and make a non-concessional contribution to super, and earn up to \$61,920 this year, you are eligible for a super co-contribution from the Government of up to \$1,000.

- **Spouse contributions**

If your partner's income is \$13,800 or less, you could qualify for a tax offset of up to \$540 on the first \$3,000 you contribute to superannuation for them from your after-tax income. This tax offset decreases as your partner's income increases.

If you no longer wish to receive 'Mortgage Insights' please send an 'Unsubscribe' email to the person who sent it to you.

Contact us: You can contact us by calling your Australian Unity home loans consultant, or you can call us on 1800 670 638, or write to us at Level 8, 114 Albert Road, South Melbourne Vic 3205, or email us at cnaughtin@australianunity.com.au.

Disclaimer: Unless otherwise indicated, the information in this newsletter is provided by Australian Unity Personal Financial Services Limited ABN 26 098 725 145 AFSL & ACL 234459. This information has been prepared without taking into account of the investment objectives, financial situation, tax position or particular needs of any individual person. Because of this you should, before acting on it, consider its appropriateness, having regard to your objectives, financial situation and needs. You should obtain a copy of the Product Disclosure Statement before making any decisions about any product. Reasonable care has been taken to ensure that information in this newsletter is derived from sources believed to be accurate, and that examples are fair and reasonable. However, it should not be considered a comprehensive statement on any matter nor relied upon as such and Australian Unity Personal Financial Services Limited does not guarantee the accuracy or completeness of the information. Any taxation position described is a general statement and should only be used as a guide. It does not constitute tax advice and is based on current laws and their interpretation. We recommended that you speak with an Australian Unity Adviser to review your individual situation. This document produced in September 2011. © Copyright 2011