PLANET WEALTH

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Welcome to the latest edition of our client newsletter,

Our articles cover a range of topics which we hope you will find interesting. We aim to keep you informed of changes as they happen, but we also want to provide ideas to help you live the life you want – now and in the future.

In this edition we discuss "Information about First Home Buyers" and provide you with information on " Information on Concessional contributions work" and "Rising Home Loan Interest rates explanation".

If you would like to discuss any of the issues raised in this newsletter, please don't hesitate to contact us.

In the meantime we hope you enjoy the read.

All the best,
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9 tips for first home buyers

Buying a home could be one of the biggest purchases you ever make. With that in mind, here are nine helpful hints if you're considering getting into the property market.

1. Investigate the upfront costs

- **The purchase price –** If you're not paying for the property outright (which many don't), you'll generally need to take out a loan, with lenders often asking for a minimum 10% to 20% deposit.
- **Loan application fee –** This generally covers credit checks, property appraisals and other admin done by your lender.
- **Lender's mortgage insurance (LMI) –** If your deposit's less than 20%, you may need to make this one-off payment to your lender, which covers them in the instance you can't repay your loan. Note, if you do need to pay LMI, some lenders may also allow you to add the amount owing to your home loan balance.
- **Government charges –** These include things like stamp duty and mortgage registration and transfer fees, which can vary, depending on where you live and where your property is located.
- **Legal and conveyancing costs –** This covers your real estate conveyancer or solicitor, who'll prepare the necessary paperwork and conduct the settlement process.
- **Building, pest and strata inspections –** Paying for these services, before you buy, could alert you to potential structural concerns, while a strata report could also identify financial and building maintenance issues.
- **Moving expenses –** This may include renting a truck or hiring professionals to help you move.

2. Understand the ongoing costs

- **Loan repayments –** These might be monthly or fortnightly over a projected loan term of 25 to 30 years and will usually cover part of the principal amount borrowed, as well as interest.
- **Interest charges –** This is what you'll pay your lender on top of the principal amount borrowed, noting you'll generally be able to choose between a fixed or variable rate, or a combination of the two.
- **Other ongoing expenses –** These could include council rates, utility costs, building and contents insurance, strata fees and home improvements.

3. Check whether there are black marks on your credit report

A credit report details your other credit arrangements and repayment history and could affect your ability to get approval on a loan, especially if it highlights missed repayments and other past financial issues.

Each lender will assess your credit file against their own policies and there may be instances where some approve your application, while others reject it, or delay the process to investigate further.

4. Know how much you can spend

It's important to figure out what money you'll have access to (savings or other financial assistance) to cover the upfront and ongoing costs, in addition to any other financial commitments you may need to prioritise.

There will be things to think about if you're buying a property with your partner as well, or if you have a family member helping you, signing as a guarantor, or going in as a co-borrower.

A big part of knowing how much you can spend will also come down to how much you can borrow and under what terms.

5. Consider getting pre-approval on your loan

It's worth having your loan pre-approved so you know how much you can borrow. However, it's not a guarantee and you'll also need formal approval closer to purchasing and to have your deposit ready, or you may miss out.

This might mean having a bank cheque ready if you're buying your first home at auction. Your lender will also advise you if lender's mortgage insurance is required.

6. Research property locations

Some things worth giving some thought to include:

- Property prices in the suburbs you're looking at
- Distance from family, friends and work
- Off-street parking, local schools, shops and transport
- Whether you'll need to renovate and if you have the extra funds to do so
- The price growth potential in your chosen suburbs
- Proposed developments in the area that could impact the value of your property
- The local job market
- Neighbourhood crime rates.

For a bit of help, speak to local real estate agents or look at real-estate companies online.

7. See what financial assistance may be available

Below are some financial assistance options that may be worth investigating.

First Home Owner Grant

State governments may offer a one-off grant to eligible first home owners. Contact your state revenue office to check what you might be entitled to.

Stamp duty concessions

Certain state and territory governments offer additional incentives to first home buyers, some of which involve stamp duty concessions. Research what's available in the area you're buying.

New Home Guarantee

The New Home Guarantee is an Australian government program, which replaces the need for Lenders' Mortgage Insurance for someone who's building or purchasing a newly-constructed property. Application for the guarantee is made by participating lenders only when you make your loan application. Note, guarantee places are limited.

First Home Super Saver Scheme

Under the First Home Super Saver Scheme (FHSSS), eligible first home buyers can withdraw voluntary super contributions (made since 1 July 2017), of up to $50,000 for individuals or $100,000 for couples (plus associated earnings/less tax), to put towards a home deposit. Find out more about whether you may be able to withdraw under the FHSSS.

8. Educate yourself on different loan types

Depending on whether you're after a basic package or one with extra features, home loans can vary greatly when it comes to interest rates and fees.

To get a better idea of costs, when you see a home loan advertised, you'll notice two rates displayed - the interest rate and the comparison rate.

The home loan comparison rate will include the annual interest rate, as well as most upfront and ongoing fees. Some home loans with lower interest rates are laden with fees, so while they appear cheap, they could end up being more expensive. The comparison rate can help you identify this and compare loans more accurately.

Be sure to look into the potential advantages and disadvantages of various features of the loans you're considering as well. For example, some loans may allow you to make extra repayments, redraw funds, or use an offset account, which could reduce the interest you pay over time.

9. Weigh up the value of a home inspection

Home inspections could alert you to serious issues that may not be visible, such as asbestos or termites, or electrical, ventilation and serious plumbing faults. These problems could cost you a whole lot more than the inspection itself.

Meanwhile, if you're buying a townhouse or apartment, strata reports can tell you whether the property is well run, maintained to a decent standard and adequately financed.

How catch-up concessional contributions work

If you've had interrupted income, or just haven't been in a position to put as much into super as you'd like, catch-up concessional contributions may provide an opportunity to top up at a more convenient time.

You won't always be in a position to put money into your super. You might be taking time off work to study or care for children, or you might have other financial commitments you're prioritising such as paying the mortgage.

However, should the time arise when you can, and want to contribute more to your retirement savings, you may be eligible to make catch-up concessional contributions.

This is where, if you make or receive concessional super contributions that are less than the annual concessional contributions cap (currently $27,500), you could accrue unused cap amounts for up to five years.

What are concessional contributions?

Concessional contributions (which count toward your concessional contributions cap) include:

- Compulsory SG contributions, which are the before-tax contributions your employer is required to make into your super fund under the super guarantee, if you're eligible.
- Voluntary salary sacrifice contributions, which are additional contributions you can get your employer to make into your super fund out of your before-tax income, if you choose to.
- Voluntary tax-deductible contributions, which are contributions you can make (such as when you transfer funds from your bank account into your super) that you then claim a tax deduction for.

Note, concessional contributions get special tax treatment, which for most people means you'll generally pay less tax on your super contributions than you do on any income you receive.

What are the rules around catch-up concessional contributions?

To be eligible to make catch-up concessional contributions the following must apply, noting that catch-up concessional contributions can be made on top of the annual concessional contributions cap ($27,500).

- Your total super balance needs to be less than $500,000 on 30 June of the previous financial year. Note, your total super balance is broadly the sum of all your super accounts including pensions.
- You can only carry forward unused concessional contribution cap amounts from 1 July 2018.
- Unused cap amounts can only be carried forward for five years until they expire.

The below scenario shows what Bob could carry forward over one year

Annual concessional super contributions cap	$27,500
Concessional contributions made this financial year	$10,000
Unused concessional contributions that could be carried forward for up to five years	$17,500

What this means is, any time over the next five years, Bob could contribute up to the annual concessional contributions cap of $27,500 + the unused cap amount of $17,500, which would mean Bob could contribute up to $45,000 in concessional contributions in one financial year, if his total super balance is less than $500,000 on 30 June of the previous financial year.

If in this scenario, Bob also carried forward unused cap amounts from the four years following, he would also be able to contribute any additional unused amounts on top of that, noting his total super balance would need to still be under $500,000 on 30 June of the previous financial year to do so.

This example is illustrative only and isn't an estimate of the investment returns you'll receive, or fees and costs you'll incur.

How could catch-up concessional contributions benefit me?

If you've spent time out of the workforce, or haven't had the money to contribute as much as you'd like to, the rules may give you the ability to make larger, and or additional, concessional contributions than you'd otherwise be able to make, and at a time that's more convenient for you.

If you're approaching retirement and are looking at ways to potentially maximise your retirement savings while minimising tax through the system, catch-up contributions could also give you some flexibility.

How do super bring-forward rules differ?

If you're under age 75 at the start of the tax year, you might also be able to make up to three years' worth of non-concessional super contributions in a single income year, if you're eligible.

This means you may be able to put in up to three times the non-concessional annual cap of $110,000, which means you may be able to top up your super by $330,000 within the same financial year.

Note, non-concessional contributions are different to concessional contributions and there are rules you'll want to be across.

What other things should you know

- If you exceed concessional and non-concessional super contribution caps, additional tax and penalties may apply.
- The value of your investment in super can go up and down, so before making extra contributions, make sure you understand, and are comfortable with, any potential risks.
- The government sets general rules around when you can access your super, which typically won't be until you reach your preservation age (which will be between 55 and 60, depending on when you were born) and meet a condition of release, such as retirement.

Give us a call today if you'd like to discuss how to effectively top up your superannuation

Rising home loan interest rates explained – what you need to know

The economic impact of COVID-19 has been keeping a lid on interest rates in recent years. But they were on a downward trajectory even before the pandemic, with the last increase coming in late 2010. In fact, interest rates have been so low, for so long, that a generation of Australian home buyers have grown up with no experience of rising rates.

But sadly, all good things must come to an end. Interest rates have begun to rise following the Reserve Bank of Australia's (RBA) decision to increase the cash rate for the first time in over a decade. And with high household debt levels, it could make life difficult for millions of Australians as regular mortgage repayments start to increase.

But the good news is, there are ways you can structure your home loan and adjust your spending to help with rising repayments as the new rate landscape takes shape.

What's the official cash rate?

The official cash rate sets the interest rate for overnight transactions between banks. It's a tool used by the RBA to influence economic activity and manage inflation.

An increase in the official cash rate generally means arise in the cost of borrowing money. So, when the RBA changes the official cash rate, the banks tend to follow suit and change their lending rates.

How do banks set interest rates?

The official cash rate isn't the only factor that influences bank lending rates, but it's one of the most important.

To make money, banks need to lend money out at a higher rate than they borrow – this is why the interest rate you receive on your savings account tends to be lower than the interest rate you pay on your home loan. So, an increase in the cost of borrowing money can affect you in different ways, depending on whether you're a saver or a borrower.

If you have a savings account or you're thinking of taking out a term deposit, you could start to receive more interest on the money you've lent to the bank. But if you have a home loan you could start to pay more interest on the money you've borrowed from the bank.

Why are interest rates rising?

The RBA is looking to control inflation in a bid to stabilise the Australian economy, which is seeing higher prices, lower unemployment and signs of potential wage growth.

What do rising rates mean if you have a home loan?

If you have a variable rate loan, or your fixed rate loan is about to reach the end of its term, you may find your repayments increase and you have less discretionary income to spend on other things.

What can you do to reduce the impact of rising interest rates?

1. Tailor your home loan to suit you

The way you structure your home loan could help you pay less interest in the long run and take years off your mortgage. As we see rates start to increase, it's a good idea to think carefully about what type of loan best suits your needs – fixed, variable, or split. It's a big decision and could have a significant impact on your future repayments and household budgeting as rates rise.

Fixed rate loans

A fixed rate loan has a set rate even if interest rates rise.

- You can lock in your interest rate for a period – generally one to five years – depending on factors such as the total amount borrowed and the overall loan term.
- You can choose to fix your rate again at the end of the fixed-rate term, or let it roll to a variable rate.

A fixed rate home loan not only gives you the certainty in your repayments, but it could also help you manage your household budget more easily. However, you usually don't get the flexibility to make extra repayments so you can't pay off your loan faster by making additional repayments. And you might also be up for break costs if you want to make any changes such as exiting your loan before it ends.

Variable rate loans

The interest rate you pay over the life of your loan can change as banks vary their lending rate. So, if rates rise, so will your repayments.

A variable home loan can be more difficult to budget for, but tends to be more flexible so you may be able to:

- make extra repayments to pay your home loan off faster
- access these extra repayments via a redraw facility
- open an offset account, which you can link to your home loan to reduce your interest.

Split loans

A split loan can help to manage the risk of higher repayments by letting you fix some of the loan and leave the rest variable. This could give you the best of both worlds, as a split-rate loan allows you to have rate and repayment certainty on the fixed-rate loan, while taking advantage of the flexibility on the variable-rate loan.

2. Check your spending

Creating a budget could help you get across how much income you've got coming in, how much you need for the essentials and where the rest of your money might be going.

This will help you identify if there's any room for movement and if you could potentially add a little bit extra to your repayments. AMP's Budget calculator could help you crunch the numbers.