

# Newsletter

Winter 2009

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Home Funding Solutions



## Welcome

Welcome to another edition of the HFS newsletter.

With current interest rates being so low, many of our clients are considering fixing their loans. In this edition of our newsletter we discuss the pros and cons of fixing your loan. Also, with tax time almost upon us we explain some of the more common deductions available to property owners. Finally, with the cooler months come the inevitable cold and flu season. We discuss some practical things you can do to avoid getting sick this winter.

Be sure to contact us on 02 8296 0966 if you have any questions or for a free review of your current loan situation.

Kind regards,

James Nader and the HFS team



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## To fix or not to fix?

Wishing you had a crystal ball to know whether to fix your home loan or not? You're not alone.

It wasn't so long ago that interest rates were skyrocketing and most mortgagees were wondering when was the "right time" to fix their interest rate. With so many unknowns facing the economy, it's now the other way around—with interest rates diving, when will be the "right time" to fix?

Australians understand now more than ever how the Reserve Bank of Australia (RBA) uses interest rates to manage the economy. So for any mortgage holder the question of fixing your mortgage interest rate is always a very important one. Regardless of whether rates are going up or down, before you act, make sure you carefully consider both sides—the advantages and disadvantages.

### Advantages

The obvious advantage when you fix your loan is that repayments will not increase with rising interest rates. This means that you will know in advance what your repayments will be for a fixed period. Generally you can select fixed periods of one to five years. This can be particularly helpful if funds are tight in allowing you to budget for a set amount with the knowledge that it will not increase over the term of the fixed period.

### Disadvantages

Ask anyone who chooses to fix their loans when interest rates were skyrocketing a little more than a year ago and they'll tell you the disadvantages to fixing. As they watch the variable rate drop to the lowest level in 40 years, they are locked in to paying a higher interest rate. Without having a crystal ball, it is hard to pick the "right time" and as we've seen over the past year, interest rates can change dramatically over a reasonably short time frame. In addition, the fixed rate is generally higher than the standard variable and sometimes set-up fees are charged. Also, if you take

the fixed option and break the loan before the end of the fixed term, the penalties can be very hefty.

Perhaps one of the biggest issues is that when you fix you cannot make extra repayments to the loan. You may consider fixing part of your loan, leaving the rest variable, if you know you may be able to reduce the loan in the future.

### Focus on the average

Many borrowers automatically think that it's best to pay a bit extra and tie in to a fixed rate rather than gamble with potential rate increases, but as we've seen, there is risk whether you choose fixed or variable. The best indicator is the average of the variable rates over the coming three years which can help you choose which way to turn.

Unfortunately, nobody knows what the variable rates will be over any lengthy time frame—not even the purported "experts" you read about in the newspaper. But, to give you an indication of what has occurred in the past, there have only been three periods since 1990 when fixing for longer than two years has been a positive move. These periods occurred in 1993/1994, in 1998 and in the second half of 2001 (following September 11). Who knows if 2009 will be another of those occasions?

So, if you're thinking about changing to a fixed rate, think carefully and do the sums. Once you've considered all the pros and cons, you should remember that the choice is entirely yours and you should do whatever you feel most comfortable with.

Remember that the team from Home Funding Solutions is with you every step of the way so be sure to contact us on **02 8296 0966** with any questions you may have or if you would like us to assist you in fixing your loan.



## Tax Time

Time is ticking and the 30th June is just around the corner. Most of us dread tax time, with the end of the financial year bringing with it the inevitable paperwork.

But, as you'll see in this article, there can be a silver lining to getting organised early. By having a firm understanding of some of the deductions that you may be entitled to and seeking the help of a trusted accountant and/or financial adviser to make the most of your tax potential, being organised early can definitely be worth the effort.

Here are just some of the most common deductions and a brief introduction to what they're all about. Remember though, it's always best to consult your accountant to ensure that you don't miss out on any allowable claims—it can make a big difference to your overall return!

### Capital Gains Tax (CGT)

Capital Gains Tax (CGT) is a tax on the increase in an asset's value (such as shares, property etc.) at the time of sale. It is calculated by taking into consideration the original cost base of the asset. If you've made a profit on an asset that you sold in the last financial year, make sure that your original cost base includes all applicable expenses spent in acquiring the asset such as the purchase price, any capital improvements made, stamp duty, legal costs, advertising expenses, commission fees etc.

June 30 is rapidly approaching. Instead of waiting until the end of financial year, it pays to get organised now

### Investment Property Deductions

Generally, owners of investment properties can claim deductions for costs associated with their property. These may include:

> advertising	> bank fees and interest on loans
> council rates	> body corporate fees
> cleaning	> professional fees (e.g. property agent fees and commissions)
> utilities (gas, electricity, water rates, telephone)	> repairs and maintenance

### Depreciation

Depending upon the age, quality and size of a property, the Australian Tax Office allows for deductions for depreciation of the building itself as well as any structural improvements and fixtures and fittings. In their Rental Properties booklet\*, the ATO has a list of over 230 items found in residential rental properties which identifies them as eligible or ineligible for a depreciation deductions. Some common depreciating assets include: air conditioning units, floor coverings, window curtains and blinds, kitchen appliances, and hot water systems.

On the lead up to the end of the financial year it pays to have a trusted accountant and/or financial adviser who can assist you. If you require a referral, give us a call today on **02 8296 0966**.

\* For access to this free booklet please visit [www.ato.gov.au](http://www.ato.gov.au)



## Avoiding winter bugs

With winter now upon us, so too is the dreaded flu season. Tips to help keep you illness free.

Public health experts estimate that each year hundreds of thousands of people contract seasonal influenza—and this is in New South Wales alone! It is a highly contagious disease spread from person to person through droplets expelled from an infected person's cough or sneeze.

Influenza can be very debilitating, bringing with it the inevitable array of symptoms such as fever, body aches, exhaustion, sore throat, headache and cough. Usually those struck down with the flu need a few days of bed rest to recover.

In the media recently there has been a lot of coverage about the so called "Swine Flu" or H1N1 flu virus. It is helpful to know, however, that just like all other types of flu, this strain of influenza is largely preventable.

### Helpful Tips

Here are some easy steps you can take to reduce your risk of exposure and help stop the spread of nasty winter bugs:

- > When you cough or sneeze, make sure you step away from other people around you and cover your mouth and nose
- > Wash your hands regularly with soap and running water for at least 10 seconds especially after coughing or sneezing, and before eating. Avoid touching your mouth with your hands.

> Get a flu vaccination from your GP. This is particularly important if you're over the age of 60 or otherwise more vulnerable to illness. A flu vaccine is available each year from about March.

> If you're sick, or feel like you might be coming down with something, don't "soldier on" because you could pass on your illness to those around you. Stay home and rest.

> Be sure to throw out any used tissues without delay. Avoid touching items such as telephones and computer keyboards which have been used by a sick person prior to wiping them down with disinfectant.

> Make sure you keep your body fit and healthy by eating lots of fresh fruit and vegetables and by exercising regularly. A healthy immune system is the best line of defence against illness!

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