

2010 has started very strongly with plenty of activity and commentary about the strong property prices and forecast for interest rates. So in this edition we take a closer look at the market and at how interest rates sit now compared to the last few decades. Our product in focus is combination or split loans and we also discuss the benefits of protecting your property with regular pest inspections.

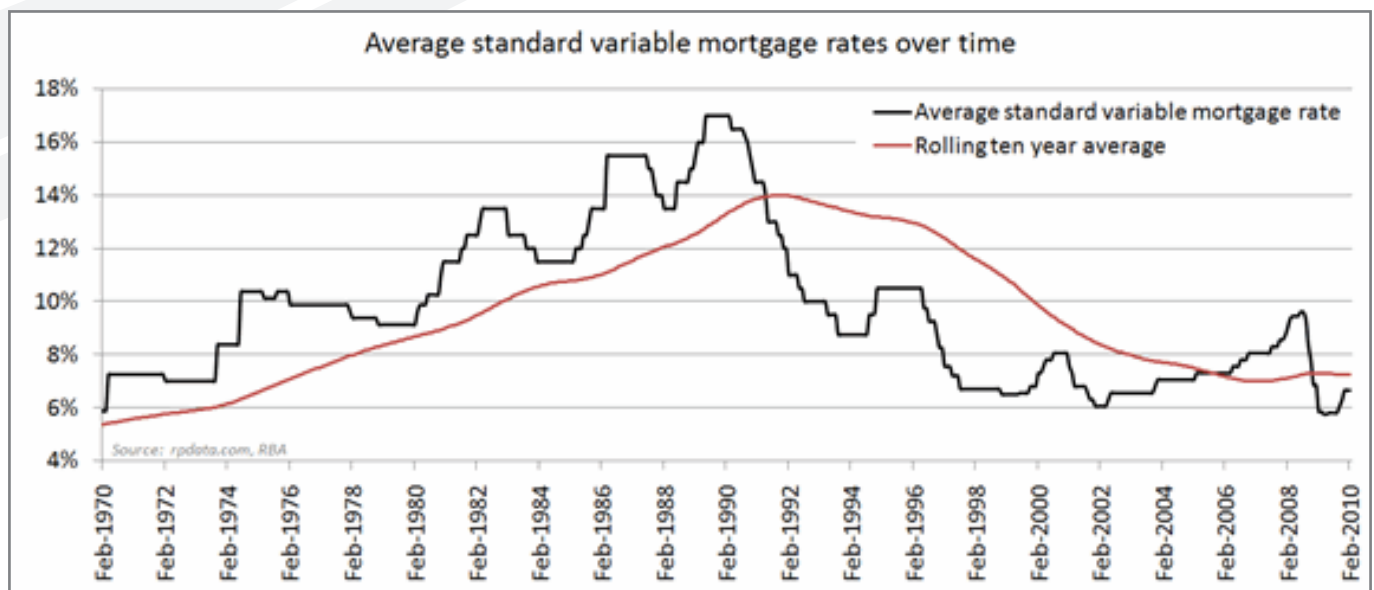
Market Review

The lack of housing supply is tipped to be one of the driving forces shaping the residential property market this year. At the start of the New Year industry reports indicated strong levels of buyer enquiries and open-for-inspection numbers with some anecdotal evidence of agents returning from annual leave early due to the level of activity in the real estate market.

It's not surprising, when you consider that according to Australian Property Monitors the median national house price rose by 12.1 per cent in 2009. There were still a lot of prospective buyers who failed to get a property at the end of last year in the market in the early stages of 2010.

The Reserve Bank reached a pivotal point in its program of rate rises in its first meeting for 2010, declaring the bulk of their work behind them. After three successive rises at the end of last year the Board's February minutes suggest that any future rises will be decided on a case-by-case basis depending on how the economy performs each month.

The graph below, sourced from RPDData, illustrates the interest rate level of a standard variable mortgage over a period of forty years. Clearly rates as they stand right now are almost at the



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lowest point in that timeframe, a fact which many homeowners are enjoying.

If the RBA does feel the need to raise interest rates further this year, which according to many commentators is likely, we will still be enjoying what are historically very low rates.

Product Focus – Combination or Split Loan

Split loans - also called 'combination loans' - combine the advantages of variable and fixed interest rate loans into a single loan. The key to split loans is flexibility - you can decide what portion of the loan is fixed or variable to suit your needs and the current market conditions. For example you may opt for keeping 60% of your loan on a fixed rate and 40% as variable.

In doing so you can be certain what your repayments will be on the bulk of your loan while having the flexibility offered by keeping some of your loan on a variable option. Splitting your loan can provide you with 'insurance' against future changes in interest rates. It is important to remember that the fixed portion of the loan will be locked in for a set time frame and there may be break costs involved if the loan is repaid early.

Split loans can be used for investment or owner occupier loans as they are a very versatile product. These loans came under close scrutiny a few years back as some investors used this type of loan to split their investment and personal loans and in doing so also attempted to claim extra interest on their investment loan.

The strategy involved capitalizing the interest on the investment portion of the loan and claiming the compound interest as a tax deduction. This resulted in a higher deduction than they otherwise would have



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claimed if the two loans had been set up separately. As long as you steer clear of this strategy you will have no problem with the Tax Office.

Split loans also allow you to separate or segment different portions of your loan. This can be useful in keeping personal and investment loans separate or even separating different loan amounts for different investments. For expert advice on these types of loans, please give us a call so that we can discuss the benefits with you.



Do you have any pests living in your place?

Most people do the sensible thing and get a pest and building report when buying a property. But how many of us actually get a regular pest inspection on our properties once we have moved in?

The damage termites can do if left untreated is alarming. Undetected they can happily chew away at your investment in no time at all. While they do prefer coastal areas where soils are lighter and nesting in large trees surrounding a property, they have been found everywhere. In Australia, 35 per cent of houses have some form of termite, borer, rot or other timber pest problem. Houses more than 30 years old, especially those built close to the ground with little sub-floor air circulation, are prone to infestations.

Pests left untreated can literally bring your house down. But it is not just termites you need to think about. Cockroaches and rodents can be health hazards not to mention spiders such as Red Backs. Plus possums, rodents and birds nesting in a roof or wall can gnaw through electrical wiring creating a fire hazard.

So what can you do? Aside from having regular pest inspections on your property to detect any pest problem early, a bit of common sense maintenance will go a long way.

- Keep your sub floor area dry and well ventilated. Fix any leaks or plumbing faults early to prevent moisture building up in these areas.

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- Remove vegetation and wood or other cellulose-containing materials such as cardboard or paper stored close to buildings or directly on soil surrounding the building. This will remove any potential habitat for pests while making it easier to inspect the property.
- Plug obvious entry points where pests can get into your property but ensure there are access points for regular inspection.

Did You Know?

Since the beginning of the modern Olympics in 1896, only Greece and Australia have participated in every Games.



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