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Top Negotiating Tips for Borrowers

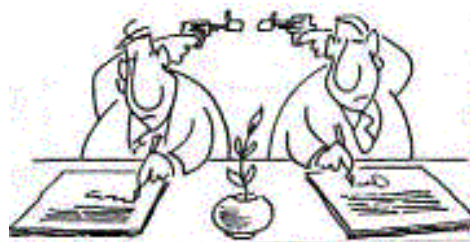
Looking for a competitive mortgage can be a time consuming process. Using the services of a professional mortgage broker can save you quite a lot of time. However, you may be missing out on savings if your broker doesn't go that extra mile. Here are some tips you might be able to use (particularly if you are trying to get your existing lender to offer a more competitive package).

1. Interest rates are often the most negotiated feature of a loan. This is reasonable considering it's the biggest expense. Lenders generally won't discount rates unless they are forced to. Therefore, if you ask for a discount you need make sure you mention an offer (from another lender) which you can ask them to match. Generally, negotiating a good ongoing interest rate discount is better than a discount that just exists for the first year (or so). Generally, the larger lenders have a

lower cost of funds and therefore have more ability to discount interest rates than smaller lenders. The average margin in a home loan is 2 percent to 2.5 percent. The maximum discount we have negotiated is 1.15 percent. Offering to bring all your lending with one lender can give you more buying power.

2. Most fees are negotiable. However, sometimes lenders outsource certain functions. Therefore, they will have to physically pay for some costs (such as loan document preparation, valuations, etc.). In these circumstances, they may be less likely to waive these fees.

3. Make sure you point out other benefits or services that you may use. For example, you may consider using the lenders other services like financial planning, credit cards, insurance, share trading, etc. Make sure you point this out because the lenders get rewarded for cross-selling other products (and is a good justification to obtain approval for fee waivers and discounts).



4. Make sure that you show them you are serious. It can take lenders a lot of time to obtain approvals for discounts and fee waivers. Sometimes they will have to submit written justification to

senior management for approval. Most lenders don't mind doing this so long as they know they have a chance of winning your business. So set a realistic target of the pricing you are willing to accept and then say to your preferred lender that if they can meet these expectations they will definitely win your business.

5. It is expensive for lenders to win new clients. They will generally prefer to retain your business rather than lose it. However, sometimes lenders need to be reminded that it is a competitive market. For the most part, customers normally have to threaten to leave before they will start discounting. Therefore, if they say they cannot discount then make sure that they are aware you will leave if they don't.

6. Talk about future plans. For example, if you plan to purchase investment properties, renovate or anything to increase your lending in the future then make sure lenders are aware of this. Lenders are normally keen to go that extra mile if they know the client will borrow more in the future.

One of the best resources for a person negotiating with their lender are mortgage brokers. Often all it takes is one quick call or email to get a good idea of what deal your lender should be offering. However, be honest with the broker. Tell them you just want some information to negotiate with your lender. If they think you are truly in the market then they may waste their time following you up. Remember, you can always email ProSolution and we'll tell you exactly what you should be offered.

Recent Government Changes

As you may be aware, there were a few surprises in the State budgets. I will highlight briefly what they are and what they really mean to the housing market.

VICTORIA

The Victorian budget announced the introduction of a First Home Bonus grant. An additional \$5,000 grant may be paid by the Victorian Government to all Victorian first home buyer's who also qualify for the Federal Government's First Home Owner's Grant of \$7,000. This means that purchasers will have \$12,000 to contribute to their purchase.

This grant will be available from the 1st May 2004 to the 30th June 2005 and will be paid where the purchase price is no more than \$500,000.

In reality, this grant will do little more than increase the purchase price by \$5,000 as vendors know the purchasers have another \$5,000 to spend and will tack that onto their upper limit. Really, this is a token effort as the majority of Victorian's would have preferred Stamp Duty concessions.

The Victorian government will also abolish mortgage stamp duty from 1 July 2004. For a mortgage of approximately \$400,000 this means a saving of an estimated \$1,560.

There were also some relief in relation to Land Tax. The government announced that there would be a drop of 20 per cent in land tax from 1 July 2004 and a further 20 per cent reduction over the next five years. The cuts represent the removal of, what was considered, a major deterrent to property investment in Victoria. The main changes will only affect about a quarter of Victoria's 160,000 investors. The changes, which come into effect on 1 July 2004, are:

No stamp duty on properties valued between \$150,000 and \$174,999 (24,000 people will save \$150-\$175 a year)

Land tax is unchanged for properties valued between \$175,000 and \$674,999
A 10 per cent adjustment to land tax brackets over two years on properties valued between \$675,000 and \$1,619,999, and

Land tax will fall by \$1,175 to \$2,150 on properties worth more than \$1.62 million plus \$10,000 in value beyond \$2.7 million



NSW

This leads us to the changes in NSW announced by the NSW Government last month. Of all the states, these were the most publicised.

In essence, stamp duty is to be abolished for First Home Buyers in NSW for properties purchased for less than \$500,000. This could save new home owners approximately \$18,000, on a home worth \$500,000. This is considered a huge bonus for first home buyers but in reality with the median price in Sydney being \$515,000, you don't get a lot for your money in Sydney.

Also, real estate agents are already talking of a "mini boom" in the \$400,000 to \$500,000 category now that first-home buyers will pay no stamp duty on homes up to \$500,000. Sellers of property in this price bracket are likely to bump up prices because they believe first-home buyers can now afford a little more.

The other major change and the one causing the most controversy is the introduction of a new "exit" stamp duty on investors. Investors will have to pay 2.25 per cent stamp duty on the sale of second homes and investment properties (and principal residences sold within two years) from the 1st June 2004. This is designed to encourage investors to hold on to property longer to avoid the tax.

Another change is the removal of the annual premium land tax, the effect of this will be to take the pressure off owners at the upper end of the market

who are asset rich but cash poor. These owners in the past may have had to sell their properties to pay this tax.

The Government has already made two changes to the rules since announcing them. First-home buyers who exchanged contracts before April 3, but who have not yet settle their purchase, can qualify for stamp duty exemption if they and the vendor agree to rescind the contract and enter a new one. If the vendor does not agree to a new contract, the first-home buyer is still left high and dry.

Also, the Office of State Revenue has declared it will be changing the eligibility criteria for stamp duty exemption "to more closely align the First Home Plus scheme with the eligibility criteria for the First Home Owner Grant scheme".

This is code for disqualifying couples from stamp duty exemption if one of them has owned a home before and to ensure that the purchasers must live in the property for a period of at least six months.

Another anomaly yet to be addressed is how the new exit stamp duty will apply to renovated properties. The duty applies if the sale price exceeds the purchase price by at least 12 per cent but what if the owner has spent more than 12 per cent of the property's value on renovations? That would mean that paying the new duty would cause a financial loss when it is meant to give the government a share of the "profit".

These issues will have to be addressed soon.

The one possible positive aspect of these taxes is that the genuine first home buyers and long term investors are likely to see a fall in house prices in the short-term as they face less competition and greater choice in finding the right property for their needs. Whether this will be a reality is yet to be seen.

However, recent evidence suggests that the new property taxes "designed to take some of the heat out of the frenzied residential investment property market" now appear unnecessary.

Evidence is mounting that the property market has slowed sufficiently without government involvement. According to figures recently released by the Australian Bureau of Statistics, there has been a drop of at least 25 per cent in investor numbers in the property market over the last six months. It stands to reason then, if the real purpose of these taxes was to slow the market, then on the evidence, they are clearly not needed.

Other changes have also been announced for ACT, Queensland and South Australia. Please contact us for a summary.



HIGH COURT (SPLIT LOANS)

"The High Court has ruled that split-purpose property loans or "linked" loans, which effectively enabled borrowers to make financing their own home tax deductible, amount to tax avoidance schemes. The result means lucrative tax deductions claimed on such loan arrangements will not be permitted.

Split loans have been under a cloud in a long-running legal case between the Australian Taxation Office and a Canberra couple, The Harts. In the Hart case, the High Court has agreed with the ATO that the "wealth optimiser" loan provided to the couple by Austral Mortgage was a tax-avoidance scheme. The strategy saw one loan divided into two accounts for two separate properties – the borrower's own home and an investment property. The idea was to direct all repayments to the home loan account, on which interest is not tax deductible, while letting interest build up on the investment property account - interest which is tax deductible. Although the outstanding loan amount increased for the investment property as interest gets capitalised on top of the original amount borrowed, this was to be offset by higher tax deductions. The Harts increased tax deductions by \$170,000 using the wealth optimiser loan structure. Austral wrote more than \$100 million of the loans before the ATO stepped in and rejected them in 1997. Many lenders were waiting for the outcome and were planning to launch similar products." (Quoted from InfoChoice)

Assistant Analyst – Join ProSolution

ProSolution is looking for an administrative staff member in Melbourne. If you know of any friends or family that may be interested we would love to hear from them.

We are looking for a very well organised and self motivated administrative assistant. They will work closely with our professional Analyst's assisting them with delivering world-class service. The successful applicant will have excellent time management skills, a strong work ethic, good communication and report writing skills and sound judgement and initiative. Experience in the mortgage industry is not essential. Go to

www.prosolution.com.au/support.php for a detailed job description.



Client Profile – Tax Effective Structuring

A client, lets call her Mrs Jones, was referred to us to see if we could source a better deal for her. Her borrowings consisted of an \$800,000 home loan (non-deductible debt) and \$550,000 investment loan (i.e. tax deductible debt). Her existing lender was ANZ and she was receiving an interest rate discount of 0.60 percent off the standard variable rate.

We knew that we could negotiate a larger interest rate discount for her

(perhaps in the range of 0.80 percent to 0.90 percent) across her total lending.



However, after much discussion, we ended up negotiating a larger discount on her home loan and a lower discount on her investment portion. Overall the client is much better off because essentially the bank is reducing the cost

of non-deductible debt in return for increasing the deductible debt.

We negotiated 1.10 percent off the standard variable rate (for the life of the loan) for her home loan (i.e. 5.97 percent) and 0.50 percent off for her investment loan (i.e. 6.57 percent).

We would strongly recommend borrowers seek professional taxation advice before entering into such arrangements. In extreme cases (e.g. where the owner-occupier interest rate is extremely low and the investment rate is very high), these structure could be construed as tax avoidance rather than tax planning.

Gearing Up For Investment

I regularly write articles for Australian Property Investor magazine (see <http://www.apimagazine.com.au>) and I

thought my recent article may be of some interest. It discusses the pros and cons of borrowing more than 80 percent of a property's value for investment purposes. Historically, investors have been advised not to borrow more than

80 percent thereby avoiding the cost of mortgage insurance. But has that advice been sound? For a copy of the article go to www.prosolution.com.au/gear.pdf.