



# Money Matters

with Bruce Cruickshank



## Life insurance for home owners

Home owners with a mortgage are encouraged to take out insurance, to at least cover the level of the mortgage, in the event of death or disability.

According to the Australian Bureau of Statistics data, between 1991 and 2008 the average loan commitment of first home buyers increased from around \$96,100 to \$215,100. A survey of income and housing costs in 2000 indicated that low to middle income earners in Australia spent around 30% of their gross income on housing.

Since nearly one-third of the household income is used to pay the mortgage it is important to ensure that contingency plans are in place to cover the mortgage and save the house if the income stops due to death or disability. Taking out a life insurance policy is one way to address this.

A family has many insurance policies. Some are mandatory by law. In addition some families take out various other policies for peace of mind. The mandatory insurances include:

- Building insurance- since most families have a

mortgage they have to take out building insurance to meet the lending requirements of the financiers.

- Third party car insurance- when a motor vehicle is registered, third party insurance is automatically included.

Additional policies that a family may have include:

- Home contents insurance to cover loss or damage to household items.
- Comprehensive car insurance to compensate for the loss or damage to the motor vehicle.
- Health insurance to access private health facilities.
- Income protection insurance to safeguard the loss of wages due to illness.

Life insurance cover is not mandatory nor does it appear that most people give life policies the same level of importance as they do to vehicle or health insurance.

This is an area that is being promoted in recent times due mainly to the rising level of debt that most Australians carry by way of mortgages and other consumer loans.

Therefore, Insurance companies and mortgage providers are pro-active in educating consumers as to the necessity and benefits of taking out death and/or disability insurance to cover their families. Having a life insurance policy that at least pays off the mortgage could mean a less stressful time for the families left behind.



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## Pros and cons of debt consolidation

Consolidating multiple debts with a current mortgage could be a worthwhile exercise to get out of the multiple loan repayment maze.

It is not uncommon for one household to have a mortgage, a car loan, a personal loan and credit cards. The repayments on these loans and credit cards fall due at various times of the month and in differing amounts. Bearing in mind that interest rates on car loans, personal loans and credit cards are usually much higher than those of a home loan, it may seem sensible to consolidate all debts. Consolidation also means not having to negotiate the multiple repayments every month.

The advantages of consolidation are:

1. being able to pay off high-interest debts at the lower mortgage rate;
2. having one monthly repayment; and
3. the availability of additional disposable income.

However, consolidating debts is not as cut and dry as it sounds. It is important to bear in mind that:

1. it will increase the home loan debt and monthly repayments; and
2. other debts are being paid off over a longer period of time than originally intended.

Nevertheless, all is not lost. There is a smart money way to counteract this. By paying a portion of the additional disposable income into the mortgage, you can reduce the term of the loan and in turn this reduces the interest paid over the life of the loan.

## One Big Switch could be one big earn

No doubt you may have seen or heard the coverage about the recent launch of the commercial business One Big Switch which is partnering with consumer group Choice to assist consumers switch lenders.

The Mortgage and Finance Association of Australia's CEO, Phil Naylor questions Choice's commercial involvement in the arrangement which will reward Choice with referral fees for its part in the transaction, a practice Choice has been critical of, in the past.

Phil Naylor wants to remind consumers that this is not a new service, as 12,000 MFAA approved broker members already perform this service for clients every day.

## Professionals help make home purchase stress free

Being aware of who to contact for assistance at the different stages of purchasing a property can make the whole process stress free for the home buyer.

### Real Estate Agent

The real estate agent facilitates the sale and purchase process, by mediating between the vendor and the purchaser to come to an agreement regarding the price and other conditions including the date of transfer of ownership.

### Solicitor or Settlement Agent

A solicitor or settlement agent will do the research to ensure that the vendor is in fact the legal owner of the property and has the right to sell it, as well as other checks to see that the buildings conform to the necessary building and other regulations. They also handle the actual documentation and liaise with the financier to effect the transfer of ownership of the property.

### Mortgage Broker

Taking into account the number of lenders and the various loan products offered it would be very helpful to have a mortgage broker source the most suitable product. Due to the varying individual circumstances and needs of buyers, a mortgage broker is able to select the best loan product.

### Accountant and/or Financial Planner

If purchasing an investment property, an accountant and/or financial planner will be able to advise the buyer as to the best way to structure the loan to gain the most advantage from a tax point of view as well as formulate a strategy for the buyer to make the most of the real estate asset for future wealth creation.

A buyer along with the assistance of a real estate agent, solicitor or settlement agent, mortgage broker and an accountant and/or financial planner are like the five fingers of a hand - all working towards the same goal.

### New Website for Total Finance

Anyone who visited our website in the past would have found a one page site with our phone number and details and a heading, "Website Coming Soon!!!". Well now you can view our new website that has been 8 years coming.

Whilst a website is not the foremost marketing tool for our business it is essential for any business's credibility as many researchers of your business, these may include financiers, business partners as well as customers, will evaluate the professionalism, performance, capability, products and feel of a business by initially looking up your website.

The new site provides a lot of information, downloads, links, and past newsletters for anyone interested in finance for a cross section of borrowers for many different purposes. It's nothing flash just full of handy information if you like reading that sort of detail. Go to: [www.total-finance.com.au](http://www.total-finance.com.au)



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- Commercial Finance
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