Credit Guide

About Us

Model Mortgages is licensed under the National Consumer Credit Protection Act 2009.
The details of our licence are as follows:

Business Name	Model Mortgages
Address	Po Box 326 AVOCA BEACH, NSW, 2251
Telephone	0418204304
Email	phil@financeonthecoast.com.au
Australian Credit Licence Number	387460

Your Best Interests

Our priority is to you, our customer. We are required to place your finance needs above those of anyone else.

We are required to be transparent about products, your options, applicable fees, and charges as well any conflicts of interest. We will communicate in simple to understand language and act with the highest standards of integrity. We are committed to ensuring the product selected will meet your needs, requirements and be in your best interests at the time of assisting you obtaining finance.

Credit Guide

This Credit Guide contains important information about us, the services we provide and the activities of the credit representative operating under our credit licence. It also contains:

- information about fees and charges that may be payable by you to us;
- commissions that we may receive when we are acting as a credit representative;
- commissions that we may pay to third parties for introduction of business, and information about what you should do if you have a complaint or dispute regarding our services and activities.

We are required to provide this document to you as soon as practicable after it becomes apparent that we are likely to provide credit assistance to you. We provide "credit assistance" when we:

1. Suggest or assist you in applying for:
   a. a particular loan with a particular lender;
   b. an increase to an existing loan with a particular lender; or
2. Recommend that you remain in an existing loan contract.

Preliminary Assessment

Prior to providing credit assistance to you, we must assess whether the particular loan is "unsuitable". A loan will be "unsuitable" based on the information you provide to us if:

1. You will be unable to repay the proposed loan or will only be able to repay the proposed loan with substantial hardship, or
2. The proposed loan does not meet your requirements and objectives.

We are required to document our findings that the proposed loan is not unsuitable by way of completing a Preliminary Assessment. The Preliminary Assessment will set out your:

- requirements and objectives;

- financial and relevant personal situation; and
- ability to repay the proposed loan repayments.

We are also required to take reasonable steps to verify information provided by you to us. This verification may include:

- requesting you for copies of documents that demonstrate your financial situation - in some cases we may also need to sight original documents; and
- contacting third parties to assist in verifying the information that you provide.

Obtaining a copy of the Preliminary Assessment
If we provide you with credit assistance, you may request a copy of our Preliminary Assessment anytime for up to 7 years and we must provide you with a copy of the assessment within the following timeframes:

Your request is made:	We will give you your assessment:
Before the Credit Day*	As soon as possible after we receive your request
Up to 2 years after the Credit Day	Within 7 business days after we receive your request
Between 2 to 7 years after the Credit Day	Within 21 business days after we receive your request

*The Credit Day is the date the credit contract (i.e. the loan) is settled or the loan amount is increased.

There is no charge for requesting or receiving a copy of the Preliminary Assessment.

Fees and charges that are payable by you in relation to our credit assistance

We may charge a fee for providing credit assistance to you. If applicable, details about those fees payable by you will be set out in a Credit Quote which we will give you prior to submitting your loan application.

Other fees and charges
You may have to pay other fees and charges (such as application fees, valuation costs and other applicable fees) to the lender or other parties. You should review the particular loan contract documentation for further details of any such fees and charges.

How I get paid

Our aggregator receives commission from the lenders and then pays us commission in relation to loan contracts (such as home and investment property loans) for providing credit assistance.

An upfront commission is payable by lenders in relation to settled (drawn-down) loans and is calculated as a percentage of the loan amount. It is usually paid after settlement of the loan.

Trail commission is payable by lenders in relation to settled (drawn-down) loans. It is calculated monthly on the outstanding loan balance and is paid in arrears.

The upfront and trail commissions that we are paid by lenders are not payable by you. Details of commission to be received will be included in the Summary of Requirements and Credit Proposal document that we will provide you with when credit assistance is provided.

From time to time, I may receive a non-commission benefit by way of training, professional development, entertainment, gift`, conference attendance, sponsorship, or entry into a competition run by a lender or my aggregator, at no extra cost to you. The nature of such arrangements are temporary, and the occurrence and amounts are often not readily ascertainable, however if they are apparent as a result of assisting you with credit assistance, this will be disclosed to you.

Other people we deal with

Our aggregator

We have approval to utilise credit providers and their lending products through the services of our aggregator 'Connective Broker Services Pty Ltd ABN 77 161 731 111, Credit Representative 437202 authorised under Australian Credit Licence 389328'. The aggregator charges us a fee depending on our contract arrangements, consisting of:

- a share of commission that is paid by the particular credit provider;
- a membership fee for our business;
- a monthly fee for each of our accredited loan writers.

We have access to a panel of lenders through Connective. Macquarie Bank Limited is a 25% shareholder of Connective. We have access to products including those from Macquarie Bank Limited.

Commissions paid by Connective's lender panel are transparent and do not influence the broker or consumer choice. Connective is committed to quality consumer outcomes in all circumstances.

Referrers and referral fees

We obtain referrals from a range of sources, including accountants, financial planners, real estate agents and other people. If you were introduced or referred to us, we may pay the referrer a commission or a fee.

Details of any commission or fees being paid to the referrer will be included in the Summary of Requirements and Credit Proposal document.

Dispute resolution and complaints

We are committed to providing you with the best possible service, however we understand there may be times where you are not satisfied. If this occurs please inform us verbally or in writing with the exact details of your complaint, so we can work towards a prompt and fair resolution.

We are mindful of the need to ensure that consumers are treated fairly and with respect during the complaints handling process. Any dissatisfaction will be handled in an efficient, timely and effective manner in accordance with ASIC regulations of Internal Dispute Resolution (IDR).

We hope that you will be satisfied with how we deal with your complaint. However, if your concerns remain unresolved, or you have not heard from us within 45 days, then you can have your complaint heard by an independent party. The complaint can be lodged with the Australian Financial Complaints Authority (AFCA):

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678 (free call)

Mail: Australian Financial Complaints Authority, GPO Box 3, Melbourne VIC 3001

Time limits may apply to complain to AFCA and so you should act promptly or otherwise consult the AFCA website to find out if or when the time limit relevant to your circumstances expires.

Things you should know

We don't provide legal or financial planning advice. It is important you understand your legal obligations under the loan, and the financial consequences. If you have any doubts, you should obtain independent legal and financial planning advice before you enter any loan contract.

Our lender panel

We are authorised to engage in credit activities and therefore provide assistance to obtain loans for you from a panel of lenders. The following are the lenders through which we have conducted the most business over the last 12 months.

1. Macquarie Bank

2. ANZ

3. St George Bank

4. UniBank

5. NAB

6. ME Bank

7. Auswide Bank

Lender data

This section provides information about the lenders I am accredited with and loans settled with these lenders in the last financial year.

The top six lenders and their respective share of loans settled in the last financial year:

Lenders	% of total settlements
Connective Solutions	4.31%
Macquarie Bank	56.38%
ME Bank	4.25%
ANZ	15%
NAB	3.39%
St George Bank	11.67%
Virgin Money	2.79%

The total number of lenders I have settled loans with in the last financial year:

Number of lenders used
9

Panel lenders available and those with whom I hold accreditation:

Lenders available	Lenders I am accredited with *
86 400	
AMP	*
ANZ	*
Aussie Bonds	
Australian Military Bank	
Auswide Bank	*
Bank of China	*
Bank of Melbourne	
Bank of Queensland	*
Bank SA	
Bankwest	*
Better Choice Home Loans	
Better Mortgage Management	
Bluebay Home Loans	*
Citibank	*
Commonwealth Bank	
Connective Advance	*
Connective Elevate by Bluestone	*
Connective Essentials	*

Connective Select	*
Connective Solutions	*
Deposit Assure	
Deposit Power (Deposit Bonds)	*
emoney	
Firefighters Mutual Bank	*
Firstmac	*
Gateway Bank	*
Health Professionals Bank	*
Heritage Bank	*
HomeStart Finance	*
ING	*
Keystart Home Loans	
La Trobe Financial	*
Loanave	
Macquarie Bank	*
ME Bank	*
MKM Capital	*
MyState	
NAB	*
Newcastle Permanent Building Society	*
P & N Bank	
Paramount Mortgage Services	
Pepper Money	*
RedZed	
Resimac	*
St George Bank	*
Suncorp Bank	*
Teachers Mutual Bank	*
UniBank	*
Virgin Money	*
Westpac	*

Entertainment and hospitality register

We hold and maintain an entertainment and hospitality register. A copy can be provided on request.

Preferential service offerings and programs

I have access to a tiered servicing program through St George Bank Flame programme. This program gives you, as my customer, access to a preferential service. Access to this program is not based solely on the volume of loans submitted and does not entitle me to any additional commission outside of what I will disclose to you if a loan is submitted to one of these lenders. It should be noted that this preferential service does not provide further customer discounts.

Further Information

For more information regarding this Credit Guide or anything else about our services, just contact us at any time. We're here to assist you.

Privacy disclosure statement

Overview

In handling your personal information, Model Mortgages Pty Ltd ABN 82108681063 and its individual representatives ("the Broker") are committed to complying with the Privacy Act 1988 and the Australian Privacy Principles.

The Brokers are authorised credit representatives of Australian Credit Licence 387460, ("we, us, our"). Any reference to "we, us, our" are to the Broker and will include reference to our aggregator, Connective Broker Services Pty Ltd and any of its related companies ("Connective").

We collect information about you for the purposes you agree to in this Privacy Disclosure Statement and Consent ("Consent"). When you ask us to assist, you agree we can, consistent with Australia's privacy and credit reporting laws, collect, use and exchange consumer and/or commercial credit and personal information ("information") about you for those purposes.

We are collecting information about you, as applicable:

- To source for you, or a company of which you are a director:
  - Consumer credit for personal, household, domestic or residential investment purposes; or
  - Commercial credit for business purposes; or
  - Other services stated in this Consent; or
- To support a guarantor application, you will provide.

As your broker, we require the information we collect from you to assess your credit or guarantor application or the credit application of a company of which you are a director, to source a suitable credit provider and any required insurances and to manage the application process, where required. If you do not provide the information sought, we may be unable to process your application, or the company's application, or we may be limited in the other services we can offer you or the company.

Your information - Collection and Disclosure

The personal information we collect may include a broad range of information from your name, address, and contact details to other information about your qualifications, employment history and financial information.

"Personal information" may include any sensitive information (including health information) and may include any information you tell us about any vulnerability you may have. We may use that information to assess your application and, where appropriate, to source a suitable credit provider or lessor and / or insurance provider. We may, as appropriate:

- Disclose your identification information to a consumer credit reporting service ("Consumer CRS") and/or a commercial credit reporting service ("Commercial CRS"), where we hold your consent (refer Schedule 1).
- Use any information a CRS provides in its report to assist us to preliminarily assess your credit or guarantor application (references to a "CRS" could be to either a Consumer CRS or a Commercial CRS).
- Disclose your information to an insurer or insurers to source any insurances you wish to obtain; and
- Disclose your information to our advisers, aggregators, licensees and other financial intermediaries, a credit provider or credit providers to apply for finance on your behalf.

Some of the recipients to whom we disclose your personal information may be based overseas. It is not practicable to list every country in which such recipients are located but it is likely that such countries will include the Philippines, India and Nepal.

How we protect your information

We take all reasonable steps to protect your personal information from misuse, interference, loss, unauthorised access, modification, or exposure. All Connective staff are required by the terms of their employment to maintain the confidentiality of customer information. Access to your information is restricted to those employees whose job requires that information. Access to our premises and computer systems is restricted through locks, password protection, internet firewalls and routers.

We will take reasonable steps to destroy or de-identify your personal information when your personal information is no longer required for our business functions.

Credit Providers

As part of providing our services to you, we may undertake tasks for a credit provider which are reasonably necessary to manage the application process. When doing so, we are acting as agent for the credit provider, with the same privacy law requirements applying to both of us.

We may submit your application to one or more credit providers. A full list of the lenders (credit providers) we have access to can be provided to you upon request.

A credit provider, to whom we submit an application, may disclose information about you to, and collect information about you from, one or more CRS.

The website of each credit provider contains details of each CRS with which it deals and other details about information held about you, including whether that information may be held or disclosed overseas and, if so, in which countries. The websites also describe your key rights. These details may be described on the credit providers' websites as 'notifiable matters', 'privacy policy', 'credit reporting policy' or 'privacy disclosure statement and consent', or similar.

For each Consumer CRS a credit provider uses, the website details will include the following specific information:

- That the CRS may include information the credit provider discloses about you to other credit providers to assess your credit worthiness.
- That, if you become overdue in making consumer credit payments or commit a serious credit infringement, the credit provider may disclose that information to the CRS.
- How you can obtain the credit provider's and/or the CRS's policies about managing your information.
- Your right to access and/or correct information held about you and to complain about conduct that may breach the privacy and credit reporting laws.
- Your right to request a CRS not to undertake pre-screening for purposes of direct marketing by a credit provider.
- Your right to request a CRS not to release information about you if you believe you are a victim of fraud.

This detail will also be included by the credit provider who approves your application in the privacy disclosure statement and consent document it will provide to you.

Each credit provider website includes information on how to contact it and how to obtain a copy of its privacy documents in a form that suits you (e.g. hardcopy or email).

You agree we may:

- Use your information:
  - To assess your consumer or commercial credit and/or guarantee application and/or to assess a credit application by a company of which you are a director.
  - To source any finances, you require.
  - To source any insurances, you require.
  - As the law authorises or requires.
- Disclose to, and obtain from, any prospective credit provider or insurer, information about you that is reasonably necessary to obtain the finance and insurances you require.
- Obtain from, and disclose to, any third party, information about you, the applicant(s) or guarantor(s) that is reasonably necessary to assist you obtain the finance and insurances required.
- Provide your information, including your credit report(s), to one or more of the credit providers so they can assess your application, or the application of a company of which you are a director, or your suitability as a guarantor.
- Provide information about you to a guarantor, or prospective guarantor.
- Disclose your information to the extent permitted by law to other organisations that provide us with services, such as contractors, agents, printers, mail houses, lawyers, document custodians, securitisers and computer systems consultants or providers, so they can perform those services for us. Some of which may be located overseas.

- Disclose your information to any other organisation that may wish to acquire, or has acquired, an interest in our business or any rights under your contract with us, or the contract with us of a company of which you are a director.

Your rights

You have the right to ask:

- Us to provide you with all the information we hold about you.
- Us to correct the information we hold if it is incorrect.
- Us for copies of our privacy policy and this document, in a form that suits you (e.g. hardcopy or email).
- A Consumer CRS not to use your information for direct marketing assessment purposes, including pre-screening.
- A CRS to provide you with a copy of any information it holds about you.

You can gain access to the information we hold about you by contacting our Privacy Officer at the following address:

Po Box 326

AVOCA BEACH, NSW, 2251

In some cases, an administration fee may be charged to cover the cost of providing the information. Our Privacy Policy also deals with our complaints process and is available on our website or we will provide you with a copy if you ask us.

Schedule 1 at the end of this document sets out the contact details for each CRS.

Extended Effectiveness for Commercial Credit

Your agreement and consent to the disclosures and consents in this document will be effective for a period of 12 months, but only in relation to commercial credit. Your agreement to this ceases when you either withdraw it by contacting us using our details above or 12 months after you sign below, whichever first occurs. This will allow us to continue to provide our services to you without the need to ask you to sign a new privacy statement and consent each time you require commercial credit within a 12-month period. The extended effectiveness does not apply in relation to consumer credit.

Where the applicant, or guarantor, is a company of which you are a director, you consent to the disclosure and use of your information, in addition to the company's information, in each of the ways specified in this document.

Your consent to collect and disclose

By asking us to assist, you consent to the collection and use of the information you have provided to us for the purposes described above.

For more information on your privacy rights please visit www.privacy.gov.au

Schedule 1 - CREDIT REPORTING SERVICES

CONSUMER/COMMERCIAL CREDIT REPORTING SERVICES		
Name	**Website**	**Telephone**
Equifax	www.equifax.com.au	13 83 32
Experian	www.experian.com.au	1300 783 684
illion	www.illion.com.au	13 23 33

FIRST HOME BUYERS FAMILY PLEDGE GUARANTEE

Saving the deposit for your first home can be difficult and take a number of years. One way to potentially get into your own home sooner is by having a family member act as a guarantor.

Many lenders allow parents or someone who is close to you, to use the equity in their property as security for your home in lieu of you saving the full deposit required. This person is known as a guarantor.

How does it work?

With a family pledge guarantee, your mum and dad can provide their home as security to the loan, so you don't need to save the full deposit required by the lender.

The easiest way to explain this is to give you an example.

If you were looking to buy a house valued at $600,000, you would need to save a minimum 5% deposit or $30,000.

To avoid paying mortgage insurance you need a deposit of at least 20% of the purchase price of $600,000 or $120,000. That's another $90,000 you would need to save!

Now, your mum and dad have a home valued at $900,000 and are willing to help you out. They offer you the $90,000, but not as cash, as security for the loan. This means the lender will take the offered security of $90,000 in your parents' home so you don't have to pay the mortgage insurance premium and don't have to save that extra money!

Once the equity in your home reaches 20%, you and your parents can apply to the lender to release the guarantee.

The guarantor's security (i.e. mum and dad's home) does not cover the entire loan amount. Just a portion of it in lieu of you having to save the full deposit. The guarantee is limited to this amount.

How is it different to being a co-borrower?

A co-borrower on the loan is someone who is responsible for the entire loan until the debt is repaid in full as compared to a guarantor who is linked to the loan by a guarantee and is responsible for the amount specified in the guarantee.

A guarantor is linked to the loan by a guarantee. This guarantee can be released and the guarantor's responsibility will cease without the loan being repaid in full.

Who can be a guarantor?

Guarantors are generally limited to immediate family members. Normally, this would be a parent, but it can include siblings and grandparents.

There are obviously conditions around this, for example your parents or the person acting as guarantor must have the equity available in their property and an income. If we use the above example, if your parents' home was valued at $900,000 but they had a mortgage of $800,000 then the equity is not there to offer this to you.

Benefits for first home buyers

The main benefit of having a family pledge guarantee is that it may be able to help you avoid Lenders Mortgage Insurance (LMI), or considerably reduce the premium that you would otherwise need to pay. This is typically a one-off fee paid by the borrower to the lender to protect the lender against financial loss should you be unable to meet your mortgage repayments. Lenders typically require borrowers to pay LMI on loans where the borrower has a deposit of less than 20% of the property's value. For more information on LMI refer to our LMI fact sheet or speak to your mortgage broker.

It is important to remember that as the borrower, you will be responsible for your loan repayments and you'll need to be able to service the entire loan with your income. You should always speak with your broker about ensuring you are comfortable that you can afford the loan repayments that will be required.

Other possible benefits of a guarantor home loan include:

- You may not have to save as much for a deposit
- You could get into the property market faster and more easily
- You can get the home you have fallen in love with and not have to settle for a cheaper alternative

While there are clearly some benefits to going guarantor, given it's such a large financial commitment, it's also worth weighing up the potential risks.

Considerations for guarantors

While it may sound like a great option to getting you in to your first home quicker, there are always risks that you and the guarantor need to be comfortable with.

The main consideration for the guarantor is ultimately, they will be liable to cover the mortgage repayment and fees if you are unable to. It pays to consider how they would cope financially if the unexpected happens and have to make those repayments. Specifically, parents on the path to retirement could be financially compromised and at worst, they could risk losing their own home if you were unable to make the repayment.

Taking on the role of a guarantor is not something that should be taken lightly. Anyone considering being a guarantor for a property loan is advised to seek independent legal and financial advice before accepting the role. In fact, most lenders will insist on this, prior to accepting a guarantee.

Understand your obligations

The last thing you want is to cause any family tensions, so fully consider whether this is the right option for you and the person you are asking to be guarantor.

It's very important that both you and your guarantor understand all of the conditions and obligations of a family guarantee before signing. For this reason it is essential that guarantors seek legal advice before entering into any guarantee agreement.

More information

Normal lending criteria and bank policy applies to guarantor loans, so you should discuss your borrowing eligibility with your mortgage broker.

It's important to remember this is only a guide to help you ask the right questions and highlight the important considerations.

LENDERS MORTGAGE INSURANCE

Lenders Mortgage Insurance is often referred to as LMI. It is insurance that a lender takes out to insure itself against the risk of not recovering the full loan balance if the borrower (you) were unable to meet loan repayments.

LMI is a one-off fee charged by the Lender to you when you need to borrow more than 80% of the value of the property.

Benefits of LMI

- The benefit of LMI is it allows lenders to provide home loans to customers who do not have a substantial deposit but would otherwise meet the lenders credit requirements.
- LMI covers the outstanding balance of the loan owing to the lender if the sale of the property does not cover the total loan amount.

What is the cost of LMI?

- The LMI premium payable can either be included into the loan amount (called capitalisation of LMI) or paid upfront on settlement. The lender will be able to provide you the applicable costs of LMI.
- It is important to note, if you choose to capitalise the LMI, your loan repayments are based on the higher loan amount which includes the LMI premium.
- The cost of LMI will vary and it will depend on the lender, how much is borrowed and the size of the deposit.

Is LMI refundable?

- LMI may be partially refundable if the loan is terminated early, usually within the first two years.
- Each lender will have their own refund arrangements.

What happens if a borrower defaults and the property is sold?

- If the borrower is unable to meet their loan repayments and there is no other resolution, the property may need to be sold to cover any outstanding loan amount.
- The LMI insurer will pay the lender in accordance with their LMI policy and could then ask the borrower to repay this sum directly to them.
- LMI does not protect you or cover your loan repayments in the event you are unable to make the repayments on your mortgage. You should discuss personal insurance options such as Mortgage Protection Insurance with your broker to cover any unforeseen circumstances.

What happens when the loan is refinanced?

- LMI is lender specific, which means if you refinance your home loan to a different lender and you borrow more than 80% of the value of the property, you will have to pay LMI again.
- Do your research, as this may outweigh the benefits of refinancing to a lower interest rate.
- If the equity in your home has increased or you have paid down the principal on your loan, you may not need to borrow more than 80% with the new lender and therefore avoid paying LMI again.

Case study

Bob and Jill have found a home they want to buy for $500,000. Typically, they would need a 20% deposit ($100,000) to secure a loan from their lender. By taking out Lenders Mortgage Insurance, their lender is prepared to provide a loan up to 95% of the value of the home.

This means that Jenny and Tom can secure a home loan sooner with a 5% deposit ($25,000) and stop paying rent. Their lender passes on the Lenders Mortgage Insurance premium cost to Bob and Jill by way of a fee called a "premium".

The Lenders Mortgage Insurance protects the lender if Bob and Jill default on their loan repayments – it does not protect Jenny and Tom.

Important: *If you experience problems in meeting your loan repayments, you should contact your lender as soon as possible as you may be able to arrange a payment variation on the grounds of financial hardship. More information about LMI can be found at www.moneysmart.gov.au or www.asic.goc.au*

VARIABLE RATE LOANS

Variable rate home loans are popular and offered by most lenders. With a variable rate loan, the interest rate you are charged can fluctuate in line with market interest rate changes. Because of this, your home loan repayments may also vary. Generally, the variable interest rate on your loan will move in line with the market rate set by the RBA, but banks can set their own interest rates and change them at any time.

What's good about a variable interest rate loan?

- You can make **extra repayments** to pay off your home loan sooner. Making additional repayments above your minimum repayment amount can reduce the term of your loan and save you money on interest. Visit our website and use our repayment calculators to see the difference that extra repayments can make to the term of your loan and to find out how much you could save.
- You get a **redraw facility** that allows you to withdraw your extra loan repayments if you need to access the money. (Some lenders do have minimum amounts you can redraw, see our Redraw & Offset Information fact sheet for more information.)
- You can use an **offset account** to reduce the interest you pay. That's a transaction account linked to your home loan where the balance is 'offset' daily against your loan balance before interest is calculated. This reduces the principal amount the interest due is calculated on. (See our Redraw & Offset Information fact sheet for more details).
- **Flexible repayment options** so you can make your loan repayments weekly, fortnightly or monthly—whenever is most convenient to you. This can help maintain your budget requirements and align with your pay cycle to make it easier to manage your loan repayments.
- You can choose to **split** the loan to gain more control of the **interest rate**. That means you can have a fixed interest rate on a portion of the loan for up to five years, and a variable interest rate on the other portion of the loan. This allows you to gain some protection from potential interest rate rises.
- You can **switch loans and lenders** more easily if you have a variable rate loan. All variable mortgages advanced on or after 1st July 2011 have no early repayment penalties or exit fees. (However, lenders can charge discharge fees to cover the administrative costs and there are other Government charges which may apply.)

Things to consider

- With a variable rate loan, your repayments will increase with interest rate rises. You should consider how interest rate rises may impact your future financial situation and goals. Use our handy online calculators to help you plan and budget for possible rate rises.
- A basic or 'no frills' variable rate loan is one which lacks additional features such as an offset account and as a result, attracts a lower interest rate and fees. This type of home loan is useful for first home buyers who want to keep costs down and those who prefer a simple loan product without all the bells and whistles.
- A standard variable rate loan is suited to borrowers who prefer more flexibility and want the ability to redraw from the loan or place any extra funds in an offset account. These extra features are usually part of a Package Home Loan that includes offset accounts, a credit card and other associated facilities and discounts, for an annual fee.

What's a Home Loan Package?

A Home Loan Package is an all-inclusive suite of products attached to a home loan. For an annual fee, you can get benefits such a discount on the variable interest rate, fee waivers for transaction or offset accounts, a credit card with an annual fee waiver and discounts on insurance products.

Things to consider

- To be eligible for a Home Loan Package, a minimum loan amount will be required (usually $250,000 or more).
- An **annual** package fee will apply and can range from $350 to $750 depending on the type of package and the lender.
- A credit card (with no annual fee) is usually part of the package. You may not require this card and the credit card limit may impact your borrowing capacity. It could also result in you incurring more debt at credit card interest rates.
- Talk with us and we'll help you consider the pros and cons of each product, as well as the overall costs and savings, before choosing the option that suits your needs.

SPLIT LOANS

A split rate home loan is a loan that allows you to split your home loan into multiple loan accounts that attract different interest rates.

A common example is to split your home loan to obtain a variable interest rate on one portion of the loan and a fixed rate on the other.

For example, if you require a loan amount of $350,000, you can decide to split your loan with $250,000 at a variable interest rate and the remaining $100,000 at a fixed interest rate. You will have the flexibility a variable rate loan offers, while still enjoying the interest rate certainty of a fixed rate on a portion of the loan.

Benefits of a split loan

- Split loans are a comfortable compromise that allows you to enjoy the benefits of both types of mortgages—variable and fixed—at the same time.
- The fixed rate portion of a split loan offers you some security and protection against sudden interest rate rises.
- The variable rate portion of a split loan provides flexibility and allows you to take advantage of decreases in interest rates.
- You can often make extra repayments on the variable portion of the home loan, which could help you pay it off sooner.
- If you choose a variable and fixed portion split, your variable portion can have additional benefits such as an offset account or a redraw facility.
- There are no restrictions on how you split your home loan. For example, you can split your home loan down the middle 50/50, or you can split it 30% variable and 70% fixed. However, most lenders only allow two splits.

Things to consider

- You may miss out on potential savings on the fixed portion of your loan if interest rates should fall.
- You will pay more on the variable portion of your loan if interest rates rise.
- There may be additional costs associated with this type of loan.
- If you need to pay out the loan early within the fixed term, early repayment costs will be charged.
- Consider where you want to be in the next five years. This will help you choose a loan with features suitable to your goals and objectives.

OFFSET ACCOUNTS

A mortgage offset account is a savings or transaction account that can be linked to your home loan. The balance in this account 'offsets' daily against the balance of your home loan before interest is calculated. An offset account can help you cut years off your home loan term and save money on interest.

For example, if you have a home loan balance of $250,000 and have $10,000 in your 100% offset account, you'll only pay interest on a home loan balance of $240,000. Because your home loan interest is calculated daily, every dollar in your offset account can save you money in interest. That means more of your repayment goes towards paying down the principal, helping you to repay your home loan faster.

Types of offset accounts available

- **100% offset account:** 100% of the funds in your offset account are applied against your home loan balance before interest is calculated.
- **Partial offset account:** A partial offset gives you a reduced interest rate on the part of your home loan equal to the balance of your offset account. This can be far less effective than a 100% offset account.

Benefits of an offset account

- **An offset account is easy to manage.** Simply have your salary and any other income deposited into your account to have an immediate impact on the amount of interest you pay, as the interest on your home loan is calculated daily.
- **An offset account offers convenience and flexibility** should you need it, as the account allows transactions and transfers giving you the same accessibility as an everyday transaction account.
- **Some lenders offer multiple offset accounts** linked to your home loan, so you can manage your finances while still benefiting from the interest saved on your home loan. This can be a great way to save for big expenses such as a holiday or a new car while still saving on home loan interest.
- **Offset accounts are usually part of a home loan package** that incur an annual fee, lower interest rate and other product discounts could still help you save money.
- An offset account can be **more beneficial than a savings account** as the interest you may earn on a savings account is less than the interest incurred on a home loan. There will be no tax on the interest you earn and you'll be building valuable equity on your property.

Things to consider

- There are many kinds of offset accounts, and the features will differ depending on the loan type and lender. For example, not all offset accounts are 100%, some may only be partial. Fixed rate home loans may only allow 100% offset for a set period, or other conditions may apply.
- You may incur monthly fees for having an offset account. It pays to look at the total charges associated with your home loan package to determine if having this product leaves you better off financially.
- Some lenders may require a minimum balance in the offset account.
- Weigh up the pros and cons carefully to decide if an offset account is the right product for your situation.

REDRAW FACILITIES

A redraw facility is a loan feature that is usually available with variable rate home loans and some fixed rate loans. A redraw facility lets you access any extra repayments you've made on your home loan.

To use a redraw facility, you first need to make extra repayments, or regularly pay more money on top of your minimum loan repayment amount. Use our handy online calculators to find out how much interest you could save by making extra or larger than minimum repayments.

How a redraw facility works

If your minimum monthly repayments are $700 per month and you pay $900 for a period of 12 months, you will have paid an extra $2,400. A redraw facility would allow you to access the extra $2,400 you have paid.

Benefits of a redraw facility

- A redraw facility is a useful feature for those who want an emergency fund for unexpected situations or expenses and who don't require regular or immediate access to their extra funds.
- A redraw facility can be an excellent savings tool. Any excess funds put into your home loan are earning the same interest rate being charged on your home loan. By comparison, savings accounts generally pay much lower interest rates.
- There may potentially be tax advantages when using a redraw facility. Interest earned on your savings account is considered income and may be taxable, whereas any interest that is saved on your home loan by having money in a redraw facility will not be subject to tax.

Things to consider

- Some lenders may charge a flat fee for having a redraw facility. This is known as an activation fee. Once the redraw facility is activated, you can use the redraw facility as often as you like.
- Some lenders may impose a fee for each redraw. This fee will vary between lenders and loans.
- Some lenders may offer unlimited free redraws while some lenders may only offer a few free redraws per year. Once the limit of free redraws is exceeded the lender might charge a fee for each additional redraw.
- Redraw facilities can have a minimum and maximum amount which can be withdrawn at any one time. While some will have no minimum set amounts, others may set the minimum redraw amount as high as $5,000.

Redraw verses offset

- Choosing between an offset account and a redraw facility on your home loan will depend on how accessible you need your money to be. You should also consider any associated bank fees with each facility.
- An offset account is a separate deposit account, whereas a redraw facility is not a separate account, but a feature attached to your loan.

INTEREST ONLY LOANS & REPAYMENT TYPES

The repayment on your mortgage will always include the interest payable on the amount borrowed, no matter what kind of loan you have. If you have a Principal & Interest loan (P&I), part of your repayment will also be allocated to reducing the balance of the loan.

With an Interest Only loan (IO), your repayments only pay the interest that is due and do not reduce the balance (or the amount you borrowed). As a result, an IO loan can only be obtained for a limited period (usually up to five years). At the end of the IO period, the loan will automatically convert to a P&I loan unless you make an application to extend the IO period.

Who should use an Interest Only loan?

IO home loans are not designed for every type of borrower. For example, they are not recommended for standard owner- occupied home buyers. In this scenario, the less you pay off the principal amount, the more you end up paying in interest over the life of your loan. Your repayments are likely to be a lot higher as well, so there are very little benefits to an IO loan for owner-occupier home buyers.

However, IO loans can be very useful for property investors— that's because the interest on a loan for a property investment is usually tax deductible. In this scenario, an IO loan can help an investor to arrange their finances to maximise their investment strategy, tax advantages and cash-flow.

How do IO repayments differ?

You can expect your repayments to be lower initially if you commence your loan with an IO period. However, while the IO period is in place, you can also expect to be paying a higher rate of interest than if you started with P&I repayments from the outset.

At the end of the IO period, your repayments will increase to cover repayments on both the principal and the interest—so you can expect this increase to be significant. You also need to consider the period left to pay off the principal is reduced, which could drive up your repayment amount even further.

Because IO repayments will result in you paying more interest over the term of the loan, this option should only be chosen to fill a requirement that you have—such as maximising your tax advantages with a property investment. They are usually not a wise choice just to make loan repayments more affordable.

Even with an IO period in place, you may be able to reduce the principal during this time by making voluntary extra payments, or by depositing funds into an offset account. Flexibility to do this may be restricted with some lenders, and some additional fees may apply.

What are the benefits of IO loans?

- **Smaller repayments.** During the IO period of the home loan, your monthly repayments will be lower than with a P&I loan.
- **Improved cash-flow.** Lower repayments mean you could use your cash for other purposes that may be financially beneficial - pay off debts, make other investments, fund a loan to purchase another property, or pay the cost of additional educational qualifications that may increase your earning potential.
- **Maximise tax benefits for property investors.** The interest on an investment property debt is usually

tax deductible for property investors, as long as you follow the ATO rules. It should be noted, however, that owner-occupiers will not receive any tax deduction for interest if you take out an IO loan. Please speak to your accountant or financial planner to discuss if an IO loan is the right option for you.

- **Benefits are ongoing for the life of the IO term.** You can often choose an IO term of one, three, five or 10 years. This can be very beneficial for tax minimisation strategies and financial planning purposes, so please speak to your accountant or financial adviser to find out how to make it work for you.

Things to consider

- **You may not build any equity.** IO loan repayments do not help you to pay off the principal and build equity in your property. If property prices do not rise during the IO period of the loan, you will not have improved your financial situation. You may also be at financial risk if property prices should fall during the IO period.
- **The loan reverts to P&I as soon as the IO period ends.** If you take out an IO loan, you should plan for the end of your IO period. At that time, some lenders may allow you to renegotiate another IO term. Otherwise, you can plan for increased repayments, consider refinancing the loan, or selling the property.
- **Not all lenders allow extra repayments** during the IO period and the availability of additional features such as an offset account will vary between lenders and loan products.
- **A loan with an IO period will cost more** in interest over the life of the loan, than a loan that has P&I repayments from the outset. The cost differentials can be quite significant and should be clearly understood.

> **For example:**
> With a normal P&I Loan for $500,000 at 4.78% p.a. based on an LVR of 80% over 25 years, the total cost of interest on the loan would be $357,766 over the 25-year period.
>
> For the same loan with an IO period of 10 years, the total cost of interest on the loan would be $440,443 over the 25-year period and therefore would cost you an additional $82,676 in interest compared to a loan that had P&I repayments over the full 25-year term.

- You could miss the opportunity to pay down the principal while interest rates are low. Paying as much as you can off the principal while rates are low could mean that when interest rates rise, you will be paying those higher rates on a reduced loan balance. This could mean lower loan repayments and/or paying less interest in the long-term.

FIXED RATE HOME LOANS

A fixed rate home loan allows you to set your interest rate for a period of one, three or five years. Sometimes, you can arrange to secure your interest rate for longer.

Fixing your interest rate can be a suitable option for some people, however you need to be aware of the following:

- Fixed rate home loans often have higher interest rates than variable rate home loans. The longer the fixed rate term, the higher the interest rate is likely to be. For example, a five-year fixed loan will usually have a higher rate than a three-year fixed loan.
- If interest rates do not rise, or if they fall during your fixed rate period, you will pay more interest than you would if you had a variable rate home loan.

What's good about fixed rate home loans?

- During times of very low interest rates, fixing your loan can work to your advantage, because you can retain a low rate for a fixed term even if the rates rise steeply. Depending on the lender and the current interest rate, this could potentially lower your repayments and the total interest paid over the loan term.
- You know exactly how much your repayments will be during your fixed rate term, which can make budgeting easier.

Things to consider

- **Less Flexibility.** Fixed rate loans usually do not have the same flexibility that a variable rate loan provides. For example, you may not be able to make extra repayments and redraw them. Some lenders do allow extra repayments to be made, but will restrict the amount that can be paid during the fixed term or on an annual basis.
- **No offset facilities.** Most lenders will not allow you to have an offset account with a fixed rate loan so there is no opportunity to save on interest. Where offset facilities are available, they will usually only be available on a partial basis, with a 100% offset account being available through some lenders only.
- **Break costs.** You can expect to pay significant penalties if you want to exit before the end of the fixed term. Your reason for wanting to end the loan is not considered, and break costs also apply if you want to end the loan as part of selling the property.
- **The rate is usually not set until settlement.** Some lenders will apply the fixed rate at the loan settlement date or the date the fixed rate period commences while others will apply the fixed rate available at the time you sign your letter of offer. This may or may not work in your favour.
- Your decision whether to fix the interest rate on your loan should be based on your own circumstances, with your future in mind. Certainty of repayments is the best reason to fix your rate—they seldom help to beat rate rises over time.

Remember:

If variable rates increase, you may pay **more** interest than if you fix your rate. It will depend on the size of the increase(s), how far into the term the increase(s) occur, and how long you hold the loan after the increase(s) occur.

If variable rates stay flat or decrease, you will pay **less** interest than if you fix your rate. This is on the basis that your fixed rate is higher than the variable rate over the same period.

Rate Lock

Some lenders will provide you with the option of locking in the fixed rate prior to settlement occurring. This is referred to as “Rate Lock” and will involve paying a rate lock fee which will usually be calculated as a percentage of the loan amount.

This fee can be a significant amount, although some lenders will not charge a fee or may waive it. If you choose this option, then you can proceed with certainty and complete peace of mind that the decision to fix your interest rate will not move between when the rate lock is effective and the rate that would be applicable on the day of settlement.

Most people who elect to Rate Lock do so at the time the application is submitted. It can be done later in the process— however, the lender can announce a rate increase at any time before settlement and once announced the opportunity to lock in the previous rate passes. A “wait and see” approach carries with it the risk of missing out on the lowest fixed rate that could have been obtained.

If you decide to Rate Lock, make a note of the expiry date, as it will usually be in place for 90 days. If your settlement still hasn’t occurred when it expires, it will need to be renewed (including paying another fee) for it to remain in place. This can be an important consideration if you have negotiated a long settlement.

DEBT CONSOLIDATION

Debt consolidation involves bringing your existing debts together into one new loan. The objective is to reduce the number of individual payments you make and reduce the interest rate you are paying on your more expensive debts.

This may be something to consider if you are:

- Managing multiple debt repayments and struggling to keep track of what is due and when.
- Getting into a credit trap where all your spare income is used to pay interest, but you don't have enough left over to reduce your debt balances.
- You're paying a very high interest rate on your debts—perhaps you have credit card or cash advance debts, or store credit purchases.

There are several possible strategies to consolidate debts, which can include:

- Moving debts to a new credit facility (e.g. a personal loan or mortgage) with a lower rate of interest, or lower fees.
- Lengthening the term of existing loans (e.g. taking a mortgage debt back out to the 30-year loan term).
- Changing the repayment terms on an existing loan to interest only, or
- A combination of these strategies.

Usually a debt consolidation strategy is implemented to make it easier for you to pay back your debts. However, in some instances, the objective of a debt consolidation may be to improve your cash-flow.

If you implement a debt consolidation strategy, it's important to understand that it doesn't reduce your debts—it just makes your repayments more manageable. A debt consolidation strategy should be implemented in combination with a change to your spending behaviour, so you can work to reduce your overall debt level over time. This should include creating a budget to ensure the debt consolidation measures work effectively and using a budgeting template such as the one available on ASIC's MoneySmart website (www.moneysmart.gov.au).

What's good about debt consolidation?

Simplicity: One loan repayment is a lot easier to manage and more convenient than juggling several different repayments.

Savings on interest and fees: Debt consolidation could potentially reduce the amount of interest you pay on high-interest facilities like credit cards and save you money on fees for multiple credit facilities. This may make it easier to pay back your debts.

Potential cash savings: This is potentially the biggest benefit of debt consolidation. By consolidating your debt into a loan charging a lower interest rate, you have the potential to save interest on monthly repayments and reduce your overall interest.

Lower repayments: Reducing the interest rate and spreading out repayments over time could potentially reduce the monthly repayment amount due.

Stress relief: Specialist lenders are available that may lend to you if you have missed repayments on your current debts, or if you have a poor credit history.

Things to consider

For example:
If you have a $30,000 personal loan over a five-year term at 15% p.a. then this will cost you $12,822 in interest.

If you add this $30,000 debt to the balance of your mortgage instead, the same $30,000 at 5% over 30 years will cost you $27,977 in interest.

Higher costs: Long-term interest costs could be higher if you extend the loan term during a debt consolidation program. While it may reduce the size of the repayments in the short term, the overall amount repaid is far greater—particularly if you are consolidating your debts into a home loan which may have a 30-year term.

Increased credit access: If you're not careful when consolidating your debts, you could make your financial situation worse. Remember to close your cleared credit facilities. For example, if you roll your credit card balances into your home loan to consolidate your debts, you might be tempted to continue using your credit cards and run up even more debt if you don't close them.

Concentration of risk: Consolidating all your debt into your mortgage means that you have a lot at stake if interest rates rise. We recommend that you take advantage of all available cash to make additional repayments to pay off the refinanced debt as quickly as possible, or to start a savings account to build up a safety net.

Using up equity: Consolidating debts into your mortgage can also mean you are using up equity gained through paying down the balance or through an increase in value of the property. This means your returns will be reduced when you sell. Furthermore, consolidating your debts into your home loan can increase your loan-to-value ratio (LVR) above 80 percent. If this occurs, you will be required to pay Lenders Mortgages Insurance (or LMI). LMI can be expensive, so this may affect the savings you receive from refinancing your home loan to consolidate your debts.

CREDIT CARDS

Credit cards can be a convenient way to manage your finances, but they can also be expensive and risky. If you're deciding whether or not a credit card is right for you, here are some of the things you should consider.

What's good about a Credit card

Security. While there's only a small chance of having lost or stolen cash returned, a credit card can quickly be cancelled if you lose your wallet. Most financial institutions also have security processes in place to protect you if your card has been lost or stolen or if you suspect your account has been used for a fraudulent transaction.

Build your credit score. Your credit card account repayment history makes up a key part of your credit file. If you keep your account in good standing, this information will help you build up a good credit score, which could increase your chances of approval for other products.

Interest-free days. If you pay your balance in full before the statement period ends, you can be rewarded with interest-free days on future purchases for a set period.

Earn points. Rewards and frequent flyer credit cards allow you to earn reward points on every dollar you spend on eligible purchases, such as groceries and fuel. Rewards credit cards let you earn reward points to redeem with the bank's rewards programs for perks which could include flights with partner airlines, products from the rewards store or cashback. Frequent flyer credit cards, on the other hand, let you earn points towards flights, upgrades and more with specific airline loyalty programs.

Emergency funds. Credit cards can be a financial safety net if you don't have enough cash or savings to cover any unexpected costs that arise. Just remember that you have to repay everything you owe.

Travel. Most lenders will offer complimentary travel insurance when you hold a premium credit card which is a popular offer with many travelers.

Complimentary extras. Credit card features such as travel insurance, purchase protection and extended warranty insurance can save you money and give you peace of mind. Other value-adding features could include complimentary flight offers, airline lounge passes and even free wine when you dine.

Consolidate and pay off existing debts. Balance transfer credit cards allow you to move existing high-interest debts to a new account with a low or 0% promotional interest rate. This can save you money on interest charges and help you pay down debt faster.

Emergency Replacement Cards. If you lose or have your credit card stolen when travelling overseas, scheme issuers i.e. Visa, Mastercard offer an Emergency Replacement Card service where a replacement card will be provided to you within 24-48 hours, either by a courier or dropped off at concierge of the hotel you're staying at, anywhere in the world. Some fees may be applicable.

Things to consider

Interest charges

If you don't pay your full closing balance by the due date, any interest-free period on purchases will generally not apply. This means you will pay interest on your outstanding purchase balance. Credit card interest rates are typically higher than most other types of credit.

Cash Advances
You may also pay interest on any cash advances and balance transfers. Cash advances typically attract interest from the date of the cash advance until it is paid off. For balance transfers, some lenders offer cards with a 0% balance transfer offer for a period of time. However, this typically reverts to a high interest rate once that period ends. This means that if you do not pay off the balance within the offer period, you will pay interest on the leftover balance.

If you are considering a credit card with a balance transfer offer, be aware of the longer-term implications of potential transfers and related costs.

Credit card fees
Credit cards can also come with a range of fees such as annual fees, late payment fees, international transaction fees, cash advance fees and balance transfer fees. Some lenders do offer cards with no annual fees, but if you are considering a rewards credit card, this will typically come with a higher annual fee.

May hurt your credit score, if you're not careful
Like many other forms of debt, if you miss any credit card payments, this will usually be recorded on your credit report and may have a negative impact on your credit score. You are considered to have missed a payment if you make the payment more than 14 days after the due date.