



HOME LOANS NEWSLETTER

November 2015

Reserve Bank interest rate announcement

Today the Reserve Bank of Australia met to review the official cash rate. They have decided to leave the rate steady at 2.00% again this month. We expect that most lenders will leave their rates unchanged, in line with the Reserve Bank's decision.

How much can you borrow?



The first step in working out how much you can borrow is to determine your financial situation. This involves working out your net income, expenses and other commitments. It is important to make your budget realistic, and to include all your expenses. It is not worth understating your expenses and commitments as it will only put you under financial pressure down the track. Ideally keep a buffer of at least \$500 per month in your budget to avoid mortgage stress.

From this point you can use the ASIC Mortgage Calculator to find out how much you can borrow, this can be found at www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mortgage-calculator

Or a general rule of thumb for borrowing capacity is

Income pp < \$60,000	5 x gross salary
Income pp \$60,000 to \$120,000	6 x gross salary
Income pp > \$120,000	7 x gross salary

(This rule of thumb assumes low other commitments, these include car loans, personal loans, credit cards, interest free purchases etc.)

An example:

A couple with a net household income of \$10,000 per month

Net household income	\$10,000
Living expenses	(\$4,000)
Other Commitments	(\$1,000)
Surplus	\$5,000

This couple can comfortably afford maximum repayments of up to \$4,500 per month. Based on the current interest rate of 4.13%, and the ability to make repayments of \$4,500 per month, they could take out a loan of up to \$750,000 factoring in a 2% rate increase.

What happens if interest rates rise?

Essentially, if interest rates rise so do your mortgage repayments if you are on a variable rate. There are some things you can do to prepare for interest rate rises:

- Apply for more than you need in the initial loan application
- Request an interest only loan and repay more
- Fix a portion of the loan (make this portion larger if cash flow is tight)
- Repay extra off the loan while rates are low

All of these strategies can provide a buffer that can be drawn upon if you find yourself under financial stress.

At Harvest, we provide independent advice about home loans based on your personal financial situation.

Our current best interest rates

The best home loan rates we currently have available:

- Variable rate of 3.99% pa
- 1 year fixed rate of 4.14% pa
- 2 year fixed rate of 3.94% pa
- 3 year fixed rate of 4.04% pa



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