



Mortgage stress halved... but does that mean we're out of the water?

Low interest rates have largely driven a decrease in the percentage of homeowners experiencing mortgage stress over the last 12 months. From March to September 2014 the percentage of homeowners claiming mortgage stress almost halved from 28% to around 15%. However, a further 15% of those surveyed were anticipating mortgage stress at some time in the future¹.

That is still a large number of homeowners who are vulnerable if stress factors rear their head!

Unlike several years ago (in the higher interest rate climate), interest rates are no longer the biggest cause (or potential cause) of mortgage stress.

According to the survey, **the top five reasons for mortgage stress are:**

1. Higher cost of living
2. Unemployment/redundancy
3. Other debt obligations
4. Fewer hours worked or lower pay
5. Interest rate rises

But what if...

- You lost your job
- Interest rates go up (and they will)
- Your health suffers and you are not able to go to work for an extended period of time.

Would you cope financially?

Many of us will experience financial stress at some stage of our lives.

A recent study² showed that 39% of Australians wouldn't have enough savings to maintain their lifestyle or meet their commitments if they lost their income for 3 to 6 months.

In fact, an alarming 17% would find it difficult to access \$500 to \$1,000 in an emergency.

For millions of Australians, maintaining a lifestyle simply means paying the mortgage (or rent) and keeping on top of the bills. Not everyone takes an overseas holiday every year!

When taking out a mortgage – and for most of us, this is the largest amount of debt we'll ever have - just 'hoping' for the best isn't likely to pay the bills or mortgage should the unexpected occur.

What is mortgage stress?

Mortgage stress usually affects people paying more than 30% of their pre-tax income on their home loan repayments. This is the highest level of recommended financial commitment you should incur to maintain some 'wiggle-room' in your budget and stay out of financial trouble.

Mortgage stress is a real issue for many home owners but there are ways to avoid it. And, if you do experience mortgage stress or get into financial difficulty, help is usually available.

To check your situation, why not take our mortgage stress test over the page...

Do the mortgage stress calculation then give us a call if you're over 30%.

STEP 1

Calculate your monthly (weekly or fortnightly) mortgage repayment.

STEP 2

Calculate your monthly (weekly or fortnightly) pre-tax income (combined if you share the mortgage).

STEP 3

Divide your pre-tax income by your mortgage repayment (= Step 2/Step 1). That's your percentage of income you are spending on your mortgage.

STEP 4

If the result is close to or over 30% (0.3), then you need to call us BEFORE it's too late.

Don't be alarmed if this is you. There are many things we can do to help you with this. The important thing is to identify the potential stress before it happens.

Of course if your percentage is well below 30% then call us for a quote to help you get into the investment property market.

Stress test this!

Another stress test is to work out your mortgage repayments at a 2.5% higher interest rate and then do the same calculation. Again if your result is close to or over 30% **we need to see you now.**

For example if you have a home loan of \$350,000 over 30 years at 4.5%, your repayments would go up from \$1,773 per month to \$2,329 per month if rates were to rise by 2.5% (to 7% - the historical average). That's \$556 per month (or \$139 per week)!

It might even pay to do the same calculation exercise at a rate of 9% (about the highest it has been in the past decade – in late 2008) as a real safety net indicator.

1 Streets Ahead Genworth Homebuyer Confidence Index Sept 2014
2 BT Australian Health Index



You may know someone who is experiencing mortgage stress right now.

Call us for our top tips to avoid mortgage stress so you can share these tips with your friends.

Tips to help you manage your mortgage

- **Be realistic:** Don't expect your repayments to be lower than what you can afford to pay. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your income:** Check your income against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your expenses:** Check your expenses against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your credit score:** Check your credit score against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your mortgage:** Check your mortgage against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your equity:** Check your equity against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your insurance:** Check your insurance against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your taxes:** Check your taxes against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your legal rights:** Check your legal rights against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**
- **Check your future plans:** Check your future plans against your mortgage repayments. If you're struggling to pay your mortgage, it's a good idea to talk to your lender about options like a loan holiday or a temporary reduction in repayments. **Get the facts.**



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