

# Rewards for savvy loan shoppers



Noel Whittaker

It helps to look beyond the window dressing to desirable features such as a redraw facility and offset account.

THE rise in interest rates have brought housing loans back into the spotlight and many borrowers are even considering changing lenders to take advantage of what may seem to be a cheaper rate. Unfortunately it is not as simple as it sounds. Right now, the banks are more interested in competing for deposits than they are for loans, and even if you did find a friendly bank you will almost certainly end up confused as there are now over 1000 different home loan products in the market. Sorting through them is just as tricky as working out which phone plan is best for you.

A useful guide is the comparison rate sheet which all lenders are required by government legislation to display, but keep in mind that it is only a starting point. Even though it includes the basic loan costs such as set-up fees, interest rates and ongoing charges, it does not include bank fees that are only charged in certain circumstances. These include fixed-loan early-termination fees and redraw fees.

But there is more to a loan than the interest rate and the fees and charges. One of the most important things to consider is flexibility.

Now you might believe that a no-frills loan with low fees is perfect for you right now because your affairs are simple and your present intentions are to stay in the one house for many years, but keep in mind that change is always with us, and your present loan may not be appropriate if things change.

What happens if you decide to move house, or borrow some money for renovations or investment, or need to reduce your repayments as the kids are at high school.

If you have one of the no-frills loans it generally won't have a redraw facility and you may be required to take out a second mortgage for the extra money. Naturally the bank will be looking for a higher interest rate on the second mortgage.

Offset accounts are a highly desirable feature. If you deposit money in a normal interest-bearing account you will probably earn less than 4 per cent per annum and then lose at least a third of that in tax. However, when you deposit money in an offset account the notional interest credited should be the same as that charged on the housing loan.

But it gets even better; instead of being credited to your account and leaving you liable for tax, the interest is taken off the principal on your non-deductible home loan. Therefore funds in an offset account earn you the same as the loan rate (currently around 6 per cent) after tax. That's equivalent of getting more than 9 per cent before tax on an interest-bearing deposit.

You can put offset accounts to good use if you intend to change residences and retain the old one. This is because you can build up funds in the offset account instead of paying them off the housing loan.

There is no difference in the interest costs as the offset

account is credited at the same rate as being charged on the housing loan, but there can be a huge difference when you decide to make the move.

Think about two neighbours who started with a housing loan of \$300,000 some years ago. One used all their resources to reduce the loan as fast as possible, while the other banked all their spare money into the offset account leaving the original loan high.

Today, the first person owes only \$100,000 – the other has a debt of \$295,000 with almost \$200,000 in the offset account. They both decide to upgrade to another residence, but want to keep the old one as a rental.

The second couple would be far better placed for tax purposes as they can simply withdraw the \$200,000 they have in the offset account for a deposit on the new home, leaving a deductible debt of \$295,000 on the existing one. In contrast, the other couple will be paying tax on a large portion of the rents from the original property as it has a very low debt, while suffering the burden of a huge non-deductible debt on their new home.

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**Q** My query is about reducing capital-gains tax. I understand that you cannot make a tax-deductible contribution to super if an employer is paying super for you, but wouldn't it be possible to salary sacrifice an amount equivalent to the profit (assuming it falls within the limits) creating the same result as a tax-deductible contribution?

**A** Yes, you can do this if your employer is agreeable but you need to keep in mind that the maximum deductible contributions from all sources are \$25,000 a year for people under 50 and \$50,000 for people over it. This will reduce the effectiveness of the tax deduction, especially if your employer has already made a hefty contribution in the current financial year. Also, confirm with your employer that such additional salary-sacrificed contributions will not reduce the compulsory 9 per cent payable by the employer.

**Q** I would like to assist my son with purchasing a property as he is unable to borrow the full amount. Would the best option be to purchase it jointly? If so can I negative gear my half of the

investment? (There will be some rental income from a boarder.) Will he be entitled to any first-home owner's assistance? Will there be any CGT payable when he can afford complete ownership at a later date?

**A** If you buy the property jointly your son will be ineligible for the first-home owner's grant and there would be capital gains tax and transfer costs payable by you if the house grows in value and is eventually transferred to your son. A much better option is to go guarantor for your son – this will enable him to buy in his own name.

**Q** My husband and I earn \$37,000 per annum and \$24,000 per annum respectively. We have a 23-year-old son who lives at home and earns \$27,000 per annum. My husband is 56 and I am 53, we own our own home and cars and have no debt. We have \$80,000 in a term deposit and our son has \$60,000. About 18 months ago we went to see a financial adviser who persuaded us to invest in dollar cost averaging with Colonial First State. We started with a lump sum of \$10,000 and add \$1000 each month. Our son also started an investment with a lump sum of \$3000 and adds \$500

each month. Do you think this type of investment is suitable for us given our low income? We believe that salary sacrifice to super is not tax efficient given our tax bracket, although we all contribute an after-tax sum of \$1000 to qualify for the Government co-contribution. We would like to travel to Britain for a six-week holiday in the next year or so – hence the \$80,000 in a term deposit, and I expect to decrease my working hours to two days a week soon due to poor health and an increasingly dependant mother.

**A** I agree that salary sacrifice is not appropriate and you are doing the right thing by taking advantage of the super co-contribution. I think the monthly investment into the managed fund is a good strategy because share-based assets should give better long-term returns than leaving the money in the bank. It is also more tax effective than bank interest because the returns come from a combination of capital gain and franked dividends.

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## Courting conflict on 'extended' warranty protection

By LESLEY PARKER

IT'S worrying that many Christmas shoppers don't know their rights when it comes to warranties and refunds.

But, even worse, the recent National Baseline Study on Warranties and Refunds has found that 57 per cent of retailers apparently have no idea, either.

Instead, consumers are being fobbed off when products break and urged to buy "extended warranties" that provide protection they're entitled to anyway.

The reality is that, regardless of the length of warranty offered by the manufacturer, Australian

consumers have the protection of a "statutory" or "implied" warranty under the federal Trade Practices Act.

In essence, the law says consumers have the right to a refund, replacement or repair if the product doesn't last as long as one would reasonably expect, bearing in mind its cost. The law also says a product must be of "merchantable" quality and fit for its purpose.

The trick is, the act doesn't set any time periods. What constitutes a "reasonable" time depends on the nature of the product, its age and quality and how much was paid.

"This reflects the reality," says the deputy chairman of the Australian Competition

and Consumer Commission, Peter Kell. "You'd have different expectations of an inexpensive toaster

compared with an expensive TV set. It would be difficult to imagine the same warranty period applying to both."

Kell says that what's reasonable may at times be a source of disagreement between the consumer and the retailer but the ACCC's experience is that problems tend to emerge "fairly early on, well within any 'reasonable' period".

However, a spokeswoman for the consumer group Choice, Elise Davidson, says it's a problem that the statutory warranty involves a subjective judgment about

what's reasonable.

"People need clear answers but unfortunately... there's no formula," she says.

This month, Choice called on the big retailers to sign a Fair Warranty Charter setting out consumer rights when buying goods and services. It asks retailers to commit to providing clear in-store information and to making front-line staff better aware of the store's obligations when a product breaks down.

The charter also asks them to acknowledge their responsibility to provide a remedy.

"It's up to the retailer to fix any problem," Davidson says. Consumers shouldn't be "fobbed off" with the line that

they have to take the problem up with the manufacturer.

Kell says the ACCC encounters retailers who seem unaware of their responsibilities in this regard.

"There's nothing more frustrating for consumers than the situation where the shop is passing the buck," he says. "Under the law, the retailer must deal with the warranty issue." They are obliged to replace, repair or refund when a product breaks under warranty.

Davidson says that while consumers have the choice of refund, repair or replacement, it's a matter of negotiation as to which one you get.

If a repair will take a long

time, or successive repairs are needed, a replacement or even a refund would be reasonable, Kell says.

The concern is that consumers who are unaware of their rights are increasingly being pushed into "extended warranty" products, requiring the consumer to pay one or two more years' warranty on top of the standard manufacturer's 12 months.

"They're a waste of money," Davidson says. "Our advice is just don't buy them. You have the same rights under the law for free."

Such extended warranties also came with conditions attached, such as exclusions or caps on repair costs. SMH