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THE INVESTOR

YOU NEED TO KNOW YOUR DTI RATIO

A DTI refers to a debt-to-income ratio and is the most important calculation to understand when applying for a home loan. A DTI determines the type of mortgage you can qualify for, the interest rate offered, and how much you can borrow.

A debt-to-income ratio compares the amount of debt you have to your overall income.

To calculate your DTI ratio, you must add up your total debts and liabilities and divide this by your gross income.

The type of debts and liabilities a lender can consider are credit cards, finance and instalment plans, personal loans, car loans, asset finance, HECS, home loans, investment loans and lines of credit.

What is your DTI Ratio?

Calculation example:

A couple earns a combined salary of $160,000

The couple have a home loan of $550,000, a personal loan of $15,000 and a credit card of $5,000.

Liabilities = $570,000
Gross Income = $160,00

$570,00 / $160,000 = 3.56

Generally speaking, a DTI of 6 or greater is considered high risk; however, some lenders will monitor mortgage applications with a DTI greater than 4.5, while others will consider DTIs up to 9. A low DTI is considered less than 3.6 and is often viewed favourably by lenders.

When applying for a home loan, it can be advantageous to ask the lender what their DPI caps are before applying.

UNDERSTANDING TWO TYPES OF HOME LOAN TERMINOLOGIES

Following the recent interest rate rise and the media's focus on how you can reduce your monthly home loan payments, we want to discuss two types of home loan features. Firstly, a redraw facility and, secondly, an offset account. Both of these loan features can be beneficial in reducing your home loan and interest payable.

What are these features, and what are the differences?

A redraw facility allows borrowers to make extra repayments into their home loan account and withdraw them later. The extra repayments reduce the loan amount and interest payable, enabling you to pay off your mortgage faster. A redraw facility can be valuable if you need cash in an emergency or must pay a significant expense like a holiday or renovations. The critical point to understand about a redraw facility is that the money is not yours but the lenders. Therefore, the lender can stipulate how much or little you withdraw, deposit, or hold in the account and how many times you can contribute or take from it. A redraw facility is generally only linked to variable home loans.

An offset account is a transaction (or savings) account that is linked to your home loan. The money in this account is 'offset' against your loan balance, reducing the interest payable. Offset accounts can be linked to variable or fixed-rate home loans. The advantage of this type of account is that you are in control of your money. You can have the flexibility for your employer to deposit your salary into the account and use it for everyday spending with a debit card. However, offset accounts can attract higher interest rates and fees than loans that don't.

If you want to save money and reduce your home loan and interest payable, we strongly recommend you seek advice from your financial advisor or accountant.

ALERT | **MAKE SURE YOUR PROPERTY IS SAFE?**

When owning or managing an investment property, you are bound by a legal duty of care to the tenant to ensure that the property is fit and safe to reside in.

Maintenance and repair requirements can fall into different categories in accordance with the law. You can have general repairs, urgent (emergency) repairs, and repairs that (if not actioned promptly) can lead to a litigation claim and compensation payable if someone is injured or adversely impacted.

During the management of your property, if we draw to your attention any of the below repair requests, it is important that you take immediate action.

- Faulty window or door locks
- Ripples or loose threads in the carpet or on the stairwell
- Cracked or sharp edges on tiles
- Cracked or loose power points sockets
- External uneven pavers
- Lose or wobbly balcony railings
- Loose or exposed wiring on light fittings
- Appliances that are shorting out the electrical circuit board
- Inadequate lighting in stairways and external walkway areas
- Unnecessary objects protruding out that could lead to a slip and fall
- Sagging ceilings
- Faulty or non-closing pool gate fence
- Dry rot on external railings, floorboards, and steps
- Loose or hanging gutters and downpipes
- Non-compliant smoke detectors and safety switches
- Excessive mould

If a claim was made the questions asked to determine liability would include: Was the accident the result of failure to repair, maintain or clean the space? Could the accident have been prevented in any way? Would it have been reasonable to have noticed the repair/hazard?

We do understand that, for many investors, paying for and attending to repairs and maintenance can place a financial strain on a household. However, the consequences of not being proactive can result in an unwanted lawsuit.

RENT ARREARS | WE HAVE FOUND SOMEONE TO PAY THE RENT WHEN YOUR TENANTS WON'T

Ensuring that the tenant's rent is paid on time is one of the top priorities for investors, outside of ensuring that the property is well cared for.

As your managing agent, we have strict follow-up rent arrear policies. However, even the best tenant can face challenging financial circumstances with the loss of employment or excessive unexpected expenses.

For this reason, we strongly recommend that all investors take out landlord protection insurance to give you peace of mind and cover you for loss of rent, property damage and other out-of-pocket expenses.

For such a minimal tax-deductible fee, you can reduce your potential for financial loss.

PROPERTY MARKET

Keeping you updated.

CoreLogic: There were 2,526 homes taken to auction across the combined capital cities in Australia last week. This time last year, 2,400 auctions were held across the combined capital cities. Of the 1,968 results collected so far, 57.8% were successful, the lowest preliminary clearance rate since August last year. The previous week returned a preliminary clearance rate of 58.5%, revising down to 54.8% at final figures which is the lowest final clearance rate recorded since late July 2020. This time last year, 74.1% of reported auctions were successful.

There were 793 auctions held across Sydney last week, compared to 541 over the previous week and 1,157 this time last year. Of the 624 results collected so far, 55.4% were successful, the lowest preliminary clearance rate the city has seen since April 2020. The previous week recorded a preliminary clearance rate of 58.1%, which revised down to 54.3% at final figures. Once the remaining results are collected, Sydney's final clearance rate is likely to just manage to hold above 50%.

SUDOKU COFFEE BREAK

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