



NEWSLETTER

Moving Forward and Building Wealth

Have you ever heard the definition of Insanity described as doing the same thing every year and expecting different results?

If this is the case then most of the population is Insane. We coast along with the same Home Loan and financial commitments from year to year and expect to have more cash flow available while accumulating assets.

Berg Financial Services can help you to jump off this treadmill and arrange your finances to be more in tune with your needs. You should be able to enjoy life with your family and at the same time build up your asset portfolio.

Everyone has different financial goals, situations and needs. At different times in your life these needs change, so your financial facilities need to evolve as well.

There are many options to consider when reviewing your financial commitments and circumstances. These include different types of Loans, Repayment Options and Interest Rates.

This edition of our Newsletter includes definitions of a few different types of Loans / Lending facilities, as mentioned below -

Interest Rates: Fixed or Variable?

Fixed Interest Rate is where the Rate relevant to your Home Loan remains the same for a set period of time. This means that for this period your repayments will remain the same and if Interest Rates rise you will be unaffected for the duration of your fixed term.

However if Interest Rates drop the reduction will not be applicable to your Loan until the fixed term has expired.

Variable Interest Rates fluctuate with the market. This means that your Interest Rate (and hence repayment amount) could change. Variable Rate Loans usually have more flexibility.

Sometimes Variable Rate Loans can be difficult to accommodate in your household budget because they do not have a set repayment amount.

It is possible to structure a Loan with a combination of both Fixed and Variable facilities. This is called a Split Home Loan.

Interest Only or Principal and Interest

An Interest Only Home Loan is exactly as it suggests, you are only required to pay the interest instalment each month leaving the principal debt level the same. This is a handy option for people on a tight budget because it will mean smaller repayments.

The disadvantage of this type of Loan is that at the end of the Interest Only period you still owe the same amount of money as when you started.

With a Principal and Interest Home Loan the total debt is reducing over the life of the loan and equity in the property is building from day one. Repayments are higher than an Interest Only Loan however they can be paid at more frequent intervals (in line with income) i.e. weekly, fortnightly or monthly.

Line of Credit

A Line of Credit is an account which lets you combine a home loan with your spending. It is secured by a Mortgage over your residential property and allows you to turn the equity in your home into a ready source of funds up to an agreed limit. You can use these funds for any personal purpose and like a Credit Card; any principal repaid is available to be redrawn.

These loans are strictly for the budget conscious. However if used properly they offer maximum flexibility in accessing your funds along with building equity.

What is Equity?

Equity is the term given to the portion of your property that you actually own, as opposed to the amount that is mortgaged as security against a Home Loan.

For example, if your property is valued at \$450,000- and the amount that you owe is \$300,000- then your equity in this property would be \$150,000- (value – mortgage = equity).

Did you Know?

The first Bank established in Australia was the Bank of New South Wales. This Bank has survived many mergers and name changes and is today known as Westpac.

The Bank of New South Wales opened its doors in February 1817.

The first Mortgages offered by the Bank of New South Wales were restricted by rules limiting the term of the Loan to twelve months. Also the total amount of the Loan was not to exceed an amount of 500 pounds!

Sometimes simple changes to your Home Loan such as the frequency that you make repayments can reduce your debt quicker. Some Home Loans offer a redraw facility where you can pay extra funds off your Loan but still be able to access it (or redraw it) in an emergency.

Debt consolidation can also increase your cash flow by grouping all of your liabilities together and securing a longer term which reduces your repayments.

Lending facilities need to be reviewed as your situations change.

Berg Financial Services recommend a review be carried out every year to determine if the Loan/s that you have are still right for you.

For personal service and expert advice make an appointment to see us today.



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