



Deleveraging - New Zealand's current financial phase

Deleveraging is the new financial term this year, but just what does it mean? Basically, people are paying off debt as fast as they can manage. After the boom in borrowing of a few years ago Mortgage Link has seen a noticeable shift in borrowing behaviour.

"From personal observation and having talked with a couple of banks in the last week, their customers are resisting topping up loans, taking credit cards or personal loans. They want to reduce debt, not add to it", says Gail Jensen, Mortgage Link Manawatu.

"Here at Mortgage Link we can help clients in this respect. It can be done in several different ways, such as restructuring their present lending facilities to free up income and perhaps rolling into a short-term personal loan. This is often a way to tidy up external debt such as credit cards, HP payments and the like," she said.

Clients coming off fixed rates are also looking for options to reduce debt.

"Some are splitting their loans between fixed and floating. They are basically hedging their bets until interest rates finally move."

"Another option that is favoured is to put the majority of the loan on fixed, say for two years, while paying the minimum payment, and putting the balance, say \$10,000, or an agreed amount, on floating with the aim of paying it off by the time the loan comes off its fixed rate. This can be repeated."

"What it does do is give the customer a small achievable goal, which many like."

A strategy for those coming off higher fixed rates is to maintain payments at the same level. "They have managed without this money in the short term and can see a real benefit in shortening the term of their loan," she said.

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Talk to your Mortgage Link adviser and see how they can help you in your current circumstances.

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Gift duty to be abolished

The Government recently announced that it will abolish gift duty effective from 1 October 2011. This is great news for many family trusts.

There are currently in excess of 225,000 family trusts in New Zealand and the Government estimates trusts incur annual costs of approximately \$70M per annum

associated with filing a gift duty statement – most of which are for no gift duty to be paid.

The Government has calculated that gift duty only generates on average \$2.2M of revenue per annum so the annual compliance costs outweigh the benefits. At client annual reviews, we will explain to you how the abolition of gift duty will not be 'open slather'

Festive Greetings

Mortgage Link would like to take the opportunity to wish all our clients and partners a happy, safe Christmas and prosperous New Year.

We value our relationship with you and look forward to working with you in 2011 to help you to achieve your financial goals



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Fix of float?

This is literally the million-dollar question. Traditionally, New Zealanders have favoured fixed over floating. However, in the last two years the pendulum has swung the other way as those on higher fixed rates have decided to float when their term expired. But is it almost time to start fixing again, or a mix of both (see **Deleveraging story in this edition**). Action on the two-year fixed rate levels over the last couple of weeks has created opportunities.

Contact your local Mortgage Link adviser now if you are in a quandary about floating over fixing.

Investors urged to seek advice

Property investors should be seeking advice on what is the best investment structure, now that you will no longer be able to use Loss Attributing Qualifying Companies (LAQC) from April 2011.

LAQC's will lose their status and revert to standard Qualifying Companies (QC), under which property investors will no longer be able to claim depreciation on buildings. Currently you are able to claim 3% on a diminishing value basis which can flow through to significant tax losses and hence tax rebates.

To date, we have had little enquiry from our clients about the impending change but we are urging all those who do use LAQCs to seek professional advice.

Gary Haberfield, director of Mortgage Link Waikato, says that people he has spoken to were resigned to the fact that the Government would eventually make a move on LAQCs.

"People still need to weigh up all the factors and decide if property investment is something that suits them. But there are some good buys to be had at the moment so investors who are in a position to purchase are still in the market for more property."

Phil Christmas, of Mortgage Link Manawatu, estimates that more than 90% of their residential investor clients would have used the LAQC ownership structures – especially if they have used the family home as security and had high borrowing levels.

"If a long term view is taken on property investment then the proposed changes should not have a major impact on the benefits of rental properties."

While the loss of LAQCs is not ideal for property investors, there are other structuring options, which include:

- If you do nothing your LAQC will revert to a **Qualifying Company (QC)** – any losses will remain within the company until the time when it starts to make a profit. This is the standard Company structure that has been around for decades.
- Many properties are already in **Family Trusts** – this option offers protection but losses can only be offset against other income within the Family Trust.
- **Sole Traders** – you have always been able to own property in your own names and therefore any losses can be offset against other income you may earn.
- **Look Through Companies (LTC)** – this is a new elective tax treatment for companies and losses can only be offset against future LTC income; however there are a number of rules that may be quite restrictive.
- **Partnerships** – you can own your property investments in a partnership and be able to offset any economic losses against any other income.
- **Limited Partnerships** – similar to Partnerships, Limited Partnerships allow you to offset your economic losses against other income but has the additional benefit of limiting the liabilities to the value of the Partnership.

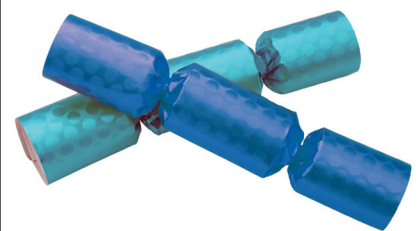
Any recommendation provided in this article is general in nature and is not a recommendation. Please seek the advice of your Mortgage Link adviser specific to your own circumstances.

Feeling stressed?

The better your financial health, the better your mental health.

Phone 0800 466 784
www.mortgagelink.co.nz

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Our advisers are available throughout Christmas and the New Year. Call 0800 466 784 and find out how they can help you.

Extra detail benefits clients

Clients of Mortgage Link can access a wealth of additional real estate knowledge – without having to pay a cent.

We now subscribe to a specialist service called iAdvise which can provide us with all sorts of detailed information about the property you are looking to buy.

The comprehensive and up-to-date property information gives us a much more in-depth understanding of the property market in a given suburb or neighbourhood.

Wendy Yorke, co-director of Mortgage Link Taupo, says the new resource saves a huge amount of time because it has all the information clients need in one central location. This includes current capital value and sales history for more than 1.3 million residential properties in New Zealand.

"The detail of this sort of information used to be impossible to easily locate. Respective councils can provide the basics such as land value and capital value but access to iAdvise can help us give clients a far more comprehensive picture.

"For instance, a Rotorua client contacted me after seeing a house she was interested in. She'd found out the general information from the real estate agent but in just five minutes on the phone I was able to supply much more detail – things like what other houses in the street had sold for, what the house previously sold for, how many owners had there been, when it was built and so on."

Tony Copping of Mortgage Link in Hokitika is similarly enthusiastic.

"We can show clients median house prices, number of sales by quarter, and capital growth for a specific suburb compared to the statistics for the city.

"This sort of information isn't readily available for the average person in the street but it's all at our fingertips so that we can help clients.

"A client contacted me earlier this year to buy his first home. He found a property he liked and the real estate agent told him it was new to the market and that he should act promptly. We were able to see that this particularly property had actually been on the market for several months. Ultimately my client bought the house but he was able to buy it for \$10,000 less than the asking price because that additional information gave him some leverage when negotiating."

Contact your local Mortgage Link office to check out the details we can provide for a property you're looking at.

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To contact your local Mortgage Link office
Go to www.mortgagelink.co.nz
Or call 0800 466 784

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