

5 TIPS

To avoid mortgage default

The interest rate cuts late in 2011 would have been welcomed by many home owners. But for some, it simply won't be enough to provide relief from overwhelming mortgage repayments. Financial planner Paul Clitheroe came across some interesting research by RMIT, on behalf of the Australian Housing and Urban Research Institute that pinpointed the main reasons why people struggle with their home loan, and in some cases the problems could have been avoided. He said: "There were several key reasons why the home owners surveyed got into trouble with their

loan. "The overwhelming cause, reported by around 60 per cent of respondents, was job loss or a reduction in working hours leading to a leaner pay packet.

"Around one in five said illness or injury prevented them from paying off their loan and about the same simply underestimated how much it would cost to own a home, both in terms of loan repayments plus other expenses.

"Other reasons offered for being unable to meet repayments included relationship breakdown, taking on too many debts and high interest rates. "It's worth noting that most respondents gave more than one reason as to why they could not repay their mortgage.

"Many had run up big credit cards debts in order to meet their loan payments.

"This led to refinancing the loan to try and regain control of their money, which in many cases only worsened the situation.

"Around 30 per cent of the home owners surveyed took more radical action including trying to access their super to pay off the debt.

"Sadly, less than one in four sought financial advice on budgeting and other ways to manage

their debts."

1 Be realistic about the security of your job and your ability to handle loan repayments along with the raft of other costs associated with home ownership like insurance, rates, repairs and maintenance. Draw up a realistic budget and have a trial run at living on the money you'd have left over once you've got a mortgage. Remember too, this could be the budget you'll be living on for years – not just weeks or months.

2 Save the biggest deposit possible, and factor in a few rate rises into your repayments. Interest rates may have fallen recently but it's a sure bet that over the course of your mortgage, rates will rise as well as fall, and it's vital that your budget can cope with increased repayments.

3 For anyone taking on a significant debt, having income protection insurance makes a lot of sense. It will provide a regular source of income if illness or injury prevents you from working.

4 If you are having trouble with your current home loan, seek help early. Don't wait until you've maxed out your credit cards or you've missed a few repayments. Contact your lender and explain the situation.

5 Speak with a financial counsellor. Visit the Financial Counselling Australia website (www.financialcounsellingaustralia.org.au) for a counsellor near you. Many offer a free, or low-cost, service.

■ Paul Clitheroe is a founding director of financial planning firm ipac, chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine. Visit www.paulsmoney.com.au