

More prosperity



Do you know how credit cards really work?

Credit cards are designed deliberately with a very small monthly repayment. Do you know why? It is so you will never pay them off. Lenders want you to pay interest for as long as possible. With most cards, if you only paid the minimum monthly repayment, you would repay close to four times the original cost of the items you charge, and the average credit card would take 15 to 20 years to pay off.

What about those handy store cards?

Let's say you purchase a new living room set on your card for \$2,500. The minimum monthly payment is just \$44.44 with an interest rate of 21%. At \$44.44 a month it would take you 20 years to pay for that living room furniture. What would it be worth in 20 years? If you still had it, maybe \$200. So, how much did you really pay for the furniture? No, not \$2,500. You wound up paying \$10,665. This is how they get you, all those small, silent and seemingly harmless monthly payments.

There are strategies available where you can consolidate these cards at home loan interest rates then pay this loan off over a short period of time, hence saving you money and stress.

Anyone who completes a loan of \$200k this quarter will receive a \$200 Westfield's voucher so that little luxury will be credit card free.

Strong Market in 2010?

Some of the current property indicators are pointing towards a stronger property market in the next twelve months. The question is, how resilient is the market to further interest rate rises?



Despite all the gloom and doom, 2009 has actually been a reasonably good year for property.

In terms of prices the value of homes in Australia defied all odds in 2009, rising more than 10% over the year; according to the latest figures released by RP Data and Rismark International.

Another positive statistic comes from the **Australian Bureau of Statistics (ABS)**, which has just reported that building approvals rose 5.9% to 13,724 units from October to November. The rise exceeded market expectations of a 3% rise.

Looking forward

The surge in building approvals in November, along with still-low interest rates and an improving job market, points to a buoyant property sector in the next 12 months.

Also, a recent survey shows consumers are feeling more confident about 2010 property prices.

The January **Westpac Consumer Sentiment survey** asked consumers about their expectations for house prices over the next 12 months. It shows a strengthening in the belief that house prices will continue to rise.

"84% of consumers expect prices to increase over the next 12 months"

A massive majority of respondents, 84%, expect prices to increase over the next 12 months – with 21% expecting gains of over 10%.

Remarkably, just 3% of respondents now expect prices to fall. This compares to a third expecting falls when the survey was conducted in mid-2009.

Interest rates

Given the economy's continuing recovery, it seems likely that interest rates will continue to increase back towards "normal" levels during 2010.

The RBA's stated "normal" or "neutral" interest rate (cash rate) falls into the 4.5% to 5.0% range.

Still fragile

Several economists and commentators are

cautioning against tightening interest rates any further, saying that the recovery is still fragile.

For example the Master Builders Australia chief economist Peter Jones said that while the big boost in the number of apartments approved was encouraging, the lift was coming off "a disastrously low base".

"Investor-driven building of units and apartments continues to be affected by the credit crunch with approvals running at an annualised 35,000 – still 40% below the peak."

"A housing recovery is by no means a foregone conclusion, particularly as the First Home Owner 'boost' scheme has been phased out."

Until December 2009 first homeowners were eligible for the First Home Buyers boost of \$10,500 for existing homes and \$14,000 for new homes.

The federal government scheme was scaled back at the end of calendar 2009 to \$7,000 for existing homes and \$10,000 for new homes.

Summary

Assuming the economy continues to recover then property should perform well in 2010.

The major short-term concern is the likely increases in interest rates. For those seeking to buy property, it would be sensible to factor in 0.5% to 1% rate increases into calculations on home loan repayments.

