

BEWARE OF SALES SHARKS

A short time ago a couple called us because they were in trouble with their home lender and a car finance company. Essentially they were the 'victims' of higher interest rates, too much debt and slick marketing campaigns. Underlying these issues generally is a lack of financial direction and clear budget directives.

Let us examine each of these as presented to us by this couple and our solution to the 'problem'.

HIGHER INTEREST RATES

The market is becoming increasingly cash flow (or rather lack of it) sensitive as interest rates have trended higher. For example a client with a home loan of \$350,000 at (old rate) 7.25% is paying \$2,387 per month. If refixing now for two years at say 9.3%, the new payment would be \$2,870 per month – a difference of \$483 pm. Scary!

Solution – Our couple wanted to take the option of a 5 year rate at 8.90% offered to them by their bankers, it wouldn't cost them as much. All very well once they are left and high and dry on that rate when interest rates go down. It would be costly for them to break it then.

The object surely is to have the mortgage repaid as soon as possible. There are mechanisms to achieve this utilising salary crediting and fee free accounts with the right lenders. This couple's loan was rejigged in this way.

TOO MUCH DEBT

In many ways this goes with the next heading 'Slick Marketing Campaigns'. In our 'want it all now' culture, debt is easily accumulated. Our couple forgot about how much the cost of living really is and didn't realise when they got their bank loan, they got the maximum that the bank would allow them based on income and existing outgoings.

Hire purchase companies, car financiers are seldom as careful with clients affairs and will readily 'squeeze' them for their own self-interest.

Our couple had accumulated separate debts for another car, some furniture, maxed out three credit cards and purchased a time-share or holiday share. The bank was pressing them and dishonouring payments. The worst thing was that with a carefully constructed plan they could have avoided the bank hassling them and afforded all outgoings except the time/holiday share, which was done last.

Solution – Some debt was refinanced against the home at lower interest rates but on the same term as the H/P's and clearing the credit cards faster than their minimum repayments. Overall outgoing was lower. This we combined with a sound written budget and goals. This was the first time in their lives, at age 48, that this couple had done a written budget or written down goals including financial objectives.

SLICK MARKETING CAMPAIGNS

We have all seen these. One notable company, Blue Chip, with its numerous so called 'financial advisors' was but one. Then we have the time/holiday share companies 'Buy today, because this offer won't be as good tomorrow'. Bollocks. Less insidious are the credit card companies (yes, owned by your blue ribbon bank) that regularly increase your card limit until you get into trouble. Always advertisements are screaming out to you BUY, BUY, BUY and 'Save on these deals'. Well if you can't afford it, it is not a saving.

Solution – This is in your hands. Our couple were not as savvy as they could have been. They now realise that NO is quite easy to say and that if there is a bargain today, there will be another one later on, when they can better afford it. Sales people can be ruthless and if you feel uncomfortable with a slick pitch – walk away. If it does not fit within your budget – walk away. If you haven't worked a budget and don't know if it fits – walk away. If it sounds too good to be true – it probably is too good to be true.

You will be the one picking up the pieces – not them.

Our couple walked away with firm financial guidelines, a written set of goals and a flexible budget. They had their ineffective borrowing turned around so their loans would reduce quicker, meaning that their interest cost is going to be thousands of dollars less over time. What's more they could sleep again at night and kept their home.

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