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DHOAS – Benefit or Not?

ADF Members,

As I work with ADF members on strategies to increase their long term wealth, the main strategy I suggest members use is build for themselves a multiple property portfolio over time, safely and securely. Residential property, purchased in locations close to the CBD around the three Eastern seaboard capital cities, is generally a good investment asset combined with using a finance strategy of using other people's money to invest in capital growth assets to build your long term wealth.

As members are posted around the country, one method that some members use is to purchase an owner occupied property in a posting location, use the DHOAS to help fund it, live in it, perhaps 'rent' out a bedroom to a mate to share the cost if single, then on the next posting 'convert' this to an investment property, revalue and refinance it with another lender and then buy another owner occupier property in the new posting location and transfer the DHOAS across.

For the members who have not yet purchased their first property, you should consider buying a property and use the first home owners grant (FHOG) and take advantage of HPAS to help you get into the market, where you may only need a minimum of 5% savings, to make the first step. Although the lending market has tightened significantly over the last two years, there are still a couple of lenders that will lend up to 95% of the purchase price. Depending on the state you are first buying your property, there may be substantial stamp duty exemptions that will minimise the funds you need to have to be able to buy into the market, in particular NSW and QLD.

One issue you need to consider in purchasing a property, do you do it as an owner occupier using DHOAS or is a better option purchasing it as an investment property? DHOAS is only available from 3 lenders, NBA, ADCU and Defcredit. The main problem is that the loan has to be a principal and interest (P&I) loan, meaning you are paying principal from day one. For an investor, this is a lost cost. For a \$300k loan, depending on the interest rate, you are talking about \$350 to \$400 extra each month as principal. The DHOAS amount is based on years of service and loan amount, so unless you are in the 12 years plus of service, it is hard to find any scenarios that you are better off After Tax Cash as an owner occupier than an investor.

Ultimately it is about your goals. If your intention is to just own one property, then by all means take advantage of DHOAS and pay down principal. If your goal is to create wealth through a multiple property strategy, consider purchasing investment properties and using interest only loans.

I have attached a spreadsheet to review. It is based on Victorian properties (and Vic stamp duty) but it gives you an ability to play, to see what is possible.

The numbers are only estimates so please do not proceed on a strategy without confirming these with a specialist finance strategist. Obviously I would suggest you use me but that is your choice. Each lender have different lenders mortgage insurance rates, stamp duty is approximate, I am not including monthly or annual mortgage fees so please only regard the spreadsheet as a estimating tool.

The green cells as able to be changed to suit your circumstances. The current scenario is purchasing a \$350k property, as either an investment property using an interest only loan (not restricted to only 3 lenders) or as an owner occupier using DHOAS and paying off principal.

There are considerable differences in the two approaches.

By all means have a play and see what the effects are (PS if you find any errors, please let me know so I can amend).

You are welcome to pass this onto colleagues who may be interested in looking at their financial options. As many of you know, the reason I am familiar with the ADF schemes is that I have a son in the Army based up at Townsville and have worked with him through some of the options.

Our Service to You

We provide a specialised service for investors wanting to create long term wealth for themselves and their families. We are finance strategists, credit advisers and mortgage brokers, helping you achieve your goals. Give us a call when you think it's time to consider your options.

As well as providing a service to investors, we will assist you in purchasing as an owner-occupier, or upgrading to a new property, or simply looking at better pricing or structuring options for your current loans and banking or assisting seniors looking at possible reverse mortgage options.

Our business is built on referrals provided by clients, so please don't keep us a secret, feel free to forward this e-mail to family and friends interested in their own financial future. Give us a call and book an appointment to see if it makes sense for you.

If you have any questions about any of these topics, give me a call.

Helping People through Finance