



Your Mortgage
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editor's **choice**

Line of credit

While the comparison rate can be a useful tool, *Your Mortgage* has gone even further and developed its own method to uncover the true cost of a mortgage. We show you how you could save \$17,898 over 10 years on your line of credit loan

A line of credit (LOC) is like having a giant credit card secured against your home. Your lender will set the limit and, provided the interest is paid off, you may pay off as little or as much of the balance as you like. Similar to an overdraft, it allows you to move funds in and out of your loan account.

A LOC is essentially an interest-only facility secured against the equity in your home. While technically a standalone mortgage – otherwise known as a home equity loan – a LOC can also be used as a day-to-day financial management tool as it operates in a similar manner to offset and redraw.

You use your credit card to pay for the bulk of your everyday expenses and leave the rest of your income in the loan until your credit card account is payable. This slightly reduces the balance of your home loan debt for part of the month and in turn reduces the interest payable. The credit card will be paid off each month by using your funds from the LOC.

Who would benefit the most?

This facility works well for investors who need access to cash quickly and for people with an irregular income stream. It's best suited to those who require flexibility.

"Our LOC products are most beneficial to customers who understand how to manage credit," says Tim Brown, head of sales, Mortgages Australia, for Macquarie Bank. "Its target market is investors who regularly buy and sell property and shares."

Funds for some LOC loans can be accessed via cheque accounts, EFTPOS and ATM withdrawals.

A general requirement is having enough equity in your home through which to fund the facility. Although no hard and fast rules apply, you would need to have at least 20% equity built up in your home.

However, Brown urges customers to consider if a LOC meets their current needs, and whether they're disciplined enough to operate a LOC. "Look at what penalties apply for early repayment. Find out if you can transfer security between properties. How are transaction fees charged and are you paying a higher rate for the benefit of utilising a LOC?"

What's the catch?

There are two inherent risks associated with LOC loans, which can be avoided if sufficient thought is given in the first instance to how it will be used.

Firstly, these loans are interest-only, so by definition you won't be building any equity in your property simply by meeting the repayments. More importantly, it can pave the way to financial headache if you don't exercise discipline. Without careful management you can actually end up increasing your mortgage.

When borrowers are looking at LOCs, it's important to look at the difference between the loan rate and the standard rate offered by the lender and, more importantly, the fees, advises Fred Rasheed, business development manager and shareholder, Ratebusters.

"The only time I'd suggest that anyone takes out a LOC is if they commit large numbers of transactions in and out of their account on a monthly basis, as well as earn a significant income to offset the cost of running the loan. Otherwise you're better off choosing a loan with a 100% offset account or a standard variable loan."

And the winner is...

Macquarie Mortgage's SELECT Line of Credit & Combo won the best value award for the bank category, while Ratebusters LOC – Rate Busters emerged as the winner in the non-bank category.

While initially losing out to One Direct's Equity Loan due to its higher total cost and exit fees, Ratebusters' LOC product came out on top after the total true costs in all three categories were tallied.

The biggest advantage of Ratebusters' LOC is its low interest rate of just 7.65% as at 22 November 2007 – the lowest interest rate of all the top-ranking LOC products. This attractive rate could help you save \$9,019 over five years and \$17,898 over 10 years, compared to the true cost of an average LOC loan in our database.

Macquarie's SELECT Line of Credit & Combo scooped the top awards in the banking category, thanks to its competitive interest rates of just 7.89%. The product smashed the competition in all three categories: three, five and 10 years, offering borrowers an average saving of \$7,767 against the average true cost of the same type of loan in our books.



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The longer you hold the loan, the bigger the savings will be. You could save \$3,854 after three years, \$6,632 after five years and \$12,817 after 10 years. The exit fee of \$650 drops to \$150 after three years.

What makes the best value loans stand out?

Because of the flexibility and accessibility of LOCs, they generally carry premium interest rates and fees compared to a standard loan.

Macquarie's product comes with a 100% offset and combination facility, which allows borrowers to combine the LOC with other loans, as well as the flexibility of transferring the loan to another property. Borrowers can also access the funds via a wide range of methods, including EFTPOS and ATM.

Macquarie's LOC and Combo are also offered as options within their standard variable product SELECT, in contrast to being offered as standalone products. "The LOC option enables the capitalisation of interest, while the Combo option also enables the capitalisation of principal and interest repayments, provided there's available limit," says Brown.

Ratebusters' LOC offers an all-in-one account and the ability to combine with another product. It can also be transferred to another property and can be accessed via the internet, ATM and EFTPOS.

"One of the main reasons that Ratebusters continues to win this award is due to the fact that our loan is so flexible," Rasheed says. "Many other lenders will charge a premium to have a LOC, but Ratebusters doesn't."

How the loans were compared

The team at *Your Mortgage* has worked out the 'true cost' of all 78 (18 bank products and 60 non-bank) line of credit products in our books by taking into account each and every fee, including upfront, ongoing and deferred establishment fees as at 22 November 2007.

By working out how much a given loan will cost you after a range of time periods – three, five and 10 years – we show you the impact that these fees can have on the total cost of your mortgage. By adding all fees to the cost of principal and interest, we calculate the true cost of a mortgage over three, five and 10 years. This month, we based our calculation on a loan amount of \$300,000 at 80% LVR taken over 30 years.

The 'Overall winner' is assigned to the product that offers the highest average savings over three, five, and 10 years compared to the average loan in our database.



With these savings, just think what you could buy...

BANK Winner

MACQUARIE SELECT Line of Credit & Combo

SAVES \$3,854 over 3 years	SAVES \$6,632 over 5 years	SAVES \$12,817 over 10 years
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A luxury holiday to Soneva Fushi Resort in the Maldives
Price: \$6,937* **

- Includes:
- 8 night stay
 - Airfare from Sydney
- *Price correct as of 11/12/07
**Costs may vary depending on departure location within Australia
Website: www.travel.com.au



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NON-BANK Winner RATEBUSTERS LOC – Rate Busters

SAVES \$3,638 over 3 years SAVES \$9,019 over 5 years SAVES \$17,898 over 10 years



A full green makeover on your house
Price: \$10,100*

- Bulk insulation
- Shutters
- Rainwater tank
- Ceiling fans

*Price correct as of 11/12/07

For more information about how to create your own eco-friendly renovation, read the February issue of *Your Investment Property* magazine, on sale now. Visit: www.yipmag.com.au



YM's Line of credit loans

Assumptions:
loan amount \$300,000
LVR 80%
term 30 years

Top 10 Line of credit loans based on true cost after 3 years

Rank	Product	Monthly repayment	True cost after 3 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	Macquarie Macquarie SELECT Line of Credit & Combo	\$2,178	\$79,790	\$3,854	7.89%	\$20	\$0	\$650
2	Bank of Qld Investment Privileges LOC Facility	\$2,174	\$79,967	\$3,677	7.87%	\$31.25	\$322	\$250
3	Bank of Qld Privileges Line of Credit Facility	\$2,174	\$79,967	\$3,677	7.87%	\$31.25	\$322	\$250
4	Colonial branded products of CBA LOC - Viridian Reference	\$2,222	\$80,583	\$3,061	8.10%	\$12	\$1.5	\$150
5	Commonwealth Bank LOC - Viridian Reference	\$2,222	\$80,583	\$3,061	8.10%	\$12	\$1.5	\$150
6	Westpac Bank LOC - PAP Equity Access >=\$250K	\$2,205	\$81,732	\$1,912	8.02%	\$32.92	\$0	\$1,150
7	Colonial branded products of CBA LOC - Viridian Residential	\$2,322	\$84,161	-\$517	8.57%	\$12	\$1.5	\$150
8	Commonwealth Bank LOC - Viridian Residential	\$2,322	\$84,161	-\$517	8.57%	\$12	\$1.5	\$150
9	Westpac Bank LOC - Equity Access	\$2,300	\$84,923	-\$1,279	8.47%	\$10	\$600	\$1,150
10	Macquarie Macquarie SELECT Line of Credit & Combo Express	\$2,313	\$84,992	-\$1,348	8.53%	\$20	\$0	\$1,000



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Top 10 Line of credit loans based on true cost after 5 years

Rank	Product	Monthly repayment	True cost after 5 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	Macquarie Macquarie SELECT Line of Credit & Combo	\$2,178	\$132,050	\$6,632	7.89%	\$20	\$0	\$150
2	Bank of Qld Investment Privileges LOC Facility	\$2,174	\$132,897	\$5,785	7.87%	\$31.25	\$322	\$250
3	Bank of Qld Privileges Line of Credit Facility	\$2,174	\$132,897	\$5,785	7.87%	\$31.25	\$322	\$250
4	Colonial branded products of CBA LOC - Viridian Reference	\$2,222	\$134,205	\$4,477	8.10%	\$12	\$1.5	\$150
5	Commonwealth Bank LOC - Viridian Reference	\$2,222	\$134,205	\$4,477	8.10%	\$12	\$1.5	\$150
6	Westpac Bank LOC - PAP Equity Access >=\$250K	\$2,205	\$134,554	\$4,128	8.02%	\$32.92	\$0	\$250
7	Westpac Bank LOC - Equity Access	\$2,300	\$139,472	-\$790	8.47%	\$10	\$600	\$250
8	Colonial branded products of CBA LOC - Viridian Residential	\$2,322	\$140,168	-\$1,487	8.57%	\$12	\$1.5	\$150
9	Commonwealth Bank LOC - Viridian Residential	\$2,322	\$140,168	-\$1,487	8.57%	\$12	\$1.5	\$150
10	Macquarie Macquarie SELECT Line of Credit & Combo Express	\$2,313	\$140,487	-\$1,806	8.53%	\$20	\$0	\$500

Top 10 Line of credit loans based on true cost after 10 years

Rank	Product	Monthly repayment	True cost after 10 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	Macquarie Macquarie SELECT Line of Credit & Combo	\$2,178	\$263,950	\$12,817	7.89%	\$20	\$0	\$150
2	Bank of Qld Investment Privileges LOC Facility	\$2,174	\$265,222	\$11,545	7.87%	\$31.25	\$322	\$250
3	Bank of Qld Privileges Line of Credit Facility	\$2,174	\$265,222	\$11,545	7.87%	\$31.25	\$322	\$250
4	Colonial branded products of CBA LOC - Viridian Reference	\$2,222	\$268,259	\$8,575	8.10%	\$12	\$1.5	\$150
5	Commonwealth Bank LOC - Viridian Reference	\$2,222	\$268,259	\$8,575	8.10%	\$12	\$1.5	\$150
6	Westpac Bank LOC - PAP Equity Access >=\$250K	\$2,205	\$268,858	\$7,909	8.02%	\$32.92	\$0	\$250
7	Westpac Bank LOC - Equity Access	\$2,300	\$278,094	-\$1,327	8.47%	\$10	\$600	\$250
8	Colonial branded products of CBA LOC - Viridian Residential	\$2,322	\$280,187	-\$3,353	8.57%	\$12	\$1.5	\$150
9	Commonwealth Bank LOC - Viridian Residential	\$2,322	\$280,187	-\$3,353	8.57%	\$12	\$1.5	\$150
10	Macquarie Macquarie SELECT Line of Credit & Combo Express	\$2,313	\$280,475	-\$3,708	8.53%	\$20	\$0	\$500

Information correct as at 22/11/2007

*Total upfront fees include: all initial costs

**Exit fees include: all exit costs including deferred establishment fees and break costs



YM's Line of credit loans NON-BANK

Assumptions:
loan amount \$300,000
LVR 80%
term 30 years

Top 10 Line of credit loans based on true cost after 3 years

Rank	Product	Monthly repayment	True cost after 3 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	One Direct one direct equity loan	\$2,178	\$130,911	\$8,595	7.89%	\$0	\$61.5	\$150
2	Aust. Central CU LOC Home Loan Package \$250K - \$499K	\$2,195	\$80,526	\$5,465	7.97%	\$24.58	\$280	\$340
3	HBF HBF Line of Credit	\$2,231	\$80,553	\$5,437	8.14%	\$0	\$0	\$250
4	Sapphire Mortgage Service LOC - Package Plus	\$2,191	\$81,465	\$4,525	7.95%	\$10	\$405	\$1,830
5	Wizard HL Wealth Power Line of Credit	\$2,247	\$82,019	\$3,971	8.22%	\$0	\$760	\$350
6	Aussie HL Aussie Express Low Doc LOC Variable	\$2,226	\$82,067	\$3,924	8.12%	\$0	\$700	\$1,215
7	Aussie HL Aussie Express No Doc LOC Variable	\$2,226	\$82,067	\$3,924	8.12%	\$0	\$700	\$1,215
8	Ratebusters LOC - Fee Buster	\$2,185	\$82,115	\$3,875	7.92%	\$0	\$220	\$3,250
9	A M O LOC - Professional All In One	\$2,191	\$82,275	\$3,715	7.95%	\$0	\$705	\$2,700
10	Austral CU Ltd Austral LOC Home Loan	\$2,191	\$82,320	\$3,670	7.95%	\$0	\$700	\$2,750

Top 10 Line of credit loans based on true cost after 5 years

Rank	Product	Monthly repayment	True cost after 5 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	Ratebusters LOC - Fee Buster	\$2,185	\$131,595	\$7,912	7.92%	\$0	\$220	\$300
2	One Direct one direct equity loan	\$2,178	\$130,911	\$8,595	7.89%	\$0	\$61.5	\$150
3	Ratebusters LOC - Fee Buster	\$2,185	\$131,595	\$7,912	7.92%	\$0	\$220	\$300
4	Mortgage Ezy Ezy 90% Line of Credit No Mortgage Insurance	\$2,178	\$132,237	\$7,270	7.89%	\$0	\$987	\$550
5	Mortgage Ezy LOC - All in One	\$2,178	\$132,237	\$7,270	7.89%	\$0	\$987	\$550
6	Mortgage Ezy LOC - Eraser NIVA	\$2,178	\$132,237	\$7,270	7.89%	\$0	\$987	\$550
7	A M O LOC - Professional All In One	\$2,191	\$132,456	\$7,051	7.95%	\$0	\$705	\$300
8	Sapphire Mortgage Service LOC - Package Plus	\$2,191	\$132,486	\$7,021	7.95%	\$10	\$405	\$30
9	Aust. Central CU LOC Home Loan Package \$250K - \$499K	\$2,195	\$133,796	\$5,711	7.97%	\$24.58	\$280	\$340
10	Austral Mort. Corp. LOC - Design a Loan	\$2,212	\$133,956	\$5,551	8.05%	\$0	\$750	\$500

Top 10 Line of credit loans based on true cost after 10 years

Rank	Product	Monthly repayment	True cost after 10 years	Saving against average cost	Initial int rate pa	Ongoing fee (per month)	Total upfront fees*	Exit fees**
1	Ratebusters LOC - Fee Buster	\$2,185	\$262,670	\$13,428	7.92%	\$0	\$220	\$300
2	One Direct one direct equity loan	\$2,178	\$261,611	\$14,487	7.89%	\$0	\$61.5	\$150
3	Ratebusters LOC - Fee Buster	\$2,185	\$262,670	\$13,428	7.92%	\$0	\$220	\$300
4	Mortgage Ezy Ezy 90% Line of Credit No Mortgage Insurance	\$2,178	\$262,937	\$13,162	7.89%	\$0	\$987	\$550
5	Mortgage Ezy LOC - All in One	\$2,178	\$262,937	\$13,162	7.89%	\$0	\$987	\$550
6	Mortgage Ezy LOC - Eraser NIVA	\$2,178	\$262,937	\$13,162	7.89%	\$0	\$987	\$550
7	A M O LOC - Professional All In One	\$2,191	\$263,907	\$12,192	7.95%	\$0	\$705	\$300
8	State Custodians Mortgage Company State Custodians Line of Credit	\$2,158	\$263,924	\$12,174	7.79%	\$32.5	\$1,120	\$0
9	Austral CU Ltd Austral LOC Home Loan	\$2,191	\$263,952	\$12,147	7.95%	\$0	\$700	\$350
10	Sapphire Mortgage Service LOC - Package Plus	\$2,191	\$264,537	\$11,562	7.95%	\$10	\$405	\$30

Information correct as at 22/11/2007

*Total upfront fees include: all initial costs

**Exit fees include: all exit costs including deferred establishment fees and break costs