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TOP TIPS – for The Sunday Times

GETTING AHEAD WITH INTEREST ONLY LOANS

Local finance broker Maria Amos believed investors could get ahead in a hot property market by using interest-only loans, but cautioned them that it wasn't a shield against future interest rate rises.

Ms Amos, Director of Image Financial Group, said well informed investors could use interest-only loans to their advantage, but some investors wrongly believed these loans would save them from the effects of an interest rate rise.

Some tips for investors considering interest only loans are:

- Avoid the misconception that interest-only loans are different from other loans and be aware that depending on the structure, they can still be hit by rate hikes.
- Take into account the term of an interest only loan. This is usually set between one and five years, after which the status of the loan will be re-evaluated.
- Make sure you can make repayments in full and on time – without a consistent repayment record, the interest only status of your loan could be revoked.
- Before you sign up, crunch the numbers and be sure you can make the repayments as required despite any possible rate rise. This can help you hold onto that interest-only status.
- Understand the conditions of the loan and structure it to suit your needs by taking into account your entire financial situation.
- If your budget is tight and another rate rise would tip you over the edge and make repayments difficult, it may be best to reconsider your options.

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