



DROP THE MORTGAGE

We bought our home a few years ago for \$440,000 but I have a feeling that it would now be only worth \$360,000 if we got it valued now. What happens if my mortgage is higher than the value of my home?

Jodie, Wentworthville, NSW

It has been a hard few years for property owners as they have seen property prices fall throughout Australia. For some, like Jodie, the result is that their home is worth less than the mortgage.

There are three solutions available to you – time, improvements and mortgage reduction.

The simplest is time. If you can wait it out, the value of your home will rise again over time and the problem is solved. My dad always told me that your house is worth nothing unless you are willing to sell it. There really is nothing that you can do with market forces and you shouldn't be stressing about it.

But what happens if it takes a few years for the price to recover and you don't have that time available (due to financial hardship, illness or divorce)?

To prepare for one of these situations I suggest you try to increase the value of your home or reduce your mortgage.

Home improvements will come at a cost and that generally means borrowing more. So I would only consider it if the increased value of your home is a lot greater than the cost of the project.

Whilst interest rates are at such lows, now is a real good time to make a big dent in your mortgage and get it down quicker. Try and make extra repayments if the family budget allows.

It is not advisable, but if you need to do a "short sale" then hopefully you would have taken out mortgage insurance initially to help cover the differential. You will need advice from the bank and real estate agent under this scenario.

The absolute last thing that you want to do is stop making payments and defaulting on your mortgage. This affects your credit rating and your ability to borrow again.