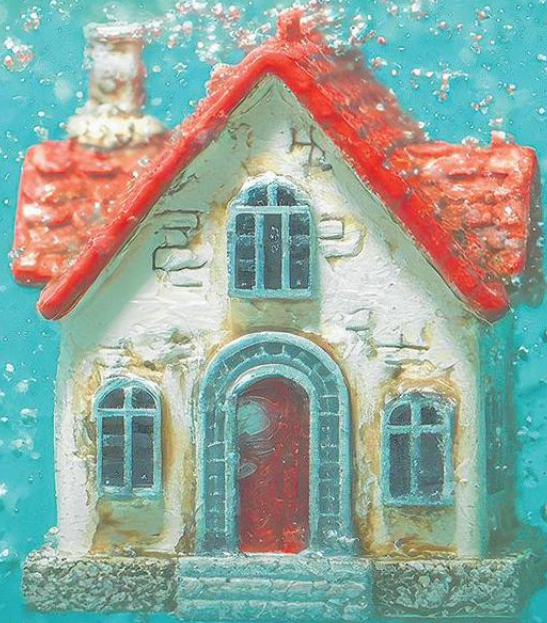


For first-homebuyers who entered the market with smaller deposits, negative equity can feel like a financial nightmare

GOT THAT SINKING FEELING?



CHRIS FOSTER RAMSAY

Few phrases create more anxiety for homeowners than negative equity.

It sounds alarming. It generates headlines. And for many Australians, particularly first-homebuyers who entered the market with smaller deposits, it can feel like a financial nightmare.

But before borrowers panic it's important to understand what negative equity actually is and what it isn't.

Negative equity occurs when the amount owed on a home loan exceeds the property's current market value.

For example, if a homeowner owes \$700,000 on their mortgage but the property is now worth \$650,000, they are effectively \$50,000 in negative equity.

On paper, that's uncomfortable. But in reality, negative equity only becomes a significant problem when a borrower is forced to sell, refinance or access equity while the property's value remains below the loan balance.

The recent growth in low-deposit lending means some borrowers may be more exposed than others.

First-homebuyers who entered the market under the Home Guarantee Scheme with a 5 per cent deposit could find themselves particularly

vulnerable if property prices soften in their local market.

However, negative equity is not exclusive to first-time buyers. It can affect investors, owner-occupiers, upsizers, downsizers and even long-term homeowners if market conditions change quickly enough.

The good news is that negative equity is not a new phenomenon.

Australia has experienced periods of negative equity before. We've seen it in mining communities following commodity downturns, in regional markets after major employers closed, and in pockets of metropolitan markets during housing corrections.

The common thread? The vast majority of borrowers who remained in their homes and continued meeting their repayments ultimately worked their way through it.

That's because property markets move in cycles. Values rise, plateau, decline and recover.

While short-term market movements can be unsettling, residential property ownership has always been a long-term proposition.

One of the biggest misconceptions borrowers have is that a bank will immediately move to repossess a property if values fall.

That simply isn't how lending works.

Banks are in the business of lending money, not repossessing homes and selling property.

Repossessions are expensive, time-consuming and generally result in poor outcomes for all parties involved. Lenders would almost always prefer to work with a customer to find a solution than pursue enforcement action.

It's why the single most important piece of advice I can give borrowers is this: do not suffer in silence. If you're concerned about your equity position, your repayments, your employment situation or your financial future, contact your broker, banker or lender as early as possible.

The earlier a conversation occurs, the more options are typically available. Depending on the circumstances, those options may include hardship assistance, repayment variations, loan restructuring, interest-only periods, term extensions or other support measures designed to help borrowers navigate temporary challenges.

In my experience, lenders are generally willing to help customers who engage early and communicate openly. What concerns them is when borrowers avoid the conversation altogether.

Importantly, negative equity is often a balance-sheet problem rather than a cash-flow problem.

If you can comfortably afford your repayments and you are not required to sell, a temporary decline in property value may have little practical impact on your day-to-day life.

That doesn't mean borrowers should ignore the issue. It means they should understand it, seek advice and make informed decisions rather than emotional ones.

For homeowners worried about falling property values, remember that a valuation is simply a snapshot in time. Your mortgage is measured in decades.

Markets change. Circumstances change. Values recover.

The lesson from previous market cycles is clear: those who seek advice early, stay engaged with their lender and maintain a long-term perspective generally place themselves in the strongest position to weather periods of uncertainty.

Negative equity can be challenging. But more often than not it is simply one chapter and not the end of the story.

Chris Foster Ramsay is director of Foster Ramsay Finance

No happy returns for apathetic taxpayers

DANIEL NEWELL

While most Australians say they feel confident about doing their own taxes, nearly half admit to being shocked by an outcome from the taxman after lodging their annual return.

New research by H&R Block Australia has revealed a growing gap in tax-time confidence. Three in four people say their tax is straightforward or simple, but almost half admit they are at least sometimes unsure what they can and cannot claim.

Alarming, 71 per cent say they had at least one factor in the past financial year that added real complexity to their return. That included working from home (24 per cent), receiving government payments (22 per cent), making investments (21 per cent), holding multiple jobs or income sources (14 per cent), earning side hustle income (13 per cent) or owning an investment property (11 per cent).

H&R Block director of tax communications Mark Chapman said for most people, their tax situation was more nuanced than they realised. Too many were relying on autopilot habits, shortcuts and assumptions that could see them miss legitimate deductions.

"Nearly half of Australians have been caught out at tax time at some point, whether through a lower refund, an unexpected bill or a letter from the ATO," Mr Chapman said.

"These moments often happen when work, income or financial circumstances change, but tax habits stay the same."

The accounting firm's survey found almost half of Australians spent one hour or less on their last return, and more than one-third took a shortcut approach to work-related deductions, including using fixed rates, repeating last year's method, or going with whatever their software suggested. Among those who used a fixed-rate method, almost two-thirds said they chose it because it seemed the easiest or quickest option.

That lack of engagement resulted in six in 10 having some level of uncertainty after hitting submit, and four in 10 believing they have missed something in a past return.

Only 42 per cent say they would seek professional help once their tax situation became more complicated and one-third say they would only get help if they realised they had been missing deductions they were entitled to.

"For many Australians, tax is more complex than it used to be," Mr Chapman said.

"Changes in work, income or finances can affect what you can claim and how you should lodge. If your situation has changed since last year but your approach hasn't, you may risk leaving money on the table or facing an unexpected tax outcome."

'Not built for us': Millions missing out on super

More than half of Australia's 1.7 million sole traders are skipping superannuation contributions to cover day-to-day expenses, which potentially leaves a generation of self-employed workers financially exposed in retirement.

New research from payments platform Hnry reveals half of Australia's sole traders have already deferred super payments

as they focus on more immediate costs such as fuels, energy and food.

Adding to the woes is a further 41 per cent say they will delay contributions in the future — double the figure recorded just three years ago — as cost-of-living bites hard.

Hnry Australia managing director Karan Anand said the superannuation system was

simply not built for the way millions of Australians now worked.

"For sole traders, there's no employer making compulsory payments in most circumstances, so super becomes another financial decision competing against rent, fuel, groceries and business costs," he said.

Mr Anand said many sole traders were also in the dark

about the support already available to them, including co-contribution schemes, contribution rules and tax incentives specifically designed for the self-employed.

"Australia's sole trader workforce is growing by at least 30,000 people every year, but many are navigating super and retirement planning without enough support," he said.