



Media Release

May 23rd 2008

Mortgage draw-downs can double car costs warn GE Money

The trend towards drawing down on mortgages for major purchases could lead to future troubles for Australian households according to GE Money.

Managing Director of GE Money Motor Solutions, Mr Greg O'Callaghan, said there appears to be a trend for Australians to use their mortgages to finance other major purchases such as motor vehicles.

"When the housing market becomes unaffordable, Australians with surplus available funds are tempted to make other major purchases, and probably the most convenient form of finance is mortgage draw downs," said O'Callaghan.

"While drawing down on your mortgage is convenient, it can greatly extend the time it takes you to pay off the debt, and therefore increases the interest you'll pay, if you don't increase your repayments at the same time. So Australians need to decide carefully and plan accordingly," he said.

"There are many people waiting on the sidelines to move up to a bigger and better house who are waiting for the right time. In the meantime, they still have the urge to splurge, so the great offers currently advertised by car dealers are extremely tempting. If it's not right timing to buy a new home, it's certainly a good time to buy a new car," he said.

"However motor vehicles are depreciating assets, so using a 20 year mortgage to finance a car may not be a wise move, especially in a volatile economic environment. If you need to sell your car before it is paid off, be aware that its market value will have dropped" he said.

"If you do want to utilise the lower interest rate of your mortgage to finance your car purchase, think about increasing your mortgage repayments by the amount you would otherwise pay for the vehicle finance each month. Unfortunately, many people don't increase their mortgage repayments enough after the draw-down and they could end up paying more in the long-run," O'Callaghan added.

The number of cars financed in Australia has dropped by around 10% in recent months, even though car sales have continued to rise month on month, which indicates that many Australians are loading up their mortgages.

"Regardless of your tax or work situation, the best way to reduce your interest payments is to pay it off as quickly as possible.

"If these purchases become a long term hidden cost within a mortgage, they can cost you thousands of dollars in interest over the term of the mortgage," he said.

On an average car loan of \$32,000, financing via a mortgage without making extra payments could cost almost \$40,000 in interest alone (see Appendix A attached)

-Media Release ends-

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APPENDIX A:

Be careful before you buy a car on your mortgage!

Motor Loan		Mortgage	
Amount Financed	\$ 32,000.00	Current Balance	\$ 225,000.00
Interest Rate	10.50%	Remaining Term (years)	21
Term (months)	60	Remaining term (months)	252
Balloon	\$ -	Current Interest Rate	8.90% (A)
Monthly repayment	\$ 694.25	Monthly repayment on \$225k loan today	\$ 1,975.66
		Proposed Monthly repayment on \$257K loan	\$ 2,256.64
		Total Interest	\$ 343,673.98
Total interest	\$ 9,655.18	Interest (Vehicle only)	\$ 38,807.66

By financing as a motor loan through a dealership at 10.50% fixed rate you would be saving:

\$29,152.48

What is the total cost of the car?

via Motor Loan	\$41,655.18
via Mortgage increase	\$70,807.66

(A)based on a fixed rate of 8.90%

About GE Money

GE Money Australia & New Zealand is part of the global GE Money business, which operates in 55 countries around the world. GE Money offers a broad range of innovative finance products – everything from personal loans, credit cards, interest-free promotional offers, motor loans through to home loans. GE Money also owns the Australian Financial Investments Group (including Wizard Home Loans) and is proud to be Money Magazine's Finance Company of the Year, 2005 and 2006. More information can be found online at www.gemoney.com.au

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