Choosing The Right Loan Structure For Your Investment Property

IT'S NOT **ROCKET SCIENCE**

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antonclarke.com.au

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About the Author

Anton Clarke is a lending specialist, property investor and founder of Loan Smart and Australian Expat Home Loans. His in depth knowledge comes from more than 18 years in the industry. Anton can speak from personal experiences on the property market and residential lending trends. He has been regularly called upon to comment in the media about the mortgage and property markets.

Anton now helps others by sharing his knowledge and experience. Through his mortgage broking business Loan Smart he has helped many clients to build successful property portfolios with the right loan structures.

Anton lives in Noosa on the Sunshine Coast with his wife Linda and their four children.

“Any society that needs disclaimers has too many lawyers”

- Anonymous (or they weren’t game enough to put their name to it)

General Advice Warning:

The information in this book is intended to be general in nature and is not personal financial product advice. It does not take into account your objectives, financial situation or needs. Before acting on any information, you should consider the appropriateness of the information provided and the nature of the relevant financial product having regard to your objectives, financial situation and needs. In particular, you should seek independent financial advice prior to making an investment decision (including a decision about whether to acquire or continue to hold) about a financial product.

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All information in this book has been obtained by the author solely from his own experiences and is provided as general information only. Legislation and lenders credit policies change so often so please keep this in mind as you read this book.

Authors Notes:

I think in current times there are too many disclaimers, they just foster the idea that people don’t need to think for themselves or take responsibility for their own actions. If you are reading this book please take responsibility for your own actions and decisions. And remember if it smells like it’s too good to be true then it probably is. Don’t get sucked into any get rich quick schemes, it can happen but it’s often more by luck than good planning.

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Introduction

Choosing a home or investment property is one of the largest financial decisions you'll make, and I believe firmly that you need real, actual help during the process, rather than someone just trying to sell you a product.

The idea behind this book is to highlight the importance of getting the right advice at the right time and is just one example of the 7 step process we follow with all our clients.

I have a belief that "The earlier I can see a client the better off that client will be" this may sound like a big headed statement if so sorry it's not intended that way. I just like to point out that there are many issues and questions you need to think about before you sign a purchase contract. That is why we take every client through our 7 step process to make sure you have all aspects covered. In many cases you may need to seek advice from your accountant, solicitor or financial advisor but at least you will be armed with what questions to ask.

Enjoy the read and feel free to give me a call if you have any questions.

1.

Chapter One

WHAT'S SO COSTLY ABOUT THE WRONG LOAN STRUCTURE?

A loan structure will influence many things including the interest rate and fees you pay, the amount of tax that you pay, the amount of flexibility you have, your access to additional finance (i.e. your ability to invest more) and so on.

- **Tax-effective debt:** This is probably one of the most costly consequences of a poor loan structure. Two of the most common problems include an inefficient split of tax deductible and non-deductible debt (i.e. home loan is too large as a proportion of total debt) and inflexibility of debt structure to accommodate changes in circumstances or use of property in a tax effective manner. Of course, we can't be too tax focused when it comes to loan structuring as tax is only one of many considerations. However, optimising your tax position will increase your cash flow and cash flow is very important when it comes to building an investment property portfolio.

- **Flexibility:** Flexibility relates to your ability to make the most of opportunities. For example, being able to access a sum of money quickly so that you can take advantage of an investment opportunity that has unexpectedly arisen, refinance one of your loans to a lender that is offering a sensational fixed rate for a limited time and so on. Unexpected changes are, by definition unexpected. It's hard to plan for something that is unexpected.

- **Risk:** Rarely do I meet a prospective client that takes a balanced approach to assessing risk. Investors tend to be either overly conservative and spend too much time on focusing on why they shouldn't invest or they are blind to risk and look at everything with rose coloured glasses. Risk management is often about playing the devil's advocate and thinking about all the things that could go wrong. What if I lost my job, what if I fall ill and can't work, what if a tenant gets injured in my property and sues me and so on. Loan structure plays a role in this too. For example, assume you run into financial difficultly and you decide to sell one of your investment properties so that you can use the cash proceeds to pay for living expenses for the next few years. If your loans are structured incorrectly (cross-securitisation – more on this later) then the bank can control all the sale proceeds and force you to repay debt. That's a risk. This is only one example of how loan structure affects risk.

- **Account keeping:** This is about keeping your accountant and the ATO happy. The onus is on the taxpayer to prove why they are claiming certain deductions. For example, if you have one big loan that relates to multiple properties and you sell a property but don't repay any debt (because you believe no debt relates to that property), the onus is on you to demonstrate to the ATO that you are correct. If there's any ambiguity (due to poor records), you risk the deduction for interest being denied by the ATO. A correct loan structure will ensure you have a sound basis for claiming deductions through separating loans by property and purpose.

2.

Chapter Two

CROSS SECURITISATION AND WHAT DOES THIS MEAN?

The definition of cross-securitisation is simply where a loan is reliant upon more than one property as security. You can have multiple loans secured by one property (that's okay), but not multiple properties securing more than one loan.

Some advisors suggest that cross-securing your property portfolio gives rise to higher risk because if all properties are securing all loans and something goes wrong, the bank can sell the lot. I don't subscribe to this theory. Firstly, most mortgage contracts have 'all monies' clauses which essentially allows a lender to consolidate all loans associated with the same borrower regardless how they are structured. Also, from a practical perspective, if you get into financial strife, it's unlikely you'll only default on one mortgage and keep the repayments up on the rest. More likely than not, you won't be able to meet any repayments.

The real reason for avoiding cross-securitisation is to maintain your flexibility and keep your banking as simple as possible. There are so many examples of how cross-securing loans can have negative consequences and we see it every day in our business. Some examples include:

- If you want to borrow more than 80% of one investment property and loans are cross-securitised, the mortgage insurer will charge its mortgage insurance premium on all your lending, not just the new loan. The additional mortgage insurance cost could be thousands of dollars.
- If your loans are cross-securitised and you sell a property, the bank can control your sale funds and demand that you use all the funds to repay debt (whereas, perhaps you only intended to repay the debt associated with the property you sold and keep the residual cash).
- If your loans are cross-securitised, the bank will revalue all properties at the same time and the risk is that lower valuations could offset higher ones thereby reducing your 'available' equity. Instead, having loans individually secured allows you to "cherry-pick" which properties to revalue.

If all your loans are cross-secured and your lender either declines to advance further borrowings or hikes up interest rates and fees, it might be very costly to move some or all lending to another lender particularly if some of your loans are fixed.

I could write an endless number of examples. However, put simply, avoid cross-securitisation wherever practical. I'll show you how to do this using a case study.

3.

Chapter Three

CASE STUDY

Keith and Joanna own their home in Noosa Waters on the Sunshine Coast. Their home is worth approximately $1.5 million and they have a home loan of $370,000. They would like to start acquiring an investment property portfolio. They have set a budget of up to $600,000 on their first acquisition. They would like to buy a second investment property as soon as they feel comfortable (probably within the next 2 or 3 years).

In summary, we advised Keith and Joanna to access the equity in their home to fund a deposit of 20% plus costs. They will then obtain a separate loan for the remaining 80% secured by the investment property itself.

Step 1: Access deposit(s)

Keith and Joanna will need access to enough funds to pay for a 10% deposit on the day that they purchase their investment property. Therefore, the first step is to arrange access to deposit funds prior to purchasing. In fact, we will arrange a facility to fund 20% plus

costs plus a buffer. Given they would like to buy a second investment property relatively soon, we'll actually arrange a facility large enough to accommodate two investment property purchases. Their financial advisor has recommended that the investment properties be owned 100% by Keith.

Twenty percent of $600,000 is $120,000. Costs associated with the purchase include stamp duty ($21,330), legal fees (say $1,500), and a buffer (say $7,170) = say $30,000 in total. Therefore, we will need a facility for $300,000 ($120k + $30k = $150k x 2 = $300k).
The loan structure after step one will be:

Loan Limit	Loan Balance	Purpose	Loan Name	Security	Lender	Comment
$370,000	$370,000	Home Loan	Joint	Home Only	Lender A	Offset 1
$300,000	Nil	20% deposit + costs	Keith Only	Home Only	Lender A	Offset 2

- Offset 1: this is linked to the home loan and Keith and Joanna's salary income should be deposited into this account. This offset will be used to pay for living expenses and home loan repayments.
- Offset 2: This account will be in Keith's name only and will be linked to the deposit loan. Any unused loan funds will be deposited into this account and rental income and loan repayments should go to/from this account.

Once this loan has been established, Keith and Joanna are ready to buy their first investment property. On the day of purchase they will draw the 10% deposit from the unused $300k loan.

Step 2: Establish 80% loan

Once they have purchased their first investment property they can establish a third loan to fund the remaining 80% of the purchase price. Their loan structure will look like this after the investment property purchase is completed.

Loan Limit	Loan Balance	Purpose	Loan Name	Security	Lender	Comment
$370,000	$370,000	Home Loan	Joint	Home Only	Lender A	Offset 1
$300,000	$142,830	20% deposit + costs	Keith Only	Home Only	Lender A	Offset 2
$480,000	$480,000	80% loan	Keith Only	IP 1 only	Lender B	No Offset

You will note that we have drawn a 20% deposit ($120k) plus costs ($21,330 for stamp duty, $1,500 for legal fees) from the $300k deposit loan. You'll note that we used a different lender (Lender B) for the 80% loan.

Step 3: Repeat the process

When Keith and Joanna are ready they can buy their second investment property as they have access to enough borrowings (from the first $300k deposit loan) to fund another 20% deposit. Ignoring any changes in the home loan balance, their loan structure will look like this after the second investment property acquisition.

Loan Limit	Loan Balance	Purpose	Loan Name	Security	Lender	Comment
$370,000	$370,000	Home Loan	Joint	Home Only	Lender A	Offset 1
$300,000	$285,660	20% deposit + costs	Keith Only	Home Only	Lender A	Offset 2
$480,000	$480,000	80% loan	Keith Only	IP 1 only	Lender B	No Offset
$480,000	$480,000	80% loan	Keith Only	IP 2 only	Lender C	No Offset

Note that they still have a small buffer in the deposit loan of $14,340 (difference between balance and limit). This is an important risk management practice (available money in case of emergencies).

Step 4: Tidy up the loan structure

Since we borrowed 100% of the investment property plus costs we initially needed to use the equity in Keith and Joanna's home. However, a time will come when we accumulate sufficient equity in the investment property to secure all lending. For example, if the investment properties increase in value by 8% per year, in 4 years they will be worth $815,000 each. At this time we could increase the $480,000 loans (i.e. original 80% loans) by $142,830 to $622,830.

We would use this extra money ($142,830) to repay the deposit loan. Essentially, this means that the investment properties are now funded stand alone and the home is no longer needed. The loan structure would look like this:

Loan Limit	Loan Balance	Purpose	Loan Name	Security	Lender	Comment
$370,000	$370,000	Home Loan	Joint	Home Only	Lender A	Offset 1
$300,000	Nil	20% deposit + costs	Keith Only	Home Only	Lender A	Offset 2
$622,830	$622,830	Total acquisition cost	Keith Only	IP 1 only	Lender B	No Offset
$622,830	$622,830	Total acquisition cost	Keith Only	IP 2 only	Lender C	No Offset

Note: The $300,000 deposit loan can be closed particularly after the home loan is repaid so that Keith and Joanna will hold the unencumbered title to their home (which is a common goal for most people).

In essence, this loan structure uses the equity in Keith and Joanna's home for a limited period of time until the investment properties accumulate so efficient equity to secure all investment loans.

4) Funding deposits

You will note that in the above case study, Keith and Joanna established one deposit loan that was used in relation to two separate investment properties. Normally, we would recommend splitting loans by property and purpose so that you can separately identify what debt relates to which assets. To do this we would have two loans for $150,000 each secured solely by the home. However, in the interest of simplicity, we only used one loan particularly since we intended on cleaning up the structure in 4 to 5 years time.

In some circumstances, I would recommend splitting out the deposit loan. This would be more important with more complex structures and more investment properties. We often need to balance out a theatrically perfect structure with practicality and useability.

4.

Chapter Four

MULTIPLE PROPERTIES AND LENDERS

The case study included Keith and Joanna using three different lenders (Lender A, B and C).

Clients often ask us: should we use different lenders to spread our risk? The advantage of using different lenders includes:

Establishing a "credit relationship" with more than one lender can be an advantage as lenders sometime have different credit policies or pricing for existing customers versus 'new to bank' customers.

One advantage of having all lending with one lender is higher interest rate discounts (that is, you might be able to get better rates or fees if you use one lender).

Spreading your lending amongst a few lenders can be a prudent risk management procedure, we did see during the height of the GFC (Global Financial Crisis) that as the Reserve Bank was reducing interest rates, some lenders were unable to pass that on due to their funding pressures. So if you had all of your borrowings with one of these lenders it would have been costly.

5.

Chapter Five

PLAN FOR THE UNEXPECTED

Unexpected changes are exactly that... unexpected

One of the biggest mistakes that people make when structuring loans is to not consider the consequences of unforeseen changes in personal and financial circumstances. In fact, they are often totally blind to the possibility of change. However, the problem is that many unexpected changes occur in our lifetime. Therefore, you should structure your lending so that it's as flexible as possible even if you're convinced you don't need the flexibility. Often, a high level of flexibility can be achieved without incurring any additional cost and that's exactly what I recommend. In this regard, it can be very worthwhile sitting down with an experienced mortgage broker to talk about a few "what if" scenarios.

6.

Chapter Six

SO WHERE SHOULD YOUR LOAN REPAYMENTS COME FROM?

The name of the bank account where repayments are taken from is also important. The name of the account needs to match the owner's name and this is very important. For example, if John owns an investment property solely, then loan repayments must come from a transaction account solely in John's name. Repayments can't come from a joint account with his wife Sue – which is often what I see.

This is important because it demonstrates to the ATO that John has been making the repayments on the loan and is therefore entitled to 100% of the tax deduction. Remember, the onus is on the taxpayer to prove this point (and any evidence to the contrary will assist the ATO in raising more tax revenue). If you leave room for the ATO to argue that Sue has been making 50% of the interest repayments you may put your tax benefits at risk. At the end of the day it's better to be safe (and smart) now than sorry after an ATO audit.

7.

Chapter Seven

LOAN CONSIDERATIONS

Keep your LVR as close to 80%

Most lenders will lend up to 80% of a property's value without charging lenders mortgage insurance. Lenders mortgage insurance is a very costly once off fee that is charged to cover the lender if they suffer a loss (due to you defaulting) as a consequence of lending you more than 80%.

My philosophy is; if you are going to give a title to one of your properties to a lender, it is reasonable to expect the greatest amount of flexibility as possible in return. That is, the ability to draw up to 80% of that property's value if you wish to do so.

The way I see it, the higher your credit limits are, the lower your risk (assuming you are disciplined with your finances). Why? Well it gives you a greater buffer that will allow you to accommodate unplanned events or opportunities. There have been times when we have recommended clients borrow more than their immediate needs (but not draw the money down of course – so no interest payable) and whilst this didn't cost any extra, clients have initially questioned if it was in fact necessary. I can

assure you that on many occasions our approach (in time) has been proven to be very valuable and the higher credit limit has assisted in accommodating unexpected changes and opportunities. It's proved to be very valuable advice. Therefore, my advice to investors is to actively revalue their properties every 1 to 2 years and, either release a property (i.e. take the title back from the bank), or where that's not possible or practical, increase the credit limit to 80% of the new valuation thereby "locking" in more equity. I have seen this approach work perfectly when we re-valued a client's property portfolio and increased his loan credit limits to 80% in late 2007 (the market hit a new median price peak). Then, about 2 years later, the market hit a low (in the heart of the Global Financial Crisis) and the client was able to access equity that was locked in at the peak and invest it in a more subdued market. If we had not revalued in 2007 (even when he had no plans to use the money) and waited until 2009, his borrowable equity position would have been very different.

Interest only or principal & interest repayments?

In most circumstance it makes sense to set up a loan on interest only repayments. The reason is simply because it often affords you the flexibility to choose between the two. That is, the vast majority of interest only loans allow you to make principal (regular and irregular) repayments at any time. Therefore, you can (normally) make principal and interest repayments on any interest only loan. However, you have the flexibility to reduce the repayment to interest only at any time.

Perhaps a better quality question would be; what should you repay P&I or interest only? That is more of a financial planning question rather than a loan structuring question. We would always try and structure a loan that provides the maximum flexibility – which is interest only.

Structure and mortgage insurance

Again, this is a separate topic in itself. However, suffice to say that if you need to borrow more than 80% and pay for lenders mortgage insurance, there are ways to minimise this cost through loan structuring. Therefore, if you are in mortgage insurance territory, make sure that you get some independent advice in regards to the structure and lender(s) you use as it could literally save you tens of thousands of dollars.

Offset accounts (almost a must)

Offset accounts can be very valuable in an investment environment. The important thing with any investment borrowings is you don't want to mix up investment loans with personal cash flow, the offset lets you achieve this trust me your accountant will love it.

8.

Chapter Eight

STRUCTURING THROUGH OTHER ENTITIES

With any investment purchase you have a number of ownership options besides your individual names. People are now buying property in structures other than their personal name. This might be seen as a positive step as it shows that investors are starting to think more strategically. However, as with any added complexity, it brings with it additional considerations that might not be identified by your accountant (who typically establishes these structures) and/or your mortgage broker. Therefore, my first tip is to ensure that your lending advisor has plenty of experience in dealing with these various structures because I have seen some terribly messy structures, and borrowers paying nearly 1% more in interest than they need to (notwithstanding potentially lost tax benefits).

Discretionary trusts

Don't compromise asset protection one of the benefits of a discretionary (family) trust is it provides tax planning flexibility in that the Trustee can distribute income and capital to beneficiaries with (often) complete discretion. The other main sited benefit is asset protection. That is, no one owns a Trust's assets until the Trustee makes an election to distribute them. Therefore, if you were declared bankrupt for example, it's likely that a Trustee in Bankruptcy won't be able to access any property owned by a family trust (this isn't iron clad but as a general principal it provides a good level of protection). I'm nearly always against cross securitisation even more so when an entity is involved. Therefore, it's unlikely that I would agree to one loan

(in the Trust's name) for the entire purchase price plus costs secured by both the Trust's property and the home (i.e. cross secured). It is important that there are two separate loans – one against each security.

Just to clarify one issue, when I say the loan is to be in the Trust's name I actually mean it will be in the Trustees name. The correct name will be something like "Smith Investments Pty Ltd as trustee for (ATF) The Smith Family Trust". The Trustee has to be named as it legally holds the property (i.e. the title is registered in the Trustee's name) on behalf of the Trust.

SMSF Borrowing

In late 2007, one of the last pieces of legislation passed by the Howard Government allowed super funds to borrow under certain arrangements (previously super funds couldn't borrow at all). Over the last few years, this 'opportunity' has attracted quite a lot of attention. In my opinion, the law is cumbersome and ill-considered and as such has created probably just as many problems as it has opportunities. The concept of a super fund using borrowings to increase its investments is a very good one if used safely. Essentially, by borrowing you are investing your future super contributions now. Assuming the Fund invests in a quality investment, it is a fantastic solution to funding retirement. We all know how (a safe level of) gearing is a powerful wealth building tool.

Many lenders will ask for personal guarantees in respect to the super fund's loan. This use to be a concern but thankfully the recent law changes provided more clarity and most legal advisors are not too worried about personal guarantees anymore.

In my opinion, the biggest feature to insist on is an offset account. SMSF's tend to hold a reasonable amount of cash (and so they should as a safety measure). Therefore, an offset account becomes very valuable as you'll be able to deposit all cash savings in the offset. If the average cash balance is say $30,000 it will save over $2,000 in interest per year. Also, being able to offset debt instead of repaying it may give you the flexibility to purchase more than one property in your SMSF (by borrowing again using the cash in the offset as a deposit). There are not many lenders that allow offsets in SMSF's so choose carefully. Of course, this is not the only consideration so get some specific advice.

Lastly, from a practical perspective, SMSF are not very 'green'. Almost a whole forest is killed just to make the paper required to deal with the application and loan documents. Therefore, if loads of paperwork doesn't excite you, make sure you appoint an experienced team of advisers.

Personal guarantees

When applying for a loan in an entity's name (company, trust or super fund) nearly all lenders will insist on all interested (or controlling) parties providing personal guarantees. The main reason for these guarantees is that the entity alone often doesn't have sufficient income to service the debt. Also, people controlling the entity could purposely drain the entity of assets to avoid having to meet the banks loans. Therefore, they want controlling parties to take responsibility for the debt.

Most banks will seek guarantees from all Trustees (where the Trustees are individuals) or all directors of a Corporate Trustee. I have seen some banks ask for guarantees from all beneficiaries as well (e.g. anyone that has received a distribution in the past two years).

Consider who will need to provide a guarantee when setting up your structures as it might be better to only have one director of the Trustee Company (for example) so that a remaining spouse's borrowing capacity is preserved. Longer term credit planning can be useful in this regard. Most guarantees are joint and several which means each individual guarantor is responsible for the entire debt. This is important to be aware of, if investing with friends or family.

Hybrid & Unit Trust

Not all lenders will lend to a hybrid or unit trust in fact only a handful will. The reason for this is that unit holders could on-sell their units in the trust to a third party and this might affect the lenders capacity to act upon any guarantees. There are rumours that one bank actually suffered loss because of this very fact.

Hybrid trusts are even more unpopular with lenders than unit trusts. Very few lenders in Australia accept hybrid trusts as borrowers and for this and many other reasons, I would caution anyone considering using these entities.

Lender selection becomes even more important

You must choose your lender wisely when taking out a loan in an entities name. Some lenders can deal with these applications without any extra hassle. Other lenders will make it very hard work and ask a lot of questions and take a long time muddling their way through it. There are also some other lenders that won't even consider it (they'll refer you to their business banking department which will try and charge higher rates and fees so run a mile).

Product options between lenders for loans in a company, trust or super fund name can also vary dramatically. Some lenders will restrict features and others will charge higher rates and fees. The reason for this is historically 'mum and dad' investors typically were not that sophisticated and rarely used entities. Therefore, historically, these loans have been dealt with by their business banking departments. Over time this has changed but the banks do take a while to catch up.

Conclusion

THE FINAL WORD

I hope this book has gone some way to demonstrating the value of astute credit and loan structure advice particularly for investors. Now that you realise this is important, you need to recruit the best mortgage broker you can find and add them to your investing team. Access to finance can make or break your investment strategy.

Glossary

AAPR (Annual Average Percentage Rate)
This rate reflects the total cost of your loan.

Application fee
A fee paid by a borrower to cover the costs of processing a loan and mortgage.

Certificate of Title
A document that details the ownership and land dimensions of a property and lists any encumbrances on it.

Conveyancing
The process of legally transferring property ownership from the seller's name to the buyer's name.

Credit Reference or Credit Report
Before approving a loan, most lenders will require a credit report on the borrower. Credit reports are prepared by authorised credit reporting agencies, such as the Baycorp Advantage Ltd. The report sets out the credit history of the borrower. The Lender must get the borrower's permission in writing before obtaining a credit report.

Default
Failure to make a loan repayment by a specified date.

Early Repayment Penalty or Break Fees
If a loan is repaid before the end of its term, lenders may charge an early repayment fee.

Fixed Interest Rate
You can choose to "lock in" your interest rate for a specific period, for example, for 1, 2, 3, 5, or 10 years. Lenders may charge a fee if you "break" this period, so it is important to ask the lender if any fees apply.

Guarantee
A promise to meet the obligations of a third party if that third party defaults. Lenders in some circumstances may require a guarantee.

Guarantor
This is the person giving the guarantee. Most lenders will require the guarantor to get legal and financial advice before giving the guarantee.

Honeymoon Rate
Some lenders offer a "discount" or introductory rate for a short period of time, say a year, to entice you to take out a loan with them. At the end of the "honeymoon" period, the interest rate normally reverts to the lender's standard variable rate.

Interest-Only Loan

Under an interest-only loan, usually the borrower makes no principal repayments. The repayments are for the amount of interest, which has accrued on the loan, which is paid monthly in arrears.

Loan Agreement

The contract between the lender and the borrower, which sets out the conditions that apply to your loan. It is important that you read the agreement carefully, and wise to get legal and financial advice, before you enter into the loan.

Loan to Value Ratio (LVR)

This is the measure of the amount of the loan compared to the value of the property. For example, if you have borrowed $160,000 and your property is valued at $200,000, the LVR would be 80%.

Lenders Mortgage Insurance

Lenders Mortgage Insurance is insurance taken out against the borrower to protect the lender against default. It is important to understand that lenders mortgage insurance does not provide you, the borrower, any form of protection. If the loan is in default, you may still be required to meet any shortfall between the amount owed to the lender and the amount received from the sale of your property.

Mortgage

Security over property given to the lender for the repayment of the loan.

Mortgage & Finance Association of Australia (MFAA)
Industry body for the mortgage industry.

Mortgagee
The lender of money, and the party who has the benefit of the mortgage over your property.

Mortgagor
The borrower.

Principal & Interest Loan
This is the most popular type of loan where you repay a portion of the principal and the accrued interest over the term of the loan by regular instalments.

Redraw Facility
A facility where you can access (or "redraw") the extra repayments that you have previously made.

Refinancing
This means that you switch your loan from one lender to another.

Security
An asset used to guarantee a loan.

Settlement
Is the completion of the sale or purchase of a property. When the final payments are made at settlement, the lender will receive the signed transfer and the mortgage. The lender will hold the title deeds and the mortgage until the loan is repaid. The keys to the property are either handed over at settlement, or picked up from the estate agent immediately following settlement.

Settlement Date
Specific date at which buyer is to take possession of property upon finalising payment.

Stamp Duty
Stamp duty is a state government tax which is payable when a property is sold. Stamp duty is calculated on the purchase price of the property and is paid by the buyer. Each state and territory has a different rate of duty.

Term
The length of a loan or a defined period within that loan. The normal term of a mortgage is 25 to 30 years.

Valuation
A professional opinion of the value of a property.

Variable Interest Rate

This is a fluctuating rate of interest charged by lenders. Variable interest rates change as official market interest rates rise and fall.

Vendor

The seller of a property.

Contact Anton

I hope this book has given you some insight on the importance of having the correct loan structure when it comes to your property investments. Buying a home or investment property is one of the most significant financial investments you will ever make. Making the right decisions at the right time is vital during the buying process.

I have clients located not only around Australia but also many Expats located overseas. If you think I can help I would love to hear from you as we are able to provide the helping hand, guidance, advice and create solutions for all your residential lending needs.

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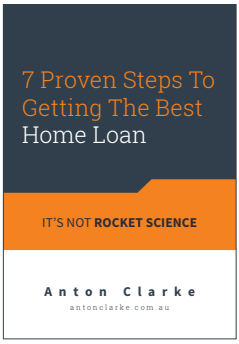
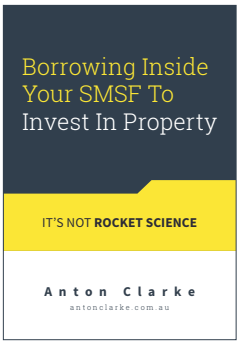


7 Proven Steps to Getting the Best Home Loan
IT'S NOT ROCKET SCIENCE

The total interest payable on a $300,000 mortgage can cost in the range of $200,000 to $500,000 over the life of a loan. We would all agree that this is a substantial amount of money. Consequently, a small percentage saving can equate to a huge amount in dollar terms. Hundreds and thousands of people in Australia are throwing their money away by choosing the wrong mortgage! You can easily half the cost of your mortgage. Sounds impossible? It's not that hard when you know how.

Trouble free borrowing for Australian Expats
IT'S NOT ROCKET SCIENCE

Obtaining a mortgage is complicated even in the best of circumstances. The average Australian living within the country's borders can encounter any number of pitfalls during the process. So for Australians living and working abroad, the process of securing a home loan can becomes a nightmare if the proper steps are not taken. Here are the proven steps which guarantee you will end up with the best mortgage.



Borrowing inside your SMSF to invest in property
IT'S NOT ROCKET SCIENCE

In September 2007, the Howard government made one of the most significant changes to the superannuation legislations in perhaps the past 20 years. This change created a number of excellent financial planning opportunities that all astute property investors must be aware of. This book sets out how property investors can take full advantage of the superannuation borrowing rules to maximise wealth.

Choosing The Right Loan Structure For Your Investment Property

IT'S NOT **ROCKET SCIENCE**

This book is essential reading for the first time property investor right through to the experienced investor who wants to make sure they have their existing loans structured correctly.

Becoming wealthy is a process that does not happen by chance. In this easy to read book Anton covers the following topics:

- What's so costly about the wrong loan set up
- Cross Securitisation, fancy word what does it really mean
- So what is the correct loan structure
- How to plan for the unexpected

Anton Clarke is a lending specialist, property investor and founder of Loan Smart and Australian Expat Home Loans. His in-depth knowledge comes from more than 18 years in the industry. Anton can speak from personal experiences on the market and residential lending trends. Anton has been regularly called upon to comment in the media about the mortgage and property markets.

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