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MAKE YOUR PROPERTY INVESTMENT LOAN WORK SMARTER

When considering entering the property market as a first-time investor, taking the time to ensure your loan is structured correctly is critical, according to Image Financial Group director Maria Amos.

Ms Amos said making the most out of your investment meant getting your loan right from day one.

“Dealing with financial institutions can be very confusing, but it’s important to take the time to understand the different options that exist for structuring a loan,” she said.

“The way your loan is set up can make a massive difference, especially when it comes time to buy a second and third property, as it can have a dramatic impact on your cash flow.”

She said in order to choose the right type of loan investors would do well to have a firm plan in mind before buying their property.

“Your future plans for your investment play a big part in selecting the right loan,” she advised.

“For example, if you’re purchasing a property to buy-and-hold, you would choose one style of loan, but if you were planning to sell after sub-dividing the rear block, you would want to ensure you don’t have any exit penalties or deferred establishment fees.”

Ms Amos said budding investors who were concerned they didn’t have the cash to enter the property market should not be afraid to borrow against their own home.

“Using your primary residence as security to purchase an investment property is very useful – it can mean you may be able to borrow 100 per cent of the purchase price and fees of an investment property instead of having to find a 20 per cent deposit,” she said.

“And, as soon as you have built up enough further equity in your home, you can start the process of borrowing again if you choose, allowing you to get ahead much faster.”

Ms Amos said it was also important for first-time investors to keep in mind that fees and charges would cost around 6.5 per cent of the purchase price of the property.

“Another important thing to know is that there are only two mortgage insurers in the marketplace, so if you require mortgage insurance and your bank turns you down, you want to ensure you don’t approach another bank which uses the same insurer,” she said.

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“If you’re not sure about such matters, you can’t figure what the best options are, or you don’t have the time to do the running around yourself, make sure you seek expert advice.”

TOP TIPS FOR SECURING AN INVESTMENT LOAN

- 1 Be persistent. If your bank says no, shop around as all lenders have different credit criteria and ways of assessing your loan.
- 2 If you are planning on building an investment portfolio, choose a lender who uses the ‘negative gearing’ benefit in their servicing criteria as this allows you to borrow more.
- 3 Don’t pay for all the ‘bells and whistles’ in a loan as it is unnecessary for an investment property. You want a cheap rate and no ongoing fees.
- 4 Be mindful that loan pre-approvals usually only last three months. After this, the bank may conduct further checks and if your financial circumstances have changed, your loan may not be approved.
- 5 Consolidate personal debt as it can help you to borrow more.
- 6 Reduce your credit card limits if possible as the lender’s assessment is based on the limit, not the balance.
- 7 Structure your investment loans as Interest Only. This assists your cash flow for managing your repayments and will allow you to manage more investments.
- 8 Spread the risk, don’t stick with one lender as they may decide there is too much exposure for them and decline a deal unnecessarily.

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