MO'R
MORTGAGE OPTIONS

BUYING AN INVESTMENT PROPERTY?

THE ULTIMATE GUIDE TO HELP YOU ACHIEVE YOUR PROPERTY INVESTMENT GOALS.

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CONTACT INFORMATION

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MO'R MORTGAGE OPTIONS

WHY WOULD YOU USE MMO

AS A PROPERTY INVESTOR

So, you're looking to purchase an investment property.

Why would you see a mortgage professional (or broker) instead of going directly to the bank?

Why would you get someone else involved in the process?

There are actually lots of reasons! A mortgage professional can provide significant benefit, especially if you find a good one!

Here are some reasons why you should talk to us before purchasing your next investment property.

Professional advice

There are many things you might not know about investment loan structures- things the bank doesn't always tell you. It's our job to share this 'insider information' with you, so that you can grow your portfolio and maximise returns along the way.

For a start, you want someone who has a proven track record assisting property investors. You want someone who understands the property market as well as the strategies available to help you manage your portfolio.

Tailored solution to match your needs

One lender might be really good at tailoring loans to first home buyers, while another might be really good at offering investment loans. If you're not sure what other lenders are offering, how can you be certain that the loan you're considering is the right one for you?

As mortgage professionals, we have access to many different lenders and many different loan products. We are constantly comparing what each one has to offer so we can find the right solution for you.

Particularly when it comes to investment lending, there's never been greater disparity between what lenders are offering. Knowing what options are available and which lender to turn to, could mean the difference between acquiring another investment property or missing out. And for some, it might mean that you can keep that investment property after all. All that was needed was a tweak of your loan structure to make cash flow more manageable.

Good loan structure, competitive interest rates

Lenders don't always help you to secure the most suitable loan structure. Sometimes it's because the person assisting you lacks knowledge, sometimes it's because the lender is looking after their bottom line.

Either way, your loan structure should be set up to suit YOUR long term plans and help you maximise the benefits of owning an investment property.

But it shouldn't come at a higher price. We have assisted many property investors negotiate good rates on their loans and we can do the same for you.

Great communication

Bank staff are really good at 'bank speak' but not always good at translating it into everyday language. Buying an investment property can be overwhelming, particularly if it's your very first purchase.

It's our job to ensure that you understand what's happening every step of the process. We'll explain things in a way you clearly understand and answer your many questions - that's what we do best. We'll also handle everything for you - liaise with your solicitor, real estate agent and perhaps even your accountant - to ensure everything runs as smoothly as possible.

Honesty and integrity

We are proud to say that over the years, MO'R MORTGAGE OPTIONS has predominately grown by word of mouth. Property investors happy with our service have referred their family and friends to us. And these clients, also happy with our service, then do the same.

We will always do the right thing by you and will work tirelessly to provide you with the best possible outcome.

And best of all, you have nothing to lose by calling us. Our service is provided to you absolutely free of charge, free of obligation and comes with no-strings-attached.

OUR 5 TIPS
TO GET YOU STARTED WITH INVESTMENT PROPERTY

> "Michael helped us to establish a loan structure that maximized our borrowing capacity. This has allowed us to purchase additional investment properties over the years, creating wealth and security for our future."
>
> BEN

HAVE YOU BEEN THINKING ABOUT INVESTING IN PROPERTY FOR A WHILE, BUT HAVEN'T DONE ANYTHING ABOUT IT YET? OVER THE YEARS, WE'VE ASSISTED MANY CLIENTS GROW THEIR INVESTMENT PROPERTY PORTFOLIOS. WE CAN HELP YOU TOO!

1 CREATE A PLAN

What do you want to achieve by investing? Are you looking for capital gains over a set period of time, or are you focused on generating rental income? It's important to know your objectives from the beginning, as this will help to determine what type of property you should be looking for. For example, should you buy an apartment or a house? A new property or an established property?

2 UNDERSTAND YOUR LIMITS

It is important to know your own limits and how much you can borrow from a lender's perspective. Lenders are always making changes to their policies and lending criteria, so it's extremely important that you understand your options.

You need to determine how much deposit you can contribute through savings or equity (or both), and how much your income will allow you to borrow.

We can help you determine your borrowing capacity and set up a pre-approval for an investment purchase, so you can go property hunting with confidence.

3 SELECT THE RIGHT LOAN FOR YOUR LONG TERM INVESTMENT GOALS

Some loans are better suited to investors and some lenders will allow clients to borrow more money than others. It's important to get it right so that you can achieve your investment goals.

Ensuring the loan structure matches your long-term investment goals is essential. Not only can it help you achieve the right balance of deductible and non-deductible debt, but the right structure can help you to buy additional property.

4 DO YOUR RESEARCH

Understand the area where you are looking to buy. Is it close to amenities that tenants generally look for - i.e. public transport, parks, schools and major shopping centres? You should also look at property market data to find areas of strong growth, and/ or low vacancy rates.

When you've found a property that fits with your plan, make sure you review the independent building and pest inspections reports. They'll not only alert you to any faults in the property, but they may also help you negotiate with the vendors on price should you decide to make an offer.

5 TAKE THE FIRST STEP!

Doing something for the first time can be a daunting step, and it can be easy to get stuck "doing your research" without actually ever purchasing a property. Whilst you can never have too much knowledge, sometimes you just need to take that leap of faith and actually commit to a purchase.

> Arguably the two areas where Brendan O'Reilly stands out most from the professionals we have engaged over many years, in any field, is that he delivers on every commitment he makes …and then some. Brendan has driven, and kept us fully informed on the progress of, all matters - whether the news was good or bad. We have never been left second-guessing. We have found this invaluable.
>
> GARRIE & CHRISSIE

Borrowing
WITHIN YOUR MEANS

WHILE YOUR LENDER WILL GIVE YOU A MAXIMUM BORROWING AMOUNT, IT'S ESSENTIAL THAT YOU DETERMINE YOUR OWN BORROWING CAPACITY WHEN SEARCHING FOR YOUR INVESTMENT PROPERTY.

The choices you make when taking out an investment loan have long lasting implications – so you need to approach borrowing with a healthy attitude.

How much you can borrow and how much you should borrow can be two very different things. While your lender should not let you borrow more than you can afford, ultimately the choice is yours – so be careful not to over commit yourself. When determining your borrowing capability, start by measuring your income against expenses, including your mortgage repayments.

Lenders use a similar method to work out how much to lend you. As a general rule, the bigger deposit you have and the higher your income, the more they should be willing to lend. They will also take into account the expected rental yield.

Here are some factors to take into account when determining how much you should borrow rather than how much you can.

How much debt can I handle?
Don't over commit. Borrowing too much can be a big strain on your personal life and lifestyle. Think about what aspects of your lifestyle you may be willing to give up, and those that you can't.

Am I being realistic?
Remember that you are purchasing an investment property and not a second home. You don't need to buy something that you would be happy to live in, just something that others are happy to live in.

What are my plans?
Think about what the future holds – both personally and financially. Are you a one or two income household and is this likely to change in the future?

What about interest rates?
Consider how any rate rise will impact on your ability to make repayments and factor that in when setting your borrowing limits. And don't forget, there are added extras when purchasing a property, like solicitors and application fees, as well as ongoing commitments including rates and body corporate fees – so consider these holding costs when determining how much you can borrow.

“Daniel went the extra miles, especially with our recent investment property purchase. The bank scrutinized our application and Daniel went above and beyond to minimize any delay and reduce any concerns. Daniel’s additional knowledge of the investment market in general provides comfort that decisions being made are sound.”

LUKE AND KERRALIE

LENDERS **MORTGAGE** INSURANCE

LENDERS MORTGAGE INSURANCE CAN HELP YOU BUY AN INVESTMENT PROPERTY SOONER.

Lenders Mortgage Insurance (LMI) can help you purchase an investment property earlier, by allowing you to borrow a higher percentage of a property’s value.

Through financing a higher proportion of a property’s purchase price, lenders take on a higher level of risk that you will fail to meet mortgage repayments.

As a result of taking on this higher level of risk, the lender charges you a LMI Premium. They use to insure the loan which protects them against any loss should they need to repossess and sell the property. It is important to be aware that LMI only covers the lender if you default on your mortgage, not you.

The bigger the percentage of the property’s purchase price you have to borrow, the greater the amount you’re likely to pay on LMI. If your deposit is less than 20 per cent of the value of the property, you will generally need to factor LMI into your investment loan.

LMI is can be paid as a one-off lump sum at the time of settlement but in many cases it is added into the loan amount and paid off over the life of the loan – a term known as capitalising the LMI. Speak with your mortgage professional to assess whether this option is right for you.

Get a head start with a PRE-APPROVED LOAN

COMPETITION FOR PROPERTY CAN BE FIERCE. PUT YOURSELF AHEAD OF THE PACK WITH A PRE-APPROVED LOAN.

What's pre-approval?

Sometimes referred to as an approval-in principle, pre-approval is a general indication of how much you're able to borrow based on the information you provide to your lender.

Although subject to terms and conditions, a pre-approval basically gives you the green light on your property purchase even if you've not yet decided on a particular property.

The amount of the pre-approval is usually determined by your ability to meet the loan repayments. Most pre-approvals are valid for up to three months.

There are usually terms and conditions attached to a pre-approval. You will need to provide more information to formally secure the loan once you've located the property you wish to purchase.

How do you get pre-approval?

To kick start the pre-approval process you'll need to give your mortgage professional some key documents.

These should include proof of your income – such as a letter from your employer or copies of your pay slips – proof of identity, and details of any assets you own.

Other paperwork might include details of any existing loan commitments and limits on credit cards. Once your financial status has been given the tick of approval by the lender, you'll receive a pre-approval notification that will see you on your way to owning investment property.

WHY OBTAIN PRE-APPROVAL?

- **Peace of mind –** a pre-approval gives you the confidence of knowing how much you can borrow when buying a property.
- **Jump the queue –** having your loan pre-approved enables you t o seize the opportunity and act quickly when you find the property you want.
- **Stronger bargaining power –** a pre-approval can sometimes help you negotiate a better price with the seller, especially if there are fewer stringent conditions upon the sale.
- **Ability to bid at auctions –** under auction conditions, a pre-approval allows you to bid for the property you want, with confidence.

BETTER BUYING

ARM YOURSELF WITH SOME ESSENTIAL BUYING SKILLS FOR PURCHASING PROPERTY VIA AUCTION OR PRIVATE SALE.

Both private sale and auction have positive and negative points from a buying perspective. Once you've found your investment property, keep these points in mindwhen purchasing under either situation.

Buying via private treaty

A private sale is popular from a buyer's perspective for several reasons, but top of the list would have to be the control and flexibility it can offer.

Note: Terms and conditions of this buying method may vary according to state.

Pros

In a private sale, as a buyer you're in a strong position to negotiate the terms and conditions of the sale to suit you. You can make several offers over a period of time, without rushing or being locked into a binding contract. There is typically a cooling off period after your offer has been accepted which also gives you the chance to pull out of the sale should you change your mind.

Cons

On the flip side, one of the downsides of a private sale is the possibility that multiple offers may be made to the vendor without your knowledge. This can work against you if another party makes a higher offer that is accepted by the vendor, when you might have been willing to make a similar offer eventually.

Buying at auction

Purchasing a property at auction involves bidding against other parties, and the competition can get hot! For this reason, purchasing at auction is often preferred by experienced or confident buyers, but less experienced buyers can purchase at auction too.

Pros

Buying a property at auction allows you to see your competition face-to-face, and get an idea of how many other parties are interested in the property. It also gives you the chance to make a higher offer than a competing buyer, something a private sale doesn't always give you the scope to do. Moreover, there's the advantage of knowing the property is yours there and then, rather than having to spend weeks or months in negotiation.

Cons

One of the disadvantages of buying at auction is the limited scope to negotiate the terms and conditions of the sale contract. After a final bid is accepted, there is no cooling-off period – you must put the deposit down immediately. The other possible downfall is the tendency for competition to drive up the purchase price. Be careful that you don't get tempted in the heat of the moment into making a bid that's beyond what you can afford, or have budgeted to spend.

> "Because we were investing with a Company/Trust structure this may have proved a challenge. However, we were very impressed with MO'R MORTGAGE OPTIONS service. They analyzed our financial situation, communicated with us and kept us informed throughout the whole process – it's a very friendly and welcoming organisation."
>
> JEREMY AND MARGUERITE

HOW CAN AN OFFSET ACCOUNT HELP YOU

SAVE INTEREST?

The main difference between an offset account and a savings account is that instead of earning interest on money sitting in a transaction account, you save interest at the rate you're paying on the loan it is linked to.

This can work to your advantage as the interest rate you pay on your home loan is generally higher than the rate you earn on a savings account. This means that for no additional risk, you can save more interest that you could earn, as per the following example.

AN EXAMPLE

If your $500,000 home loan was linked to a 100% offset account containing $50,000 cash, the lender will only charge you interest on the net debt you owe i.e. $450,000.

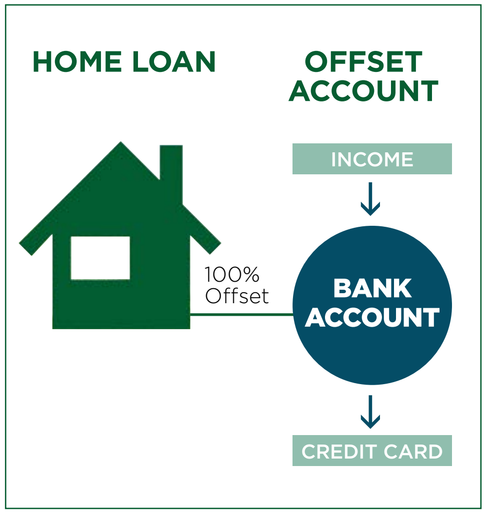
Since interest is calculated on a daily basis, to gain the most benefit, you should try to leave as much cash as possible in your offset account *for as long as possible.*

If we take this further, let's say your home loan has an interest rate of 5%p.a, with the rate on a savings account being 1.5%p.a. Over one year, you could earn $750 in interest with your $50,000 in a savings account.

However, if this was offset against your mortgage instead, you could potentially save $2,500 in interest over the same year.

In this example, you are not only $1750 ahead, but since you haven't 'earned' any interest, there is no reportable interest income.

An offset account can also work to your advantage if you plan to make your current home an investment property at some point in the future. It can help you to save interest on your loan, whilst saving up a deposit for your next purchase. Talk to us to find out how.



"I can't speak highly enough of MO'R MORTGAGE OPTIONS. Everyone in my office who has purchased a property in the last 2 years has used your services. I will continue to recommend you! I look forward to working together again when we purchase another investment in the not so distant future."

CHRISTINE

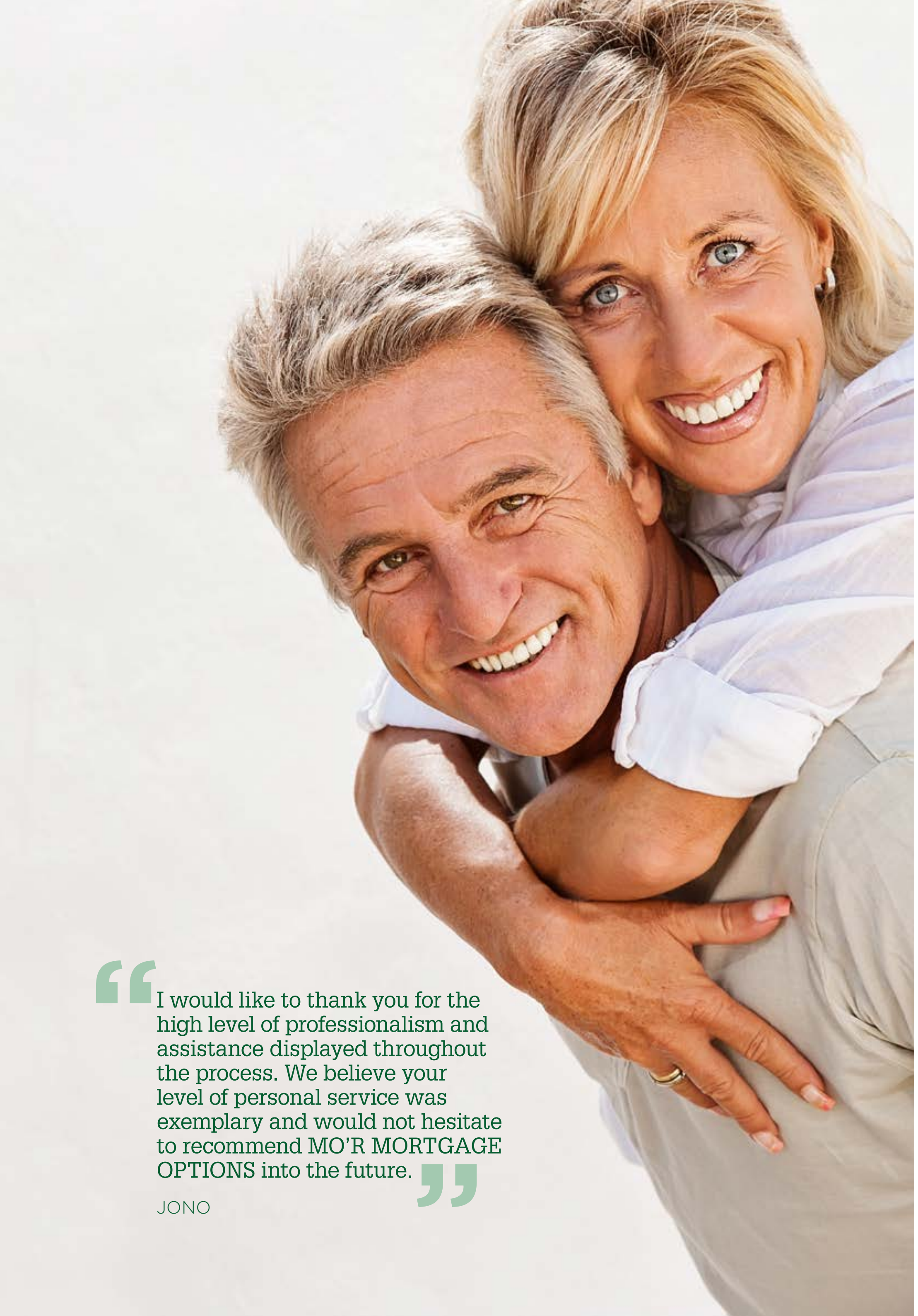
MAXIMISE YOUR INTEREST SAVINGS

Since interest is incurred on a daily basis, the longer you keep money in your offset account, the more interest you can generally save.

Many clients like to use a credit card to pay for all their expenses and then pay this bill off in full at the end of the month. This way, you end up keeping more money in your offset account for longer which helps to reduce the overall interest incurred on your home loan.

If you don't currently have an offset account attached to your home loan, or you're not sure you're using it to maximise the benefit, we can help.

*Please note this general information is provided as a guide only. You will need to refer to the PDS provided by your specific lender to ascertain specific information about any specific accounts offered by lenders. Whilst an offset account can provide benefit, further investigation is required to determine whether it would be appropriate given your specific situation.



"I would like to thank you for the high level of professionalism and assistance displayed throughout the process. We believe your level of personal service was exemplary and would not hesitate to recommend MO'R MORTGAGE OPTIONS into the future."

JONO

How to use the equity in your home to finance an INVESTMENT PROPERTY

REALISE YOUR PROPERTY INVESTMENT GOALS THROUGH CAPITALISING ON THE EQUITY BUILT UP IN YOUR HOME.

The idea of property investment is one that appeals to many Australians but sadly often overlooked because of the misconception that it is only within the reach of the wealthy.

The reality is that with the right finance, planning and strategy purchasing an investment property may be easier than you think.

Ease the deposit burden

One of the key challenges to breaking into property investment is raising a deposit, but there are solutions.

Property buyers are typically required to contribute 20 per cent of the property's value, and for some this can be a stumbling block. But existing home owners may be able to unlock equity – or the increased value – that's built up in their own home to cover some or even all of the deposit.

The following scenario illustrates how borrowers can capitalise on the equity in their homes to purchase an investment property.

HELP FOR FIRST TIME INVESTORS THROUGH LMI

Traditionally lenders would look for a 20 per cent deposit from property buyers but today it's possible to borrow more than 80 per cent of a property's value with the help of lenders mortgage insurance (LMI).

LMI protects the lender against the risk associated with providing borrowers with a higher percentage loan in the event that they default.

The cost of LMI is often be added to the overall loan amount, reducing the initial outlay.

USING EQUITY TO ASSIST WITH YOUR INVESTMENT PURCHASE

EQUITY IS THE DIFFERENCE BETWEEN THE MARKET VALUE OF YOUR HOME AND THE CURRENT BALANCE OF YOUR HOME LOAN. IT WILL INCREASE AS YOUR PROPERTY INCREASES IN VALUE, AND/OR THE BALANCE OF YOUR HOME LOAN DECREASES.

The amount of equity that you can release is determined by –

a) The current value of your home and other assets

b) The current balance of your home loan and any other loans secured by that property

c) Your available income and your existing commitments

So how does it work?

Let's say you want to buy an investment property for $480,000 and you estimate you need $20,000 to cover purchasing costs like stamp duty and legal fees.

The lender will allow you to borrow 80% of the property's market value i.e. $384,000. (It is possible to borrow more with LMI, but we won't go into this here). This means that you need another $116,000 to complete your purchase.

Let's say your existing home is valued at $500,000. If we keep to the 80% loan to value ratio, this gives an amount of $400,000 we could potentially borrow from the lender, secured by your home. But, you still owe $220,000 on your home loan.

So, to calculate the amount of equity that you could potentially release: $400,000 – $220,000 = $180,000

By establishing an equity loan for $180,000 to be secured by your home, you would have sufficient funds to cover the $116,000 required to purchase your new investment property.

*Please note, this example does not take into consideration the loan assessment process or the ability to meet servicing requirements.

So how does this strategy help you grow your portfolio?

For most people, saving $116,000 cash would take some time. By using an equity loan and utilising the wealth you've built up in an existing property, you might be able to purchase your next property a lot sooner than expected.

As your property portfolio grows, so does your ability to leverage your equity. As more of your properties increase in value, you potentially have more sources of equity that can be released.

STAND ALONE VS CROSS COLLATERALISED SECURITIES

CROSS COLLATERALISATION IS A STRATEGY USED BY LENDERS TO TIE UP MORE OF YOUR SECURITY THAN THEY ACTUALLY NEED – FOR THEIR OWN BENEFIT. WE COMPARE **STAND ALONE LOANS** VS **CROSS COLLATERALSATION** TO HELP YOU DECIDE WHICH IS MOST SUITABLE FOR YOU.

A stand alone loan structure is when one loan is secured by one property. Cross collateralisation is when one loan is secured by multiple properties.

AN EXAMPLE

Your existing home is worth $550K and owner occupier loan is $250K. You'd like to buy an investment property for $400K and require new borrowings of $420K to cover the purchase price and costs.

Using a stand alone loan structure in Figure 1, a new loan of $320K could be secured solely by your new investment property (80% LVR to avoid Lenders Mortgage Insurance). Another loan of $100K could be secured solely by your existing home to provide sufficient funds for the purchase.

Alternatively, using a cross collateralised loans in Figure 2, a new investment loan of $420K could be secured by your existing home AND your new investment property.

Since both options will provide $420K tax deductible debt and allow you to purchase the investment property, why should you prefer a stand alone loan structure to a cross collateralised one? The pros and cons of each are outlined on the following page. Call us today for more information.

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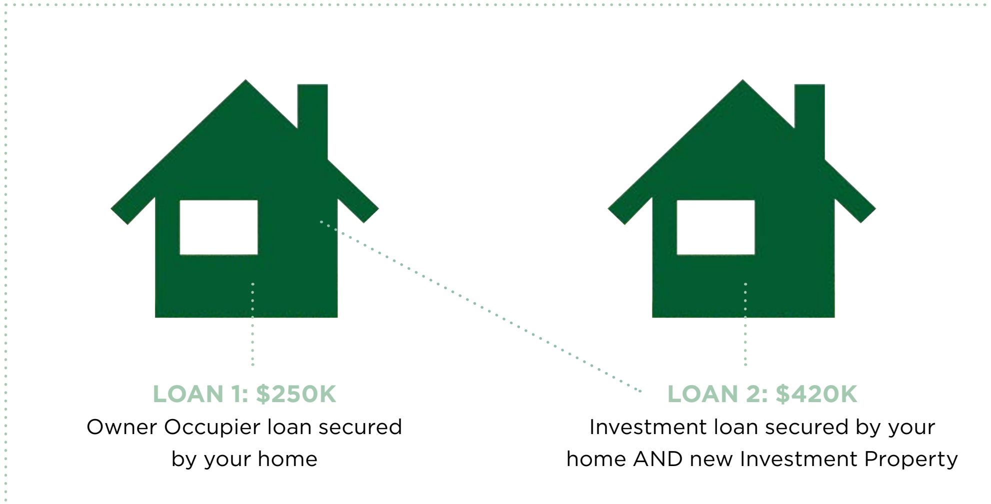
Figure 1
STAND ALONE LOANS

Figure 2
CROSS COLLATERALISED LOAN



STAND ALONE LOANS – Figure 1

Advantages	+ Greater flexibility + Can sell/ buy additional property without altering existing loans + Ability to diversify loan portfolio (i.e. some fixed, some variable, use of multiple lenders) + No equity dilution
Disadvantages	+ You will have more loans

CROSS COLLATERALISED LOANS – Figure 2

Advantages	+ Fewer loan splits
Disadvantages	+ Lender can control multiple assets to recover debt if required + Can be harder to move to another lender + Accessing available equity can be time consuming and costly + Equity dilution (due to non-performing properties) can limit equity available for additional purchases + Having all loans with one lender can reduce borrowing capacity

**This does not constitute tax advice – you will need to discuss your personal situation with the ATO or your accountant. Prior to our final recommendation in regards to specific loan products, we are required to complete a preliminary assessment to ensure a specific product is suitable for your requirements, objectives & financial situation. This document provides information about what options might be suitable for you but does not in any way provide a final recommendation with regards to specific lenders, specific loan product or loan amounts. Information provided is subject to change at any notice.*

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