THE GREAT AUSTRALIAN MORTGAGE GUIDE

Practical Tips To Get The Best Loan For Your Home Or Investment Property (And Pay It Off In Record Time)

JOHNATHON REEVES

The Great Australian Mortgage Guide:

Practical Tips To Get The Best Loan
For Your Home Or Investment Property
(And Pay It Off In Record Time)

By Johnathon Reeves

This Great Guide is dedicated to all the Great People in my life.
Every interaction is an opportunity to learn and grow.

Absolute thanks to my family. You are always ready and willing to help me with my next crazy idea and adventure. Your support is invaluable and appreciated more than you will ever know.

The Great Australian Mortgage Guide: Practical Tips To Get The Best Loan For Your Home Or Investment Property (And Pay It Off In Record Time).

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ISBN 978-0-646-84100-7

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Introduction

Brrring-ing-ing-ing-ing-ing-kerplunk!

That’s how my morning started. At 4:00 a.m. Every. Single. Day.

I’d palm the big button on the top of my alarm, swing my legs out of bed and rub my eyes to see through the dark. I was only ten years old, but I didn’t mind. In fact, I didn’t really think about it. Because the farmwork never stopped. And so, that’s what we did. And then I’d go to school.

Lessons I’ve Learned Along The Way

My name is Johnathon Reeves. My finance journey started in the orchards of my family farm outside Emerald, where I learned **responsibilities are best faced head on, hard work is good for the soul, and money is earned, not given**.

I continued on a winding path of part-time jobs, university study and backpacking around the world, where I learned the **value of preparation, the benefits of flexibility and the importance of relationships**.

Today I’m privileged to lead a team of more than twenty finance experts, helping my clients find the very best loan (and then get rid of it as quickly as possible).

My zig-zag journey of life has taken me to hundreds of exotic places, introduced me to thousands of interesting people, and exposed me to a whole heap of good, bad and plain ugly situations (financial and otherwise).

It’s certainly been an adventure. So I wrote this book to help you enjoy and succeed in your adventure of life – especially when it comes to money.

The Day My Eyes Were Really Opened

I've worked as a farmhand, grocery packer, dental receptionist (at my father's dental practice), parking inspector, bank teller, and business and agri-manager. I've studied science, law, economics, business and finance. But the day my eyes were really opened to the world was **when I became a debt collector**.

When people asked me what I did for a living, I said I created peace of mind and solved problems for people in difficult situations. And I believed it – I really tried to help people. Because I quickly learned that people who fall into financial hardship are not bad. Nor are they a "type" of person. They just had **the wrong information about money which led to ugly consequences**.

I remember my first day on the job. I had to phone a guy who had fallen behind on his car loan. I'll never forget what he said to me, "I did what I thought was right". He had followed the traditional doctrine of getting a job and a credit card, financing a car and planning to buy a house. The car loan may or may not have been too much for him, but that is what the bank said he could do - so he did. For a while everything was peachy. Unfortunately, a family tragedy - completely outside his control - crumbled his world and he could no longer pay his loan. No fault of his own.

Was he blaming the bank? No. Was he entirely at fault? Not really.

Either way, it made me realise that banks were a business and they had a vested interest in giving you as much money as you could afford and then encouraging you to take as long as possible to pay it off. A tight-rope act that puts you at risk.

Loans are like the ocean – you have to respect them. You have to understand them. And you have to do the right thing by your money and yourself. If you don't, the tide will turn quickly. And the results are devastating.

The Good, the Bad, and the Ugly of Finance

The Ugly

I learned the **ugly** side of finance as a debt collector. And saw too many people suffer. According to recent research by ING Bank[1], the 'ugliness' continues:

- Nearly two-thirds of working Australians have significant debt on top of their home loan
- More than a quarter of workers are living paycheque to paycheque
- 19% are borrowing money from family
- 33% are turning to gambling in hopes of turning their fortune around
- 38% are concerned they will never escape debt

And this research is not isolated. Of the 55,000 people who responded to the *Australia Talks National Survey*[2], 37% said they were struggling to pay off debt. And it's no wonder, with household debt tripling since the early 1990s and now sitting second highest in the world at 120% of GDP. That means the average Australian owes more than they make in a year.

The Bad

My experience as a debt collector led me to want to help people avoid the ugliness of the wrong loans. So, I enrolled to study finance. I became a teller at one of the 'big four' banks before moving into the business banking team.

Sadly, this is where I learned the **bad** side of finance. It's not that banks are bad, it's just that they are big, process-driven and largely product and profit focussed.

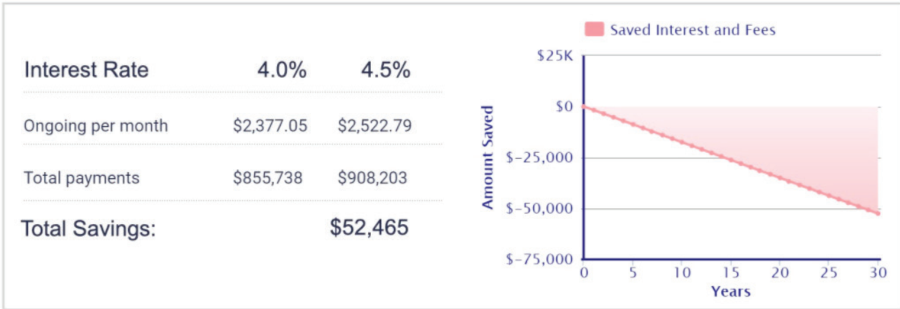
Getting a loan from a bank is like trying to buy a shoe from a store that only stocks a few sizes. You never find a shoe (or loan) that fits quite right. And you end up spending more than you want for something you feel you have to put up with for too long. And when I say, "spending more than you want",

[1] *https://www.savings.com.au/savings-accounts/nearly-two-thirds-of-australians-in-debt*

[2] *https://www.abc.net.au/news/2019-10-18/household-debt-leaves-australians-working-longer-spending-less/11608016*

I'm talking about hundreds of thousands of dollars over the life of your loan. That's some serious blisters!

For example, the average home loan in Australia right now is $497,900. A reduction of just 0.5% in interest over the 30-year life of that loan could save you $52,465. Put another way: you could pay your loan off almost 4 years sooner[3].



Interest Rate	4.0%	4.5%
Ongoing per month	$2,377.05	$2,522.79
Total payments	$855,738	$908,203
Total Savings:		$52,465

And that's just the direct savings. What if you invested the difference in a second property? At the historical net rate of return of 4%, you could end up $101,331 richer, just because you invested the saved interest.

Getting a loan may seem like a simple thing. But there's a lot riding on your decision about which loan to get. As illustrated above, $52,465 and 4 years of repayments on the average Australian mortgage. And that's just looking at the interest rate. What about fees, payment structure, and potential tax savings? That could add up to thousands more you could use to:

- Improve your current lifestyle (meals, movies, holidays etc.)
- Upgrade or renovate your home (kitchen, bathroom, carpet, landscaping etc.)
- Provide better education and opportunities for your children
- Accelerate your progress towards wealth (top-up super, invest in shares or property)
- And retire years sooner

So, as you can see, it's worth finding out how to get the very best loan (and how to get rid of it as soon as you can).

3 *https://www.commsec.com.au/content/dam/EN/ResearchNews/2020Reports/February/ECO_Insights_110220-Average_mortgate_hits_$500K.pdf*

The Good

In my continued quest to help people avoid the bad and the ugly of finance, I decided to go into business as a Mortgage Broker. And it is where I now know my journey was always heading.

Starting out as a sole trader, I soon began to take on staff as the brokerage grew.

Today my humble business has evolved into three unique companies: **Time Home Loans, Healthy Loans and Cliff & Moss Finance Brokers**.

I've comforted people who have suffered the 'ugly' of finance. I've encouraged people who have endured the 'bad'. And now I help clients enjoy the 'good', including:

- The perfect loan for your specific situation
- The right structure that helps you save thousands in interest and fees
- A sound strategy that leverages debt to build wealth
- And clever payment options that help you pay your loans off years sooner

Unlike banks that offer a range of generic loans, we have access to hundreds of loan options from more than 40 lenders. Plus, deep expertise for healthcare workers and clients seeking finance for farming and agricultural purposes.

Money-On-The-Line Experience

Not only have I successfully helped hundreds of clients save a fortune on finance (we currently have more than 700 five-star reviews), my wife and I have bought, renovated, and sold numerous residential and investment properties. We've personally experienced the excitement and stress of buying and selling property. And I am dedicated to making that process smooth and simple for our clients.

What Does Your Adventure Look Like?

Perhaps you're looking to buy your first home and would like step-by-step guidance to ensure you avoid mistakes and get the best start possible.

Maybe you're looking for a second opinion to ensure your current loan is the best in the market right now (and that you're not needlessly overpaying).

Perhaps you have multiple loans and wonder if consolidating may help you save interest and pay your debts down.

Maybe you're thinking about buying an investment property and have questions about how much you can borrow and what type of loan is best.

Or perhaps you're an experienced investor looking for a professional team to look after all your finance.

This book contains valuable advice for all these (and more) financial situations. Feel free to read it all. Or let the table of contents guide you to the appropriate chapters.

If you have questions or want personal guidance, I invite you to book a **Free Finance Strategy Session** at www.australianmortgageguide.com.au.

Here's to your adventure!

Johnathon Reeves

Owner & Finance Specialist

Time Home Loans (www.timehomeloans.com.au)

Healthy Loans (www.healthyloans.com.au)

Cliff & Moss Finance Brokers (www.cliffandmoss.com.au)

Free Bonus Resources

There are a number of bonus resources, tools and templates that accompany this book. You can download these free of charge at: www.australianmortgageguide.com.au/resources

Section 1 – Buying

How to buy a home

As Michael Caton's famous character declared, every person's home is their castle. Owning your own home remains one of the great Australian dreams. But the journey to home ownership is much more complex than saving a few dollars and signing on the dotted line when the property of your dreams catches your eye. In fact, there are a number of different industries, professionals and rules and regulations to navigate when you buy a property. This is why it has always been beneficial to have in your corner someone who has walked this path countless times.

When you put together your A-team, a mortgage broker is one of the first positions you should fill. We have the knowledge and experience to be able to offer guidance on everything from the size of the deposit you will require to which lender and mortgage type will offer you the most bang for your buck.

As you will see, there are several steps to venture through to go from starry-eyed prospective buyer to holding the keys to your own home in your hot little hands. But by breaking this process down into easy-to-understand bite-sized chunks, we believe we can help you avoid the stress that threatens to overwhelm you when you're starting out.

Before we get started, I thought I'd dispel some of the mortgage myths you've no doubt heard of in conversation.

Mortgage myths

There are many common myths about mortgages and they're just that – myths.

Myth 1: Always choose the loan with the lowest interest rate

As your broker will explain, there is much more to selecting the right loan than simply choosing the lowest interest rate. While it's true that a small percentage point difference in the interest rate can add up to tens of thousands of dollars over the life of a loan, it's essential also to consider the features offered and the associated annual fees and other charges of each lender.

When deciding on a lender, it is important to choose one that offers the best solution for you in your current position. For example, if you are a first home buyer, a basic loan with a cheap rate and no frills might suit you best. However, if you earn a reasonable salary and have surplus funds every month, features such as an offset account could increase your interest rate or attract an annual fee but actually save you money over the loan term in both interest and tax.

Think carefully about the features you need and discuss them with your mortgage broker. There is no point paying for features that you will not use.

Examples:

Two loans for $250,000 over a term of 30 years.

• ***Loan #1*** *is a basic loan, with no bells and whistles and has an interest rate of 6.9% applied to it. The true rate on this loan, given there are no fees or charges, is 6.9%.*

• ***Loan #2*** *is a fully featured loan – still for $250,000 over 30 years, but has extra features such as a redraw, offset account, portability and so on. The interest rate on this loan is 6.9%. However, an annual fee of $350 per year ($29 per month) applies. The true rate on this loan is 7.05% due to the annual fee. The difference over the life of the loan compared with Loan #1 is a massive $10,440 in additional fees. Your mortgage broker will help you with the calculations in your particular case based on your incomes, goals and objectives and help you choose the option that's best for you.*

Myth 2: Credit cards are no problem

Credit cards are one of the biggest hindrances for people seeking a home loan. That is because lenders do not assess how much you *spend* on your

credit card, but will assess your application with the **full credit card limit** as a liability. You could have a $10,000 limit on a credit card that you only keep handy for emergencies. But your lender will see this as the potential for you to spend up to your limit and therefore deem this to be a financial liability of $10,000.

As a general rule, every $10,000 in credit card limits will reduce your borrowing capacity by about $35,000.

The best course of action? Lower your limits as low as possible or cancel your credit card altogether.

Myth 3: Lender's Mortgage Insurance protects you

Lender's Mortgage Insurance (LMI) protects the *lender* against your default on the home loan. That is, if you can no longer repay the home loan and the lender takes possession, sells the property and makes a loss on that sale, LMI will cover any loss incurred by the lender.

LMI does *not* cover you as the borrower, even though you pay the LMI premium. If you get sick or injured, you will need to rely on your personal income protection/life insurance to cover mortgage repayments. (You will find out more about LMI later in the book.)

Myth 4: Paying interest only is a big no-no

Some lenders offer interest-only loans for a set period, which some people believe is a big no-no as you will not make any dent in paying off the principal amount on your home loan. That is, if you have a mortgage for $500,000 and only pay the interest repayment for five years, at the end of the five years you will still owe $500,000.

While I am completely for paying off debt and generally reducing debt as quickly as possible – and the general idea is that you make principal-and-interest payments on your home borrowings to do just that – interest-only loans can be a great tool for people who have other higher-interest outstanding debts such as credit cards or personal loans.

By taking advantage of your interest-only period and redirecting the principal you would have paid off your home to this higher interest debt, you can greatly reduce or even eliminate these high-interest vampires.

Once this higher-interest debt is extinguished, immediately convert your mortgage back to principal and interest.

Now we've covered those myths, let's get started on the process.

Get your finances right

Getting your finances right is the first step in any borrowing journey because your lender will look through your transaction history to see how good your spending control is. Being able to show consistent and growing savings for your deposit, well-maintained credit facilities paid on time and accounts free from overdraws will demonstrate your ability to manage your future mortgage.

It's understandable that most people's eyes glaze over when you mention the word 'budget'. Some love to have everything ordered and can account for every cent they earn and spend, and the rest of us struggle with investing the time into creating a budget.

But when you are looking to buy a property, you will be forced to hold a magnifying glass to your incomings and outgoings to prove to your lender that you can pay back a loan. Therefore, it's good practice to start working towards a budget as soon as you think you might like to place your foot onto the first rung of the property ladder.

A great exercise is to bite the bullet and keep track of your spending for a month. Write down everything, including the pack of pens you bought to top up the home office supplies and the sneaky doughnut you bought on impulse while filling up at the service station.

Seeing this all in one place will most likely give you a bit of a shock. It's not often we take stock of the many little card swipes or taps we make every day. But this process will give you great clarity and create clear steps you can take to cut down on unnecessary spending easily. Make sure you highlight which costs are fixed and cannot be changed, and which ones you can find ways to reduce. Your motivation is then to see how many of the latter you can eliminate or reduce, freeing up your cash to channel into a designated home deposit account.

You can download a free budget template (plus lots of other resources) from www.australianmortgageguide.com.au/resources.

Once you have completed your month-long analysis and made the necessary spending changes, you can migrate to a less formal method of maintaining your money flow. The *jars/buckets* strategy is a tried and tested method that sees you allocate a set percentage of your income into different accounts to ensure you are consistently saving money for your house deposit that won't get swallowed up by an impromptu shopping spree.

The key word here is *consistency*. During periods of tightening lending conditions, you won't be able to get away with a free-range spending policy and then tighten your spending a few weeks before you apply for a loan. Most lenders look back three months into your transactions, so be sure to implement changes to your spending and saving that you can sustain.

Tips for saving for a deposit

Having a decent deposit can have so many benefits when you go to purchase a property. For starters, you will have more choice in the type and price brackets of the properties on the market and you will wield greater power when it comes to negotiating with a lender on the type of mortgage you wish to have.

You will also be in a better position to repay your loan by needing to borrow less money. A healthy deposit of more than 20% will also mean you won't need to pay for Lender's Mortgage Insurance.

Of course, there are several ways you can purchase a home with a smaller deposit if necessary. But to get you started on achieving your goal deposit amount, here are some quick tips to help give your savings a helping hand:

- **Use a high-interest account** (when one's available) for your house deposit savings so you will get a pleasant boost every now and then.
- **Think about term deposits of over $5,000** that can net you better returns and will also lock your money away so you won't be tempted to dip into it.
- **Save any extra cash.** If you come across some extra money, through a tax return, a work bonus or an inheritance, injecting this into your house deposit account will help you to reach your goal sooner.
- **Consider moving back home.** If you are renting, consider moving back home with the parents for a short period to allow you to convert the money you were spending on rent into a growing house deposit. A few years of sacrifice can make a huge difference in the long run if it gets you into your own home sooner.
- **Downgrade your current rental property** to a smaller property or one a little further out of town to save on your rent expenditure.
- **Be consistent** with not spending on the items you identified in your budget challenge that you do not *need*.

- **Be aware of extra expenses** that come with home ownership and prepare accordingly.

Case study: Owning versus renting

Liz and Don[4] were looking to buy their first home. In the meantime, they've been renting. Paying rent monthly gave them a good sense of what it would be like to pay off a mortgage.

However, owning your own home brings new ongoing expenses that Liz and Don now need to manage. These include:

- Council rates.
- Body corporate fees, if buying an apartment or townhouse.
- Water bills.
- Home and contents insurance.
- Property maintenance.

We advised Liz and Don to keep these additional expenses in mind when we were determining their borrowing capacity. However, the budgeting skills they developed while paying rent and accounting for everyday living expenses gave them the practice they needed to manage their mortgage.

Hot Tip: Insure your income. If you think about it, the biggest asset over your lifetime is your income. If you earn $60,000 a year then over your working lifetime your income is $2,700,000 in today's dollars. One of the primary reasons people fail to pay their home loan off early is loss of income as a result of disability or death. No one would dream of not insuring their home against fire but for every home lost to fire, 52 are lost to death or disability. It is therefore critical that you consider income protection to protect against such an event.

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4 *Not their real names. All names in this book are substitutes.*

Loan pre-approval

Before you even think about window shopping at real estate agents or typing in search terms for properties to check out the online offerings, you should obtain pre-approval.

Why a pre-approval?

Pre-approval is the bank's or lender's way of confirming you meet their lending criteria and will receive the agreed-to amount if the property you choose passes their valuation inspection and meets their mortgage insurance requirements. This allows you to shop with confidence knowing your confirmed price range. Having pre-approval up your sleeve also boosts your negotiating power when it comes to making an offer. Finance (or lack thereof) is one of the main reasons contracts fall over; an agent will favour offers made by those who have a pre-approved loan amount.

Hot Tip: Ensure your loan pre-approval is a **fully verified pre-approval** where the lender has actually reviewed your submission, payslips, bank statements and issued the approval.

Many lenders will issue a pre-approval letter that states the approval is "Subject to the lender confirming the applicants meet their lending criteria". If in doubt, confirm with your broker the type of pre-approval you are applying for to ensure it is fully verified.

How much does a pre-approval cost?

Most lenders will not charge you for pre-approvals and there is no obligation for you to access this mortgage offer once it has been granted. Standard pre-approvals are valid for 90 days, which gives you three months to find a property you love. If you struggle to lock something in over that period, often you only need to provide a few updated details to roll the approval over and restart the clock.

Applying for a pre-approval

This is the ideal time to connect with your mortgage broker to assess the offers available to you and which ones best meet your needs. There are two main things you need to consider when applying for a pre-approval. These are:

1. **Loan types**

There are many different types of loans on the market but you might not be eligible for all of them. At the pre-approval application stage, you need to have some idea of what type of loan will suit your financial circumstances. See below for a discussion of different loan types.

2. **Lender's policy and lending criteria**

If you're looking to buy a small apartment (under 50 sqm) there's no point in applying for a pre-approval from a bank that doesn't lend for properties of this size. Similarly, if the lender needs to see two years' worth of payslips, banking records and savings and you can supply only six months' worth, your application will be a waste of effort. See below for a breakdown of lending criteria.

Common loan types

There are different loan types to consider, including:

- **Variable** – Interest rates will rise and fall with market changes.
- **Fixed** – Interest rates are locked in when the loan is accepted and cannot change for the period during which the loan is fixed.
- **Split** – You have the flexibility of keeping part of your loan open to variable interest rate market changes as well as fixing a portion of the loan for certainty of repayment amounts.
- **Honeymoon** – The interest rate is much lower for a period and then the interest rate reverts to the higher rate once the Honeymoon period is over.
- **Line of credit** – You pay all your income into your mortgage account to reduce the mortgage amount, and pay your daily expenses out of this account.

We cover loan types in more detail in Section 2.

Policy and lending criteria

Each bank and lending institution has different **lending criteria** that determine to whom they will lend, and different **servicing criteria** that determine how much they are prepared to lend to a potential borrower.

It is your mortgage broker's role to work through both lending criteria and servicing criteria along with your goals and objectives to help you identify which lender is the most suitable for you in your particular situation.

They consider your credit history, incomes, any outstanding debt repayments and credit card limits, set defined living expenses for the number of adults and children in your household and any other monthly instalment expenses such as school fees, gym memberships and mobile phone contracts.

The amount left over when they make all these deductions from your income is what they will use to calculate the expected mortgage repayment you can handle. It is important to note that most lenders will do their calculations with a minimum 2.5% loading to simulate an interest rate rise and ensure you could still meet the expected repayment. That is, if the current interest rate is 4%, the lender will ensure that you can afford repayments if interest rates rose to 6.5%.

The following is an explanation of the main areas lenders will investigate when assessing your application and what you can do to improve your chance of acceptance.

- **Credit history**

In Australia, one of the first things a lender will do when you apply for pre-approval is check your credit history. The main credit report used for home loan lending is called a Credit File Report. It will have your:

- Full name.
- Gender.
- Date of birth.
- Driver's licence details.
- Last-known residential address.
- Last-known employer.

Note: The lender will check your credit file directly so there is no need for you to provide a copy to your mortgage broker unless you believe there are issues with your credit.

Your credit report will also list every application you have made for credit in the last five years. It will include information such as the date on which the application was made, to which institution you applied and the amount of credit for which you applied.

Hot Tip: It is vital you do not submit multiple applications. Credit listing occurs regardless of whether or not you proceeded with the application. Lenders use your credit report to cross-reference the information you have provided on your home loan application. If they find that there are existing liabilities that you haven't put on your application, they will decline your application. Some lenders automatically decline an application if there are more than three credit enquiries in the last six months.

If you've recently paid out some of your loans, then you need a letter from the company that closed the account to prove the closure to the lender. Credit applications can come in the form of:

- Credit cards
- Store cards
- Personal loans
- Car loans
- Home loans
- Equipment finance
- Mobile phone contract

If you've had an account that is overdue for more than six weeks, the company to which you owed the money might have contacted a credit-reporting agency. They will mark your credit file report with a 'Default' in payment. Defaults in payments on your credit file report can give lenders cause to decline your loan.

It is important to be as honest as possible with your mortgage broker about your credit history as it allows them to structure your home loan application and submit it to the lender most likely to approve your application. If you are uncertain of the state of your credit file, you can get a copy of your credit

file report from a credit-reporting company like Equifax. Just visit *www.mycreditfile.com.au* to download the application form. There is a nominal fee for this service.

In some instances, borrowers might have two credit file reports. This is referred to as a Cross Reference. This occurs where either there is someone else in Australia who has the same or similar name as you have, or you have two credit files (for example, under a previous married name). The system will note this as a 'Cross Reference alert'.

- **Income and assets**

  A big factor in determining how much you can borrow depends on how much you earn. Different lenders use different formulas to work out how much they will lend to a borrower. Lenders enter the income into a computer-based calculator. This calculator is referred to as a Serviceability Calculator. This works out how much the lender will lend the borrower based on the income and expenses details provided.

  Example:

  Your annual salary is $75,000. The lender will provide you with access to a maximum of $450,000. All liabilities then need to be entered into the serviceability calculator to reflect your circumstances. These include any personal loans, car loans, credit cards and so on.

  *With personal and car loans, the lender uses the **minimum amount** due every month as a liability.*

- **Credit cards**

  With credit cards, the lender uses the **limit of the credit card** as the liability, not the amount you owe. The reason for this line of thinking is that it is easy for a borrower to use their card to the limit and therefore that becomes part of their monthly liability.

  Example:

  John had a Visa card with a limit of $10,000 and the balance was $750. The lender would use the $10,000 limit as a liability to estimate John's true maximum borrowing ability. After receiving some valuable advice from his mortgage broker, John called his credit card provider to reduce the limit to $5,000 on the credit card. This increased his maximum borrowing ability by about $15,000.

- **Dependants**

  Children in a family are classified as dependants. If you care for children aged 18 years or younger then lenders classify them as a liability and this, too, reduces your maximum borrowing ability. Different lenders calculate dependants at different rates. Each dependant can reduce a maximum borrowing capacity by $30,000 to $60,000.

  Example:

  John and Sally had pre-approval to borrow $320,000. They could not find a house and gave up looking. A year later they decided to start looking again but now had their first child. John and Sally, with their new baby, now only qualify for a $280,000 loan with the same lender compared to $320,000 before the arrival of their baby.

- **Verification of multiple incomes**

  To counter fraudulent home loan applications, lenders need several documents to support the amount of income stated in a home loan application. For the initial home loan application, you will generally need to provide computerised payslips from your employer and a PAYG summary, a letter from your employer or your contract of employment. If you are living overseas you will generally also require three months' worth of bank statements for the account into which your salary is paid.

- **Conduct on liabilities**

  Some lenders will ask for statements of loans and credit cards. Their main objective is to see if there are any late repayments. If your statements indicate a pattern of late payments, this might indicate to the lender that you have poor budgeting skills and give the lender cause to decline the home loan.

- **Positive asset position**

  Lenders like to see that customers have assets in accordance with their age and income. E.g., a young couple in their 20s on modest incomes would not be expected to have accumulated significant superannuation, home contents, savings or other assets. On the other hand, a couple in their 50s on high incomes would be expected to have assets in line with their age and incomes and will be questioned by the lender if they're applying for a home loan with little savings or superannuation to show for 30 years in the workforce.

- **Deposit**

  The deposit is the amount of money that you will be contributing to the purchase of the property. Lenders refer to your deposit as a percentage or Loan-to-Value ratio (LVR).

  Example:

  The property you wish to purchase is $100,000 and you have a $10,000 deposit. Your deposit is 10% and the loan amount will be $90,000. This is referred to as a 90% LVR mortgage.

  You will also need to set money aside to pay for government taxes and lender's fees associated with the purchase of the property. Different lenders have different maximum LVRs for different borrowing situations.

  Some lenders have a maximum LVR of 95%, which means that they will lend 95% of the purchase price and will only require the borrower to contribute a 5% deposit. Other lenders might have a maximum LVR of 90%, 80% or even 70% depending on the type of borrower.

  A lender's maximum LVR will vary on many criteria:

  i. **LVR determined based on the borrower**

     Some lenders have a lower LVR requirement for non-resident borrowers. For example, most lenders have an LVR limit of 80% for temporary residents and Australian expat borrowers while others will happily lend up to 90% and even 95% to these borrowers.

  ii. **LVR determined based on the nature of the deposit**

     Some lenders will only lend at an LVR of greater than 80% if the buyer has a genuine deposit and/or savings. Genuine savings are funds that have been in a bank account for more than three months, saved up over three months, or held in property or shares. The lender is seeking evidence that the borrowers can save over months or years on top of normal expenses. This proves to the lender the borrowers are disciplined and are likely to be able to meet their mortgage payments on time.

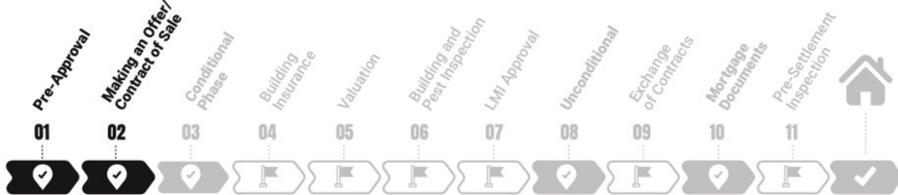
- **Gifts from family**

  Gifts, an inheritance, or proceeds from the sale of personal assets like cars or a business are deemed to be non-genuine deposits and you would need to have them in your account for at least three months before most lenders would consider your application without a 20% deposit.

Hot Tip: There are always exceptions to the rule. For example, if you have been renting, then you might not need to show genuine savings as paying your rent on time is evidence of your ability to meet a mortgage commitment. Some lenders will lend up to 95% without any genuine savings. Typically a higher interest rate will apply in this scenario.

Once you have worked through these equations and other aspects with your mortgage broker and selected your preferred lender, you can apply for a loan pre-approval.

Finding a property



With your pre-approval at the ready, the lender has approved you for a loan. The most important point here is that **they also need to approve the property you wish to buy** as your pre-approval will be subject to a valuation.

The property-finding process

While this can be the most fun aspect of buying a property, it's important to look past the cosmetic appeal of a home and all the bells and whistles it might come with. Instead, focus on the location of the property – is it in a good suburb? Is it close to schools, shopping centres, parks or other lifestyle places? Are there quality work opportunities nearby?

Of course, you have to allow your heart to have some say, but we also recommend that you look at the sales history of the area. This is easier than you might think and can be done with a quick search on websites like realestate.com.au or domain.com.au.

These sites (or 'portals') are where the majority of homes are advertised for sale and where most Australians start looking for their next property. One of

the most appealing features of using the internet to search for property is the convenience of being able to view many properties at once. Virtual tours are becoming more and more popular, allowing potential buyers to grasp a three-dimensional understanding of the property with ease.

Hot Tip: Your Mortgage Broker will generally have access to comprehensive property research tools to be able to provide you with detailed property and suburb reports.

Other great online tools such as Google Maps are also integrated into *realestate.com.au*. The Google Maps tool allows viewers to get a satellite view, showing the property geographically with reference to amenities such as schools, shops, public transport, main roads and so on.

As great as the internet is with all its online tools to help buyers understand and research a property, it has limitations. Buying and investing in property requires a lot of research into the tangibles. However, property tends to be an emotional investment, so whether or not the purchase of the property is for personal use or simply an investment tool, you need to consider environmental factors as well.

Inspecting the property

After a property has passed all your initial online checks, the next step is to contact the real estate agent in charge of listing the property and arrange a suitable time to inspect it.

Hot Tip: The only way to know what a property feels like is to see it in person or have someone (a friend or family member) inspect the property on your behalf. Environmental factors such as noise, air pollution, neighbours and building odours cannot be conveyed over the internet.

Most properties have designated inspection times – set times when a property is open to interested buyers who want to inspect the property. You won't need to make an appointment for these. The real estate agent is present at the property awaiting any potential buyers and their questions.

If you are interested in the property and would like to make an offer on the property, you can choose to negotiate by contacting the real estate agent directly or through your solicitor.

Some solicitors offer to help buyers during the negotiating process regarding stipulating terms and conditions of the contract. Conditions, for example, might include the requirement that the garage doors be fixed or sellers termite-proof the property before settlement.

Home prices research

While you are doing a bit of suburb stalking, **check out median home values** so you can see where the asking price of the property you are considering falls in relation to these. Bear in mind that median house prices can fluctuate rapidly up or down because they are literally whatever the middle property value is out of a group of sales over a set period. For example, say the following properties were sold last quarter:

$1.2 million

$1.07 million

$993,000

$985,000

$685,500

$679,900

$658,000

$585,000

$560,000

The median house price for that period is **$685,000.**

Property Security

When you're applying for a loan, lenders will be checking two documents:

- The Valuation Report
- The Contract of Sale

The property is often referred to as the 'security' and it is over the security that lenders register the mortgage with the state or territory. This prevents the borrower from selling the property without the lender's permission. Even

though you are the legal owner of the property, the lender holds a mortgage over the property and therefore has rights over the property until that mortgage is discharged.

Lenders have different guidelines as to what is considered to be acceptable security. You should discuss with your mortgage broker as to the type of property you would like to purchase before you submit your home loan application for a pre-approval. Your mortgage broker can research the various lenders for their guidelines as to what type of property they will accept as security.

Example 1:

John wants to buy a unit in the Melbourne CBD that is only 45 square metres in size. His mortgage broker advised him there were only four lenders that would approve John's home loan application based on the unit size. Other lenders consider inner-city units of this size to be difficult to sell and therefore high risk.

Example 2:

Mary wants to buy a four-bedroom home in Cairns, Queensland, but the property is halfway through some major renovations and does not have, at the time of purchase, a fully functional kitchen and bathroom. Most banks require the home to be liveable. In this situation, Mary would need to get quotes to have the additional works completed and be able to prove to the bank that she has sufficient funds to undertake these renovations.

Properties to avoid

Further to the examples above, your lender might choose not to lend you the money if the property you choose is:

- **An apartment in a motel or hotel building**.
- **A serviced apartment.**
- **An apartment that is company title.** Some apartment complexes are unique in their legal structure in that they are not strata titled but company titled. Few lenders will lend for company title apartments.
- **A property in a small town, remote area or mining town**. Some lenders might restrict the percentage of the property value they will lend you due to the unpredictability of these markets.
- **An inner-city unit or apartment**. Again, you might require a larger deposit for this (depending on supply and demand at the time).

- **A property larger than five acres.** Lenders have varying policies on this, so it's best to check with your mortgage broker as to which lender can give you the most favourable outcome.
- **Unusual high-risk features**. This can include easements, caveats, proximity to high voltage power lines and things loosely termed as 'environmental issues'.

Case study:

Adrian and Luci had fully verified pre-approval to purchase a home in Brisbane within 10 km of the CBD.

The couple found their dream property within two weeks of being pre-approved. The lender did a valuation and discovered major power transmission lines running along the street on which the desired property was located.

Lenders and, importantly, lenders' mortgage insurers, do not like to lend for properties that are within 50 metres of large transmission lines due to the impact these power lines have on the marketability and saleability of the property. Should the lender need to sell the home quickly, buyers could be put off by these transmission lines.

As such, the loan that was pre-approved was declined and we had to source a different lender who was happy to lend despite the transmission lines. The loan was approved with a new lender and Adrian and Luci moved in. Hopefully they're living happily ever after, but it was a stressful time for that one to two weeks while we resolved the issue.

Hot Tip: Before the time comes to make an offer on a property, it's best to have a conveyancer in your corner. A conveyancer will deal with all the legal requirements linked with settlement; they charge a fixed fee to carry out all the necessary phone calls, emails and other things, so you won't get a surprise invoice at the end.

Making an offer

With a pre-approval in your hands, a property you love and a conveyancer ready to step in and seal the deal for you, all that is left now is to make an offer and let the negotiations begin! Before you start opening the lines of communication with the real estate agent or private seller, there are some important tips to keep up your sleeve to smooth out the process for you and ensure you are getting the best possible outcome.

Remember, the agent or seller's job is to get the best achievable price for the sale of the property, which will be working against your desire to try and shave a little off the asking price so you have less to pay back over the life of your mortgage. Despite this, you can ask the agent what price range the seller will consider reasonable, so you aren't firing a random number into the ring and blindly hoping it's in their realm of consideration. Simply asking this question might allow you to gain some insight into the types of offers that have already been presented.

If you don't know the answer already from the homework you have done while investigating the property, ask the agent how long it has been on the market. When this answer is combined with the response from your previous question, you gain a clearer understanding of how open the seller will be to negotiations.

The owner of a newly listed property with multiple offers will be much firmer on the asking price and will only respond well to higher offers, whereas a property that has been on the market for some time with very few or no offers is an ideal seller to negotiate with.

Hot Tip: Let the agent know that you have pre-approval to strengthen your offer, but never let the agent or seller know what your pre-approved loan amount is, or the maximum amount you are prepared to spend. As we mentioned, their goal is to achieve the highest possible price. Showing your hand makes it harder for you to negotiate a lower price later.

Assessing the market

It can be tricky to assess what to offer for a property, but along with the time spent on market and the number of prior offers (if the agent is willing to spill the beans on this), you should also look at the wider market and if it is a buyer's or seller's market.

One of the easiest ways to determine this is to see how quickly properties are selling. If they are being snapped up within days or only a few weeks of being listed, the market is favouring sellers and they might not be as willing to negotiate on price. In fact, agents might outright reject a low offer in a seller's market and adopt a "take it or leave it" attitude as they will be more confident of achieving the asking price or higher.

If there are multiple properties on offer in the area and the 'For Sale' signs have been hanging around in front yards for many weeks or months on end, it is a buyer's market and there are potential bargains to be had with the right negotiation. While in a case like this, it might be tempting to go in with a low offer to start with, the ideal situation is to attract a counter-offer, which is when you know you have hit the sweet spot.

Once you have made your offer, it is standard practice for the agents to draw up a Contract of Sale covering the terms of the offer, the price and the timelines you have asked for. If the seller accepts the offer, they will countersign the Contract of Sale. If, however, the seller wishes to negotiate then they will amend the contract with their counteroffer and the agent will present this to you for consideration. This could happen a few times during negotiations until both parties are happy with the sale price.

The Contract of Sale

The Contract of Sale outlines the terms and conditions of the sale of the property. It also includes any special conditions, usually makes the sale subject to finance and pest and building inspections (more on those later) and will list inclusions (the owner might wish to leave some furniture) and exclusions (the owner wants to take the oven with them).

The contract also locks in a settlement date; this is when you will pay the remaining funds and legally own the property.

We recommend that you consult your solicitor or conveyancer[5] before signing any contracts. It is also a good idea to have your mortgage broker read over your Contract of Sale before signing to ensure:

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[5] *throughout this book we refer to your legal representative as either your solicitor, conveyancer or settlement agent*

- The **property** you are purchasing **meets the lender's guidelines.**
- **You have entered full and complete names (including all middle names) on the contract** and they are spelled correctly. This is one of the most common reasons for contracts to have to be redone.
- (If the contract is subject to finance), the **approval time frame is reasonable.**
- The **settlement time frame is reasonable**.

In all states and territories except NSW, both you and the seller sign one Contract of Sale immediately and both parties receive a copy. You are then both bound by the terms in the contract.

There are two primary ways in which the contract can be nullified. They are:

1. If the contract is subject to a satisfactory building and pest report and the results of building and pest inspections show significant faults such as termites or structural concerns. In this case, you have the power to cancel the contract and will receive back any deposit you have already paid.

2. If the contract is subject to finance; that is, subject to lender approval. If the lender does not issue an approval then the contract is cancelled and the deposit is refunded.

In NSW, the process is a little different from the other states in that there are two identical contracts. The buyer signs one contract and the seller signs a separate contract with identical details on it. Both seller and buyer keep their signed contracts with their own solicitor and the contracts are then exchanged at a later date, usually after you have received unconditional approval from the lender and still wish to purchase this property.

The buyer has a copy with the seller's signature on it and can now enforce this sale. Conversely, the seller now has a copy with the buyer's signature, so the buyer is not legally permitted to back out of the contract.

Hot Tip: Unlike other states, in NSW there is no legally binding agreement between the parties until exchange occurs. Therefore, both parties can back out of the contract at any time up to exchange for any reason (including the seller receiving a higher offer).

Counting time: The date the contract is signed by both parties is designated as Day Zero of your contract timelines. If a contract was signed on March 1

with a seven-day building and pest inspection clause, 14-day finance clause and a 42-day settlement clause, the dates would be as follows:

- Contract date: March 1.
- Building and pest inspections completed by: March 8.
- Finance fully approved by: March 15.
- Settlement date (day you become the owner): April 12.

Note: If it is a purchase made in NSW, then all dates run from the date of exchange.

Hot Tip: Once your offer is accepted, it is important to let your mortgage broker know immediately to give them sufficient time to arrange your formal approval before the finance date on the Contract of Sale.

Common contract conditions

It's a great idea to consult with your conveyancer to confirm what conditions should be in your offer as these will vary between states and territories. Some of the most common conditions include:

- **10-day cooling-off period – NSW, or 14-day finance clause – VIC, ACT, QLD, NT, SA, TAS**

  This is to allow you to arrange unconditional finance. Although it is rare for a decline if you have pre-approval, this clause gives you enough time for your lender to carry out their valuation and give you their final approval. Banks will often approve the loan within two weeks, but it is best to err on the side of caution and allow extra time in case there are any hiccups with processing. In NSW, you will either need to agree to purchase and not exchange contracts until formal approval or request a two-week cooling-off period if a finance clause is not written into the contract.

- **Strata report**

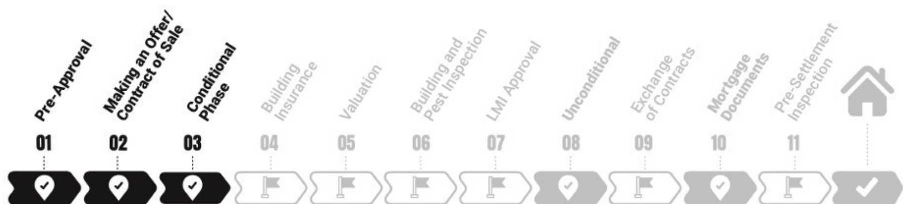
  This is a report specific to units and townhouses. The purpose of this report is to outline whether or not all owners are up to date with their levies payments, the general condition of the building, presence of asbestos (for older buildings), water, Council rates and so on.

- **The deposit**

  The amount you are willing to pay as a deposit and when you will pay it is included as a condition. This is something you can discuss with your conveyancer and mortgage broker. Remember, if you cannot get the agent or vendor to agree to a cooling-off period or finance clause then you will be running the risk of losing your deposit if the lender does not approve your loan unconditionally.

  For some purchases, though, taking this risk is unavoidable (such as going to auction) so it is best to discuss the risks with your conveyancer and mortgage broker before proceeding.

The conditional phase



Your mortgage broker will request a copy of the sales contract and submit it to the lender to convert the pre-approval to conditional approval.

This is an indication that the lender will proceed with the home loan application if certain conditions set by the lender can be met.

Generally, these conditions involve:

1. A satisfactory valuation report.

2. Approval from the Lender's Mortgage Insurance (LMI) provider (if required).

3. Other conditions as the lender requires (as discussed earlier).

Upon receipt of the lender's conditions, your mortgage broker will request from you any further information the lender requires. If the lender requires a valuation to be conducted, they will now order one from an independent valuer.

Insurance

No, this isn't a mix-up. This section is 100% meant to be located here. Why? Because, depending on the state or territory in Australia, building insurance might be required either up front, at contract time or on settlement of the property. Regardless of the law in the individual states in Australia, most lenders will not allow a home loan to settle unless there is building insurance in place and the lender has evidence of this.

Why insure at this stage?

It might seem strange to insure a property that you do not legally own, but there is a very good reason for this.

Once you sign a contract, you have agreed to buy that property and, in a weird legal loophole, there is nothing in a standard contract that stipulates the house needs to be standing at settlement. If the untoward happens, you are still legally required to buy the property and will have to rely on your own insurance to rectify any damage.

Example:

Darren owns a house in Brisbane and the house burns down. Darren is said to have suffered loss and his insurance policy would pay him out for that loss (that is, pay to have the house rebuilt). However, if Darren has sold the property to Dylan and Mary and the house burns down before the couple settles on the property, at common law, Dylan and Mary have agreed to buy the property. There was nothing in the contract that stated that the purchase was subject to the house still being on the property. As such, Darren will still get paid by Dylan and Mary and therefore has not suffered any loss by the house burning down. In this case, Dylan and Mary would need to rely on their own insurance to be compensated for the loss (that is, they can't claim on the seller's insurance). This illustrates why it is good practice to insure the property immediately.

How do I insure the property?

Contact a reputable insurance company and advise them that you require a Certificate of Currency on a property you just purchased.

This is a document issued by the insurance company that states the details of the policyholder, property insured, the sum of the insurance and the lender who has the mortgage over the property. The insurance company will generally ask you to supply information on the property such as:

1. Estimated cost to rebuild the home.

2. Year in which the building was constructed.

3. Wall materials (brick, weatherboard and so on).

4. Roof materials (tiles, iron, concrete etc.).

5. Area of house (180 square metres, for example).

6. Interested party (the lender; Westpac, Teachers Mutual Bank etc).

7. Number of bedrooms.

What if I do not buy the property?

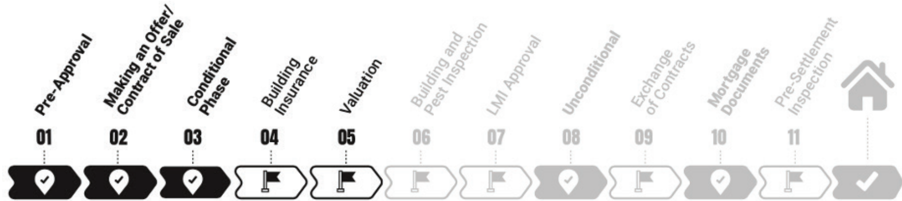
Many insurance companies understand that a buyer might not go through with the purchase of a property after the signing of the Contract of Sale. Therefore, most insurance companies will refund any fees paid or do not start charging until settlement has been completed. Please ask your insurance company for their terms and conditions.

Building insurance for a unit/townhouse/duplex

There is generally no requirement for a buyer to directly insure a property that is a strata title unit, townhouse or villa.

With these types of dwellings, the building insurance is organised by the Body Corporate so you can obtain a Certificate of Currency from them. Owners pay for their property insurance via Body Corporate fees.

Valuation



The reason that home loans have more competitive rates than credit cards or personal loan interest rates is that lending for property is low risk. Should problems arise, the lender can sell the property to recover the money owed.

This is why valuations are important to lenders as a condition of approving their loan. It is an opportunity for them to ascertain that:

1. The property is worth what you are paying.
2. The property is saleable; for example, it is in good condition and in a popular location.

While the valuation is for the lender's purpose only, it can benefit the buyer by preventing the buyer from paying more for the property than it is worth. Not all property purchases will involve a valuation and whether or not a valuation is done will vary from lender to lender depending on a broad range of factors.

What does a valuation involve?

Banks and other lenders use three main types of valuation methods. These are undertaken by an independent third party.

1. **Full valuation.**

   When a full valuation is required, the lender contacts a valuation firm and requests a valuation report for the property involved in the Contract of Sale.

   The valuer contacts the real estate agent directly to arrange an inspection of the property as this form of assessment needs to be done in person. A valuation of this nature generally takes around three to five business days to complete, although this will vary depending on the circumstances.

   A 'full valuation' report consists of:

   - A **current picture of the property** taken from the street.
   - **Measurements** of the land and building.
   - A **market value rent** for the property.
   - A **market value price** of the property based on the valuer's opinion, which needs to also be supported by three recent comparable sales of properties that are similar to the property that is being valued.
   - **General comments** by the valuer that might include the condition of the dwelling and its ability to attract capital growth or to be sold easily.

2. **Kerb-side valuation.**

As the name suggests, this requires a valuer to visit the property and inspect it from the street frontage without the need for access into the home.

3. Computer-generated valuation

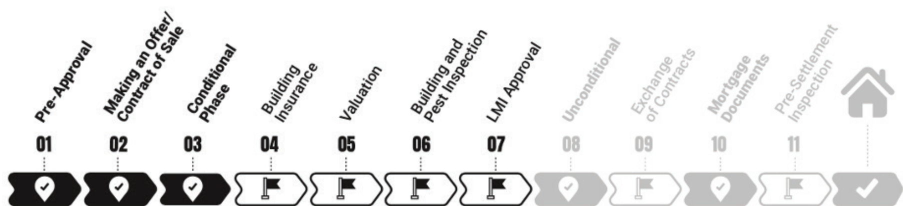
This is generated by a computer system that creates a valuation report from a wide range of data and information related to the property. This could include recent sales in the local area, land valuation from local councils and so on.

Both kerb-side and computer-generated valuations are used for what lenders consider to be low-risk purchases. Each lender has its own policy on what is considered a 'low risk' application but as a general rule, these valuations can be done when:

1. The LVR is below 80% (that is, the borrower has a deposit greater than 20% of the purchase price).
2. The property is **NOT an off-the-plan purchase or vacant land**.
3. The purchase is at "arms length", meaning that the buyer and seller are not known to each other.

An automated valuation will speed up the approval process as you will not need to wait the three to five days for a formal valuation to be completed.

Approval for Lender's Mortgage Insurance provider



Once the lender has the valuation report and any other supporting documentation they have requested, they will seek approval from their Lender's Mortgage Insurer (LMI) if the loan-to-value ratio (LVR) is higher than 80% (that is, the buyer has less than a 20% deposit).

The LMI provider is a different entity from the lender and has a different set of policies and guidelines for a home loan application approval. Therefore, it is possible for a lender to give a pre-approval and a conditional approval only

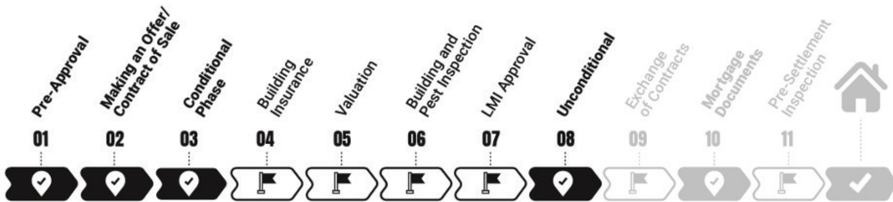
to decline the home loan application at the unconditional approval phase as the LMI provider has declined to insure the home loan.

If a lender has approved a home loan application and the LMI provider is not willing to issue an approval, in some situations the lender will still lend to the borrower but only if the borrower can contribute a 20% deposit. With a 20% deposit, the lender can approve the home loan without LMI provider approval.

Note: Some lenders have negotiated a Delegated Underwriting Authority (DUA) with their LMI providers. A DUA allows the lender to approve the loan without having to seek approval from the LMI provider.

Using a lender that has a DUA can be a great tactic for applications the broker is confident will pass lender approval, but might not pass LMI approval. This being the case, your broker is likely to discuss the lending options with you and potentially steer you towards a lender that does have DUA to avoid the risk of an LMI decline.

Unconditional approval



Once all conditions of the approval have been satisfied, including valuation and LMI provider approval (if required), the lender issues you with a formal letter stating that the home loan application has been unconditionally approved. This is also known as a **Formal Approval** and means that the bank has no outstanding conditions and your home loan is fully approved.

The unconditional approval needs to be issued to your solicitor before the close of business on the finance date or before exchanging contracts so they are aware that you have successfully obtained finance. They can then advise the seller's solicitor that the contract is now unconditional and the process begins to take the Contract of Sale to settlement.

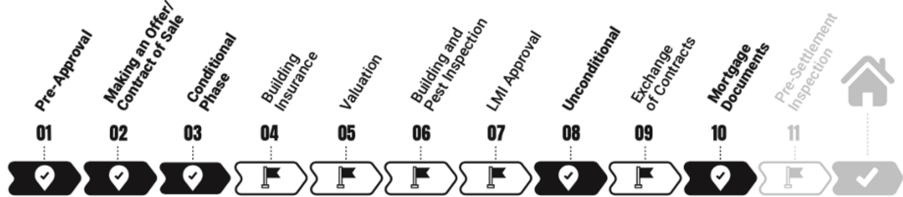
In NSW, this is when the solicitors will exchange contracts.

There might be times when you don't receive formal approval before the finance due date. This is not a cause for stress or concern as your solicitor

or conveyancer will request an extension on your behalf. Also, although the seller is not required to grant an extension on finance, they generally will if it's only for a few days as it is much easier than starting the process all over again with another buyer.

Hot Tip: Always confirm the unconditional approval, the terms of the finance, repayments, deposit required and interest rates with your mortgage broker. Sometimes these might have changed from what was discussed previously and once you go unconditional on the contract, there is no backing out!

Mortgage documents



After unconditional approval has been issued, the lender will post or email your mortgage documents. Your mortgage broker will let you know when to expect these to arrive. There will be two copies of everything. You keep one set for your records and the other set is for you to sign and return.

Take the time to read through these documents and make sure you understand everything. If you have any concerns or questions, contact your conveyancer for advice.

For your home loan, the mortgage documents are the formal contract between you and the lender.

They will state the following:

- Interest rate (Example: 4.5%).
- Your minimum monthly repayments (Example: $2,250 a month).
- The term of your home loan (Example: 30 years).
- The legal consequences in the circumstance that you do not meet your commitments (for example, the lender's power of sale if a buyer defaults).

Mortgage documents are usually 20 pages or more and require the borrower/s to sign in numerous places. Complete the documents as soon as possible and return them directly to the bank through Express/Registered Post, keeping a record of the Australia Post number, or electronically if the lender allows for electronic signatures.

Once the lenders receive your mortgage documents, they will check to make sure you have dotted all the i's and crossed all the t's and will then notify your solicitor or conveyancer to book in a settlement date.

Witnessing of mortgage documents

Some of the mortgage documents will require a witness to verify your signatures. The mortgage documents will clearly state the requirements; in most states in Australia, the witness can be anyone over the age of 18 who is not a party to the loan.

In some states and territories, however, you need a qualified person to witness the signature on your mortgage documents. If the buyer is in Australia, then the documents might need to be witnessed by a Justice of the Peace (JP) or solicitor. You can find a JP at your local courthouse, shopping centre, pharmacy, local library or police station and their services are free.

If the buyer is overseas then the mortgage documents will generally need to be witnessed at a Consulate or by a Notary Public.

Check with your mortgage broker for the exact lender and state or territory requirements for your particular situation.

Hot Tip: Before signing and returning the mortgage documents, check with your conveyancer if they need any certified ID or other forms witnessed. This might save you a trip by completing all documents at the same time.

Balance of settlement monies

Generally, the buyer will need to contribute further funds on settlement to complete the purchase and pay the rest of any deposit required, stamp duty and fees.

Example:

Stacey purchases a $400,000 property, has $90,000 in savings, and stamp duty fees cost $10,000, she has $80,000 left to use for the deposit on the property.

Property price	-	*$400,000*
Savings	-	*$90,000*
Stamp duty	-	*$10,000*
Monies left for deposit	-	*$80,000*
Bank loan required	-	*$320,000*

This means the lender will be giving Stacey a loan of $320,000 to make up the total property sale price of $400,000.

Let's assume that when Stacey signed the Contract of Sale, she agreed to pay a 5% ($20,000) deposit. When Stacey reaches settlement, she would have already paid her initial deposit of $20,000 to the agent and she will then need to contribute the remaining $60,000 to cover the difference in her $80,000 deposit and the $10,000 to cover stamp duty fees.

There are two ways you can contribute these funds:

1. **Direct debit from your bank account**: Some banks will debit your bank account for these funds on settlement. Not all lenders provide this option, though, so check with your mortgage broker. If your lender does provide this option, then all you need to do is have enough funds sitting in your bank account three days before settlement. In the above example, Stacey would need $70,000.

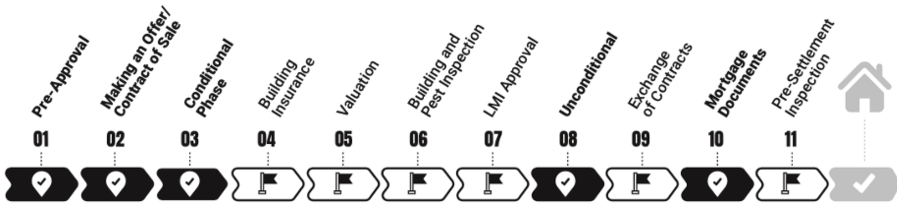
   Note that the bank account with the balance of funds must be with the same lender who is advancing the mortgage. If Stacey is getting a mortgage with Lender A, then Stacey's $70,000 needs to be in Stacey's account with Lender A. It cannot be in Stacey's Lender B account.

2. **Provide funds to your solicitor**: If your bank does not allow for direct debit of the funds required to complete settlement, then you will need to provide these funds to your solicitor who can then access them on settlement date. Several days before settlement, your solicitor will determine the monies needed to the last cent and will ask you to either deposit these funds into their trust account or provide them with a bank cheque.

In the above example, Stacey would either deposit $70,000 into the solicitor's trust account or provide them with a cheque for the same.

Hot Tip: Your solicitor can provide you with a full breakdown of how your funds have been allocated on settlement. This is called a settlement statement and will list exactly where your money was spent (that is, stamp duty, solicitor's fees, bank cheques, vendor payment and so on).

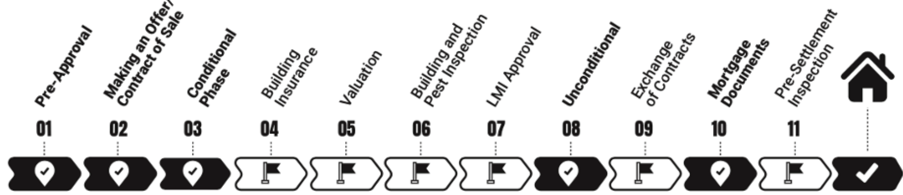
Pre-settlement inspection



If your property was previously a rental and had tenants living in it, you might wish to conduct a pre-settlement inspection to ensure it is still in good condition and nothing has been taken. You will need to arrange this with the real estate agent.

If you discover the property is not in the same condition when you agreed to purchase it (in a material way), you might be able to ensure that the seller remedies the issue (e.g. makes the repairs) or reduces the purchase price.

Settlement



Settlement day is essentially a gathering of all the solicitors involved with this property sale. Your solicitor, the seller's solicitor, a solicitor from your lending institution and a solicitor from your seller's lender will get together to formalise settlement. The good news is you don't need to attend that meeting and instead can wait for a phone call confirming that you are the new owner of the property and you can collect the keys. In a nutshell, it is the date when the mortgage is advanced, the seller is paid and you become the legal owner of the property.

Most settlements take place in the CBD of capital cities. In other parts of Australia, settlement commonly takes place in a solicitor's office or at the bank's local branch.

What happens if settlement is delayed?

There are many reasons why the settlement date can be delayed. Sometimes both parties know before the day and you will have some notice; however, should a mistake be found with the contracts even on settlement date itself, proceedings will have to be pushed back for it to be rectified. The most common reason for a delay in the settlement is the seller's bank is not ready to settle.

When settlement date is delayed by even one day, it can be a highly stressful time for both buyers and sellers and there can be ramifications.

If settlement is delayed due to the seller's fault then, practically, there is little the buyer can do. If the delay is the fault of the buyer, then the seller might choose to charge a penalty default interest rate for every day settlement is delayed.

Example:

In Victoria, the default interest rate is 12.5%. If the purchase price is $300,000, the penalty to the buyer for a delay in settlement would be $37,500/365 = $103 for each day that settlement is delayed.

Moving in

This is where a lot of the physical hard work occurs as you pack up boxes and shift them into your new home. But before you arrange that moving truck, you need to remember to arrange for services like electricity, gas, phone and internet to be connected to your new home.

To assist with this process there are various utility brokers who, at no cost to you, will help arrange the transfer of all your telephone, electricity, gas and other utilities from your old home to your new home. Contact your mortgage broker for a referral.

You will also need to start informing government departments, your employers, the transport department and your superannuation fund, among many others, of your change of address so you can continue receiving communication from them.

You can arrange a temporary mail redirection through Australia Post for a few months to ensure you don’t accidentally miss someone and then you can systematically change your details with them as letters arrive.

Borrowers with special considerations

Australians have the ability to work in some pretty awesome jobs and more people each year are moving away from the realms of the traditional nine-to-five and creating businesses to follow their passion, much like I did when I established each of my finance companies. With Australian property maintaining a fairly steady long-term rise in value, despite some slumps along the way, it is in hot demand. Not only by Australians, but expats and people from other parts of the world who are living and working in this beautiful country. There is also a hot market for those who have not even set foot in the country, yet have fallen in love with the idea of an Australian lifestyle.

While this is all very positive, it highlights the reasons why there is no one-size-fits-all approach for lenders to take when it comes to mortgages. Of course, I have always thrived on helping those with niche needs to secure a home loan and enter the Australian property market. In most cases, a successful application only requires a few additional steps and documentation to present to the lender to satisfy them of your ability to pay the mortgage off.

I like to call this category of people 'borrowers with special considerations'.

These include:

- Those seeking to buy before they sell their existing home (bridging finance applicants)
- Those with little or no savings/deposit requiring a Family Guarantee
- Those on unsteady income
- First-home buyers
- Self-employed
- Expats
- Buyers of rural or high-risk property
- Professionals
- Buyers constructing a new home
- Buying off the plan

Over the following pages, I'll discuss how we need different approaches for every client to achieve our goal of getting you that mortgage.

Bridging loan applicants

A bridging loan is essentially finance that allows you to buy a new property without having to sell your existing property first.

Example:

John and Jane live in a two-bedroom unit in inner-city Brisbane. They are looking to start a family and therefore seeking to move to the suburbs and upgrade to a four-bedroom home. They have just found their dream home to raise their family, but have not yet sold their current home.

John and Jane might be able to take out a bridging loan to purchase their four-bedroom home before they sell their existing home. This would allow them to secure this home now and sell their existing home after they have moved in.

How do bridging loans work?

The bank will lend you sufficient funds to cover the purchase of your new home and related costs. This is called the 'peak debt'; that is, is the debt you will owe when you own both properties at the same time.

Once you sell your existing home, these funds will be used to pay out the bridging loan and you will be left with the ongoing balance (the 'end debt'), which is your continuing mortgage. You then continue as normal – the bridging loan is extinguished.

Until you sell your current property, most lenders will capitalise the interest repayment on this peak debt so you only have to manage the principal and interest repayment on the end debt. This is to ensure you do not have to make repayments on two home loans at the same time.

What is the policy?

Most lenders do not offer bridging finance due to the risks and complexity involved.

For those lenders that do, the general criteria to qualify for a bridging loan are:

1. You hold sufficient equity in your existing home to ensure the peak debt is not over 80% of combined values. Generally speaking, this will mean you would need to have at least 50% equity in your existing home or savings to contribute. (See worked example below.) There are exceptions that allow the lender to go to 90% LVR but these are decided on a case-by-case basis.

2. You can afford the repayments on the end debt.

3. You are able to sell your existing home and close the bridging loan within 12 months.

4. You otherwise meet normal lending policy/criteria.

It is important to note that some lenders will want repayments made on the peak debt, and most will not assist with a bridging loan if the property being purchased is a land-and-build project.

What are the pros of a bridging loan?

- **You can buy a new home immediately –** you don't need to wait to sell your existing home before you can purchase.

- If you are building, **you don't have to sell and rent for months while your home is being completed,** avoiding both rent and two lots of moving costs.

- It can give you **more time to sell your home and get a better price –** avoiding the stress of having to sell quickly to buy your new home.

What are the cons of a bridging loan?

- **Interest is compounding monthly:** As the interest is capitalised on top of your loan, the longer you take to sell your home, the more interest you will accrue.

- **Some lenders charge higher interest rates** on bridging loan debt**.**

- **If you don't sell your property within the 12 months, most lenders will charge you a higher interest rate or require that you begin making P&I repayments on all debt**. This is because they want the bridging loan extinguished.

- **Most lenders do not offer bridging loans,** meaning that the lender your mortgage is currently with might not offer this solution. You might need to refinance your existing mortgage to a new lender, which will potentially incur switching fees.

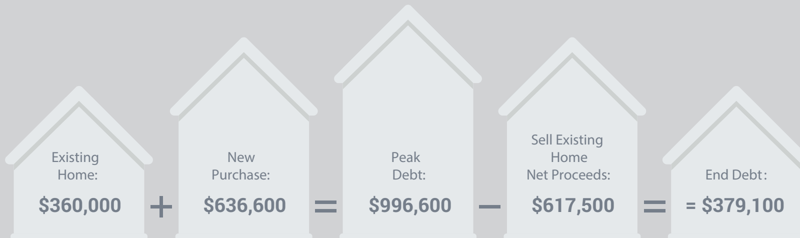
Case study:

Christine and Lloyd are looking to make a sea change from Sydney, NSW to Cairns, Queensland. They have found a block of land for $202,500 and building their dream home will cost them $400,000 for a complete value of $602,500. Their current mortgage is $360,000 and they expect to sell for

$750,000 on completion of the build. Christine and Lloyd would prefer to not have to sell and rent while their new home is being built but can't afford repayments on both mortgages at the same time.

To determine whether or not this is possible, we first need to work out what the peak debt will be and ensure it will be under 80% LVR. To do this, we work out all costs associated with the purchase and sale (including the capitalised interest).

	Cost
Existing mortgage	$360,000
Purchase price	$602,500
Stamp duty and other purchase costs	$10,000
12 months of capitalised interest	$24,100
Less savings	$0
Peak debt	**$996,600**



In the above example, the total peak debt would be $996,600. The value of their existing home is $750,000 (confirmed by bank valuation) and their new home value is $602,500. Therefore, the total security value $1,352,500 against a loan of $996,600 results in an LVR of 73.6%.

If Christine and Lloyd were to make repayments on this debt on a P&I basis, the repayments at 3.5% would be $4,476 a month. This is not affordable for Christine and Lloyd.

By using a bridging loan and capitalising the interest, the repayments will typically be on the end debt only. The end debt will be as follows:

Peak Debt	$996,600
Less Sale Price (bank valuation)	- $750,000
Plus 15% buffer	$112,500

Plus Selling Costs (Real Estate Agent/Solicitors, etc.)	$20,000
End Debt	**$379,100**

During the bridging period, Christine and Lloyd would need to make P&I repayments on $379,100 at 3.5% over 30 years; that is, $1,703 a month.

You will note in the above calculations for the peak and end debt that the lender is:

1. **Adding a 15% buffer** in case Christine and Lloyd cannot achieve a sale price of $750,000. If Christine and Lloyd do achieve a sale price of $750,000 or more, then they will end up with this buffer as surplus funds in their bank account and they can pay the mortgage down with it if they wish. In this case, if they sold for $750,000 exactly and all other costs were quoted correctly, Christine and Lloyd would receive $112,500 in their bank account after the sale was completed.
2. **Calculating 12 months' worth of interest payments** and adding this to the loan amount to ensure there are sufficient funds to cover the interest repayments. It's important to note, though, that Christine and Lloyd would only pay the actual interest they accrue. Therefore, if Christine and Lloyd sold earlier than 12 months and only incurred $15,000 in interest, they would be refunded the difference of $9,100.

Family guarantor home loan applicants

A family guarantor (or 'family guarantee') home loan is a special type of loan that allows your parents or family member to assist you with the purchase of your first or subsequent home by offering their property as security. In some cases, a family guarantee can be used to buy an investment property.

Generally, a family guarantor home loan would be used when the borrowers (typically the children) do not have sufficient savings/deposit to be able to obtain a home loan in their own right but can otherwise qualify for a home loan.

The advantage of using a family guarantee loan is it allows the borrowers to enter the market earlier and stop paying rent.

How does a family guarantor loan work?

The guarantor/s (generally mum and dad) offer their property as security for the loan so the overall LVR on the purchase property is below the 80% LVR target.

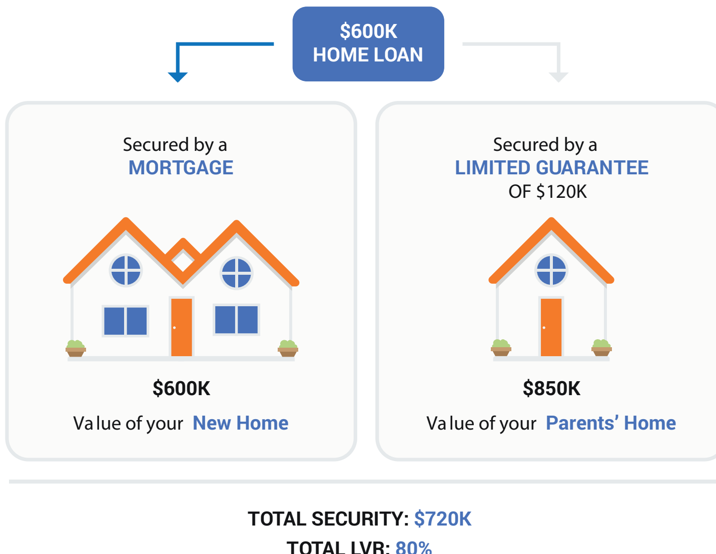
Case study:

Michael and Di wish to buy their first home for $600,000 in Victoria. Due to bank policy at the time, the maximum loan Michael and Di could achieve was 90% LVR, meaning they would need a 10% deposit plus costs.

Michael and Di have stable employment, clean credit histories and are currently paying rent that is not much less than what the mortgage repayment would be. But at their current savings trajectory, it will take them about two years of savings to amass the $60,000 deposit required. Further, they are concerned that rising property values will see this 10% deposit figure increase so they're forever chasing a moving target.

To enable Michael and Di to stop renting now and get into their own home, Michael's parents Ian and Caroline have offered to go guarantor. Ian and Caroline own their own home valued at $850,000, which they propose to use as security for Michael and Di's new loan.

With the guarantors' security property included in the application, the lender now has two properties as security for this loan, meaning a total security value of $1,450,000 ($600,000 + $850,000). Michael and Di's home loan will be $600,000, resulting in an LVR to the lender of 41.3% ($600,000/$1,450,000).



Who can be a guarantor?

Generally speaking, only the borrower's parents can go guarantor. However, there are exceptions for siblings, grandparents and other family members.

Limited guarantee

A limited guarantee is where the guarantor does not guarantee the entire debt but rather a limited part of that debt. A limited guarantee is used to reduce the guarantor's potential liability, generally to a maximum of 25%, should something go wrong and the lender need to call in the guarantee.

In the above case study for Michael and Di, Ian and Caroline only provide a limited guarantee of 20% or $120,000 to ensure that the overall LVR is below 80%.

Should anything go wrong and the guarantee is called in by the lender, Ian and Caroline's maximum risk is therefore only $120,000 compared with guaranteeing the entire loan amount of $600,000.

What are the risks?

Should you be unable to make repayments on your home loan (typically for a period of longer than 90 days) and are unable to come to some other arrangement with the lender (noting most lenders have hardship provisions and will generally work with you until you can get back on your feet), the lender will implement repossession proceedings on the borrower's home (the children's home) first and sell this property.

If the sale price is sufficient to pay out the existing loan and all costs then the guarantee will not be called upon. It is important to note that costs in this regard would include accrued interest, agent fees on the sale, auction fees, solicitor fees and other reasonable costs.

If, however, the sale price is not sufficient to extinguish the debt and costs, the lender is, on paper, entitled to start repossession proceedings against the parents' home for the loss up to the guarantee amount.

In reality, though, starting repossession proceedings against a guarantor is a big process and something all lenders wish to avoid. Therefore they will work with you to try and find an alternative solution that might include:

1. Converting the guarantee into a regular home loan with affordable repayments.

2. Taking out a personal loan.

3. Ensuring the debt is paid out from savings/superannuation or other assets.

If the lender can find no other solution, then the lender will sell the guarantor's home, pay out the remaining debt (up to the guaranteed amount) and return the balance of the sale proceeds to the guarantors.

Example:

Michael and Di lost their jobs and were unable to find new employment. After six months of no repayments, the lender decided to implement repossession proceedings. The loan balance was $580,000 before repayments had ceased. However, it has grown to $604,000 with six months of accrued interest. Assuming agent fees and other costs totalled $30,000, Ian and Caroline's liability would look like this based on the following sale prices:

1. Sale Price: $650,000

The lender sold the property for $650,000. Less the loan balance and costs of $634,000, Michael and Di received the $16,000 surplus after the sale.

In this case, there was no need to call on Ian and Caroline for the guarantee as the sale price was sufficient to clear all debt and costs.

2. Sale Price: $600,000

The lender sold the property for $600,000. Less the loan balance and costs of $634,000, there was a shortfall of $34,000.

The bank entered discussions with the guarantors, Ian and Caroline, who have the options of:

1. *Using savings or other assets to pay out the debt.*
2. *Obtaining a personal loan for the $34,000.*
3. *Converting the $34,000 to a first mortgage for Caroline and Ian to make repayments on.*
4. *Selling their home to retire the debt.*

3. Sale Price: $450,000

There had been a considerable downturn in the property market, and the lender sold the property for $450,000. Less the loan balance and with costs of $634,000, there was a shortfall of $184,000.

This is where the concept of a limited guarantee comes into play. If the guarantors had provided a limited guarantee of $120,000, then the guarantor's maximum liability here is $120,000 despite the fact the bank's loss is $184,000.

If, however, a full guarantee were provided, then the guarantors would be liable for the full $184,000 loss.

Note: Lenders have strict legal requirements to follow around the sale and marketing of a mortgage in possession property to achieve the fair market value. That is, they can't just sell it cheaply to the CEO's best mate.

How is a Guarantee removed?

The guarantee is entered into for 30 years; however, it can be removed generally once the LVR on the purchase property is below 80%.

Example:

*Michael and Di have had their home loan for three years. The home loan balance has fallen to $560,000 and the value of the property has risen to $700,000. The LVR is now 80% ($560,000/$700,000*100), meaning Michael and Di can apply to have the guarantee removed from Ian and Caroline's property as it is no longer needed.*

Additional considerations for guarantors

In addition to the above, other considerations for the guarantors are:

1. **Restrictions on selling your home**: If you wish to sell the home that is being used for the guarantee, you will need to pay out the guarantee upon sale or have the guarantee transferred to the new home that you purchase.
2. **Restrictions on taking out/increasing your own mortgage on your home:** In this case you might not be able to release as much equity as you would like while the guarantee is in place. Further, you might be limited as to which lender you can use for your mortgage.
3. **You wish to give a guarantee to another child**: Typically, the maximum LVR on the guarantor's property is 80%. If you have given a guarantee to another child already, there might not be sufficient equity available to guarantee another child's loan.

Hot Tips

1. The primary reason for not being able to make repayments on a mortgage resulting in a mortgage in possession is death, disability or divorce. I would therefore recommend that the children take out life, income and disability insurance.

2. It is generally good practice that the guarantors seek independent legal and financial advice. (Many lenders require this.)

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3. You could split the loan into two parts; the 80% portion and the guaranteed portion of 20%. The kids should focus on paying down the 20% portion as quickly as possible, ensuring any offsets are linked to this loan and any additional payments, etc. are made against this portion.

Unsteady income earners or probationers

Those who are on casual or contract employment, on probation (or who earn overtime/bonus/commission payments) can pose a problem for banks unless the mortgage broker knows how to approach each case.

Case study 1:

Sarah, a lawyer with more than 10 years of experience at a firm in Brisbane, had just started with a new firm and was on probation when she first came to me. While some lenders require the client to be off probation before they will lend, we went with a lender who took a common-sense position and took into account Sarah's prior history with her previous employer. Sarah was able to buy a townhouse in North Brisbane.

Case study 2:

Sophie, a freelance journalist working for Channel 7, gets paid a daily 'casual' rate from the broadcaster. Most lenders treat this as being self-employed and therefore require two years of tax returns and financial statements. However, as Sophie was working exclusively for Channel 7, she could demonstrate a consistent work history of four days a week over the past 12 months. Overall, Sophie had a long stable history of employment in the same line of work over the prior five years. This allowed us to access a lender who would proceed with a mortgage application without the self-employed assessment tests, and Sophie was able to purchase an investment home in Melbourne.

Case study 3:

Violet, a registered nurse, works shift work and receives regular overtime. Most lenders like to see a consistent receipt of overtime over one to two years and, when they do, will use only 80% of this overtime in income

calculations. This resulted in Violet not being able to borrow sufficient funds to purchase her home.

However, as Violet is working in an industry where overtime is an expected component of her employment, we were able to use 100% of Rachel's overtime. This rule applies to workers in other essential services including police, fire, ambulance, etc.

First home buyers

While the steps you take to get yourself ready to purchase your first home, such as getting your finances in order, will determine how quickly you can buy your first home, there are some options out there that are designed specifically to help you get onto the property ladder sooner.

The one most people know about is the **First Home Owner Grant (FHOG)**. This was introduced by the Federal Government on 1 July 2000 and was initially a universal $7,000 grant designed to offset the effect of GST on home ownership.

It is funded by the states and territories and, as such, the amounts on offer have changed over the years, as have some of the eligibility requirements, with some offering higher grants with stricter conditions attached.

Universal conditions include that the applicant must be:

- At least **18 years of age**.
- **Not a company or person acting as a trustee**.
- **An Australian citizen or permanent resident** (at least one applicant).

As well, the applicant must:

- Have **never claimed or been paid the FHOG** before.
- Have **never owned and lived in a home in Australia either directly or indirectly** with a spouse.
- **Move into the home within 12 months** and occupy it for at least six months.

Some states and territories also offer additional stamp duty concessions and even exemptions as well as other grants specifically tailored for first home buyers. With government policy constantly evolving, there are often changes that affect what is on offer. You can see the most up-to-date information by visiting www.firsthome.gov.au. At the time of publication, the following were on offer:

New South Wales

- **First Home Buyer Assistance Scheme**

  Full or partial exemption on transfer duty (previously known as stamp duty). If your home is valued at less than $650,000, you can apply for a full exemption so that you don't have to pay transfer duty. If the value of your home is between $650,000 and $800,000, you can apply for a concessional rate of transfer duty. The amount you'll have to pay will be based on the value of your home.

- **First Home Owner Grant (New Homes) Scheme**

Queensland

- **Queensland First Home Owner Grant**

  Depending on the date of your contract, you'll get $15,000 or $20,000 towards buying or building your new house, unit or townhouse (valued at less than $750,000).

Victoria

- **First Home Owner Grant**

  A $10,000 FHOG is available when you buy or build your first new home. The FHOG is $20,000 for new homes built in regional Victoria, for contracts signed from 1 July 2017 to 30 June 2020. Your first home can be a house, townhouse, apartment, unit or similar but it must be valued at $750,000 or less, be the first sale of the property as residential premises and the home must be less than five years old.

- **First Home Buyer Duty Exemption, Concession or Reduction**

  First Home Buyers can claim a duty exemption when they purchase a new or established property in Victoria with a dutiable value up to $600,000. The duty concession applies where the dutiable value is more than $600,000 but not more than $750,000.

South Australia

- **First Home Owner Grant**

  $15,000 is available if the market value of the property does not exceed $575,000.

Western Australia

- **First Home Owner Grant**

  $10,000 to buy or build a new house. The grant is no longer available for the purchase of established homes.

- **First Home Owner Rate of Duty**

  This is available if the value of the home does not exceed $530,000. Where the dutiable value of the home does not exceed $430,000, no duty is payable. Where the dutiable value of the home exceeds $430,000 but does not exceed $530,000, duty is payable at a rate of $19.19 for every $100, or part of $100, by which the dutiable value exceeds $430,000. Different thresholds apply to vacant land.

ACT

As of July 1, 2019, the ACT does not offer grants for those building in the territory.

- **Home Buyer Concession Scheme**

  Under this scheme, which came into effect on July 1, 2019, buyers who fulfil total gross household income threshold eligibility criteria will pay no duty on their home purchase. The threshold starts at $160,000 for a person or couple with no dependants and rises to $176,650 for five or more dependants.

Tasmania

- **First Home Owner Grant**

  $20,000 for eligible first home owners for the purchase or building of a new home.

Northern Territory

- **First Home Owner Grant**

  $10,000 grant. Income and the price of your home don't affect the FHOG.

- **First Home Owner Discount**

  If you are buying an established home up to the value of $650,000, you can apply for up to $23,928.60 off stamp duty.

- **Household Goods Grant Scheme**

  Up to $2,000 to buy household goods.

- **Home Renovation Grant**

  Up to $10,000 to renovate your home.

If you are buying a property with someone else who has previously owned property, you might be entitled to proportional concessions on stamp

duty and other charges. This is best discussed with your mortgage broker. However, no exceptions are made when it comes to the FHOG; if your spouse or partner has previously owned a home or received the grant, you are not entitled to it – even if you are buying solely in your name.

Self-employed

Lenders face some challenges when considering home loans for people who are self-employed as there is potential for large fluctuations in what you will earn in each financial year, making it hard for them to be able to determine what you can comfortably pay back. But there's nothing I love more than a challenge.

Case study:

Claire had started a new business two years before we connected. Her first-year trading figures were pretty low, as most start-ups require investment in new software, advertising and other establishment costs that eat into the income you bring in. Not only that, Claire was returning to work after taking maternity leave for the birth of her second child, juggling motherhood with building her new business. By her second year in business, Claire's figures were looking healthy and she knew she was in a position to cover mortgage repayments.

Most lenders want to see the two years' worth of figures when assessing a mortgage application from someone who's self-employed and then they will take the smaller figure of the two years or an average. In this case, using the figures from Claire's first year of trading would mean that she would not be able to obtain finance for the type of house that she wanted to buy.

With my knowledge of the requirements of the many different lenders in the mortgage realm, I was able to link Claire with a lender who wanted to see both years' figures but was happy to base borrowing capacity off the most recent, higher year. Claire and her family now have their own family home in Melbourne.

Types of loans for the self-employed

There are two common types of loans on offer to those who are self-employed: full-doc loans or low-doc loans.

- **Full-doc loan**

You might choose a full-doc loan if you can fully verify your income with tax returns and notice of assessments to prove what your income is after all the relevant business and lifestyle deductions are made, just as you would with a normal home loan application.

While there are some exceptions, the general rule is that lenders will require two years of tax returns, and they will assess your income to be the lesser of the two.

Example:

Say you earned $100,000 in 2017 and increased your income to $120,000 in 2018. The lender will still consider your income to be $100,000. In some instances, they might even take an average of the two. In the example above, your income would be recorded at $110,000.

Full-doc loan interest rates and lending criteria are the same as for any normal home loan.

- **Low-doc loan**

Low-doc loans are available to self employed people who might not have all the necessary documentation on hand but can self-certify their annual income by using Business Activity Statements or getting their accountant to sign off on their stated income as proof for the lender.

Low-doc loans generally have higher interest rates and require bigger deposits, usually in the realm of 20% depending on the lender, to compensate for the inability to fully anticipate your expected income for the life of the loan.

Expats

Living abroad or being a temporary resident when purchasing property in Australia has a whole host of challenges, none of which are insurmountable. The trick is to know of them in advance to help you with your planning and to ensure that you have the right people on your team to make it happen.

Case study:

Maddie is an Australian citizen married to Klaus, a German citizen with a Permanent Residency visa. They were looking to buy two investment units in Sydney. Some of the challenges they were up against included:

- They were expats earning Euros.
- Maddie was a foreign citizen living overseas, which means, in NSW, that they are subject to a higher stamp duty burden. In their case, this was an additional $27,000.
- Their income documentation was in German.
- Maddie receives a bonus as part of her income package.

We went with a lender that would allow us to purchase the home in Maddie's name only as she is an Australian citizen, but both names were on the mortgages. This avoided the higher stamp duty payment, saving the client $27,000. The lender allowed for the use of translations via a National Accreditation Authority for Translators and Interpreters (NAATI) qualified translator. The lender did not count the bonus income; however, we managed to use some overtime payments to allow us to have sufficient income to meet repayments.

Maddie and Klaus now have an investment portfolio of two Sydney units and the longest part of their lending process was receiving the fully verified pre-approval. I recommend everyone should obtain pre-approval upfront as it takes away most of the uncertainty about whether or not you will successfully be able to obtain a loan.

As a general rule, expats and non-residents will not pay higher interest rates when buying property, but there will be a limited number of lenders that will accept these types of applications.

It is important for temporary and non-residents to enlist the help of specialist mortgage brokers to help them to avoid the common, and often costly, mistakes that can arise due to the complex requirements of dealing with foreign currency, navigating regulatory requirements and considering taxation factors.

Key factors to keep in mind are:

- **Deposit requirements:**

  Despite the common misconception that expats need at least a 20% deposit (LVR of 80%), you can find lenders who will accept an LVR of 95% as long as you take out Lender's Mortgage Insurance.

- **Lender's Mortgage Insurance (LMI)**

  The major benefit of LMI is that it allows you to buy sooner. The LMI might also be tax-deductible.

- **Fully verified pre-approval**

  If you are a non-resident borrower, it is vital to obtain **a fully verified pre-approval** from a reputable lender before committing to any purchase.

  The following list identifies some policies that will result in *some* lenders declining, making it important to select the right lenders to apply to:

  - Employment history.
  - Clean credit history.
  - Type of residency visa you are on or the country in which you reside.
  - Currency in which you are paid.

- **Foreign Investment Review Board (FIRB) approval**

  In many cases, foreign citizens living in Australia or overseas as well as temporary residents will require FIRB approval before they commit to buy residential property.

A FIRB application is not required if one of the following exemptions applies:

- Your spouse (married or de facto) is an Australian citizen and the property is being purchased in joint names.
- You are a New Zealand citizen.
- The property being purchased is from a developer that holds approval from the FIRB to sell to foreign citizens.

How to buy a property from overseas

A common question is how to physically purchase a property when living abroad. Most expats arrange a pre-approval first and then fly back home for a house-buying holiday. Alternatively, they might use their family and friends to find a property for them. Other options that might suit you include:

i. **Buyer's agent**

   This is essentially a real estate agent who represents you rather than the seller of a property.

ii. **House-and-land packages**

House-and-land packages can be a good option for expats given that the property will be a brand-new construction, negating the need to fly to Australia to view the property.

iii. **Off the plan**

Buying off the plan has many similar benefits to that of buying a house-and-land package, but there are a few extra elements to take into consideration. Buying off the plan is discussed in further detail later in this section.

The importance of accountants

If you are an Australian expat and planning to buy a property for investment purposes, it is important that you submit a tax return every year to preserve and take advantage of any negative gearing benefits. It is helpful to use an accountant who is experienced in non-resident tax returns.

Rural properties and high-risk postcodes

Some lenders will be selective about the postcodes that they lend to as they need to ensure they can, if needs be, sell the property easily to recoup their costs promptly if there is any default on the mortgage. More secluded properties and large acreage properties can be subjected to more intense scrutiny by lenders due to the low demand for these types of properties.

Rural

When it comes to rural properties, there are broadly two types of properties to considered, which are:

- Functioning farms on more than 150 acres.
- Hobby farms on fewer than 150 acres of land.

For lending purposes, a hobby farm is broadly defined as one that does not generate any income and is under 150 acres. For these types of properties, there are options to purchase with normal lending processes, criteria and interest rates.

To qualify for normal lending, a hobby farm typically must:

- Cover a **maximum of 150 acres**.
- Have a **paved road (required by some lenders)**

- Have a **dwelling** on it or you have plans drawn up to have a dwelling built on it as part of the transaction.
- Have access to **electricity and town water** (required by some lenders).
- Be **non-income-producing**.

Hot Tip: There are many more restrictions around lending for income-producing farms. Agri-lending is a niche area and you will have to seek out a mortgage broker and other professionals who specialise in dealing with these types of property transactions.

You will need a deposit in the realm of 30-40%. Generally, agri-lending loans are much shorter than home loans, with terms around 15 years, and carry higher interest rates.

High-risk properties and postcodes

On the other side of the coin, **inner-city apartments** can also be classed as high-risk properties as they are located in areas where lenders have concerns that property values can rise or fall quickly.

Example:

A new development of 1,000 units is built in the inner city, resulting in a flood of units for sale. This leads to an oversupply of units very quickly and therefore a reduction in unit prices.

Properties in **mining towns** can also be classed as high-risk properties as they are located in areas where lenders have concerns that property values can rise or fall quickly based on the change in employment conditions for that single industry. Say the cost of coal falls, leading to layoffs in the local mines. Suddenly the majority of the mining town workers no longer have an income to make mortgage payments.

Case study:

Aroha is a New Zealand citizen and her husband Brad is a US citizen who was working in Australia on a 461 visa. Both were working in W.A. in a high-risk postcode (a mining town) and they wanted a place to call home. This was an

application that had quite a few challenges and we weren't 100% confident that a lender would approve the application as the clients had significant personal debt including car loans, credit cards, a visa issue and buying in a mining town.

In their favour, they had good savings, an excellent repayment history on all debts (including another home loan) and stable employment. This was enough to get Aroha and Brad over the line with their application and they were able to purchase with only a 10% deposit.

Professionals

If you're a practising doctor, approved medical practitioner, accountant, finance manager, auditor or actuary, lawyer, veterinary surgeon, pharmacist, physiotherapist or engineer, you might qualify for a home loan of up to 90% of the property value (or higher) without the need to pay Lender's Mortgage Insurance (LMI).

The LMI fee payable will vary from lender to lender and also varies based on the purchase price of the property. Here is an illustrative table to demonstrate the significant savings if you qualify to have LMI waived.

Loan amount	Lender 1 LMI	Lender 2 LMI	Lender 3 LMI	Lender 4 LMI
$400,000	$6,671	$6,746	$6,951	$7,880
$600,000	$12,691	$13,306	$13,313	$16,500
$800,000	$16,921	$17,741	$17,751	$22,000
$1,000,000	$21,152	$22,177	$22,189	$27,500
$1,500,000	$35,362	$36,341	$36,956	$45,802
$2,000,000	$49,200	$50,318	$52,036	$61,070

Case study 1: Sydney purchase at 90% LVR

Janice was a vet living in Melbourne earning $120,000 a year. She and her partner (an admin worker) had agreed to purchase a property in Sydney at auction for $890,000. Janice had more than a 10% deposit but wanted to keep some aside for a rainy day.

The numbers looked like this:

	($)
Purchase price	890,000
Stamp duty	35,540
Mortgage registration fee	105
Transfer fee	209
Misc. (solicitors, etc.)	2,500
Lender's Mortgage Insurance	21,100
Total funds required to complete purchase	**949,454**
- Less home loan	**-821,100**
Borrower contribution	**$128,354**

With LMI of $21,100 payable, Janice would need $128,354 to complete this purchase.

Sourcing a policy that allowed Janice to waive the LMI, we saved her $21,100 in mortgage insurance with no compromise on interest rate. This meant Janice only had to use $107,254 of her own savings, leaving more in her rainy day fund.

Total LMI Savings: $21,100.

Case study 2: Refinance to 90% LVR to release equity to fund new purchase

One of the advantages of this policy is that it can be used for refinancing as well as to release equity to purchase another property to either rent or to live in.

Kim was an accountant earning $165,000 a year. She was looking to purchase one, possibly two, investment properties for up to $650,000 each using only the equity in her existing home.

Her current home was valued at $670,000 and she owed $470,000 on her ANZ mortgage. We could take this loan to 90% of value without paying Lender's Mortgage Insurance, meaning a maximum loan against her existing property of $603,000 (90% of $670,000). As Kim already owed $470,000, this meant Kim had useable equity available of $133,000 ($603,000 less $470,000) to fund deposit plus costs.

For the refinance, the LMI saved on the equity release was $16,582 (the amount the LMI would have cost if Kim had not applied for a waiver due to her profession).

Further, the LMI savings on each of the purchases was $16,087 a purchase — a total of $32,174.

Total LMI Savings: $48,756.

So why do lenders do this? The basis of LMI is to protect the lender against the possibility of default by its mortgage customers.

However, some lenders have realised that highly qualified professionals with high incomes are far less likely to default on their mortgage. Because of this, these banks are prepared to waive their LMI premium with a far lower deposit.

Taking advantage of an LMI waived offer does not limit your choice of mortgage, nor does every person listed on the mortgage application have to work in one of the selected professional fields. All the different mortgage products will be available to you – including loans designed specifically for professionals, like variable mortgages with package discounts, and fixed rate offers with features such as offset accounts and redraw.

How to have your Lender's Mortgage Insurance premium waived

The qualification criteria are split into two different categories, with a different policy applying depending on the category into which you fall. Both categories require that at least one borrower is an Australian citizen or permanent resident, that there is a minimum 10% deposit (plus costs) available, and that you meet other normal credit criteria.

The two categories are:

1. Medical Practitioners (includes Optometrists, Dentists, Vets, Pharmacists and Physios).
2. Industry Professionals (includes Lawyers, Accountants, Pharmacists, Mining, Geologists, Engineers and Surveyors).

If you fall within Category 1, the only requirement you need to meet is that you are a member of the AMA or relevant professional body.

If you fall within Category 2, you will be required to be a member of your industry body (for example, if you're an accountant, you must be registered as a CPA, CA, CFA or FIAA) and have a minimum income of $150k a year (though some exceptions apply).

In addition, most lenders will require:

- Proof of **5% of genuine savings** for the deposit. (You will need to provide three months' worth of statements as evidence of this.)

- Proof of **employment and registration in one of the selected professions** that is eligible for an LMI waived mortgage.

- Your **annual income to be above the required threshold** either as an individual or as a professional couple if you are both practising.

- You to be an **Australian citizen or permanent resident**.

- A **maximum loan amount; typically $2.5 million** (although there are exceptions).

Construction of new homes

Building a new home is an exciting process and allows you the opportunity to build your dream home without having to renovate an existing dwelling. It is thrilling to watch your home come to life, but you need to be prepared to wait patiently for many months before you will be able to move in.

Consulting with your mortgage broker before you begin to seek out a builder allows you to have a firm understanding of what your budget is. This is helpful to ensure you don't fall in love with a particular house plan or have your heart set on a high-end builder if the price precludes you from obtaining a mortgage to pay for it all.

Once you know your budget, you can look at project builders, who often have set dwelling layouts that you will be able to choose from. Alternatively, you can engage a builder that specialises in custom homes and consult with them to develop a plan that will fit within your budget, and maximise the location and topography of your block of land.

You should spend some time researching the builder and ask if they have any display homes that you can have a walk-through so you can gain an understanding of the quality of their workmanship.

Key factors to consider

- **Construction mortgage vs normal mortgage**

  Although you apply for a construction loan in the same manner as for a standard home loan, they are slightly different in that the lender releases the funds required by the builder at the completion of each

major construction milestone as opposed to one upfront lump sum payment to the builder.

This is to ensure that the lender is only paying for work that is completed — and should the builder go bankrupt or otherwise disappear, you can appoint a new builder and the build can continue.

These payments at each major milestones are called "progress payments". A build contract will have what is called a "progress payment schedule", which outlines what payments are required to be made at each milestone.

A typical progress payment schedule will look like this:

How a Construction Loan Works

Stage 1: Deposit 5%	**Plans approved by Council**	**STAGE 1:** This is the preparation stage. The builder organises approvals with council, trades and materials ready to start the construction. There can be delays with council which is outside your builder's control, but they will do what they can to expedite the process. This stage starts once the land settlement has gone through as council needs to see the land title in your name.
Stage 2: Base 15%	**Site works commence and slab completed**	**STAGE 2:** Ground breaking moment, there is now progress on your site. The block is prepared for your slab and this could involve cutting and filling of your block to make the site level plus erecting retaining walls. During this time materials for the next stage may start to arrive and the builder will organise the next set of trades.
Stage 3: Frame 20%	**Wall frames and Roof trusses built and erected**	**STAGE 3:** Carpenters will start erecting the frame of your home which will give a clearer picture of the space & feel. This process can happen very quickly depending on whether the framework is pre-constructed and delivered to site in sections. The truses are usually erected by crane and secured onsite. The frame is also braced and tied down to slab.

Stage 4: Enclosed 25%	**Walls bricked and roof covering completed**	**STAGE 4:** Your home will have the outside bricked or clad with timber depending on the material you have chosen, Your roof will be lined with tiles or corrugated metal and windows & doors will be fitted to make your home weather tight. This will now reduce wet weather delays. This stage is also known as lock up as the house can now be 'locked'.
Stage 5: Fixing 20%	**Internal Fitouts**	**STAGE 5:** If not completed in the previous stage the electrical work and plumbing will be completed; walls and ceiling are sheeted. Bathroom and kitchens will be installed and interior finishes such as painting, floor coverings, lighting and window coverings. Your house is now very much looking like a home!
Stage 6: Practical Completion	**Property completion / Handover inspection**	**STAGE 6:** If the builder is handling the driveway, turf and landscaping, these items will be completed and any other interior fitouts. Appliances will be installed just before handover to guard against theft. The site manager will walk you through the home to check off the home is completed satisfactorily, and council will complete the final inspection to make sure it meets the relevant building codes.

- **Repayments during the construction**

  Importantly, your repayments go up slowly as you pay more money to the builder. The key point is you only make repayments on what is actually drawn so repayments will be relatively small at the start. As the build progresses, your repayments will rise.

Case study:

Craig and Belinda are purchasing land for $300,000 in Adelaide and building a new home for $400,000 for a total value of $700,000. They are borrowing 95% or $665,000.

Assuming an interest rate of 3.5%, the repayments required by Craig and Belinda during the build phase will look like this:

Stage	Progress Payment to Builder	Current Loan	Min. Monthly Repayment Required
Land Loan	Nil	$265,000	$773 IO
Deposit 5%	$20,000	$285,000	$831 IO
Base 15%	$60,000	$345,000	$1,006 IO
Frame 20%	$80,000	$425,000	$1,239 IO
Enclosed 25%	$100,000	$525,000	$1,531 IO
Fixing 20%	$80,000	$605,000	$1,765 IO
Practical Completion 15%	$60,000	$665,000	$2,986 **P&I**
Totals	$400,000	$665,000	

IO = Interest only. P&I = Principal and interest

In the above table we can see that the repayments steadily increase over time and are interest-only during the build phase. Once the final payment is made, a construction loan will generally convert to Principal and Interest repayments.

Note: Some lenders will charge P&I repayments during the build. It is a good idea to check this with your mortgage broker.

- **Documentation**

  In addition to the usual documentation you would provide to a lender when seeking a home loan, you will need to provide paperwork that demonstrates:

  1. The home will be **completed within a certain time frame** and to a high standard.
  2. The builder has the **relevant insurances** (such as public liability).
  3. The plans are **Council-approved plans** and the building will comply with local Council rules.

The process for a new build

- **Deposit**

  Once you have selected your builder and chosen or designed a plan, builders require a deposit to undertake testing on your site. They

send professionals to conduct a site survey, assess geotechnical aspects with soil testing and begin engineering plans to ensure your layout will fit nicely onto your block of land.

After all the results are available to the builder, they will be able to provide you with a quote. Be sure that you understand whether or not this quote includes just the dwelling or if it also includes fittings, appliances, floor coverings and other elements. Some builders offer 'turn-key' packages that include every element of a new home, so you can move into a fully completed home. Others offer landscaping packages that will see them complete the gardens, driveways and install letterboxes and so on.

Hot Tip: Be wary of quotes given before site testing is undertaken. The amount could greatly increase if they find on-site anomalies like large rock deposits or unstable land. These types of issues require additional equipment and resources to rectify – the cost of which they will pass on to you.

- **Contract**

  The builder's contract will outline the terms and conditions for building the home you have chosen or designed. You can run this contract through your solicitor or conveyancer to ensure everything is covered off.

  The contract will also include a payment schedule, which will show you how much is due at each stage of the construction process. Your lender will also get a copy of this schedule and will then be able to sign over the necessary funds to the builder as each milestone is reached.

- **Post contract variations**

  Often changes are made to building contracts after you've signed the contract. Rather than redoing a whole new building contract, the builder will issue the buyer with a **Post Contract Variation ('PCV').**

  An example of when a PCV would be used is when the buyers have decided they wish to upgrade the appliances in the kitchen. The builder will work out the difference between what had been budgeted for in the original contract versus the cost of the new

appliances the clients now wish to have installed. If the budget was originally $10,000 and the new appliances will cost $13,400, there will be a PCV issued for $3,400.

It is important to note that if your finance has already been approved then, in most cases, the bank won't fund these PCVs. You will need to pay them from your savings.

- **The build**

  Once the contract is signed and your chosen lender has committed to finance, your house plans will be submitted to the local Council for approval. These can take a few weeks for them to process depending on their current workload or backlog of applications, but you can fill in this time liaising with your builder to select paint colours, tiles and floor coverings if they are included in your contract.

  When the plans have Council approval, you will meet with the building supervisor on site so you know who will be in charge of overseeing the construction of your new home.

  Then site works begin, starting with excavation and clearing of any necessary vegetation to prepare the site.

- **Building begins**

  The tradespeople install electrical and plumbing connections along with any other 'below the floor' infrastructure, followed by the pouring of the concrete slab. Workers then raise the frames, put on the roof and install windows and external doors. Once this is done, the builders move inside the home and begin installing the finishings and completing the fit-out.

Site safety

It's important to note that safety regulations mean you do not have the ability to visit your home or look inside during construction unless you have arranged a walk-through with the building supervisor in advance. When their work is completed, you will meet again with the site supervisor to go through the property for a quality check and evaluation to ensure you are satisfied with the quality of the home. Shortly after the quality check is completed, you will receive the keys to your home and you can move in.

- **Defects and rectification period**

  Some builders offer a maintenance period to allow you to have any faults or issues fixed under warranty as the house settles. Be prompt in reporting anything you come across so that you don't miss anything during the maintenance period. If you do, you will be paying for the costs of any corrections that need to be made.

Hot Tip: When the builder has completed your new home, engage a handover agent (building inspector) to identify any building defects, things not completed properly and areas that require finishing. This report will typically cost around $500 but has saved me far more than this in defects found that required rectification. These are often things I would not have picked up myself.

Buying off the plan

Buying a property doesn't always mean driving from open home to open home to inspect what is on offer; you can also study large pieces of paper and decide if you like what you see and pay to have it brought to life.

This is called 'buying off the plan' and is where a developer has an approved plan to construct, usually a block of apartments or townhouses. To ensure quick sales on completion of the project and to ensure they get finance, developers will offer the units for sale before they begin construction.

As the buyer of an off-the-plan-unit, you agree to buy now and pay a deposit of generally 5% to 10% to secure one of the apartments or townhouses.

You won't need to make any further payments until the property is fully completed, which could be a year or two (or longer) from the time you sign the contract. Be aware that signing an off-the-plan contract is giving the developer your firm (and legal) commitment to buy the dwelling on completion.

Hot Tip: If you're considering a purchase off the plan, we recommend you have a minimum 20% deposit plus costs or expect to have such a deposit at the time of completion.

Benefits of buying off the plan

There are many benefits, including:

- As the property is brand-new, you will **save on maintenance costs** for at least the first few years.
- You have **extra time to save up the total deposit**, which is due on completion of the build.
- There are considerable **stamp duty incentives and discounts** for buying off the plan in some states like Victoria.
- You have the **potential to see considerable gains before the completion** of the build in a market where property prices are rising. This gives you an opportunity to sell before settlement to turn a quick profit.
- Some developers will offer **guaranteed rental returns** for a year or two after the completion of the project.
- There is **potential to customise your dwelling** by selecting some of the fixtures, which will make it feel more like home.

However, you need to be mindful of the risks. The main one is arranging home loan finance. No lender will agree to approve a home loan for an indefinite period and the maximum approval period is six months.

Therefore, you run the risk that when settlement is due, the bank will not lend the home loan finance in any of the following conditions:

- **Valuations have fallen** and you don't have enough funds to make up the difference. Many off-the-plan buyers had this issue in 2010 when some areas suffered a fall in property prices in the aftermath of the GFC.
- **Credit policy has changed**, so the property might no longer be an acceptable loan risk for the lender. This can happen during times when banks tighten their lending criteria.
- **Interest rates have risen**, causing a reduction in your borrowing capacity and perhaps an inability to afford repayments.

Problems can also arise when the dwelling you have visualised by looking at the plans has become something different in reality. You also need to be certain that you are prepared to wait several months (and sometimes more than a year) before you can move into your unit or townhouse.

Case study 1:

Paul and Jennie were living and working in Switzerland earning Swiss Francs. They agreed to purchase an off-the-plan apartment on the Gold Coast in 2016 and paid the 10% deposit of $64,000.

The unit came up for completion in May 2019, by which time credit policy had changed significantly from when they had agreed to purchase. It was now no longer possible to arrange normal finance through mainstream lenders due to Paul's residency status. Paul and Jennie either had to not proceed with the purchase (forfeiting their deposit) or agree to go with a second-tier lender who would still lend, but at an interest rate significantly higher than what could be achieved through mainstream lenders.

Case study 2:

Susan agreed to purchase a property off the plan in 2014 in Sydney for $540,000 and paid the 10% deposit of $54,000. The development was expected to take one year to complete; however, it ended up taking over three years. By this time, the value of the property had increased significantly to $740,000 meaning that, for an investment of $54,000, Susan had a return in three years of $200,000.

Case study 3:

Steve and Melissa agreed to purchase an off-the-plan property in Brisbane in 2011 for $730,000. At the time of agreeing to purchase they believed they would be able to get a loan of 90% of $730,000 or $657,000. They had paid the 10% deposit already so wouldn't require any further funds except for solicitors and small incidental costs.

However, by the time the property neared completion, its value had fallen to $640,000. The lender would now only lend 90% of the $640,000 valuation, meaning the maximum loan Steve and Melissa could achieve was $576,000. This resulted in Steve and Melissa having to contribute an additional $81,000 on settlement more than they had anticipated.

A comparison of this is demonstrated in this table below:

	Expected	After Valuation
Purchase price	$730,000	$730,000
Stamp duty	$0	$0
Incidentals	$2,500	$2,500
Total funds required	$732,500	$732,500
Less deposit paid	$73,000	$73,000
Less home loan 90%	$657,000	$576,000
Balance required on settlement	$2,500	$83,500

Sunset Clause

A sunset clause is a condition in an off-the-plan contract of sale that allows the vendor or the purchaser (or both) to terminate the contract if:

- The plan of subdivision has not been registered by the specified date (being the sunset date); or
- An occupancy permit has not been issued by the sunset date.

Essentially, it provides a deadline for when the property must be completed by the developer so that you, the purchaser, are not bound to the development indefinitely.

Case study 1:

Lincoln paid an $80,000 deposit in December 2017 for a two-bedroom apartment in a development in the inner Brisbane suburb of Fortitude Valley.

The start was delayed. The builder's team cleared the site in early 2018 and started work. By October 2018 work had stopped. The builder's contract was terminated, leaving a partially built structure.

Michael has been unable to get any information from the developer or from the property marketers who sold him the off-the-plan apartment.

Despite this, he is still bound to the project until mid 2023 as the contract had a five-and-a-half-year sunset clause. However, Michael knows nothing about the project, even whether or not it will be completed, and is unable to get his deposit back.

Case study 2:

Evie and Jonas agreed to purchase an off-the-plan apartment in 2013, in Melbourne, Victoria. The contract had a sunset clause of three years. Due to delays in the build, the three years passed and the project was not yet complete.

Given the substantial increases in the value of property in Melbourne, the developer determined he would be financially better off terminating the contract, refunding the purchasers their deposits, and reselling the property to new buyers at a higher purchase price.

Evie and Jonas were refunded their deposits and the developer sold to new buyers.

Note: Some states have since introduced legislation requiring the purchaser's approval before the developer can terminate a contract based on the sunset clause.

If the purchaser does not consent, then the developer can apply to the Court for an order allowing the developer to terminate an off-the-plan contract of sale under a sunset clause.

The Court can make such an order if it considers it just and equitable to do so in all circumstances, taking into account various factors including whether or not the developer has acted unreasonably or in bad faith, whether or not the lot purchased under the off-the-plan contract of sale has increased in value, and the effect of the termination on the purchaser.

The Court also has the right to make an order for the developer to pay reasonable compensation to the purchaser for rescinding the contract of sale.

Other considerations for an off-the-plan purchase

As with searching for any property, you should always regard the property with the same scrutiny and use the same testing factors (location, price, potential for capital growth) as you would when looking at vacant land to build on or an existing property.

If you are buying to invest, it is wise to avoid 'cookie-cutter' developments, where hundreds of units are built into a recurring pattern of buildings. Not only are these developments devoid of any character, but also, they are a risky investment as they appeal to overseas investors who might be prompted to sell at any cost if there is any hint of an economic downturn. This will greatly affect the value of your property and the hundreds of others in the development.

When looking at buying a property off the plan, you should:

- **Study the plans and sketches** you're given carefully. If you find visualising the finished product is a challenge for you, you can enlist the help of a service like Archicentre. This is an arm of the Australian Institute of Architects and, for a fee, they can provide advice on plans you can submit to them. Their advice includes things like whether or not room sizes are adequate, the liveability of the layout and the quality of the proposed fixtures.

- **Ask for samples of the colours and fittings** that will be used if a display unit is not available to inspect. This will give you more of a visual aid and help you to determine the quality of the development.

- **Ask the developer if an on-site visit is possible** if construction has begun. You may be able to inspect a dwelling similar to the one you are considering.

- **Research the developer**, as this is who you will hold the contract with. Look at their past developments, find out about their reputation and pay particular attention to the quality of the finished product. You can search for most of this online, reach out to your contacts or even ask the developer directly for formal references.

- Check out the **proposed regulations** as they could have an impact on your lifestyle, such as whether or not pets are allowed.

- Look at **the apportioning of costs** if your dwelling is not going to be individually metered for water, gas or electricity, and work out how that might affect you.

Beware the lure of rental guarantees

If you are looking at an off-the-plan property as an investment, be wary of inflated rental guarantees that some developers use as an incentive. While they appear to offer greater security and assurances that tenants will not be an issue, the fact is that someone will have to pay for the guarantee – and it is you.

Hot Tip: You will likely find that properties with rental guarantees are sold at a higher price. The best way to sort out the bogus claims from offers that will work in your favour is to do some number crunching.

Pay careful attention to your contract

An off-the-plan dwelling contract will include a number of unique elements, including:

- The **strata plan**, which shows your dwelling and any other areas associated with it, such as allocated parking or storage spaces.
- The **approved unit/townhouse plan** and specifications.
- The **interior layout plan** that shows any improvements or changes you have made at the discretion of the developer.
- A **list of the finishes, fittings and appliances** that will be used in the dwelling. Make sure makes and models of appliances are specified and not generically listed as 'dishwasher' or 'oven'.
- The **specified time frame** for the developer to complete the project and a confirmation that the developer will be responsible for the construction of the dwelling.
- A **rectification provision**, which puts responsibility on the developer to correct any defects in the dwelling within a set time frame following settlement.
- **A schedule of building costs.**
- Details of the **proposed management arrangement** once the development is completed.

As with any property purchase, you will enlist the help of your solicitor or conveyancer to help you navigate the detail of these contracts and ensure you are 100% aware of what you are signing.

If your contract does not already contain a clause that requires the developer to contact you and inform you of any changes to the plan, no matter how small, we advise that you have this added for your peace of mind and to avoid any surprises.

Also, check that basic services such as telephone and television wiring are specified in the contract.

Hot Tip: Developers need insurance too. Ensure they have themselves covered and include the details in your contract. You can also include a clause that allows you to be released from the contract if the property suffers from serious structural damage.

Maternity leave

Obtaining finance while on maternity leave can be tricky given the reduction in income (or no income) during this period of leave and therefore your ability to service the mortgage repayments.

Most lenders will require that you have returned to work for at least one pay cycle before they will agree to factor your income towards the mortgage repayments.

However, in some cases we can still obtain home loan approval while you are on maternity leave providing we can demonstrate:

- The maternity leave is for a defined period
- You have sufficient savings or other income sources to be able to afford the repayments for the period of maternity leave.

If you are on maternity leave and your income is required to afford the repayments, then you will need to:

1. Obtain a letter from your employer confirming your exact return-to-work date and on what income you will return. In most cases, this period should be no longer than 12 months. However, we have had up to 18 months approved.
2. Be able to provide evidence of how you will afford repayments on the home loan during this maternity leave period. To demonstrate this condition, you will need to provide evidence such as:
   a) Government benefits such as 18 weeks of paid maternity leave – banks will not use this as income but we can use it to show that you can afford repayments during the maternity leave.
   b) Any additional savings that can be used to assist with repayments.

Case study:

Amanda and Evan were seeking to purchase their first home in Adelaide. Amanda was on maternity leave from her employment as a sales manager. Without Amanda's income, their borrowing capacity was $220,000, below what they needed to purchase a property for $470,000.

With Amanda's income of $70,000 per year, their borrowing capacity was up over $700,000, well over what they needed. The issue was that as

Amanda was on maternity leave, their bank had declined their application until Amanda returned to work.

In getting Amanda and Evan's loan approved we had to satisfy the above criteria, these being:

1. We had a letter from Amanda's employer confirming her return to work date of September 9, 2016 and that she was returning to work four days a week on $56,000 a year. The period of little to no income was seven months. Borrowing capacity would not be an issue as of September 9.

2. Amanda and Evan had sufficient funds to make repayments for the next seven months until Amanda returned to work. To determine this, we first worked out what the total repayments would be for this seven-month period. On a home loan of $423,000 over 30 years at an interest rate of 3.5%, the repayments were $1,900 per month.

The total repayments required in seven months were therefore 7 x $1,900 = $13,300.

After purchasing their new home and paying deposits, stamp duty and other costs, Evan and Amanda would have $24,000 left over in savings. As Evan and Amanda could use these savings to make repayments while Amanda was on leave, the bank approved the loan.

Free Bonus Resources

There are a number of bonus resources, tools and templates that accompany this book. You can download these free of charge at www.australianmortgageguide.com.au/resources

Section 2 – Paying off your mortgage

How to pay off your mortgage in record time

It can seem daunting when you first sign the mortgage documents and you now owe many hundreds of thousands of dollars that will take you to your 60s to pay off. After all, the very definition of mortgage is 'death pledge'.

But it doesn't have to be this way. There are so many ways that you can pay off your mortgage much faster and a lot of these strategies are relatively pain-free.

A standard mortgage will tie you to your financial institution for between 25 and 30 years *if* you play by their rules and pay the required monthly minimum repayments that your bank will set up for you. What amazes me is most people do just that; they make the minimum required payments, ensuring the bank makes the maximum interest they can from your mortgage over the loan term. These same people will spend hours shopping around for a cheaper airfare or discount codes for pizza or groceries, but won't take time to seek a better deal from their lender.

I have a client whose sole focus in life is to pretty much pay their owner-occupied home loan off and be debt-free within 10 years. To make this happen, we needed to employ every tool in the shed to ensure that every dollar the client had was working for them. This chapter will share a lot of those options with you so you can pick and choose which ones will work for you.

Case study:

Dave had an existing mortgage on his owner-occupied home loan and decided to buy an investment property to help him pay off his home loan. Dave purchased a block of land for $135,000 in an area two hours outside of Sydney and then built a duplex for $330,000. The rent from the duplex was $650 per week ($2,816 per month) combined while repayments were only $1,565 per month – interest only. The rent was paying the mortgage, costs and putting around $1,000 per month into Dave's owner-occupied home loan.

This is how we structured his loan and payments:

- Until the repayment was required on the above investment loan, the rent would sit in an offset account, offsetting interest on his owner-occupied home loan.

- The extra $1,000 per month was building up in the offset account against Dave's owner-occupied home loan, saving interest.
- Dave elected to pay fortnightly, saving six to seven years off a 30-year mortgage, as he ends up paying one full extra payment per year this way.
- Dave had two other offset accounts – one for day to day and one for savings; again, all offsetting his home loan, saving him interest.

Dave has implemented other strategies covered below as well, and although it hasn't been a decade at the time of writing, Dave is well on track to having his debt paid off inside of his 10-year goal.

Whether you have been chipping away at your mortgage for a number of years already, or you are new to the mortgage repayments game, it always pays to keep an eye on how your finances are travelling and seek out ways you can pour a little extra cash into your mortgage. An extra $20 here or an interest rate savings of 0.1% there might seem insignificant but, as you will see, the effect a little extra payment can make or a little reduction in rate can have on the amount of interest you are charged each month can add up significantly. You'll see it makes good sense to do everything you can.

In this next section we'll cover:

- Your **financial health check.**
- **Types of mortgages** and how they work.
- The **ultimate guide to mortgage reduction.**

The first step in any financial health check is to look at what will happen in the long term if you continue on your current path. Yes, your mortgage will be paid off in 25 to 30 years if you go with the flow and allow the bank's pre-set amount to be transferred onto your mortgage each month. But how would you feel if you could pay it off in half that time? What about a quarter?

It is all possible and it comes down to your level of commitment to make it happen. Take some time to play around with one of the many free mortgage calculators you can find online. This will give you a clear, visual representation of how much of an impact you can make simply by increasing your usual repayments by an extra $50 a month. What's great about these calculators is that they show you not only how much you will shorten the life of your mortgage, but also how much interest you will save throughout the life of the loan.

You can also use the calculator to see if any of the following mortgage packages are better suited to how you use your money. To take one example, what if you were to change the setup of your mortgage into a package that is better designed to make your money work for you?

Packages to help you pay your loan faster

All loans are not created equal and the more knowledge you have about your mortgage options, the more power you have to control your financial future.

One of the major differences between the many mortgage options out there is the interest rate. This can be the difference between you being able to make extra repayments and just managing the minimum amount.

Unless you opt to fix your rate, your rate could go up and down many times throughout the life of your loan. The key to creating resilience is to ensure you can afford at least two to three percentage points above your existing rate.

Of course, there are **standard fixed rate loans** and **basic variable loans** often offer lower interest rates because they don't have all the bells and whistles. In general terms, the more features a loan package has, the more you can expect to pay for it with a higher interest rate. But there are some features that will serve some people well in helping them to reduce the life of their loan so it pays to consider all your options. Your mortgage broker can guide you through all of this.

Here, we will take you through the different types of mortgage options including packages that can help you to reduce the amount of interest you pay each month, freeing up more of your money to eat into the principal and pay your mortgage off quicker.

Fixed Rate

A fixed rate home loan means your interest rate will be the same rate for however long the fixed rate period is. Generally you can fix the rate for one to five years. However, longer fixed rate periods do exist.

After this fixed-rate period, your interest rate will revert to a variable rate unless you enter into another fixed term contract.

Advantages of fixed rate

The main advantage of a fixed rate is for repayment certainty. That is, you will know exactly how much your repayments will be for the fixed rate period.

Often first home buyers like to fix the interest rate for the first few years while they get used to managing their budget with the costs involved in owning a property.

Another advantage of a fixed rate is if you can time your fixing to be at the bottom of the interest rate cycle, you can protect yourself against further rate rises. While this sounds like a smart thing to do, picking the bottom of the interest rate cycle is not easy. In my experience, when it happens, it's more good luck than skill.

Disadvantages of fixed rate

There are two main disadvantages with a fixed rate. The first is that fixed interest rate mortgages tend to be inflexible and access to features like unlimited extra repayments, redraw and offset accounts are generally not available. See more on split loans below if you want strategies that allow you to have a fixed rate but retain flexibility.

The main disadvantage of a fixed rate is that you will not benefit from any interest rate decreases. If interest rates go down, yours will not. You will be stuck on your higher fixed interest rate until the end of your fixed term.

If you try and break the fixed rate and go back to variable so you can take advantage of the cheaper interest rates, you will likely get hit with "break costs" that, in most cases, will take away any of the benefits of switching to variable.

How are fixed rate break costs calculated?

The break costs are calculated in a way that essentially ensures the bank does not lose!

The formula can be expressed as:

Break cost = Loan amount * (Interest rate differential) * remaining term.

Case study:

Jane takes out a home loan fixed for three years for $300,000 at an interest rate of 3.45%.

After 18 months, fixed rates have fallen and Jane wishes to change back to a variable rate to reduce the interest rate and repayments.

The current three-year wholesale rate is now 2.23%.

The difference between the wholesale rates on the date the loan was fixed and when Jane wishes to break the fixed rate is:

3.45% less 2.23% = 1.22%.

This is the 'Interest Rate Differential'.

The approximate break cost would therefore be:

$300,000 x 1.22% x 1.5 = $5,490

Fixed rate costs can be substantial. I recall some clients who had fixed at 8% in 2008 prior to the GFC. When the GFC hit, interest rates quickly plummeted to below 5% and borrowers, seeking to change back to a variable rate to benefit from the rate reductions, were being quoted fixed rate break costs in excess of $50,000.

For this reason, I generally suggest that if wish to fix your rate, fix it for a shorter period. Say, two or three years.

Standard variable

A standard variable rate home loan is a lender's primary variable rate product. Generally speaking, the interest rate is higher, but this allows the lender to offer a 'Professional Package' for which they can then provide you with a 'discount'.

Essentially it's a way for the banks to make you, the borrower, feel special. That is, the standard variable rate might be 4.93%, but the bank can then make the pitch that they have a special deal for [insert any occupation] whereby they can discount this rate by 1.3%, making the net rate 3.63%. Very few people actually pay the standard variable rate.

Professional package

As the name indicates, this type of home loan package was created specifically for professional couples. However, recently the banks have opened up this style of package to anyone who has borrowed more than $250,000. There are a few benefits to having a professional package home loan, with extras that might include credit cards, redraw facilities, an offset account, home insurances and free financial advice among others.

Professional packages also generally offer discounts of 0.7% off a lender's standard variable interest rate and up to 0.15% off fixed interest rates. Bigger

discounts might apply for larger loans. You might also find you have your Lender's Mortgage Insurance waived, as we discussed in section 1.

You need to be aware that there is often an annual fee of between $300 and $400, but it pays to shop around as some of the smaller lenders will provide the benefits of a professional package without the annual fee.

Basic variable

A basic variable home loan is essentially a 'no-frills' home loan that does not offer the bells and whistles of features like offsets. Generally, a basic variable product will have a cheap rate, a redraw facility and no ongoing fees. However, you might incur additional fees if you wish to use the redraw or switch to another type of loan.

The product is still a variable rate, so will go up or down as interest rates move.

A basic product is excellent for borrowers on modest incomes (such as first home buyers) who just need something cheap and simple.

Introductory variable

Often called a 'honeymoon' home loan, an introductory variable rate loan offers a discounted interest rate for the first one to three years of the loan. The interest rate then reverts to the standard variable rate at the end of the introductory term.

The main thing to watch out for with these introductory loans is that at the end of the introductory period, the reversion interest rate will generally be high. If you do not renegotiate or refinance into a better deal, you will end up paying a higher interest rate than you otherwise would have if you had not gone with the introductory rate. And while you might think a refinance or renegotiation would be easy, it's not always the case. If your LVR is over 80%, refinancing can cost you many thousands in mortgage insurance. Further, if things have changed and perhaps you are on maternity leave, you might not qualify for a better deal.

For this reason, I tend to steer away from introductory rates unless there is a clear exit strategy and we have a clear idea of what we can do once the introductory period expires to ensure my client is not stuck paying a higher rate.

Line of Credit

This type of home loan requires discipline, but the benefits are tremendous. A Line of Credit loan works by having your salary or wage paid directly into your loan account, which reduces the principal amount of the loan. With the interest on your loan calculated daily according to the amount owed on your loan, your interest repayments each month will be reduced immediately.

Because you need money to pay the bills, feed the family and have a life, the second component of a Line of Credit is a credit card with a 55-day interest-free period to cover all your day-to-day expenses. When your credit card bill is due, you then 'sweep' the required amount from your home loan account across to pay off the credit card and therefore incur no interest on your card transactions.

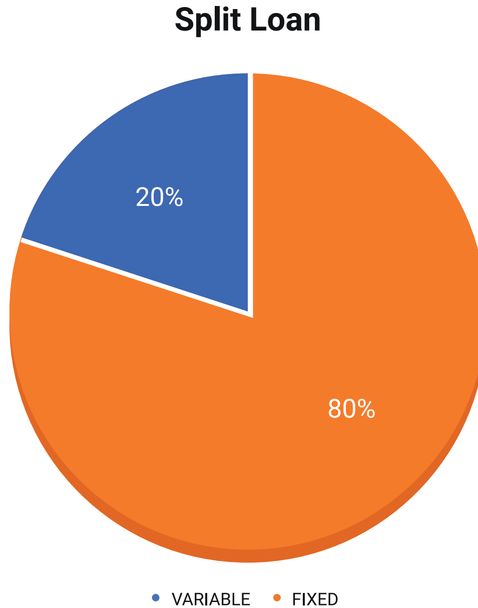
A Line of Credit loan effectively allows you to have extra money working on your loan, so you pay less interest, and your credit card acts as an interest-free loan to cover your living expenses. This type of loan typically comes with a higher interest rate.

Case study:

Our client Nicky has a $280,000 home loan at 6.5% interest over 25 years. The standard monthly repayments on her loan are $1,890.58. Let us now assume that Nicky has a Line of Credit loan. Her monthly net income is $4,000 and she has monthly expenses of $1,500. Nicky would have her entire income paid into her loan account and pay her monthly expenses by credit card. At the end of each month, $1,500 would be transferred from her loan account to her credit card to completely pay it off, therefore not incurring any of the high interest rates banks charge on credit card debt. By setting up her loan this way, Nicky would be able to reduce the length of her loan by 10 years and 11 months as well as save over $140,000 in interest.

It's important to note that Nicky could obtain broadly the same benefit of a Line of Credit at a cheaper rate by using an offset account or the home loan redraw.

Split loan



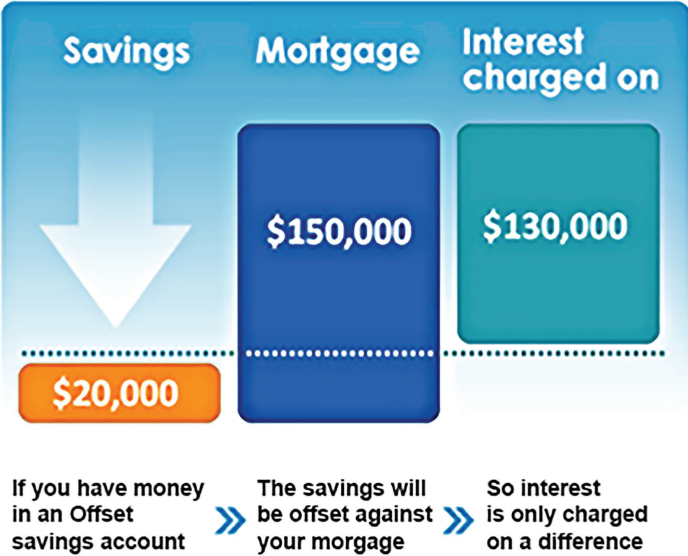
Making the most of both worlds – with fixed and variable rates – splitting your home loan can be a good way to save you money, especially when interest rates are high. Most lenders allow you to split your loan if you wish; this allows you to fix a portion of your loan at a set interest rate for one, three or five years and leave the remainder to fluctuate with the market.

If interest rates rise, only the variable portion of your home loan will require higher repayments. Conversely, if interest rates drop, the variable portion of your loan will have a lower repayment. Another benefit of a split loan is that you can access the features of a variable loan, such as an offset account and the ability to make extra repayments as well as redraw, which are generally not included with fixed rate loans.

Loan with offset account

An Offset home loan allows your savings to work against your mortgage without having to be physically deposited into your home loan account. This type of loan allows you to operate a normal transaction account into which your pay is deposited into. You also withdraw your expenses as usual. But any funds in this offset transaction account are treated as if they *have* been put into your home loan account. The money you hold in this account 'offsets' the amount you owe on your home loan and you pay interest only on the difference.

If you are a good saver, this type of loan will serve you well and give you the freedom to use the money in your offset account however you please.



Loan with redraw facility

Some lenders allow you to take back and use any payments you make to your loan that are over your minimum monthly payments.

	Offset account	Redraw facility
How it works	The money in an offset account (a separate account linked to your home loan) acts like a repayment but isn't locked up in your mortgage.	This simply means you can 'redraw' any extra payments you've made to your loan to spend for renovations or improvements or whatever you need.
Benefit	You effectively reduce the interest on your home loan but can use the money if you need it.	You will pay less interest but you can use the money when you need it.
Drawbacks	You won't earn "interest" on the money in your offset account – but this isn't a drawback at all as you are saving interest on your loan.	Lenders differ in how they treat redraw. Some lenders specify a minimum amount you can redraw. Other lenders reduce your redraw amount as the loan period progresses.

	Offset account	Redraw facility
Access	Card, ATM, online or bank branch, depending on the lender.	Varies by lender, but usually online and via branch.
Separate account?	Yes	No
Fees	Most lenders will charge a fee to make an offset available to you such as a professional package fee. There would generally be no fees applicable to the day-to-day use of the offset account.	Some lenders charge a fee each time you redraw money from the loan. Check with your lender.

Portable mortgage

Because a standard home loan locks you in for 25 to 30 years and society is becoming more transient, it is important to consider how you can reduce any exit fees, new home loan fees and refinance fees where possible. One way to avoid these costs is to transfer your mortgage from your existing home to the new one. This is called a portable mortgage and in industry-speak is sometimes known as a 'substitution of security'.

With this type of mortgage, you continue to make the same repayments through the same loan on a different property. This saves you the time of refinancing and the fees associated with closing your existing mortgage and refinancing to establish a new one. Your lender will have set parameters for how and when this is possible; you will need to seek advice from your bank or broker to find out if this is a feasible option for you.

The ultimate guide to mortgage reduction

If you are happy with how your mortgage is set up, there are many other ways you can pay it off faster and free up your future finances for more enjoyable things in life, or to get ahead and become financially secure faster.

When you consider that a mortgage is one of the biggest financial commitments people make in their lifetimes, there is no underestimating the power of no longer having to say, "Although I live in my home, the bank owns it." It's important to realise that small, consistent actions will enable you to transform that statement to "I own my home" in the not-too-distant future. Some strategies to achieve this are quite simple and others will take a little more discipline.

A quick word of advice before you read on: Before you start taking any action that involves putting more of your money into your mortgage, it's a great idea to take stock of your overall financial situation. If you have other debts with high interest rates – like a credit card or an interest-free personal loan where the interest-free period has expired and you are now forking out an exorbitant amount of interest – it makes better sense to pay these debts off first before tackling your mortgage.

Also, having families ourselves, we understand that there are certain points in our lives where paying extra into a mortgage is simply not practical. If you have young children, for example, and you are down to a single income while you or your partner raises the children, understandably you wouldn't want to be surviving on baked beans so you can pay more of your debt down.

But if you want to take action now, there are many strategies you can use that will chip away at the total amount owing, which can only have the benefit of reducing the interest you pay over the life of your loan.

Remember that mortgage calculator we mentioned earlier in this section? Now is the perfect time to get that back up on your screen and try out a few of these suggested ways to pay off your mortgage faster. You might be pleasantly surprised at how a small, but consistent action can have a compounded beneficial effect.

Understanding home loan repayment calculations

Before we get into the details of how to pay your mortgage off quickly, I first want to discuss how home loan repayments and interest are calculated. It's important that we discuss this now so you understand the compounding effect that every $1 you can pay or save on your mortgage has on your loan term.

When making a Principal and Interest (P&I) repayment, the payment is broken up into paying both principal (a portion of the amount owed on your loan) *and* interest. Compare that to an interest-only repayment, where all you are doing is paying the interest.

Case study:

George and Carrie have just taken out a home loan for $400,000 at an interest rate of 4% over 30 years. Their minimum P&I repayment is $1,909. Assuming for this example that the interest rate doesn't change and they don't make any additional payments, here is a snapshot of their home loan over the 30 years*.

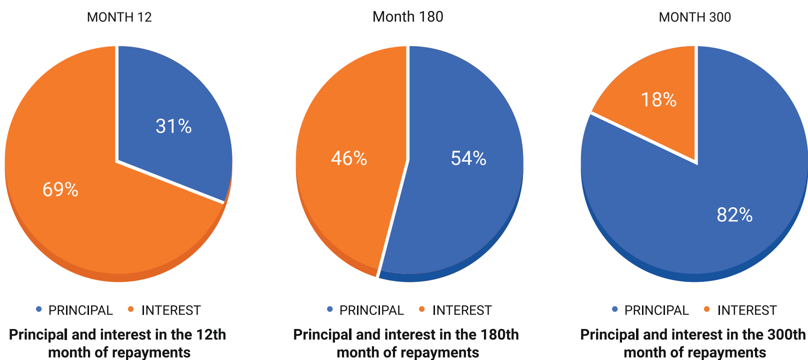
	Principal	Interest	Total Repayment	Loan Balance
Month 1	$576	$1,333	$1,909	$399,424
Month 12 (1 yr)	$597	$1,312	$1,909	$392,956
Month 60 (5 yrs)	$701	$1,208	$1,909	$361,790
Month 180 (15 yrs)	$1,045	$864	$1,909	$201,910
Month 300 (25 yrs)	$1,568	$341	$1,909	$103,693
Month 360 (30 years)	$1,903	$6	$1,909	$0

**Rounded to the nearest $1.*

Some noticeable observations from the above table are:

1. After Month One, the balance of the loan is the original loan ($400,000) less the principal payment of $576, resulting in a balance after the first repayment of $399,424. The balance of that Month One payment (the interest) has gone to your lender's bottom line.

2. While the P&I repayment remains the same over the loan term, as interest is calculated daily and paid monthly, you are only paying interest on your current loan balance. Therefore, as your loan balance decreases, the component of your repayment that goes to interest gets smaller. Conversely, the component that goes to pay off the principal gets larger. For example, at the end of the first year, the loan balance has reduced to $392,956 that, with a reduced interest bill, sees the principal payment increase by around $21 per month over the principal payment made in Month One. At the end of 15 years, the principal payment has increased to $1,045 a month and by 25 years to $1,568 per month.



Principal and interest in the 12th month of repayments

Principal and interest in the 180th month of repayments

Principal and interest in the 300th month of repayments

Armed with the knowledge that every $1 we save in interest is $1 that goes off the loan balance (and is another $1 on which you aren't paying interest – the compounding effect), paying off the mortgage quickly is all about finding ways to save as much interest as possible.

Strategies for saving on interest

The following strategies are simple but effective ways of saving interest so more of your P&I repayment goes to principal and less to the bank.

- **Increase the frequency of your loan repayments**

  If your loan is on a P&I repayment, your bank would have set up a direct debit that automatically transfers money into your loan account on the same day each month. There is a little trick that you can use to increase the amount you are paying back throughout the year while still having everything on autopilot – break your monthly repayments in half and have them debited every fortnight instead.

  Because there are 26 fortnights in a year, you end up making 13 monthly repayments instead of the usual 12. You can even opt for weekly repayments so you have you 52 payments in the year. While this might not sound like much, it leads to massive savings in the long term.

Case study:

Jason began with a $500,000 mortgage with a lifespan of 30 years and an interest rate of 3.5%. Normal monthly repayments on this loan would be $2,245 a month (or $26,940 per year). Simply by splitting his repayments in half and paying $1,122.50 fortnightly, Jason will reduce the term of the loan by three years and nine months and save just under $48,000 in interest charges.

Jason's new payment of $1,122.50 a fortnight makes no difference to Jason as he is paid fortnightly anyway. However, Jason's total yearly payment now equals $29,185 ($1,122.50 x 26), $2,245 extra a year than Jason was making when paying monthly.

Note: The lender's goal is to gain as much interest from you over the loan term as they can. For this reason, some lenders have cottoned on to this hack and have now changed how they calculate minimum weekly and fortnightly repayments to ensure you do not "accidentally" end up paying your mortgage off quicker.

Instead of taking the monthly payment and dividing by two to get a fortnightly payment, they will take your monthly payment, multiply it by 12 months to get total repayment required per year, and then divide by 26 to get your true fortnightly payment.

Using the above example, Jason's minimum monthly payment is $2,245. If the lender adopted the above approach the calculation would work like this:

$2,245 x 12/26 = $26,940 per year/26 = $1,036.15 per fortnight.

In this case, Jason is not getting any time or interest savings by making a fortnightly payment as at the end of year one, Jason has only made the minimum repayment required. Compare this to the earlier example where the monthly payment was just divided by two to get a fortnightly payment of $1,122.

- **Ask for a better rate**

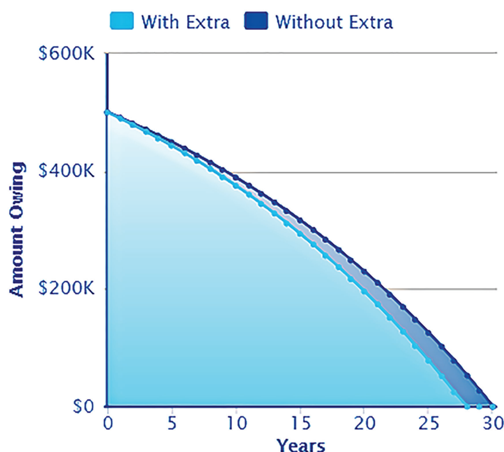
  If you don't ask, you don't get. Simply posing the question, "Can you do any better for me?" to your lender might be enough to get a slight reduction on your home loan interest rate. While any reduction is a win, the key to using this to pay off your home loan faster is to continue making the same repayments you were *before* the rate reduction. This means you are injecting that little bit extra into the home loan and reducing the principal each month. Doing this has a compounding effect on the amount of interest you pay as well as reducing the life of your loan.

Case study:

Anne was referred to me by an existing client. She had a home loan with one of the major lenders and was seeking a cheaper interest rate. I applied to Anne's existing lender seeking a better deal, noting that another lender was offering an interest rate 0.5% cheaper with a $1,500 refinance rebate (that is, the other lender was not only offering a cheaper rate, but also offering a $1,500 cash incentive to move to them).

Within two days, Anne's existing lender had agreed to drop the interest rate by 0.35%, saving Anne $35,000 in interest over the life of the loan.

Anne decided to keep the repayments the same. In doing so, she saves two years and one month off her mortgage.



Note: When a request like this comes from your broker, it carries more weight with the lender as they know you must be serious about looking around for a better deal.

Hot Tip: Lender rebates are a cash incentive offered by some lenders to entice you to refinance your home loan from your current lender to the new lender. At the time of writing, there were lender rebates available ranging from a cash payment of $2,500 to 300,000 frequent flyer points.

You might find that these rebates are only offered by the major lenders who will in most cases have annual fees and higher interest rates than those on offer from smaller lenders who are not offering a rebate. While the rebate can be attractive, it is important to review the overall offer as it may be cheaper to go with a cheaper rate with no rebate.

- **Increase your monthly repayment**

While your bank has set up a monthly direct debit that will cover your minimum required repayment, you have the power to top that up. Just by adding a little extra each month, you can cut back the 25- to 30-year commitment to your mortgage and be free of it sooner because you are reducing the principal amount of your loan and therefore the amount of interest you will be charged for each month.

Get out the mortgage repayment calculator and see what happens when you add an extra $50 a month to your monthly repayments. What if you add an extra $100? This only equates to an extra $25 a week from your budget and could end up saving you tens of thousands of dollars off the interest you pay on your loan as well as reducing the life of your loan.

Case study:

We explained to our client Casey that increasing the payments made on her mortgage effectively reduces the interest charged each month on the principal amount. Initially, Casey had a $300,000 loan with a 6.9% interest rate over 25 years and her monthly repayments were $2,101.24. She would pay a total of $330,371.00 in interest over the life of the loan.

However, when she increased her repayments by only $100 a month (less than a 5% increase), she was able to reduce the term of the loan by two years and eight months as well as saving $42,639.28 in interest.

Hot Tip: Challenge yourself to find savings annually. Throughout the year I typically find I have signed up to one or more services that I don't use. And while they might only be $10 here or $20 there, they all add up. So every January I set myself a goal to try and find $200 per month of savings in my budget. Once I find those savings, I increase my minimum payments on my home loan by that same amount.

Where to find monthly savings

Often you'll find you can trim costs with low-hanging fruit such as:

1. Cutting that **TV subscription** you signed up for because you wanted to watch that one show but didn't cancel after you watched it.
2. Reviewing **insurances** to make sure you are on the best deal.
3. Reviewing your **home loan rate** – saving just 0.1% could be the entire $200 savings you need to meet your goal.
4. Reviewing your **utilities** to look for savings in electricity or gas – or reviewing whether or not solar now makes financial sense to install if you are planning to be in your current home for the foreseeable future.

Once you have covered off the low-hanging fruit, things can start to get tricky. One year I reviewed the use of our cars and worked out we didn't need to run two cars. It would be cheaper to sell the second car and use a taxi, Uber or a car-sharing service like GoGet than to keep the car and all the costs that come with that.

Consider the costs for a $20,000 car:

- Rego: $750
- Maintenance: $600
- Insurance: $800
- Depreciation: $4,000
- Fuel: $1,920 p.a. ($160 per month)
- Car Loan Repayments: $4,320 pa ($360 per month)

Total Costs: $12,390 per year or $1,032 per month.

How many times a week do you need this car? If you were to use Uber or a taxi for those times, how much would that cost? Let's say you had to spend $200 in Uber each month, you would be ahead by about $800 per month. If you then directed that $800 per month onto a home loan of $500,000, your 30-year loan term would reduce by 12 years (15 years if you paid fortnightly).

Do you need that second car?

- **Give your loan an extra boost**

  Everyone loves a windfall, especially when it comes in the form of a work bonus or tax return. Whenever you receive extra funds, it pays to consider whether or not this money is best directed towards your mortgage rather than a shopping spree. It's all about playing the long game.

  While a huge flat-screen TV will give you immediate satisfaction, injecting a $1,500 tax return, for example, into your mortgage each year will reduce the life of your loan and free up your financial commitment to mortgage repayments to your bank earlier.

  Example:
  You have undertaken a mortgage of $300,000 with an interest rate of 6.9% and a loan term of 25 years. The loan commencement date was January 2006. Monthly repayments for this loan are $2,101.24.

*On receipt of your $1,500 tax return at the end of the financial year, you pay this directly into the mortgage account. Without this payment, the total interest you pay over the life of the loan is $330,371.00. With the tax payment you pay $323,612.31, which equates to a **saving of $6,758.69** over the life of your loan and a reduction in the loan term of three months.*

- **Salary sacrifice**

  If your employer allows you to salary sacrifice into your home loan, this is a double benefit for you. A salary sacrifice is a payment that is made before tax is deducted from your salary, which means you have less PAYG tax payable at the end of the year.

  Example:

  Georgina works for Queensland Health as a nurse. Georgina's salary is $70,000 per year.

  Before salary sacrificing, Georgina's tax payable would be $14,297, leaving Georgina with $55,703 left over a year.

  Georgina is permitted to salary sacrifice her mortgage payment up to $8,866 per year. This payment is taken out pre-tax, which means that while Georgina's salary is still $70,000, her taxable income after the salary sacrifice is now only $61,134. Tax on $61,134 is $11,415 resulting in a savings in tax of $2,882 per year.

  Nothing has changed for Georgina in that she is still paid $70,000, but by using salary sacrifice Georgina has more take-home pay.

  If Georgina were to use these tax savings to make additional payments onto her $400,000 mortgage, she would save $62,015 in interest and five years and nine months off her home loan.

- **Consolidate your debts**

  If you have built up a few credit card debts or have outstanding personal loans across several lenders, you will be paying an enormous amount of interest. When you add a home loan into the mix, a fair portion of your income will be taken up simply by interest repayments for the various debts you have accumulated.

  The ultimate principle here is that you pay off your highest interest debt first. So, before paying down your home loan, ensure you pay off your high-interest credit cards and personal loans first.

  Another option is to consolidate your debts into your home loan. What this means is that instead of paying off a credit card with an

interest rate of 18% (or higher), you will be paying it off on the same interest rate as your mortgage, which could be 3.2%, for example.

Be aware that if you use this strategy, you don't want to now be paying off your $5,000 credit card debt over 25 to 30 years – you will end up paying *more* interest that way. What you want to do in this situation is to continue making the repayments you were before consolidating the debts to ensure the personal debt component of the home loan is paid out as quickly as possible.

For example, if you continued to pay the $1,000 you saved by consolidating your debts into your home loan, you would reduce the life of your loan by several years and save hundreds of thousands of dollars.

Case study:

Lucy took out a mortgage of $400,000 for 30 years with a rate of 6.99%. In addition, Lucy had a credit card debt of $25,000 with an interest rate of 18%. Her repayments per month for the credit card and mortgage were $1,250 and $2,658 respectively, a total of $3,908. However, when Lucy consolidated the $25,000 credit card into the home loan, she needed to pay just $2,824 per month, a saving of $1,084.

Making this minimum payment is not a good idea, though, as essentially that $25,000 credit card debt is now going to take 30 years to pay off and will cost Lucy more in the long run. Therefore, Lucy should keep making the full combined repayment of $3,908, or as close as possible to it, if she can – at least until the $25,000 portion of the loan is repaid.

By consolidating these two debts and increasing the mortgage repayment to match the value of the original repayments being made, she is reducing the term of the loans by 15 years and 6 months and will save almost $340,000 in interest!

Hot Tip: The way to ensure that you pay off the personal debt quickly is to create a separate loan split for this amount. If we use the above case study, Lucy's mortgage is $400,000. Instead of increasing her mortgage to $425,000, Lucy could:

1. Leave the $400,000 loan split as it is so the debt is separate.
2. Create a new loan split for $25,000, ideally over a loan term of a maximum of five years, and label this loan split 'Personal Debt'.

This way Lucy knows which debt was used to buy the home (should she ever rent it out, she will need this for tax purposes) and which debt was for debt consolidation. The latter is the debt that should be paid off first.

- **Reduce the length of your loan**

  We have outlined several ways you can reduce a 25- to 30-year loan. One option is you can elect to change the duration of your loan and shorten it to 15 to 20 years. Of course, this will mean instead of having the option to increase your payments each month, your minimum required payment will increase to pay off the principal and interest amount in the shorter period.

  For this reason, we advise that you consider this option only if you have a sustainable income that is high enough to consistently cover the higher required repayments for the life of the loan.

  Generally, I tend to lean away from such an arrangement as it locks you into that higher minimum monthly repayment. Rather, I would prefer that the direct debits were set up so that the repayments coming out would pay the loan off in 15-20 years. This way, if you find yourself in a position where you are short on funds, lose your job, have an illness, you can revert to the minimum required repayments. The important principle here is that the loan term is merely a function of the repayment you make. If the loan term is 30 years but you make repayments like it's a 10-year loan, the loan will be paid off in 10 years.

Case study:

Jane and Scott were purchasing a home for $500,000 and took out a mortgage for $400,000. Scott and Jane were adamant they wanted the loan paid off in 20 years, and they had the income to support the shorter loan term.

The minimum repayments on a $400,000 mortgage at 4% over 20 years were $2,423 per month compared with the minimum repayments over 30 years of $1,909 per month.

Jane and Scott decided to be conservative and lock themselves into the lower repayments over 30 years but set up the direct debit to take repayments out at $2,423 per month. This ensures that if nothing happens, the loan

will be paid out in 20 years – but it gives the couple the option to revert to the lower repayment should they find themselves with an emergency or a period on one income (like maternity leave).

- **Buy an investment property**

  While you are busy working to pay off your mortgage, it might sound counterintuitive to consider purchasing another property and thereby increasing your borrowings. However, purchasing a second property for investment can help you in two ways.

  First, the Australian Tax Office (ATO) works favourably for people who put their own money into an investment property to top up the rental income they receive from tenants. This is called negative gearing. What this means is that you can deduct any losses from a rental property (such as topping up rent payments to meet mortgage obligations) from your salary income, which results in a lower taxable income. By paying less tax, you can pay more off your home loans. Ultimately, you will have tenants paying off your home loan for you with the benefits of the tax regime. Of course, seeking independent taxation and financial advice is important to determine the value of any tax benefits.

  Second, while there are peaks and troughs in the property market, the troughs are generally never bigger than the peaks and historically property prices close to double every seven to ten years. This makes an investment property a great way to pay off your home loan in just seven to ten years. By holding onto your investment for this length of time, you would have built up enough equity that you could sell it and knock out your home loan in one hit.

  If you have already been living in your own home for a number of years, you can often use the equity from your existing property to fund the deposit for your investment.

Case study:

Steve and Fiona purchased a land-and-build package in Nowra, two hours south of Sydney in NSW. The land purchase price was $127,000 and the construction to build a duplex was $350,000 for a total package price of $477,000.

Steve and Fiona borrowed the full $477,000, which at an interest rate of 4.5% over 30 years had a repayment of $1,789 per month.

As this property was a duplex, the rent they received was $350 per week for the three-bedroom property, and $300 per week for the two-bedroom property, giving them a total of $650 per week or $2,817 per month.

Costs including letting agents, budget for maintenance, rates and insurance totalled around $2,300 per year or $192 per month. Therefore, this property was returning to Steve and Fiona each month:

- Rent: $2,817
- Less repayment: $1,789
- Less costs: $192

Surplus: $836 per month.

The purpose of Steve and Fiona buying this property was to be able to rapidly reduce their owner-occupier debt. To do this, they employed three strategies:

1. They funnelled the surplus of $836 into their owner-occupier home loan, saving them 13 years and $115,000 in interest over the loan term.
2. When they received the rent, Steve and Fiona deposited it into their offset account, thus offsetting their owner-occupier home loan and saving them interest on their home loan until the repayment was due.
3. As the property was brand-new, there were some significant tax savings in the form of depreciation benefits that Steve and Fiona used to reduce their taxable income, saving them thousands in tax.

As it turned out, in Steve and Fiona's case the property appreciated in value and they sold two years later for $680,000, pocketing the difference and paying down their home loan by $200,000. Of course, this was good luck – but had the property not appreciated in value, it was still on track to help Fiona and Steve pay their loan out 13 years early.

Imagine if they had purchased two properties!

Free Bonus Resources

There are a number of bonus resources, tools and templates that accompany this book. You can download these free of charge at www.australianmortgageguide.com.au/resources

Section 3 – Investing

Buying an investment property

Most clients do not seem to realise that if you have a home with a little bit of equity in it, stable employment and a well-maintained budget, purchasing an investment property will generally be within reach with a little bit of planning and discipline.

Case study:

Jessica and Damian are a young couple from Nowra in NSW we worked with. They were both on modest incomes of around $50,000 each and I helped them to purchase their first property three years ago. They were highly motivated back then to build a property portfolio and were keen to get another as soon as possible.

After three years, they'd finished their studies, got married and saw a modest increase in the value of their home. We were then able to work through releasing equity from their current home to fund the deposit and costs on a modest $400,000 investment purchase – a three-bedroom house with a two-bedroom self-contained granny flat that could be rented out separately. Jessica and Damian will not be required to use any of their savings to fund this purchase.

Taking the first steps

Purchasing an investment property is very different from buying your own home – not in the sales process itself, but in the way you approach the types of properties you consider. When you are buying a home to live in, you will be highly focused on the look and feel of the home, whether or not you can see your personal belongings in the home and how you envisage the life you would lead when this becomes your place of residence. It is an emotional journey and one that, when you find the home of your dreams, can often lead people to stretch their budget to secure what they feel is their slice of paradise.

When buying an investment property, you need to remove any emotion from the equation. It is all about the figures. It's what you can spend to afford to top up a negatively geared property and what your tax implications are if your property is making you money (is positively geared).

This is why Step One of any property investment process should involve a lot of research on your part, speaking with your accountant and your mortgage broker to establish the right price bracket for you to consider for your first foray into investment.

Finding the right property

Those new to the realm of property investment are often most comfortable with buying more of the same – properties like the one you already live in. They often look in the same suburb they live in and might think that every person looking to buy a home is searching for that perfect four-bedroom, white picket fence family home with the Hills Hoist out the back.

In reality, falling into the trap of buying more of the same locks you into one marketplace – a big no-no in the world of property investment. The reason for this is that the real estate market is made up of micro-markets. While they can be influenced by infrastructure developments, large private investment projects and the general economy on the local government area or even larger, these micro-markets often act independently of one another.

Example:

Your own home and your investment property are both in the suburb of Harrisville. This micro-market goes up because of an announcement that a shopping centre will be developed in town and your values go up 10%. This is huge cause for celebration. But the following year, there are major upgrades to a nearby airport runway and the suburb will be affected by aircraft noise. The value of both of your homes drops by 20%. Of course, these figures are entirely for demonstration and in reality, positive or negative impacts from such events would be much more minimal.

However, say your investment property was in another suburb, different local government area or even state – the positive and negative fluctuations faced in Harrisville wouldn't necessarily affect your investment property. You are effectively spreading your risk.

Factors to guide your choice

Location

As we've already discussed, finding an investment property in a different area can allow you to spread your risk and offer a little protection against unfavourable events in that micro-market. Consider what infrastructure and

amenities are already in place near the property and do some research to uncover if there are any future plans for new public or private investment that will boost employment opportunities or facilities for the neighbourhood and therefore potentially drive up prices.

Similarly, uncovering plans for unsightly developments or the creation of industrial zones or other noisy precincts nearby will give you the opportunity to move to another option and not get caught out once you have already purchased the property.

More generally, you need to make sure your property is located in an area of demand where people want to live now and into the future. Remember, too, people want to live close to amenities, employment opportunities, public transport and good schools.

Category

Consider all options. While you are comfortable in your three-bedroom home, there might be renters in some areas who are crying out for units, townhouses or dual-occupancy homes to rent. Of course, buying a similar home in another location could work for you if the demand for this type of property is there.

When looking at the make-up of buyers on the market at any given time, around 80% are owner-occupiers looking to upsize, downsize or move locations. Try to ensure your property will also be desirable to owner-occupiers when it comes time for you to sell, or else you are marketing it to a very small section of the market.

The numbers

Any research into investment property prospects should include an investigation into the vacancy rates for similar properties in the suburb you are looking at buying into. Vacancy rates are expressed as a percentage and tell you how many properties are untenanted in the area, giving you a picture of whether you will struggle to rent the property out. A vacancy rate of below 5% is generally considered good.

Your mortgage broker will be able to provide you with detailed reports on the suburbs/areas you are looking to buy in and provide this information.

You also need to consider **yield**, which is the value of the income generated by the rent paid by tenants expressed as a percentage of the total value of the property. In more common language, this is often referred to as the return on investment.

Yield is calculated by adding up the rent payments you expect to receive from tenants in a calendar year and then divide this by the value of the property.

Yield

Gross Annual Rent ÷ Property Price × 100 = Rental Yield

Example:

Weekly rent	*$400*
Annual rent	*$20,800*
Property value	*$420,000*
Yield = $20,800/$420,000	***4.9%***

The ideal scenario for any investor is to find a property that offers healthy yields (the higher the better) as well as potential for good capital growth. But when you start expanding into multiple properties, you can often strike a great balance between properties that have a higher yield with a lesser prospect of capital gain that in turn will allow you to gain funding to purchase properties with lower yields that have a greater long-term potential for higher capital gains.

Bear in mind, there are two types of yields – gross and net. The calculation shown above determines the gross yield. Net yield is the same, but also takes expenses like agent's fees, rates and property insurances into consideration by deducting them from the rent before doing the calculations. Be sure that you keep a consistent mode of calculation when you are doing your research as looking at a mix of gross and net figures will give you inconsistent data on which to base your decisions. Calculating net will naturally provide you with a more accurate comparison, particularly if you are purchasing a unit where there can be significant costs with Body Corporate and strata fees.

See the table below.

	House	Strata Unit
Cost	$420,000	$420,000
Weekly rent	$420	$500
Annual rent	$20,800	$26,000
Gross yield	4.95%	6.19%
Less Council rates	$2,000	$2,000
Less agent fees 8%	$1,664	$2,080
Less maintenance	$1,000	$500
Less body corporate fees	0	$5,200
Less building insurance	$800	$0*
Less landlord's insurance	$400	$400
Net income	$14,936	$15,820
Net yield	**3.55%**	**3.70%**

** Paid by the body corporate*

In the above example we can see that while the strata-titled unit has a healthy gross yield of 6.19% as the rent is $80 per week higher than the house, the high cost of Body Corporate fees results in the net yield not being significantly different.

In this case, all things being equal, I would lean towards sacrificing the minimal difference in yield to go with the house given that houses typically have better capital growth prospects.

Size of the development

When it comes to property investment, size does matter. You need to consider not only the size of the property, but also, the number of similar dwellings that are in the same complex or estate. This has more of an impact than you might think – especially when it comes to time to sell.

Even if you are investing with a long-term holding strategy in mind, buying into a unit block or estate where there are dozens or hundreds of similar properties on offer means there might be several other similar properties for sale at any given time. What this essentially means is that it only takes one desperate seller who wants a quick sale to bring down the price for everyone else.

Another risk of large developments is that they can become what is known in the industry as "investor ghettos" where most of the properties are owned by investors with few owner-occupiers to help maintain the building.

It is owner-occupiers who ultimately provide the greatest impact on property prices. They are driven by emotion, not robotic calculations that work on the best financial outcome, and therefore are willing to pay more for a property that they love. They feel a greater sense of responsibility to maintain their property than do most tenants.

Smaller developments of up to 30 lots or units often have a healthier mix of the two types of property owners. Buying into these reduces your risk. Simply speaking with the developer or sales agent for the development will give you some insight into what the make-up is of buyers to date.

Old versus new

There is no doubt that owning an old property immediately exposes you to maintenance and renovation costs, but as many as 90% of property investors seek out older, established properties. This is based on the misconception that new homes are more expensive to buy – but we'll let you in on a little secret; there are extra tax benefits for buying new properties and you will be saving replacement and renovation costs for at least the first six to ten years of holding that property.

In contrast, you might be up for a new $20,000 kitchen on an older property before you can even secure tenants. The ongoing costs of holding an older investment property can be about three times higher than a brand-new one – there's food for thought.

Here's where the distinction between an entrepreneur and an investor once again comes into play.

An entrepreneur will be looking to add value and turn over the home quickly, which is why older homes hold a lot of appeal.

An investor, on the other hand, will be seeking more of an invest-and-forget strategy. Newer homes require little to no maintenance, and generate fewer calls from real estate agents with appliances and infrastructure that need fixing.

Timing versus time

Some industry experts claim waiting for real estate troughs and avoiding buying when prices are at their peak is one of the key elements to maximising your return on a property investment. We argue that it's a case of **timing versus time**. If you are investing to make a quick buck, the timing of your purchase and sale are critical to the success of your mission. If you overpay for a property, the amount you stand to make when you sell at a perceived peak will be affected.

However, if you are playing a long game, time will take care of all your worries. Let's look at something your parents might have done. They bought a property for $60,000, even though it was worth around $50,000 at the time (emotional buying at its best). If they had sold this property when its value reached $100,000, they would have made $10,000 less because of that initial overpayment.

But if (as many of our parents' generation have done) they held onto it for decades, that property could now be worth over $800,000 and that $10,000 becomes negligible in the grand scheme of things. If you are an investor rather than an entrepreneur looking to 'flip' houses, time is going to be your best friend. An investor understands that property prices will typically double every seven to ten years.

Research is still a critical component of your purchasing journey because although overpaying won't matter too much in the long term it will still take a bit longer for the equity to become beneficial for you. This is why paying a fair market price for an investment property will stand you in good stead from the outset.

Whenever you ask any property market expert about the best time to buy an investment property, their response will often be something along the lines of "10 years ago". But when you think about it, in 10 years the best time to buy will be right now. In short, if you are investing for long-term capital gains, your main focus should be on finding the right property using the strategies discussed earlier in this section.

Choosing a purchase structure

Just as there are many options when it comes to purchasing a home, there are also different ways in which you can approach the purchase of an investment property. Each option has its pros and cons and this is a decision to which you should give great consideration, enlisting the help of your accountant or

financial adviser to help you understand what each option entails for your circumstances.

This is a list of the most common types of investment property ownership to give you a head start as to which options might be best to discuss with your lawyer and accountant. It is important to think this through before you sign a contract on your chosen investment property as the name or joint names listed on the contract form the legal ownership and cannot easily be changed.

Individual Ownership

While this is the simplest and most common form of ownership, it is also the most inflexible when it comes to tax. If you ever find yourself being pursued by creditors, there is little asset protection, although this is generally not something that PAYG-employed people would need to be concerned about.

Company Structure

Just as the benefits of indexation are lost when any capital gain is returned to the shareholders of the company, company structures are not very useful in the purchase of an appreciating asset like property. Because action can be taken against both the company and the directors of the company, which would be you, there is very weak asset protection.

Discretionary Trust (or family trust)

Installing a trustee of a family or discretionary trust means they have the power to determine which of the beneficiaries receive capital and income generated by the trust. This can be fluid and the beneficiaries do not have a fixed entitlement or interest in the fund. This makes it the most flexible type of property ownership. Because the beneficiaries do not technically own the property, any action taken against them will not have an impact on the property.

Other options

You can look at other avenues for your investment options. These include combinations of the structures already listed above, or tapping into self-managed superannuation funds. These are best discussed with your accountant.

Cross securitisation

To understand cross securitisation (also called cross collateralisation) we first need to discuss the concept of 'Security'.

What is 'Security'.

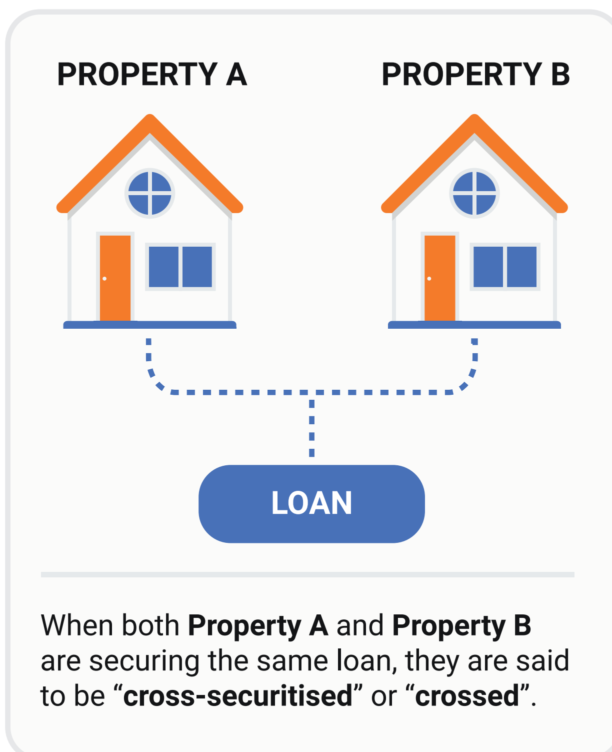
This might sound harsh, but the easiest way to understand 'Security' is to think what the bank will sell if you do not pay the loan back.

So, for a home loan, the security will generally be the home that you have purchased. The loan is said to be secured against your home. If you don't pay the mortgage, the bank will sell your home as opposed to selling some other random asset.

What is cross securitisation?

Cross securitisation is where the bank takes security over more than one property to secure the loan. If you own two properties and your loans are secured against both properties, the bank can sell both your properties if you default on one of the mortgages.

The properties in this example below are said to be "crossed".



When both **Property A** and **Property B** are securing the same loan, they are said to be "**cross-securitised**" or "**crossed**".

What are the benefits and disadvantages of cross securitisation?

The main benefits are that it's easier and simpler when seeking to access equity to purchase another property. However, this is about where the benefits end.

The main disadvantage with cross securitisation is you are ultimately handing too much power to the lender. Here are a couple of examples of what can go wrong if you cross securitise.

What happens if you sell your cross-securitised home?

If you sold your home and were expecting surplus funds, the bank might not release them to you, but instead pay down the loan on the remaining property to strengthen their position.

Furthermore, if the loans are cross securitised, the bank often has to value the other property and sign new mortgage documents.

Case study:

Catherine owned two properties in Tasmania. She had two loans; one for $350,000 that was used to purchase the Property A and one for $250,000 that was used to buy Property B.

Property A had increased in value and was now worth $450,000 while Property B had gone down in value to be worth $200,000.

The total mortgage was $600,000 but was split into $250,000 and $350,000.

Catherine thought she would sell Property A (the property that had increased in value), pay out the mortgage of $350,000 and after costs be left with about $90,000 to spend as she wished.

However, while that would be the case if the properties were NOT crossed, in this case the properties were crossed. The bank didn't want to be left holding a mortgage of $250,000 on Property B now valued at $200,000. The bank wanted the LVR down to 80% so the maximum loan they would allow on Property B was $160,000. The bank therefore withheld an additional $90,000 to drop the remaining mortgage from $250,000 down to $160,000.

This meant that instead of Catherine receiving $90,000, she received nothing as the bank withheld all the profit from the sale of Property A.

If the properties had not been crossed, the bank would not have been able to do this.

Other disadvantages include:

1. All of your loans are with the same bank, which can make it very difficult to change lenders if, for example, your bank won't lend you any more money or you can get a better deal.

2. The bank (or lender) holds far more security than they need; for example, if your home is worth $600,000 and the mortgage is only $300,000, the bank effectively holds $300,000 of surplus equity that they control.

3. Should something go wrong and you are unable to pay the mortgage on the investment property, your lender essentially can decide which home to sell first. If your investment property is crossed with your owner-occupied home, the lender might decide they have a better chance of getting their money back by selling your own home first, thereby kicking you and the family out of the family home.

If the properties are not crossed and the mortgage you default on is the investment loan, the lender is generally required to sell that property first.

Appointing a property manager

If the property is to be a rental property and there is no current rental agreement in place, it is a good idea to appoint a rental management agent or property manager to find a tenant. A property manager will also help manage the day-to-day running of your investment property including receiving rent, looking after the tenant's concerns and managing maintenance issues.

Appointing a property manager early in your investment loan journey gives them enough time to ensure you have rental income as early as possible after settlement occurs.

Which property manager should I use?

Some real estate offices have two departments. One department is responsible for selling and buying property, with another department responsible for managing property rentals.

There are also property managers who look after rental property alone and some townhouses and units have on-site property managers who will look after property rentals as well.

Often buyers find it convenient to use the real estate agency that sold the property to be the property manager. There is no obligation or requirement to do this. However, practically speaking, if you need the property rented before

settlement you might find it difficult to arrange for tenant inspections until you are the legal owner of the property unless you are using the real estate agency that sold the property to you.

What do property managers cost?

As a guide, the fees charged by property managers will range from 5% to 9% plus GST. Independent property managers will, as a rule, be cheaper than property managers attached to a real estate agency.

Can I self-manage?

There is no requirement that you use a property manager. You can self-manage the property by finding tenants, collecting rent and dealing with the day-to-day maintenance issues.

Before deciding whether or not to self-manage, there are several things you need to consider:

1. Property managers can easily **check a tenant's rental history** with previous landlords/property managers to confirm what sort of tenant they were. Self-managers generally do not have access to this database.

2. **Property management can be stressful,** involving rent collection, managing tenants and managing the repair of the property.

3. **If you live overseas, self-managing a property is not practical** unless you have a friend or family member who can be your on-the-ground helper to arrange tradespeople and so on.

Hot Tip: Have your real estate agent/property manager pay for the rates, maintenance and recurring expenses out of the rental income. This will make it easy for you at tax time.

Landlord's insurance

There are already several common insurances like home and contents that are tied to property ownership, but there is another very important one to have when you are looking at leasing your property out to tenants: landlord's insurance.

This covers more than your standard home and contents insurance, which you would have for your primary residence. In most cases, policies cover you against malicious damage by the tenants and loss of earnings if they fail to pay their rent, as well as natural disasters like storms and fire so you aren't left out of pocket.

As with any insurance policy, you will need to shop around and ensure that you are covered for the main accidental and intentional damages that can occur if you are unfortunate enough to end up hosting some less-than-ideal tenants. Premiums will vary from company to company, so have a chat with your mortgage broker to see if they have any recommended insurance brokers, or do your own research on one of the many online comparison sites.

Positive and negative gearing

With positively geared property, the rent you are receiving is more than the mortgage interest and associated costs of the property – meaning that you are making a profit.

Conversely, with a negatively geared property, the interest plus associated costs are more than the rent – meaning that you are making a loss.

Case study:

Mark purchased his first investment property in Cairns, Queensland, for $500,000. Stamp duty and other costs came to $17,000.

Using the equity in his own home, he borrowed the entire $517,000. To avoid cross securitising the properties, he borrowed this in two separate loan splits:

- $400,000 at an interest rate of 4% secured to the property in Cairns:

  Repayments = Interest Only: $1,334 a month.

- $117,000 at an interest rate of 4% secured to their existing home (the equity release).

  Repayments = Interest Only: $390 a month.

Mark's total interest repayment was therefore $1,724.

Other monthly costs of the property included:

- Rates: $167
- Maintenance: $50
- Letting agent: $121
- Landlord's insurance (including building): $108
- Total costs including interest: $2,170

The rental income from this property was $350 a week or $1,517 a month.

As the rent is less than the costs, this property is said to be *negatively geared* by $653 a month or $7,836 a year. Mark can therefore reduce his taxable income by this amount, resulting in less tax payable as follows:

Mark's salary is $150,000 a year. Tax payable on this is about $42,997 a year.

After purchasing the property Mark makes a loss on the investment property of $7,836 a year. This works to reduce his taxable income down from $150,000 to $142,164. Tax on $142,164 is $40,097, resulting in a savings in tax of $2,900 a year.

Therefore, it can be said that the real cost to Mark to buy this investment property is $4,936 a year or $94.92 a week.

Consider now that the property that Mark purchased was a duplex with rental income of $650 a week/$2,816 a month. The costs like insurance and letting agent fees would go up slightly, so let's presume total costs are now $2,441 a month.

As the rent is now more than the costs, this property is said to be *positively geared* by $375 a month/$4,500 a year as it is making a profit.

Mark has to add this to his taxable income. This results in his taxable income now being $154,500 with tax payable of $44,662, an increase of $1,665 a year.

Therefore, it can be said that, after tax, the investment property is making Mark $2,835 a year or $54.50 a week.

Should I buy a positive or negatively geared property?

The first principle here is to not base your purchasing decision on tax. While it's something to be considered with any purchase, ultimately what you want to do is buy a good investment that has a good business case.

I see many clients who suggest that a negatively geared property is the only way to go as they will pay less tax. And, of course, everyone would like to pay less tax.

If you look at the above case study where the property was negatively geared, Mark is essentially paying $7,836 a year to save $2,900 in tax. That is not a rational position unless there is an overarching business case of future capital growth, increases to market rent and so on that will see this property generate a profit.

> **Hot Tip**: Your mortgage broker can help you with the above calculations and provide comprehensive cash flow and capital gain projections to help you with your decision.

How to reduce your capital gains tax

There are so many regulations and then exceptions to the rule when it comes to Capital Gains Tax (CGT) that it can be a confusing concept for many people to work with. When you consider that the official Australian Tax Office CGT guide is more than 170 pages, it's no wonder why.

How CGT applies to you will vary from investor to investor and also from property to property. So while we can't provide a comprehensive guide here, we will outline the major concepts to help you understand the basics.

Because CGT is most common in real estate transactions, this is something you should discuss with your accountant and incorporate into your property management plan.

What is capital gains tax?

This is a very important aspect of your investing future. Capital growth is the net increase in value of your investment property over time. If we work in round numbers and consider a home was purchased 10 years ago for $200,000 and it is now worth $600,000, you have a capital growth of $400,000.

The name capital gains *tax* is a little misleading in that it's not really a tax at all. What happens is when you sell your property, the Australian Tax Office deems the $400,000 you made on your property as income. You are taxed the standard rate on that money when you lodge your next income tax return.

Calculating any potential capital gains or losses is much more complex than simply deducting your original purchase cost from the final sale price. A cost

base needs to be determined for each asset. This is an important element to get correct and it can be a complicated process, with a number of formulas used to determine the value of each component that needs to be added or subtracted. It's essential to enlist the help of a professional to complete this.

In a nutshell, the cost base is determined by considering the money paid for the property, incidental costs of buying the property, the costs of owning the property and the costs of increasing or preserving the value of the property. Properties held for more than 12 months also have a 50% discount on the total CGT amount.

Case study:

John and Mary purchased an investment property for $500,000. They sold it three years later for $640,000.

The first step is to calculate the cost base (that is, how much this property cost them overall).

- Purchase price: $500,000
- Stamp duty: $22,000
- Other buying costs: $3,200
- Renovations: $24,000
- Agent fees on sale: $18,000
- Other selling fees: $2,200
- Total cost base: $569,400.

So the cost base here is $569,400.

To calculate the capital gain, we simply subtract the cost base from the sale price.

- Sale price: $640,000
- Less cost case: $569,400
- Capital gain: $70,600.

The next step is to discount this gain by 50% given that John and Mary held the property for more than one year.

$70,600/2 = $35,300.

So, the total capital gain for tax purposes is now $35,300. As the property was held 50/50 between John and Mary, we now split this up between them so they each pay tax on their portion.

John and Mary both have $17,650 added to their respective taxable incomes.

A common misconception here, however, is that this is the tax they pay. It is not. It merely becomes taxable income on which John and Mary would pay tax (just as they pay tax on their fortnightly salaries).

Example:

Let's say John's income for the financial year in which the property was sold was $100,000. Assuming John's tax rate is 30%, John's tax payable on $100,000 would be $30,000. Of course, as John is an employee, the tax is taken out during the year from his payslip.

This year, however, John has a capital gain of $17,650. This gets added to John's taxable income so that his taxable income is now $117,650. If John's tax rate remains 30%, then his tax bill would now be $35,295 – an increase of $5,295.

Hot Tip: It's important to keep in mind the potential for CGT when selling an investment property. I have seen clients sell an investment property and use all of the surplus funds to purchase a new property, neglecting to leave sufficient funds from the profit to pay the additional tax bill.

Exemptions

There is an exemption on CGT if the property was a principal place of residence; there are several guidelines that determine whether or not your circumstances will allow your property to fit into this category. If you haven't physically lived in the dwelling for the entire time you have owned it, your eligibility for main residence exemption will largely rely on your ability to prove things like the length of time you lived there, where you have your mail delivered, and your electoral roll address.

- Most properties purchased prior to the implementation of CGT on 21 September 1985 are exempt from CGT.
- If you have experienced a capital loss, CGT doesn't apply, and you can carry this loss forward to use it to reduce capital gains in future years.

The term 'Net Capital Gain' is the total of all capital gains for a financial year minus any capital losses, any capital losses carried forward, CGT discounts or small business concessions. To find out if any of these apply to your situation, speak with your mortgage broker or financial adviser.

What has an impact on capital gains?

The greatest influence on driving up capital gains is the age-old concept of supply and demand. Simply put, if more people are moving to (and wanting to buy in) an area than there are properties available to buy or land to build on, property prices go up.

Inflation can also have an impact on capital growth as it places upward pressure on the salaries of builders and the costs of the materials needed to build a new home. This rise will flow on to all surrounding homes, even if they were built for less in the past.

The value of property is calculated by combining two components – the land on which the property is located and the physical building on it. The land is the component that increases in value, once again because of supply and demand. Land is a finite resource and once it has been developed, you cannot make any more.

The house/unit/townhouse/duplex built on the land, in contrast, depreciates over time. As the structure ages and areas like the kitchen and bathroom age, the value of the bricks and mortar on the property decreases. Of course, most investors would end up spending some money on upgrades when purchasing an existing property and this is one thing that is not measured in real estate. It is known as capital expenditure and billions of dollars are spent on it by property owners and investors every year.

Minimising CGT liability

When you sell an investment property purchased after 1985, it's almost a given that you will be charged CGT. There are some ways you can navigate this so that you pay as little as possible while still working within legal frameworks.

The first is straightforward – avoid selling your properties! It is the only guaranteed way to avoid significant CGT because if there is no sale, nothing is payable. Of course, this means that you won't be selling your properties, which might make this option unrealistic for some people.

The next is to hold onto your properties for longer. When you consider the current formulas in place to calculate CGT, you will pay more on a property if you sell it before you have owned it for 12 months or less. This is where you need to weigh up any desire for a quick profit with a little more patience so that a larger portion of your profit doesn't get gobbled up by the tax man.

While capital losses are not desirable, they can be useful for reducing CGT. This is because they can be carried over to the subsequent tax year. This

means when you have multiple properties and you sell one at a capital loss, the following financial year is the ideal time to offload a property that has increased in value, as you will be paying less in CGT.

Keeping detailed records of the costs of owning your property is a good habit to pick up and keep consistent. In most cases, these can be offset against the amount you would owe in CGT. But bear in mind that writing things down on a scrap piece of paper is not going to cut it; you will need to have detailed records with relevant receipts and other documentation. In this case, it's better to keep everything you think might be relevant than to throw out something you find out later would have been beneficial to a CGT reduction.

We've said it already, but CGT is a very complex area and having the best possible advice from experts will ensure you are on top of the ways in which you can minimise your CGT commitment.

Section 4 – Building the team

Who do you need on your team?

There are a number of parties involved with buying and selling property and, as with any team, it is only as strong as its weakest link. We recommend that you seek out professionals who have either been referred to you by someone you know who has had a great experience with them, or who come highly recommended in the industry.

The roles of most of the major players are obvious, but those who take on lesser or more invisible roles in the background might be unknown factors for you up until reading this book. We compiled this chapter that covers all the professionals who help you buy your property so you have a full understanding of their role and know who can guide you in the many different aspects of the process.

On your team, you might need all or some of the following:

- Mortgage broker
- Solicitor
- Bank or other lender
- Valuer
- Lender's Mortgage Insurance provider
- Lender's solicitor
- Insurance provider
- Financial planner
- Real estate agent
- Seller (and any tenants)
- Seller's solicitor
- Seller's lender and lender's solicitor
- Building inspector
- Pest inspector
- Accountant
- Buyer's agent
- Letting agent

Of course, the most important person in the equation is you. All the other professionals will assist you to purchase the property you choose, but at the end of the day, you are the project manager and oversee them all.

Mortgage broker

A mortgage broker is one of the first people you will bring into your team. If you have a good mortgage broker, then you have a much better chance of arriving at settlement with a smooth and stress-free journey. As finance is the name of the game, your mortgage broker needs to know how to plan, prepare and execute your home-purchasing journey with precision.

When looking for a mortgage broker, consider their reliability, knowledge and experience because you want someone who knows what to do if any problems arise during the home loan process.

A mortgage broker will, at a minimum, do the following for you:

- **Advise you on your lending options** based on your situation.
- Guide you to **determine the best deal** and right option for you in your given situation, taking into account your current financial situation and your future plans for yourself and the property.
- **Collect the documents required** from you and submit your application to the lender you choose.
- **Ensure the lender processes your application** in a timely fashion.
- **Follow the application closely** to make sure no steps are missed from lodgement to settlement.

The above is the typical job description of a mortgage broker. An experienced full-service mortgage broker will also:

- Help you with **property reports** on properties you are interested in to help you make an offer on the right property.
- Help with a **Foreign Investment Review Board application** and other relevant documentation if you are living outside the country.
- Act as your **'project manager'**, walking you through the entire purchase step by step to ensure you do not miss anything.
- **Conduct regular home loan health checks** after settlement to ensure your home loan remains the best deal for you.

Most mortgage brokers in Australia do not charge a fee for their services as they are paid a commission from the lender you choose.

Solicitor

The solicitor, also known as a conveyancer, is the second-most important team member to get on board early. Your solicitor works with you and the mortgage broker to advise you of your rights and responsibilities. The role of the solicitor is to protect your legal interests throughout the journey. This includes completing appropriate checks on the property you are purchasing such as:

- **Title search:** confirming the seller is the legal owner of the property.
- **Local Council searches**: confirming the building is Council approved.
- **Main road and transport searches**: checking that there are no plans to build a highway or train line that will affect the property.

Your solicitor also:

- Calculates and **organises payment of stamp duty** to the government.
- **Requests extensions on finance** if required and plans for settlement.
- **Runs all correspondence** from you to the seller.

There are Do It Yourself (DIY) packs that allow you to conduct your own conveyancing and go through the home-purchasing process without the guidance of a solicitor. While these DIY packs allow you to act as your own solicitor, we don't recommend this practice.

Solicitor/conveyancer costs are divided into professional fees and outlays. Professional fees are what the conveyancer will charge to do the work and will range anywhere from $500 to $1,000. Outlays are the costs the conveyancer incurs in running title searches, Council searches and so on. Depending on what searches you require, generally the overall cost of outlays will be $400 to $600.

Hot Tip: Always use a solicitor who has been referred to you. The cheapest is rarely the best and paying a little extra is good insurance to know you will be looked after should something go wrong.

The bank or lender

There are many factors to consider when choosing which lender you want to pursue a home loan with and one of the biggest factors that influences borrowers is the interest rate on offer. And rightly so – no one wants to be paying more than they have to.

However, as for many things in life, you tend to get what you pay for and home loans are no different. The home loan with the lowest interest rate is not necessarily the best home loan for your situation. If it works out to be, then that is a great bonus.

As you would when choosing an airline for your journey, you need to research the company that you choose to do business with and consider other factors that will affect you for the course of the loan such as:

- Does the lender offer a fully transactional **offset account**?
- Is **redraw** available?
- Are future **changes to the loan**, such as switching to a fixed rate, free or is there a fee involved?
- Are there any **early exit fees**?

Your mortgage broker will be a great help here and will be able to provide you with the lenders you can approach based on your given situation. They will then provide you with the interest rates and fees charged by those lenders and make a recommendation to you on the lender that is the best fit for your circumstances.

This recommendation should include information about service, price, fees and features of the particular loan product. Ultimately though, the choice of which lender you go with is yours.

Valuer

A valuer is a qualified professional instructed by the lender to value the property you are purchasing. A valuer has generally completed a three- to four-year valuation degree in conjunction with practical experience. Most lenders have what is called 'a panel of valuers'. A panel consists of a group of selected valuation firms from which the lenders choose randomly to ensure they get an independent valuation.

Valuers can use data from local real estate agents, realestate.com.au and RP Data to help them in creating a valuation report.

As a rule, the lender pays the valuer to do the valuation; however, some lenders charge the buyer a fee for the valuation.

Lender's Mortgage Insurance (LMI) provider

Lender's Mortgage Insurance (LMI) is insurance that protects the lender against your default on the home loan. That is, if you default on the home loan and the lender takes possession, sells the property and makes a loss on that sale, LMI will cover that loss.

LMI is generally only required if the borrower has less than a 20% deposit. It is paid once only by the borrower upfront at time of settlement. In most cases, the LMI premium will be included in the home loan.

The Lender's Mortgage Insurance does *not* cover you as the borrower even though you pay the LMI premium. If you get sick or injured, LMI will not assist and you will need to rely on your personal income protection/life insurance.

It is important to note that, as the buyer, you will have no direct contact with the LMI provider.

In Australia there are two leading independent LMI providers: Genworth Financial and QBE Insurance. Some lenders also 'self insure'. That is, some lenders are also insurance companies so, rather than paying QBE or Genworth Financial, they simply insure the loan themselves and keep the LMI premium.

LMI premiums work on a sliding scale and vary significantly from bank to bank. The bigger the deposit the buyer has, the cheaper the premium will be. As a very rough guide, a buyer with a 5% deposit on a $300,000 purchase would expect to pay around 2% to 2.5% of the loan amount or around $6,000 in LMI.

For the same purchase price but with a 10% deposit, the premium would be 1% to 1.5% or around $3,300.

With a 15% deposit, the premium would be under 1% and around $2,000. With a 20% deposit, no mortgage insurance is required.

The primary benefit of mortgage insurance is that it lets you buy now (or sooner) rather than waiting three to four years or longer to amass a 20% deposit. For many people, it is very difficult to accumulate a 20% deposit to purchase a property while renting in a rising property market and with a poor exchange rate. Without LMI, home ownership might be a distant dream for many.

Another advantage is that LMI could allow you to buy more than one property with the same overall savings. A small rise in the property market of 5% on two properties would see you well ahead compared to just buying one property at 80% and seeing a 5% rise only in that one property.

Example:

Ian wishes to invest in property and he has $110,000 in savings, which is enough for a 20% deposit plus stamp duty on a $400,000 purchase. Ian is looking to build a property portfolio, so arranges for his mortgage broker to run the following figures:

Loan amount: $400,000 (in NSW)

Deposit required: 10% or $40,000

Stamp duty and costs: $15,000

LMI: $5,000 (included in the loan amount)

For an investment of $55,000, Ian can purchase a property in NSW for $400,000. If this property went up by a modest 5% in value in the first year, the home would then be worth $420,000.

If Ian had purchased two properties for $400,000 and both went up by 5%, his total portfolio would now be worth $840,000. He paid $10,000 in LMI so he is up by $30,000.

If Ian just purchased one property for $400,000 using a 20% deposit, and property's price rose by 5%, he would be ahead by $20,000 at the end of the first year.

By borrowing more from the bank, your negative gearing benefits would increase as you have more tax-deductible debt. The LMI might also be tax-deductible, written off as a borrowing cost over five years.

Lender's solicitor

Just as the buyer has a solicitor to handle the legal part of the transaction on the buyer's behalf, the lender also instructs solicitors to act on their behalf. Most of the major lenders (such as banks) have in-house solicitors.

Smaller lenders will typically use external solicitors to take care of the preparation of mortgage documents and settlement. The lender's solicitor is responsible for ensuring that all details on the mortgage documents are correct.

Most of the major lenders will absorb the cost of their legal fees or charge a nominal settlement fee of $100-$150. Some smaller lenders might be less able to take on these costs, which range from $220 to $350, and will pass these on to the buyer.

Insurance provider

The financial consequences to the buyer of not having adequate insurance cover in unforeseen circumstances such as fire and flood can be devastating.

There are many types of insurance associated with owning a property and not all are compulsory. Each type of insurance is dealt with in turn below.

- **Building Insurance**

  Building insurance covers the replacement of the structure of the house only. It is important when you take out building insurance to be clear about exactly what is covered and under what circumstances an insurer will pay out.

  Example:

  The Queensland floods of 2011 were a real eye-opener to how the technical definition of flood varies from insurer to insurer. Many affected home owners assumed they were covered only to find out that their insurance company had a vague definition of flooding.

  As the structure of your building ages and the price of building materials increase with inflation, it is important to review your building insurance cover regularly. Your building insurance policy might cover your property for $250,000 when you purchase the property. However, in five years the cost to rebuild your house might increase to $350,000. If you haven't updated your policy to reflect rising prices, then you will be underinsured to the tune of $100,000.

  Your building insurance might also cover public liability.

- **Public Liability Insurance**

  Public Liability covers you as the owner of the property in the circumstance where someone is injured on your property or something on the property caused damage to a visitor. Generally, public liability insurance will be included in your building insurance policy.

- **Contents Insurance**

  Contents insurance covers personal possessions such as TV, jewellery, clothes, computers, furniture and so on.

- **Landlord's Insurance**

  If the property is to be an investment property, and you intend to rent it out, it is a good idea to take out Landlord's Insurance.

  Common landlord insurance policies include cover for:

  - **Loss of rent** if tenants default on payments. (Note that time limits always apply.)
  - **Malicious or intentional damage** to the property by the tenants and their guests.
  - **Legal expenses** incurred in taking action against a tenant or a tenant taking action against you.

  Landlord's insurance is tax-deductible.

- **Income Protection Insurance**

  Income protection insurance can provide an income to help pay your home loan in the situations where you cannot work because you:

  - Fall sick.
  - Have an accident.

  Over the course of your life, your income is your greatest asset. If you earn $65,000 a year, over the next 30 years this equates to almost $2 million.

  This income gives you the ability to put your kids through school, pay off your home, take holidays and prepare for retirement. Most people would not dream of failing to have insurance on their house or their car or even their furniture to protect against fire, flood or theft. However, most people fail to insure themselves and their income.

- **Life and Total Permanent Disability ('TPD') Insurance**

  Life insurance/TPD pays out a lump sum on death or total permanent disability. If you have family members who rely on the home and your income, then it is important that you consider both income, life and TPD insurance when you buy property. In the case of a death, life insurance will pay out a sum of money that can help pay the home loan out completely and/or some money that will then give the family members financial options they would not otherwise have.

Financial planner

As a mortgage broker assists with home loans and works out the best deal for you, a financial planner has access to hundreds of insurance products from a range of different insurance companies. Your financial planner will be a great help in working out how much cover you need and assisting you to find the best deal for you. It is also possible to have some of the insurance premiums paid for through your superannuation fund.

Real estate agent

In the home loan journey, the real estate agent works to match you with a property. You might go to them with no real idea of what you are looking for and they will work with you to uncover the must-have elements of your property, or you might have researched the market and know exactly what you are looking for. If you choose the right agent, they will work hard to find you a solution.

These days, most real estate agents are well trained and must comply with strict qualifications to work in this competitive industry.

However, it is important to remember that the real estate agent works for the seller and their main objective is to get the best possible price for the seller. You will not pay for the services of a real estate agent as a buyer.

Buyer's agent

Buyers' agents are especially relevant for Australian citizens living overseas as researching, inspecting and bidding on properties can be difficult when you are living in another country. However, they can also be helpful for those who wish to have a more educated look at the market and which property would work best for their first or consecutive home, or which properties would work well together when building an investment portfolio.

A buyer's agent (or a buyer's advocate as they are sometimes known) is essentially a real estate agent who represents the buyer rather than the seller. Unlike a standard real estate agent who is looking to achieve the best price for the seller, a buyer's agent works for the buyer to get the lowest price.

For expats or non-residents living overseas, a buyer's agent is your eyes and ears on the ground, keeping a lookout for property on your behalf. They also handle all the negotiations on your behalf, so you save time and money by not having to make a trip back home.

A buyer's agent often gets access to a property that is coming up for sale before the property is advertised to the general public as they have relationships with real estate agents who go first to a buyer's agent for a quick sale. Often a qualified valuer, a buyer's agent knows what a property is worth and therefore knows a good deal when they see one.

Generally, they charge between 2% and 3% of the purchase price. This might seem like a lot but often a buyer's agent can find you great deals 10-15% below market value to which you would otherwise not have access.

Seller (and any tenants)

In most cases, the seller will be living in the property that you are purchasing. However, in some cases, the seller currently has the property rented and therefore your home loan process might involve a tenant.

It is important to be aware of the details of the tenant's lease before you negotiate on the property. As a rule, the tenant has exclusive rights to the property so any purchase will be subject to the lease.

Example:

The property for sale is rented and the tenants have a six-month lease on the property that started three months ago. The tenants have three months left on their lease and cannot be evicted without their consent until the lease has expired.

In this situation the buyer might choose to:

- *Request a longer settlement period to allow time for the lease to expire (i.e., settle in three months).*
- *Ask the tenant if they would consider moving out early.*
- *Buy subject to the lease and wait for the lease to expire. This would require you to become a landlord for a period.*

You must give tenants proper notice before you arrange for anyone to enter the property. This is particularly important when organising building and pest inspections of a property where a tenant is involved.

Under no circumstances should you as the buyer have any formal communication with the tenant or the seller regarding the Contract of Sale or lease during the home loan process. If you have any requests or enquiries, these should be made through your solicitor or real estate agent.

Seller's solicitor

The role of the seller's solicitor is to assist the seller in negotiating the sale of the property. The seller's solicitor also needs to help the seller submit a 'mortgage discharge' if the seller still has a mortgage on the property. This discharge form is a formal document giving the seller's lender notice of intention to finalise the home loan before it can be released on settlement day.

One of the primary reasons for a delay in settlement from the seller is that the seller's bank is not ready to settle because they have not been given sufficient notice.

Seller's lender and seller's lender's solicitor

If the seller has a mortgage on the property, then the seller will need to work with their bank (via their solicitor) and the bank's solicitor to make sure their bank is ready on settlement day. The seller's bank or lender needs to be notified of when settlement will occur so they can arrange for final payment for the seller to have available on settlement date.

The role of the solicitor for the seller's lender is to be present on settlement day to exchange titles on behalf of the seller's lender.

Building inspector

A qualified building inspector carries out a building inspection by physically inspecting the foundations and structure of the property. The building inspector then creates a Building Report. This is a formal document outlining the condition of the property based on the building inspector's professional opinion and experience.

It is a good idea to attend the building inspection with the inspector. It is far easier to understand a problem if you can be shown and have the problem explained in person rather than reading it in a building report filled with formal language and words that you might not understand. It is also a great time to ask questions if there are any concerns.

Example:

The building inspector says, "The retaining wall has a few cracks in it. You might want to attend to that before the rain gets in and causes some damage. I'll put it in the report." John the buyer asks, "How much do you think that it will cost to fix?" Building inspector says, "About $2,000." John then arranges

a formal quote to repair the work and requests the seller reduce the purchase price by $2,000 or repair the wall before settlement.

The situation could be quite different if the buyer and the buyer's solicitor read the building report and it stated: "Retaining wall has visible cracks, signs of water damage from rain. Needs to be fixed otherwise further damage will be caused, leading to a new retaining wall." From this report and formal language, the extent of the damage is not clear and is open to interpretation.

Pest inspector

A pest inspection requires a qualified pest inspector to inspect the land and property for any pests that can potentially damage the property. Generally, this will be done at the same time as the building report and by the same company. Common pests they are on the lookout for are termites. It is worth your while to be present when a pest inspector conducts the inspection to ensure that the property is inspected to your satisfaction.

Accountant

Not all accountants are created equal and although your tax accountant might do a cracker job getting you great refunds every year, or reducing the amount you have to pay to the government if you are self-employed, we advise you to find an accountant who is well-versed in property.

A property accountant will not only be able to help you with drawing up budgets and preparing statements, but also, they will be able to maintain comprehensive records of your assets and funds that will assist you with applying for a home loan as well as giving you the best possible chance of securing an investment loan.

Meticulously kept financial records will make it easier for you to claim any tax rebates or incentives such as depreciation should you branch out into investing.

Letting agent

A letting agent looks after the marketing of a dwelling; in this case, your investment property to prospective tenants to ensure it is rarely (ideally, never) vacant.

An excellent letting agent will be working with you to ensure that as one tenant is moving out, another is preparing to move in, so you are not left forking out for the entire mortgage repayments on your investment property.

Any good marketing strategy involves getting your property in front of as many eyes as possible, so check that any property marketer you employ is prepared to consider multiple platforms – from traditional print and online mediums through to new and innovative marketing solutions – to minimise vacancy periods for your property.

The costs associated with a letting agent will be highly subjective and will be influenced by the length of your marketing campaign, how far you wish it to reach and what is happening in your local market. For example, if there are dozens of similar properties available at the time, you will have to consider more creative methods to attract attention, which could add to the cost of your campaign.

Most real estate agencies have dedicated property marketing managers, but there are independent businesses you can approach that can also offer marketing solutions across a range of media.

Free Bonus Resources

There are a number of bonus resources, tools and templates that accompany this book. You can download these free of charge at www.australianmortgageguide.com.au/resources

Afterword

The Next Step In Your Adventure

Thanks for reading my book. I hope you found the information helpful.

Many people have said, "Information is power." But Author Daniel Burrus clarified this famous quote saying, "Information is power only if you can take action with it. Then, and only then, does it represent knowledge and, consequently, power."

Before you put the information in this book into action, perhaps you have some questions about your specific situation. Or maybe you'd feel more comfortable moving forward if you could get a second opinion to ensure you've got everything covered.

A lot of my clients feel the same way. That's why we developed a Free Finance Strategy Session to answer questions about your unique situation. During this informal 30-minute meeting…

- You'll get a step-by-step plan on how to get the right loan for your situation (so you know exactly what to do next)
- You'll gain greater clarity about what you'd like your financial journey to look like (including repayments, timeframes, future purchases, other investments etc.) -- and practical ideas to bridge the gap between where you are and where you'd like to be
- You'll identify barriers that could stall your finance approval and needlessly cost you in interest, fees and tax (and how to accelerate your progress towards being debt and financially free)
- You'll learn simple strategies to increase your borrowing opportunities and capacity, minimise interest and fees, and pay off your loan faster
- And you'll explore how our team of finance specialists may be able to help you find the very best loan for your home or investment (and get rid of it years sooner)

Please be assured this will not be a sales presentation in disguise. On the contrary, you will receive answers to your questions and practical tips relevant to your specific situation.

Naturally, we hope you will consider joining the thousands of clients we have helped to get the right finance (over 700 of whom have given us five-star reviews). Yet, in any case, you have nothing to lose. And you'll have more information to help you on your financial adventure.

Thanks again for reading my book.

Visit the webpage below to book your **Free Finance Strategy Session**: www.australianmortgageguide.com.au

Or send an email to adventure@australianmortgageguide.com.au

Here's to your adventure!

Johnathon Reeves

Owner & Finance Specialist

Time Home Loans (www.timehomeloans.com.au)

Healthy Loans (www.healthyloans.com.au)

Cliff & Moss Finance Brokers (www.cliffandmoss.com.au)

Appendix

Home Loan Glossary

While on your home loan journey, you will come across many new, weird and wonderful words, terms and acronyms. I believe in simplicity so I compiled this list of the more prominent words you will come across when buying, paying off and investing in property.

Some of these words appear in this book and you will come across others in official documents from the various industries you will be interacting with while on your property journey.

A

Additional payments: The ability to make extra payments on your home loan account, which reduces the term of the loan.

Agent: Someone that has express or implied authority to act for another. For leasing or selling a property, a real estate agent acts on behalf of a landlord or owner.

Allotment: When a larger area of land is subdivided into smaller pieces, the smaller parcels of land are sometimes known as allotments.

Amortisation period: The length of time a borrower has to repay the loan in accordance with the arranged terms (otherwise known as the loan term).

Application fees: Fees charged to cover a lender's internal costs of setting up a loan.

Appraised value: An estimate of the value of a property being used as security for a loan.

Appreciation: The increase in the value of property caused by economic factors such as inflation, and market conditions.

Arrears: An overdue amount that has not yet been paid.

Assets: Something valuable that an entity owns, benefits from, or has use of, in generating income.

Auction: A public sale where the price is neither set nor arrived at by negotiation, but is discovered through the process of competitive and open bidding.

B

Body corporate: A body corporate is made up of a collective of unit owners, within a unit title development. Every unit title development has a body corporate which is setup when the development is being constructed. Decisions about certain aspects of the units and common property are made by the body corporate.

Boundary: A line separating adjoining properties.

Breach of contract: Failure or refusal of a party to meet the obligations set out in a contract.

Break costs: Fee passed on to the borrower from the lender if they choose to break or make changes to their fixed rate loan.

Bridging finance: Finance obtained over a short period as a prelude to long-term funding. Higher interest rates are usually charged for this form of finance, and it must be paid back within an agreed time. Some borrowers use bridging finance if they need money to buy a new house while they are waiting for their existing house to sell.

Building inspection: A visual inspection of a property by a licenced professional, both inside and out, that identifies anything from major structural faults to minor defects, maintenance issues or safety hazards. Contracts of sale can be dependent on satisfactory building inspections.

Building regulations: Rules of a legal or statutory nature by which local councils control the manner and quality of buildings. They are designed to ensure public safety, health and minimum acceptable standards of construction.

Building society: Institutions operating in a similar fashion to banks. That is, they take deposits and provide loans. Customers are ‘members’.

C

Capital gain: The monetary (financial) gain obtained when you sell an asset for more than you paid for it.

Capital gains tax: Tax payable on profit made on the sale of a capital asset, assessed and levied differently from income tax.

Caveat: If a caveat is lodged upon a title to land, it indicates that a party other than the owner claims some right over or interest in the property.

Certificate of Title: A document identifying the ownership of land. It shows who owns the land and whether or not there are any mortgages or other restrictions on it. This document (if issued) is usually held by the lender as security for a loan.

Chattels: Chattels are personal possessions within a property other than the property itself. These include movable items that might be included in the sale such as appliances and furniture.

Clear title: A seller has a clear title when there are no restrictions (such as an outstanding mortgage) preventing the sale, and when ownership of the seller has been established.

Commission: A fee paid to a real estate agent for their service.

Company Title: A scheme of land ownership through which a company owns the title to land. Shareholders who have purchased shares in the company are entitled to exclusive occupation of a flat in a building on that land.

Consumer Credit Code: An Act of Parliament governing the relationship between borrowers and lenders.

Contract of Sale: A formal agreement outlining the terms and conditions for the purchase or sale of property.

Conveyance: The transfer of ownership of property from the seller's name to the buyer's name.

Conveyancing: The branch of law concerned with the preparation of documents for the transferring of property.

Cover note: A cover note is a temporary document issued by an insurance company that provides proof of insurance coverage until a final insurance policy is in place.

Credit: Borrowed money or other finance (e.g., a credit card) to be paid back under an arrangement with a lender.

Credit union: A cooperative that operates like a bank, but is owned and controlled by people who use its services.

Creditor: A party to whom money is owed.

D

Debtor: A person or institution that owes a sum of money to someone else.

Deed: A legal document that states an agreement or obligation regarding a property.

Default: Failure to abide by the terms of a mortgage or loan agreement. A failure to make loan payments (defaulting on the loan) might result in the mortgage holder taking legal action to repossess the mortgaged property.

Deposit: A deposit is normally paid by the buyer at the time of exchanging contracts. Normally a minimum 5% to 10% of the total purchase price is required.

Deposit bonds: Guarantees that the purchaser of a property will pay the full deposit by the due date. Institutions providing deposit bonds act as a guarantor that payment will be made.

Direct debit: Regular electronic debiting of funds from a customer's nominated bank/building society cheque or savings statement account (or some credit union accounts).

Disbursements: Miscellaneous fees and charges incurred during the conveyancing process, including search fees and charges paid to government authorities.

Discharge fees: An administration fee to cover the costs incurred in finalising a loan account.

Discharge of Mortgage: A document signed by the lender and given to the borrower that states that the borrower is no longer obligated to make further payments on the loan. This can be a result of the mortgage being paid in full or refinanced by the borrower

Disposable income: Any income left over after all known expenses have been met (e.g., loan payments, bills).

Draw down: To access available loan funds, usually referring to a staged loan for property constructions, or lines of credit where the limit is set and the borrower can use the funds as required.

Duty (or Stamp Duty): A State Government tax on financial transactions. For the purchase of real estate, it is calculated according to the property value. It also applies to the amount of the mortgage.

E

Easement: A legal right to use another's land for a specific, limited purpose (e.g., for access to another property).

Encumbrance: An encumbrance can restrict the owner of a property's ability to transfer the title of their property due to an outstanding liability or charge on the property.

Equity: A home owner's financial interest in a property. Equity is the difference between the price for which a home could be sold and the amount still owed on its mortgage. Equity usually increases as the outstanding principal of the mortgage is reduced through regular payments. Market values and improvements to the property also affect equity.

Establishment fees: Fees payable to a lender to cover the costs of setting up a loan (e.g., Application fee, Settlement fee etc).

Exit/prepayment fees: Fee that some lenders charge if you pay all or part of your mortgage off early. Exit fees generally apply to fixed interest rate loans.

G

Guarantee: A guarantee is a promise to take responsibility for another's financial obligation if they are unable to meet the obligation themselves.

Guarantor: A party who agrees to be responsible for the payment of another party's debts should that party default.

H

Home Loan: A home loan requires you to pledge your home as the lender's security for repayment of your loan. The lender agrees to hold the title or deed to your property until you have paid back your loan plus interest.

I

Instalment: The regular periodic payment that a borrower agrees to make to the lender.

Interest: The amount you are charged for the money advanced to you by a lender.

Interest-only loan: A loan in which the borrower pays only the interest for some or all of the term, with the principal balance remaining unchanged during the interest-only period. The principal is then repaid over the remaining term of the loan by the conversion of repayments to Principal and Interest.

Interest rate: The rate at which interest is applied.

Introductory loan: A loan which is offered at a reduced rate for an initial period (usually 1-3 years) to new borrowers. Also called a discounted or honeymoon rate.

Investment property: A real estate property purchased with the intention of earning a return on the investment either through rental income, the future resale of the property, or both.

J

Joint tenants: People who hold an estate or property with one or more parties, the share of each passing to the other or others in the event of death.

L

Lease: A document granting a period of tenancy of a property under specific terms and conditions.

Lenders Mortgage insurance: This insurance is taken out by the lender to cover themselves in the event that the borrower defaults on their loan and the sale of the property is unable to cover the outstanding debt. Mortgage insurance premiums are usually paid by the borrower when the amount borrowed is over 80% of the property value. There is no protection for the borrower.

Lump sum repayments: Extra repayments made to a lender over and above your minimum repayment requirement.

LVR: This is the general term for the Loan to Value ratio. LVR is calculated by dividing the amount of the loan by the value of the property. For example, if the property is worth $300,000 and you owe $240,000, the LVR will be 80%.

M

Maturity: The date at which a home loan or other debt must be paid in full.

Maximum loan amount: The total amount a borrower is eligible to borrow. This is generally based on the borrowers deposit, disposable income and purchase price of the property.

Median: The median is the value that divides the sequence in half, when a set of values are arranged in ascending order. For example, if the numbers were 1,1,2,3,4,5,6,7,7,7,7 the median would be 5, whereas the average is 4.54.

Minimum repayment required: The minimum amount a borrower is required to pay to ensure the loan is paid within the agreed term.

Mortgage: A form of security assigned to the mortgage for a loan, usually taken over real estate (such as your home).

Mortgage broker: A person or organisation offering to organise and manage the application for a home loan on behalf of a borrower.

Mortgage payment: A regularly scheduled payment that usually includes both principal and interest.

Mortgage protection insurance: This type of insurance is taken out by a borrower to cover the borrower's loan repayments in the event that they are not able to meet them through specific events such as serious illness or redundancy. It is also sometimes called income protection insurance.

Mortgage registration fee: State Government charge for the registration of a loan.

Mortgagee: The lender (e.g., Commonwealth Bank).

Mortgagor: The person(s) who owns the property offered in support of the loan (e.g., the borrower).

O

Offset account: A savings account linked to a home loan. The interest earned on the account is applied to reduce the interest paid on the loan. A 100% offset is where the interest rates earned and paid are the same. A partial offset account is where the interest earned on the offset account is only a portion of the rate paid on the home loan.

P

Passed in: A property is 'passed in' if the bidding at an auction does not reach or surpass the vendor's minimum price for which they are willing to sell.

Portable mortgage: Where a new property is able to be substituted as security for an existing loan.

Prepayment: Any amount paid to reduce the principal balance of the loan before the due date or any amount in addition to the minimum repayment.

Principal: The capital sum borrowed upon which interest is payable.

Principal and interest loan: A loan where the repayment obligations include both principal and interest amounts.

R

Re-amortise: This is the process of recalculating the minimum repayment obligations of a loan to repay the outstanding balance for the remaining period. This generally occurs when a loan balance substantially increases or decreases from the original amount.

Real property: Land, with or without improvements (e.g., a house) as distinct from personal property (e.g., a car).

Redraw facility: The component of your variable rate loan into which you can make extra repayments when you can afford to, and later draw on these funds if you need to.

Refinance: To pay off a mortgage and arrange for a new mortgage, sometimes with a different lender.

Reserve price: Specified minimum price acceptable to a seller at auction.

S

Searches: Examinations or research tasks usually carried out by solicitors on the purchaser's and lender's behalf to confirm information about the property or the purchaser prior to settlement.

Security: Documentation held by the lender (or mortgagee) regarding property supporting the loan.

Settlement: The date on which loans funds are advanced to you or your legal representative.

Solicitor mortgages: Mortgages offered through solicitors' firms.

Split loan: A combination of loan types forming one loan, such as a partial fixed/variable interest rate loan.

Stamp duty: This is a State Government tax assessed on the selling price of the property. Each state has different rules and calculations.

Strata title: A form of ownership devised for multi-level apartment blocks and subdivisions with shared areas. Individuals each own a small portion (such as a unit or townhouse) but common property (external walls, windows, roof, driveways, foyers, fences, lawns and gardens) are owned by all owners share.

Survey: A plan that shows the boundaries of a block of land and the positioning of any building/s on that land.

T

Tenants in common: The equal or unequal holding of property by two or more persons. If one party dies, their share passes according to their Will or the law (not necessarily to the owner of the other share). Compare this to Joint Tenants where the property will pass to the surviving party automatically, not via the Will.

Term: The length of time of the loan, generally in years. E.g., 30 years.

Title deed: A legal deed or document constituting evidence of a right to ownership of a property.

Title fees: Fees payable to the State's Titles Office for title search, transfer or property ownership, registration of the new mortgage and discharge of the old one.

Transfer: A document confirming the change of ownership of a property, registered with the Titles Office.

U

Unencumbered: A property free of liabilities, encumbrances or restrictions.

V

Valuation: The value of a property as per a professional appraisal and report.

Variable rate: A rate that will fluctuate up or down depending on market interest rates.

Variation: A change to the loan contract, including; interest rate, loan amount, loan term or currency.

Z

Zoning: Statutory descriptions of the allowable uses of land as set out by local councils or planning authorities.

Your mortgage is a crucial stepping stone toward the Australian Dream. Yet many smart homeowners and property investors needlessly overpay on their finance – often by tens of thousands of dollars.

In this new book, finance expert Johnathon Reeves shares his best insights on the good, the bad, and the ugly side of finance.

Inside you'll find dozens of simple, yet powerful tips and strategies to buy your next home or investment property and grow your wealth faster.

It's no exaggeration to say that you could spend months researching and not scratch the surface of what Johnathon reveals in ***The Great Australian Mortgage Guide.***

Johnathon is the owner of three successful finance companies: ***Time Home Loans, Healthy Loans, and Cliff & Moss Finance Brokers.***

He would be happy to help with any questions you might have. You can reach him at:
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ISBN 978-0-646-84100-7