Property Investment:

Your expert guide to structuring loans for wealth and success

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Have you already purchased a home and are whittling down the mortgage? Or perhaps you're on the brink of entering the property market and are weighing up your home loan options.

Whether you've already invested in property or are simply preparing to take that leap, it's important to structure your home loan correctly from the start. Selecting the wrong loan or managing it incorrectly is a common trap that can cost you money and flexibility.

At Nexus Money, we can provide the guidance, expertise and loan structure to give you freedom and peace of mind when purchasing your next property.

Here are four of our key principles to structure your loans successfully, so you can save money and build wealth!

01 Which loan is in your best interest?

These days, there are multiple loans and finance options to choose from for your mortgage. Everybody's financial situation can obviously differ and there's no 'one-size-fits-all' loan. However, we generally recommend Interest Only repayments as your first consideration wherever possible.

1. What is an interest only loan?

As the very name suggests, an Interest Only (IO) loan is a repayment system whereby borrowers are only initially required to pay back the interest on their loan. Minimum IO repayments may also include some bank fees. However, IO repayments don't include the principal component of a loan.

An IO loan is typically established for a fixed period before it reverts to a full Principal and Interest (P&I) loan for the remaining term. The length of the IO period is negotiated when your loan is established.

2. Benefits of an Interest Only loan

IO loans have been historically popular with investors for a number of reasons that also extend to general home owners:

- ***Smaller repayments***. Instead of paying off a full Principal and Interest loan each month, an IO structure means that you are only required to pay the interest. This discrepancy means that you can free up your cash for other investments.
- ***More affordable for first mortgages.*** First home owners may find IO repayments more manageable than a full P&I loan.
- ***Tax concessions.*** If you have have an IO loan for an investment property, your repayments may actually be tax deductible.
- ***Affordable rental strategy.*** Paying off an IO vs P&I loan whilst renting out an investment property means that your rental income will cover more of your repayments.
- ***Good for renovators.*** If you're only planning to own a house for a couple of years and increase its value quickly via renovations, an IO loan will free up more of your budget for the home improvements!

3. What if I've paid off my owner occupied debt or home loan?

Some people may have completely paid off their home loan before considering their next investment property. In this instance, we would recommend paying P&I on your investment loan to start smashing debt down. This will accumulate equity more quickly, allowing you to purchase another investment property in less time!

Preventing Property Cross Security

To keep investment options open and retain your full financial freedom, it's important to avoid the pitfall of property cross security.

1. What is property cross security?

Property cross security is a bit like a bank's insurance policy on your debt. Essentially, the bank aggregates all of your assets to secure the full sum of your loans. Let us explain with an example:

Imagine that you currently live in a home worth $450,000. However, you've been diligently paying off your mortgage while your house has been growing in value. The great news is that you've got $280,000 of usable equity at your disposal.

You find an investment property that you would like to purchase for $550,000. However, you have little cash savings and the bank won't loan $550K against a house that's worth this same amount. Happily, you remember the equity you've accrued in your home and use this to secure your new loan of $550,000.

It's not until later, when you're searching through the fine print that you notice two addresses in the $550,000 loan documents. What does this mean?

Essentially, this means that that the bank has used your owner-occupied AND investment properties to secure the loan for the investment house. In other words, the financial fate of both houses are now intertwined. In the worst case scenario, if you are unable to meet repayments on one property, the bank may repossess both houses.

2. Why is property cross security not advisable?

Ideally, you don't want your investment property to be tied up with your personal affairs. What happens if you want to reduce your hours at work to semi-retire or help out with family? If you wish to sell your investment property to make life more affordable, this may compromise your initial investment as the two have been tied together... You'd have to refinance both properties.

So what's the solution?

3. Opt for stand alone security

The alternative to cross-secured property loans is to select a 'stand alone' security option.

In practical terms, this means that each loan is secured by one property respectively. Therefore, control and flexibility of each loan rests with one property decision, rather than being tied up with multiple investments. The advantages this offers are substantial:

- You're in the driver's seat of your financial affairs! No need to defer to the banks for permission or refinancing if you want to sell one property.
- Each loan and investment is separated. While this may mean more repayments, this actually offers you greater autonomy and control. You can sell any property at any time, without needing to drag your entire loan portfolio into question.
- Saves stress, time and money down the track. Untangling the 'cross-collateral' on your properties can be hard. Therefore, setting up the loan correctly from the start will save you money, stress and a paperwork nightmare in future.

03 Accessing Equity To Purchase Another Property

Equity is a marvellous tool to leverage wealth creation. Used wisely, it can be used to facilitate further property investments, ultimately setting you up for a long and prosperous retirement. .

1. What is equity?

In simple terms, equity is the monetary difference between what your home is worth and what you owe the banks. For example, if your home is worth $580,000 and you have $300,000 remaining on your mortgage, the equity in your home amounts to $280,000.

Generally, the banks will release up to 80% of your equity to put towards another loan without having to pay any lenders mortgage insurance. This is referred to as 'usable equity'.

2. Strategies for building equity

There are several options to improve the equity in your home. Firstly, it's best to choose your home purchases wisely; investigate the property market and seek expert opinion to ascertain whether your desired home-to-be is likely to experience good capital growth.

What is capital growth? Capital growth is the natural increase in the value of your home. Historically, the property market has a very good track record with this. However, there are natural ebbs and flows in this growth. During times of poor or negative growth, there are other options to increase the equity in your home.

Pay your loan off faster. Opting to pay more than your minimum required mortgage repayments will also help to increase the equity in your home. Capital growth is only one side of the equity equation; what you owe the banks is the other. Therefore, reducing your mortgage debt will also increase equity.

Renovate your property. Adding a few home improvements, sprucing up the backyard or installing superior in-home features will also improve the value of your home. This raises the discrepancy between your home value and mortgage balance, thus boosting equity.

3. How to access equity to purchase an investment property

As we've established, the value of your home naturally increases with capital growth. Provided you steadily meet your mortgage repayments, the equity in your property will go up in time.

So if you've invested in a solid location and have been paying your mortgage off for a few years, chances are that you've amassed some equity. You may be wondering how to access this equity to purchase another investment property....What's the next step?

First of all, speak with a good mortgage broker who can secure the best investment loan for you. Around this time, your prospective lender will also send a valuer to your property to determine the market value of your home. This will inform the banks of how much equity you have to utilise towards your next loan.

If they are comfortable with your property and financial records, the banks will typically release up to 80% of this equity to put towards a deposit on your next loan. Your broker will work with you to determine the best loan and structure to suit your budget and usable equity. Then the fun begins...You get to go house hunting!

Managing multiple loans: How to master your finances

Property investment can come with a mixed bag of emotions. On one hand, it's incredibly exciting to build wealth and establish security for retirement. On the other hand, managing multiple loans and accruing more debt can be a little overwhelming.

A good broker can take the stress and strain away, giving you full confidence that you've made the right decision and are in control of your financial future.

Meet regularly with your broker to make sure you have the following requirements in place:

1 ***Do you have the right structure?*** Ensuring that your loans are structured correctly will save time, money and stress. Even if your structure suited you when the loan was first established, it may not be the optimal option any longer. Your broker can check over this with you.

2 ***Are you with the right lender?*** A quick google search of 'home loans' will reveal just how many products, packages and lenders are available on the market. Unless you have a lot of free time and financial expertise, it is very difficult to research and compare lenders. That's why the brokerage profession exists - it's our full-time passion to know this for you.

3 ***Is your interest rate right on the money?*** Perhaps you're happy with your lender and loan structure. But are you paying the least amount of interest as possible? This can save you tens of thousands of dollars and is well worth checking.

At Nexus, our Lending and Brokerage consultants have the expertise, experience and tools to find the best loan for you.

So if you want trustworthy expert advise to start your property investment plan, contact us today!

Simply phone our friendly team on (07) 3146 5732 or email updates@nexuslending.com.au

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