

ULTIMATE REAL ESTATE SUCCESS **LIVE & VIRTUAL** **BOOTCAMP**

WORKBOOK - BRISBANE MARCH 2021



SESSION TWO

**Secrets To Getting
Finance Ready And How
To Leverage Smart Debt
For The Boom Ahead!**



Managing your Credit File

- Alerts
 - Check your file at www.mycreditfile.com.au
 - or get your Finance Strategist to run your report for you
- Understand what the lenders can see and work on strengthening your weaknesses





Understanding the financier's assessment process

Collateral

- How much Equity / Cash do you have to start with?
- What is your asset/liability position
- Do you need higher LVR's if equity is low?





Lenders Mortgage Insurance (LMI) can be the solution for low collateral!

- What does it cover?
 - When do you pay LMI?
 - How much does it cost?
 - Can it be transferrable if you refinance?
- * When in LMI Territory – P & I will be expected





If you have Little or No Equity

- Ways to strengthen a weakness (chunk deals, joint venture's, savings plans, vendor finance, etc.)
- List JV potential partners
- Search for seller finance or seller JV deals
- Family gifts/loans or family security guarantee (Bank of Mum and Dad)



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Understand the financier's assessment process

Capacity (Serviceability)

- How much borrowing does your income buy you?
- How do we increase our capacity?
(JV's, positive cash flow properties, increase your PAYG income – even if short term)
- Reduce other commitments
(existing mortgages, personal loans, credit cards etc)

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Borrowing Capacity

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Sample Scenario: **Income of a couple \$80,000 and \$40,000**
Borrowing range from \$790,000 to \$870,000

Add a:

- \$20k credit card - borrow \$670,000 – \$740,000
- \$50k credit card - borrow \$480,000 – \$530,000
- 1 kid (no credit cards) - borrow \$740,000 – \$815,000
- 2 kids - borrow \$690,000 – \$765,000
- 3 kids - borrow \$640,000 – \$720,000

Summary:

- Each \$10k of credit card costs you approx \$60k in max borrowings
- Each child costs you approx. \$50k in max borrowings

* Calculated on P&I borrowing over 30yr term, living expenses and other terms will vary the outcomes.

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Bank Rental Shadowing

- 80% on residential rental income (Capped at maximum yield of 6%)
- 50% on high density rent income (more than 3 stories)
- 60% on commercial rental income
- 50% on serviced apartments rental income



The above is just one bank's policy!

*Most lenders don't like a reliance on Rental Income





Debt to Income Ratio?

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**Debt to
Income Ratio
Formula**



$$\text{Recurring Monthly Debt} / \text{Gross Monthly Income}$$





Living Expenses

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- Changes to Household Expenditure Measure (HEM)
- Core/Mandatory versus Discretionary expenses
- Discretionary and once off expenses can be discounted
- Lenders will use the higher of the applicants stated living expense, or their HEM policy
- Consider having a dedicated Living Expense Bank Account

*Banks requirements to verify a customers living expenses are expected to ease with proposed future changes to responsible lending laws





Get Market & Finance Ready

- Finance Strategy Review
- Get Finance Fit
- Release available equity
- Diversify your lending
- Reduce your fixed commitments where possible
- Do tax returns and set-up structures
- Review Personal Insurances
- Know what your next move is – do a 2 year plan



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Finance Strategies

- Don't Cross-Securitize
- Split Facilities and Loan Structure
- Transactional Banking Structure
- Create Buffers (Personal/Investment)
- Efficient Money Management
- Tax Deductibility (re-purpose private debt)
- Creating your own Merchant Bank



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Strategies to pay off your home loan fast

- There is no better strategy than “Manufactured Growth” and paying off your home loan with the profit.
- Second to that is positive cashflow.
- It also involves good money management & budgeting

You must have a clear, concise, written plan and stick to it.

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Uncross-Securitize

If you have Equity

- Access available equity
- Get Split Facilities in place
- Diversify your lending exposure
- Separate your PPR
- Untangle cross-securitised Properties



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Types of Loans and when they should be used!

- Principal and Interest
- Interest only
- Line of Credit
- Redraw Facility
- Offset Account
- Fixed vs Variable

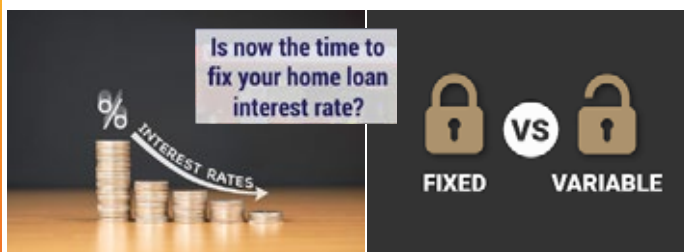


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Fixed vs Variable Interest Rates



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Get the structure right

- Get advice on what the best structure is for you, depending on personal circumstances and what you are looking to achieve
- Understand how the banks look at the people involved in the structure
- Be mindful of the structures name



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If doing JV's

- Formalise Joint Venture agreement
- Create JV structure
- Consider the financing process of JV's
- Speak with your Finance Strategist



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Let's Talk Self Employed

- How long do you need to be Self Employed?
- What evidence of income is needed?

What about Low Doc?

- What is Low Doc Lending?
- What is Lease Doc?



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How to Handle Valuers

- Prepare for the Valuers
- Keep your property in good shape, deals are going down due to bad valuations, make it like it's for sale...
- How should you handle/assist a Valuer?





How do you finance:

- A small subdivision
- A large subdivision





How do you finance:

Strata a block of units or warehouses

A renovation





How do you finance:

A Rooming House



A Commercial Building



A Boarding House



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How do you finance:

A House Build



A Duplex Build



A Triplex Build



A large block of Units/Townhouses Build



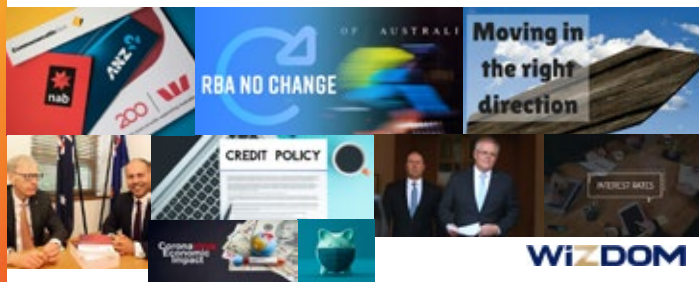
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Banking Trends

Where are we at and where are we heading?



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Finance and Strategy Review

1. Are the properties you currently own helping you achieve your goals?
2. Are you "Finance Fit"?
3. Do you need to restructure current finance facilities?
4. What property strategy do you need next?
5. Do you know your finance capacity?
6. Are you "market ready"?





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WIZDOM Loans

Email – loans@wizdom.com.au

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Our team are specialists in strategic investment lending.

We can help with:

- Finance Strategy and Support • Home Loans/Refinances
- Investment/SMSF Lending • Development/Commercial Finance
- Complex Loan Structuring and Advice