

ULTIMATE

REAL ESTATE SUCCESS
COACHING PROGRAM

SESSION THREE

Finance





SESSION THREE

FINANCE

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Clint Ducat is an Authorised Credit Representative (CRN 394987) of WIZDOM Loans Pty Ltd (Australian Credit Licence No: 501060)

We can help with:

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

Understand the financiers assessment process

The three C's of Credit


- 1) Character
- 2) Collateral
- 3) Capacity

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Understand the financiers assessment process

Character

- Credit reference checks
- Credit card statements
- Existing loan statements
- Rates notices
- Rectifying past mistakes
- Not every financier is the same



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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



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Understanding the financiers 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?



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

With LMI you can lend up to a maximum of:

- 95% for Owner Occupied
- 90% for Investment

* When in LMI Territory – P & I will be expected




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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 financiers assessment process

Capacity

- 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

Sample Scenario: **Income of a couple \$80,000 and \$40,000**
 Borrowing range from \$668,000 to \$900,000

Add a:

- \$20k credit card - borrow \$587,000 – \$825,000
- \$50k credit card - borrow \$466,000 – \$685,000
- 1 kid (no credit cards) - borrow \$655,000 – \$830,000
- 2 kids - borrow \$584,000 – \$780,000
- 3 kids - borrow \$531,000 – \$700,000

Summary:

- Each \$10k of credit card costs you approx \$40k in max borrowings
- Each child costs you approx. \$60k in max borrowings

* Calculated on borrowing over 30yr term and other terms will vary the outcomes.


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Bank Rental Shadowing

- 80% on residential rental income
- 50% on high density rent income (more than 3 stories)
- 66% 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



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Changes to Investment Lending

- Reduced LVR's for investment
- Differential in pricing
- Preference toward Principle and Interest
- Sophisticated Investors
- Changes to Serviceability Criteria
- Tightening of Foreign Lending




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Get Market & Finance Ready

- Finance Strategy Review
- Release available equity
- Rectify weaknesses
- Do tax returns
- Set up structures
- Get personal insurances in place
- 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
- Create Buffers (Personal/Investment)
- Efficient Money Management
- Tax Deductibility
- Creating your own Merchant Bank




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Types of Loans and when they should be used!

- Principle and Interest
- Interest only
- Line of Credit
- Redraw Facility
- Offset Account
- Variable or Fixed



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Interest Only v's Principle/Interest

1. \$400k Investment Loan
2. 80% Loan to Value Ratio
3. Currently on Interest Only at 5.46% with Major Bank
4. We were able to refinance them to a 2yr fixed Principle/Interest loan Investment Loan at 3.88%

Interest Only v's Principle/Interest

Lender	Principal	Interest	Monthly Repayment	Total	Difference
Package Standard LVR=80%, Investment, Interest Only	\$0	\$43,680	\$1,820	\$44,270	\$0.00
Fixed 2 year Investment Loan LVR=80%	\$15,270	\$31,040	\$1,948	\$46,310	\$2,040 \$85/mth

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Uncross-Securitize

If you have Equity

- Access available equity
- Diversify your lending exposure
- Separate your PPR
- Untangle cross-securitized Properties




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The right structure

- Get advice on what the best structure is for you, depending on 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



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Lets 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?



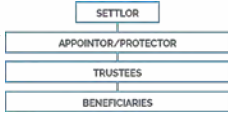
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Is it more difficult to borrow in a trust?

- Not if you are dealing with an Finance Strategist (can even potentially be easier)
- Be selective with company/trust names
 - don't big note yourself
- Timing may be a little longer
- Timing definitely longer for Superannuation Funds




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Finance Strategies

- How good is a Pre- Approval?
- Is a Pre Approval more important in some states than others?
- Worthwhile if considering Auction or purchasing in SMSF




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Things to Remember

- 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?



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Is there really post code prejudice!

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How do you finance:

- a subdivision small and large
- a strata deal
- a renovation
- a house removal
- a spec home
- a development small and large
- a commercial deal



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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. Do you need to restructure current finance facilities?
3. What property strategy do you need next?
4. Do you know your finance capacity?
5. Are you "market ready"?



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Email – loans@wizdom.com.au

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