Finance

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When investing, possibly the strongest tool you have (alongside compounding interest) is the ability to leverage (borrow) into investments.

When applying for finance, it is your responsibility to understand factors that the bank will consider to ensure you portray yourself in the best light possible. Working with a professional in the industry who understands how the banks lend money and what criteria they use will give you an inside scoop and assist greatly in showing the bank that you are a safe, low risk investment for them.

When applying for loans it is also important to remember that every loan application goes on record weather it be a personal, credit card, home, investment loan or what have you everything is documented. This further displays the importance of ensure you are presented in the best light. Secondly difference banks have different criterias and tolerance to risk. Below i will list some common questions investors face and talk about each of them.

WHAT IS LMI?

SHOULD I WORRY ABOUT PAYING LMI?

LMI known as lenders mortgage insurance is something which the bank takes out as protection against you the borrower should you default on your loan. LMI actually protects the bank and not the borrower.

If your loan to value ratio is under over 80% the bank will require this protection, this is a fee which is passed onto you the borrower. When deciding if it is worth paying you have to weigh up the opportunity cost of the investment. Through a short term sacrifice and paying LMI this will allow you to take control of an asset much earlier than you otherwise could.

Well chosen investment doubles every 7-10 years and i have seen people time and time again spend a further 1-2 years saving larger deposit to avoid LMI (3-10k) only to realise they have forfeited investment growth were they would have been 100k+ gains in the same period.

LMI is a cost of doing business and if it means getting into the market earlier, statistics tell us it is well worth the hit in order to gain earlier access to the market and utilize growth.

SHOULD I CANCEL MY CREDIT CARD PRIOR TO APPLYING FOR A LOAN?

As a rule of thumb the banks will generally times your credit card limits by 3 and then take that off your borrowing capacity. Credit cards can be very useful tool and they can also be an extremely dangerous one as well if they are not managed correctly. If you are undisciplined and lack self control then get out!! credit cards are not for you.

However if you are someone who is focused and has a strong self control then if used effectively credit cards can be a helpful tool when managing multiple investments.

WHAT IS CROSS-SECURING AND SHOULD IT BE AVOIDED?

When building a portfolio it is essential that your loan structures are set up in the best possible way. A broker's responsibility is to present you to the bank in the best possible light in order to obtain loan approval. A broker will compare interest rates and address your options in the market. In order to ensure your loans are structured in the best possible way it is important to work with someone who has built a portfolio and understands how to structure your loans in the best possible way.

Chances are your local bank manager or broker does not have a multiple investment portfolio. My number one piece of advice is never take advice from someone who hasn't done it themselves. To often i see people take advice from there hairdresser or uncle who may or may not own a property or two in his 30+ years of life. Point is everyone will always find a reason why not to do something the idea is to do your own independent research and work with professionals who you trust to make an educated decision ignoring outside influence.

On the topic of cross-securitising a loan this is something which the banks will always push as it gives them more power and control. No matter what they say avoid it at all costs! For people trying to build a portfolio it can severely limit you for future lending.

The bank has control through cross-securitizing - should for whatever reason you be unable to pay your loan or the bank wants to recall your loan in they have claim to both properties (although unlikely this is a risk that is not worth taking) Cross Securing can also give you problems drawing out equity through lines from credit. The banks put buffers in place when drawing valuations especially with multiple properties this is hightended which means your borrowing capacity is significantly reduced.

IS LOAN CONSOLIDATION A GOOD IDEA?

Loan consolidation is a good idea however it must be done correctly. A number of areas must be addressed to ensure this is setup properly and you make the right decision.

First we must address with a professional how this will hinder your borrowing capacity and risk profile toward the back. Secondly and most obvious we want to ensure the interest rate is significantly lower taking into account any transfer, hidden or ongoing fees.

Finally we want to make sure that the loan period is not increased. To often i see people who have 12 months left on a personal loan at 10.99% refinance to an interest rate of 5% only to lock themselves in for a further 20 years which in the long run end up costing you a lot more. The key is smart and relevant consolidation.

There are many ways this can be restructured with the help of a professional to ensure you receive the best of both worlds it all comes down to understanding finance structures. You also want to address how the consolidation will affect your future borrowing capacity.

IS IT ENOUGH JUST TO WORK WITH A BROKER?

are excellent in setting you up with finance and presenting you in the best light possible and are essential to the investment process. In saying lending without the guidance of someone who has built a considerable portfolio means that you may not be setting yourself up in the best way possible especially if you hope to duplicate and build a portfolio.

To many people work with a bank or broker souley these are the types of people that only make it to around 3-4 properties at most because there finances have not been set up in a strategic way. The top investors will have teams around them who are an expert in there field, rookie investors try to do everything themselves to save a few bucks but soon become limited in their options.

A team should consist of real estate agents, brokers, advisors (if they have an impressive portfolio themselves), property managers, conveyancers. You should be building relationships with these people and as you progress in your journey this people will be of great benefit in making sure your investment ship runs smoothly.

Report

WHAT IS GOOD DEBT AND BAD DEBT?

Good debt is essentially debt which appreciates in value and ideally provides you with a stable income to offset any outgoing payable. When you you your money it is important to remember this key difference and only invest in appreciating assets which provide you with some sort of income.

The income received is important however what will really allow you to build wealth is the growth aspect. Hopefully this table helps, where are you currently spending your hard earned dollars? Are your spending habits maximising your ability to achieve your goals?

Good Debt (income producing)	Bad Debt (income burden)
Shares	Home loan (non tax deductible)
investment Property (tax deductible)	Car loan
Bonds	Credit card (if not managed properly)
	Personal loans