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Savvy investors are ahead in the lending game

Top tips for clever property investors

Signaling the return of competition to the mortgage market - albeit a slow return - a number of second and third-tier lenders are working hard for market share. Potential property investors looking to take advantage of higher rental yields and relaxed buyer competition should take note that a number of these lenders are introducing special offers for limited periods.

Australia's largest independently-owned mortgage broker, Mortgage Choice says that while tighter lending criteria is making it more difficult for potential buyers to borrow, there are opportunities for those who are well prepared and keen to shop around for a suitable loan deal.

Mortgage Choice senior corporate affairs manager Kristy Sheppard said, "It's not just first homebuyers who are potentially missing out on purchasing property thanks to stricter lending criteria. Investors looking to take advantage of positive market conditions by expanding their portfolio and those looking to invest for the first time are also being confronted."

"A number of smaller lenders are now introducing special offers that all borrowers, including investors, can take advantage of. Reputable mortgage brokers will show borrowers how they can meet tighter requirements and assist them in identifying loans that can enable them to make the most of an investment strategy.

"Expanding a property portfolio should be easier with the right guidance around mortgage choice. If researched properly, with the understanding that it is usually best as a long term strategy, property investment can do wonders to increase someone's financial worth.

"Savvy investors looking to get in the market now or spend less time positioning themselves further down their investment path are already investigating all their loan options, including loans offered by second and third-tier lenders. These investors are utilising all the tips available to take advantage of the tax benefits and financial gains offered by property investment.

So what are the top tips? Mortgage Choice provides the following five tips to property investors:

Use the equity from another property

Tapping into your home's equity, or equity from another property investment, can be a great launching platform for buying an investment property. According to Mortgage Choice's latest investor survey, 60% of those looking to buy an investment property before mid 2011 plan to access the equity in their home in order to fund all or part of their investment property purchase. How does this work? Say your home is valued at \$700,000 and you owe \$350,000 on your mortgage, you can use the \$350,000 equity in your home to pay for up to 100% of the new property, or if it is more expensive you may be able to borrow more with some lenders.

Pick a loan tailored to your investment strategy

Meeting lending criteria is only half the challenge; another big one is choosing a loan. Think carefully about interest only vs. principal and interest options. Although interest only loans will not reduce the loan amount, they do result in smaller monthly repayments and allow you to make greater contributions to your principal place of residence or to invest in another asset, all the while allowing the investment property to grow in value through capital gains.

Consult a buyers agent/property finder

Seek professional advice about what type of property will maximise your investment. Most investors want property to secure them (as an average over the entire loan term) an annual return

on investment that is higher than the costs eg. if net rent is 3% and the interest rate is 7% then it only needs to grow in value at more than 4% to be profitable. Experienced buyers agents know the market better than most and are a valuable resource for advice and for negotiating with property sellers and/or their agents.

Positive vs. negative gearing

Expenses you incur on an investment property are tax deductible. If your loan repayments, fees and other property-related costs exceed your rental income, the net loss can be offset against other income you derive, reducing the amount of tax payable on that income. This is called negative gearing. Or, you may consider positive gearing, where the annual rental income received from the property covers or is higher than the repayments and costs.

Consider all the costs

It is crucial to create a detailed budget outlining your outgoings and earnings. Property investment usually incurs unexpected expenses and it is easy to go over budget on improvements and repairs. Don't fall into the trap of relying on your property's income to cover additional costs such as new hot water systems or interest rate rises. Also think about capital gains tax you will have to pay if you decide to sell the property. Be sure to consult your taxation advisor.

Call the customer service centre on 13 MORTGAGE, visit www.mortgagechoice.com.au or www.facebook.com/MortgageChoice or <http://twitter.com/MortgageChoice>.

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About Mortgage Choice

Mortgage Choice, Australia's largest independently-owned mortgage broker, has a national network of hundreds of franchises and loan consultants supported by Group and State Offices. It provides loan advice on, and choice of, products offered by an extensive panel of Australia's leading lending institutions.

A number of the company's consultants provide a broader service offering, also helping customers source personal and commercial loans, asset finance and risk insurance.

Importantly, Mortgage Choice head office pays franchisees the same commission rate for home loans they write, regardless of the rate paid by the lender selected by a new customer - and has been doing so for most of its 17-year history. The company has no products of its own and works in each customer's interests to source a loan that suits their individual needs.

Mortgage Choice has no balance sheet or funding risk, and consistently delivers strong profits and attractive yields. The company listed on the Australian Stock Exchange in August 2004 (ASX sign: MOC) and is a member of the Mortgage & Finance Association of Australia (MFAA).

Recent awards/recognition: 2009, 2008, 2006 and 2005 MFAA Awards *Retail Aggregator/Originator of the Year*; 2009 and 2008 BRW *Fast Franchises* list; No.1 spot on *Top 25 Brokerages* list by Mortgage Business magazine; 2009 Australian Banking & Finance Awards *Best Financial Institution Employer*; 2009 Great Place to Work® Institute *Best Companies to Work For* list; 2009 and 2008 10 Thousand Feet *Top 10 Franchise* list; 2008 MFAA Awards *Best In Mortgage & Finance Industry*.

Visit www.mortgagechoice.com.au or call the customer service centre on 13 MORTGAGE.