THE PROPERTY & FINANCE MINEFIELD

How To Avoid Property Heartaches And Financial Hangovers

The moment we met Steve I knew he was there purely to help us. Trustworthy and friendly. Steve wasted no time helping us find a better home loan that would work for us. We are very happy with the outcome and are now going to save over $50,000 during the course of our loan.

Penny and Stuart

As a first home buyer, Steve provided exceptional service and guidance throughout the process of buying a home. He was very patient and understanding and made the whole process a lot less scary. Steve was never too busy for us and very flexible meeting outside of working hours, wherever we wanted to meet. We highly recommend his services and look forward to working with him in the future.

Matt and Cassandra

Steve is a magician. He has helped to transform a house-shaped debt into an investment property that pays for itself. I didn't think it was possible. Though unlike most magicians his powers are not mystifying but based on a common sense understanding of what is possible.

Jason L

As an artist with a variable income and a highly irregular set of financial circumstances, and absolutely no experience in the world of loans and banks, Steve was a font of wisdom, generous and patient, and really able to "hold my hand" through all of these unchartered waters. The language Steve used was my language - not financial or bank jargon or terminology: however, if something needed translation, Steve helped me understand.

Penelope B

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How To Avoid Property Heartaches And Financial Hangovers

Steve Morrison

THE LOAN OPERATOR
PROPERTY FINANCE FOR CREATIVE PROFESSIONALS

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Disclaimer

Are you paying too much or missing valuable investment opportunities?

When was your last finance review?

Ask yourself: Could I be saving thousands of dollars? Could I be investing to grow my wealth for the future?

- Are you paying a competitive interest rate?
- Does your bank inform you of their latest products?
- Does your current lender keep in contact with you to ensure that your loan is working for you?
- Can you get access to extra funds when you need to?
- Does your mortgage provide the opportunity for flexibility, allowing you to build wealth and manage your investment portfolio?

If you answered "No" to any of these questions, then you must get a finance review as soon as possible.

In a nutshell, we believe our role as your Mortgage Advisor is to 'shop' our panel of lenders to find the best mortgage package available that meets your individual needs and circumstances. Best of all for you, this service is in most cases free, as the lender or bank normally pays our fee.

To arrange a Free Finance Review and uncover hidden savings and investment opportunities, contact Steve Morrison today:

On earnings:
Never depend on single income.
Make investments to create a second source.

On spending:
If you buy things you do not need,
soon you will have to sell things you need.

On savings:
Do not save what is left after spending,
but spend what is left after saving.

On taking risks:
Never test the depth of river with both feet.

On investment:
Do not put all eggs in one basket.

On expectation:
Honesty is very expensive gift;
Do not expect it from cheap people.

Warren Buffett

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About the author

Steve Morrison is a problem solver who loves to help people achieve their financial goals, using his own expertise along with a network of key professional connections – a complete expert team all working for your best interests. As an active property owner and investor for over two decades, Steve also practices what he preaches.

Steve prides himself on his ethical approach to finance, ensuring all his readers and clients make confident finance and property decisions in their own time. He is an extremely thorough, diligent, and prompt expert you can rely on.

Steve is a licenced credit adviser, mortgage broker and founder of The Loan Operator, serving clients around Melbourne and throughout Australia since 2010. With a Bachelor of Arts from Monash University, Certificate IV in Small Business from RMIT, Certificate IV and Diploma in Mortgage Broking – Steve has the background and skills to get you the finance and property result you want.

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To Prahran Mission and Who Gives a Crap. My support will be ongoing, so keep up the good work you do for those less fortunate than us.

To YOU, our existing and new clients, for trusting us with your financial lives. The relationships we've forged and your financial success will always be our first priority. We are here to serve you.

My story

Let me say straight up, I have always had a passion and fascination with property and finance. I have been involved in the property market since 1993 with the purchase of my family home. In 2003-2004, my wife and I began discussing the need to invest in property because we began to look at our future and could see that the property market would be a very good vehicle for growing wealth. At that time, I was running my own business, a music shop and let's just say, I wasn't really thinking toward the future or contributing much to superannuation. Well I'll be honest; I wasn't contributing anything, so the realisation came strongly that I needed to do something to facilitate financial security for my family's future.

One day, while I was working in the shop, a customer came in who happened to be a property buyer's advocate. We had a good conversation regarding finances and property investment and he bluntly told me to stop wasting my time and make the jump into the property market then and there. It was at a time when the property market was just beginning to take off around 2004, when you could buy a property one year, and the following year its value would have increased by $50,000 to $100,000; property values were going through the roof, and people were buying. I was in!

My wife and I decided that we wanted to get involved and proceeded with little preparation relying totally on the knowledge and trust of others. We quickly accumulated three properties, doing it mostly using low-doc loans, and the value of our properties began to increase.

I attended a property seminar in the mid 2000's where they were suggesting how easy it was to purchase property especially for investment. They suggested that as property prices increased on already owned property, you could simply have your property revalued, release the equity and then buy another property, simple. It seemed an easy dream to sell. However, what was omitted from the spin was how to afford it. You see, when you go back to your lender of choice with a proposal to purchase another property, you have to prove that you can afford to repay both the loan for the equity release and the new loan for the next property purchase, plus you need to meet all of your other loan commitments and other daily costs of living. What I'm saying is there is a lot more to it than just releasing the equity and buying a property– this approach is a very simplistic one indeed.

An astute mortgage broker can help structure your finances and deal with particular lenders that will maximise your borrowing capacity.

From my own experience of buying properties during boom times, I've also learned that you need to have a solid strategy for holding on to properties as well. After buying my first few properties, I jumped very quickly and very blindly into investing in what was called a 'platinum property project,' which in essence was a major development of a block of flats in inner Melbourne. Here we were, a couple who'd never really been too heavily involved in the property investing market, and all of a sudden, we found ourselves knee deep in a development project, with no experience to back it up.

Hindsight has told me many things regarding this experience. We clearly did not do our homework or research. We needed to know and understand the many pros and cons of investing in such a development and we didn't.

We were hasty and ill informed, and the consequences of our decision to invest in this development would become for us a tiring and drawn out monetary and emotional drain.

We went in blind, and I don't want you to do the same.

The lessons I've learned

Think about this. When you apply for a job, you usually need to provide references for the employer to do a background check on you. Why then don't we apply the same logic and process when purchasing a property? My wife and I went in blind. We did no background checks whatsoever and took everything on face value. Why wouldn't we? The company we were dealing with had offices in a middle class suburb of Melbourne; the CEO was charming and affable. We trusted that the company knew its business; certainly, we believed they knew much more than ourselves. The fact is, it was all a veneer, and if we had employed due diligence from the outset, and researched the company thoroughly, we would've avoided what was to become.

One of my key pieces of advice is to surround yourself with a team of experts; those that you can trust.

Think of yourself as the manager, with a team working for you; you need to research this team. Seek referrals; contact other people who the person/company has had past dealings with. Do your homework. Don't rely on one company for this.

In my team I prefer to include people from many different employment and personal backgrounds who aren't necessarily aligned to each other in any way. I choose them because they are good at what they do and they are impartial. In doing so, I receive unbiased opinions and suggestions that make my decision making process around property purchasing far easier.

When you walk into a company office, and someone says to you, "Don't worry, we'll take care of everything for you. We'll do the conveyance, we'll do the finance and we'll source the property." Because it's a one-stop shop, think very carefully about your next move. A scenario like this makes the company vulnerable to conflicts of interest, and a lack of transparency. A company or business set up in this manner runs a severe risk of not acting in the best interests of you, the client, but in the best interests of itself.

We didn't think about our next move, we stepped straight in.

The consequences of our naivety, of not doing our homework or exercising due diligence is that we eventually had to sell our remaining properties to fund the losses against our 'platinum' investment, and in doing so we missed out on the potential profits we would've gained by keeping the two investment properties. The properties in question were star performers, but we had to offload them, it's as simple as that. If we had been able to hold them as investments for another ten years, we would have achieved the original goal we had set out to achieve, which was to provide for our retirement.

Our big mistake was that we relied on other people, on face value, on their perception of success, we believed in the dream and that the dream could be ours, trusting them because they gave the perception that they were very successful. They sold us the dream.

So, our foray into the property market was not a successful one and we paid for it, but guess what? I still love property. I love the right property, the right location, right specifications and the wealth that can be created from investing in it. More importantly, as an investor, I am a great deal wiser.

Let's begin.

Introduction

This book is for those who want to successfully purchase an owner-occupied or investment property. I hope that it will provide a clear understanding of the processes involved including the pitfalls to avoid.

The book is not aimed at the super savvy sophisticated investor with numerous investment properties, ideally, it's for people who are thinking of purchasing their first property, or maybe for those who already have an owner occupied property and are contemplating their first investment purchase.

I wrote this book because of the misinformation surrounding property investment that exists in the market place today. Many good, honest people are investing in property and in doing so, are falling into traps. They are being persuaded to buy properties that are not helping them achieve their goals. Many are persuaded to buy 'off the plan,' or are led to buy in not so viable areas, having been persuaded by enthusiastic sales people and brokers talking up the purchase for their own benefit, not the client's.

I have become very frustrated with watching a lot of good people be taken advantage of when buying a property. It's as simple as that. The abundance of incorrect information is what often stands in the way of people meeting their property buying goals.

After reading this book you will be far more knowledgeable of the property market and how to invest in it. You will be given the tools to make an informed and considered decision when it comes to reaching your property purchasing goals.

By following the steps outlined in this book, it is possible to avoid the very traps that I and many others have encountered on our personal property journeys. My inspiration for this book comes from my own story, as well as the stories of the clients I have worked with.

I have been quite lucky to be mentored by a very experienced broker. He passed onto me freely all that he had learned by being in the business. For his experience and willingness to share, I will be forever grateful. He taught me the good, the bad and the ugly. My mantra on this is to find yourself a trusted advisor that can help guide you in the same way.

Over time, I have developed a great network of people; good people that really understand the needs of their clients. That is what you need. You need someone on your side, someone that is genuinely interested in seeing you succeed.

In this book, I will introduce you to some of the key players in the game, the people whose information you can trust. I will outline their roles and provide you the necessary information to assist you in procuring the right professionals for you.

I will explain to you some of the jargon you will encounter along the way. For example: LVR, LMI, equity, fixed rates, interest only, offset accounts. What do they mean?

I will also show you how to make yourself a more attractive proposition to a lender, and discuss why some lenders are better than others when it comes to property investing. I'll also explain why you should employ professionals to help in the process of purchasing property.

Most importantly, I'll give you inside knowledge, confidence, and the awareness of the importance of surrounding yourself with a quality team who will help you make smart decisions.

I'll teach you ways to smell a rat and show you how to pick a property spruiker from a mile away.

I hope that by sharing this information, this book will become a valuable asset to you on your property acquisition journey. I believe that, whether you're purchasing an owner-occupied property or an investment property, if you follow these basic rules, you will be in a much better position than you would be if you were to just 'fly and buy,' just flying blindly and hoping for the best.

I ask that you take the purchasing process seriously. It will probably be one of the biggest investments you will ever make, so that in itself demands a thorough effort on your behalf to research and learn what is required in the process. The process may seem daunting initially but stay committed. As with anything of value you have to be prepared to invest time. If you do, the results will be enormous.

While the laws discussed here are predominantly Victoria based, many of the concepts are applicable Australia wide. Note that each state has differing policies regarding charges such as stamp-duty, first timer grants and so on. I suggest that you check with your local authorities. All other information in the book applies to all.

Tips for reading this book

This book is written in an easy-to-understand way. When reading, I hope you feel like I am having a personal conversation with you one-on-one.

Throughout the book you will see special call-out sections, designed to show you the most important take-away points as you go along. Here's how they work:

Key Point

This icon and style of call-out box represents the **Key Point** you need to know, so pay close attention to what you see in these boxes. This could be a big mistake to avoid, smart strategy to use, or important tip to help you.

Case Study

Boxes that look like this include **Case Studies** or **Examples** you can learn from. Often an idea or topic is best explained by working through and seeing how the numbers look. It's also a great way of showing you how a strategy or topic works in real life.

This icon and call-out is used to highlight important **Quotes** from the book, as well as sharing with you quotes and wisdom from other famous people.

Valuable Resource

When you see this icon and call-out, it's because I have a **Valuable Resource** to share with you. This could be a website to view; document, template or calculator to download; or contact information for you to get professional assistance. Not everything can fit inside this book – so keep an eye out for these extra resources to help.

Special Contribution

Sections like this are **Special Contributions** that have been written by leading professionals in my trusted network. Property and finance is a minefield with many different professionals required to help you navigate your journey – so I have pulled together experts in these areas, to ensure you receive a comprehensive guide to all aspects of buying a property, all in one easy-to-read book.

Before we begin

So we are clear right from the start, this book is a general educational guide only, and is definitely not a substitute for specific financial advice.

If anyone ever gives you advice without first understanding your full situation and goals, my advice is simple: Run!

Before taking any action on anything you learn in this book, or anywhere else for that matter, please seek professional advice from a licensed expert. That means getting your tax advice from an accountant, financial advice from a financial planner, credit and lending advice from a licensed finance broker, property advice from a real estate agent (or buyer's agent), and legal advice from a solicitor.

Accept no less than credible, authorized and specific expert advice at all times, and always make sure you are well informed before making any decisions.

Please retain this book in a convenient location so that you may refer to it in the future, and feel free to ask for additional copies as a means to introducing those you care about and feel will benefit from this information.

I hope you enjoy this book and learn important information to help you on your property investing journey and live the life of your dreams.

Here's to your future!

Steve

Steve Morrison
The Loan Operator

CHAPTER 1

The property purchase process

When buying property, your first step should be to go to either your finance broker or your bank to ascertain your borrowing capacity and get yourself pre-approved to "go shopping". That's the most crucial thing of all. It's not as easy as logging into to a bank site, punching in numbers, and being given an accurate calculation of how much you can borrow. There is much more to it than that, and you will need to sit down with your broker to determine what your buying capacity is.

The next step is to begin looking for a property. You can do that on your own, or you may decide to engage the services of a buyer's advocate to help you out.

Once you've found the property, the next step is to engage a conveyancer or a solicitor. Their primary role, at this stage, is to go through the Section 32, otherwise known as the Vendors Statement. They will help you determine if you should be concerned about anything regarding the property you're interested in. This is similar to a road-worthy that you get when buying a car, only this is for a house.

The next individuals you will probably come in contact with will be the real-estate agents who are selling the property; you will need to negotiate with them. It is important to always keep in mind that the real-estate agent is working for the vendor, not for you. I will go into further detail about this stage of the purchasing process later in the book.

Key Point

Recently, a client of mine was just about to purchase a property when I asked him, "Have you had the Section 32 checked?" His response was "No," so I insisted he get it checked out by his conveyancer. Low and behold, the property had been earmarked for future requisition, and a potential disaster was avoided.

Once you find a property you are interested in, I suggest you call in a Building Inspector to ensure that the house is structurally sound. While you're at it, you might also engage the services of a Pest Inspector to ensure the property is not riddled with any destructive pests such as termites.

Once you have successfully purchased the property, you must submit the contract and supporting documentation to the lender. What you hope for is that he/she will say the magic words to you: 'Formal approval.' This will mean the property is going to be yours – otherwise known as an 'unconditional approval'.

Your conveyancer or your solicitor comes into play again at this point; they will help you settle and take ownership of the property. They will make sure that your name ends up on title, not someone else's. Then, all that's left is to settle the property and pick up the keys.

Throughout this process, you will deal with a number of professionals; the bankers, brokers, real-estate agents, and solicitors or conveyancers. Some of these professionals will do multiple tasks on your behalf.

- Conveyancers and solicitors fulfil more than one role in the purchasing process.
- The buyer's advocate can source property for you, as well as negotiate on your behalf, with terms that fit your requirements.

- The building inspector ensures that what you are buying is nice and solid; that it doesn't have any structural issues or doesn't require extensive renovations to be habitable.
- The pest inspector does a similar job, checking that the property doesn't have any pest issues.
- When you're taking on a large amount of debt, it is really important to make financial plans. You also need to have insurances in place, so that, if something were to happen to you in regards to work, health, or loss of life, there is money available to pay out the loan, or to allow you to keep making your repayments. Financial planners are the experts to speak to about these things.

Most of this process is applicable to both the owner-occupier and the investor. However, if it is an investment property, other people will be involved in the process.

Investors need more help

For instance, we haven't yet mentioned accountants. With negatively geared property, the accountant does all the necessary accounting to determine whether you are eligible for tax concessions, and to make sure the relevant forms are filed with the ATO. You will also need to employ the services of a Quantity Surveyor who prepares a Depreciation Schedule, a major part of the investor's arsenal for effective property investment.

In addition, you will definitely need a property manager in place, since you want to make sure your property is managed well. It is your investment, and you want it well looked after. They are professionals who have put time and effort into being experts at what they do, which is why it is so much better to build them into a team around you rather than going it alone.

How things go wrong

In my experience, listening to the advice of well-intentioned friends and family members can cause the most problems for someone purchasing a property. Be mindful of this. Everyone's situation is particular to them; there is no consistent rule of thumb. Each situation can be quite different. Here's a true life example for you.

Case Study

A client of mine, Helen, had specific instructions from her accountant for her and her partner to buy an investment property. They were given free accommodation courtesy of her partner's employer, and this situation presented a great opportunity for them to create some wealth, put their money to good use, and purchase a property. The accountant advised them that their loan be set up as a principal and interest loan on the property. Both of their super balances were quite low so this was going to be their superannuation, and he wanted them to pay it off because they had very few other expenses.

However, one of their friends told them, "You don't pay principle and interest on an investment property loan, it should be interest only." At that point Helen rang me, quite confused. I reinforced exactly what her accountant advised her to do, and explained the reasons why. I don't believe that her friend was ill-meaning, but everyone's situation is different and her advice didn't apply in this case.

Anyone can sell; not everyone is worth buying from

Another big mistake is thinking that free advice is actually free. Normally, anything free comes with a catch. If you meet someone with a great strategy or a good piece of advice, that's fantastic. Implement it into your long-term strategy. But don't ever let someone make you feel like you need to do something immediately; that is never the case. There will always be other opportunities.

An abundance of spruikers, selling agents, developers, and even brokers and accountants can sell property today. Currently, in certain property sectors, the qualifications to sell property are not well regulated.

All you need to do is to take a one-week course, and you're "qualified" to sell property. What many spruikers do is to offer free education seminars to get a buyer in and interested. This often leads the buyer down the path of buying whatever property or strategy the "expert" has to sell, through persuasive means.

> **Key Point**
>
> I firmly believe that you should have your strategy in place before you buy, and that your strategy should determine what you buy, instead of going to someone who has the properties first and then arranges the strategy to suit the property. You should buy property according to what you are trying to achieve; not by what sellers have to sell. More on this in Chapter 2 courtesy of my colleague Andrew Crossley, a buyer's advocate.

You should also be very careful about exclusive offers, such as, 'it's urgent,' 'it's time-limited,' 'it's just for tonight,' or '10 days only.' With these deals, there is almost always a set, or limited, period of time for which you can take advantage of this opportunity. Don't sign anything under pressure; take the contract away and get it independently evaluated.

Avoid one-stop shops

You cannot get unbiased advice from the solicitor/conveyancer that works for a one-stop shop. You need to seek advice externally, from an independent person, and get their opinion of the proposal. With something as big as a property purchase, there is no such thing as needing to buy now, tonight, or right away; so take your time.

So what is a One Stop Shop? In short, it is a company that can do the finance for you, do the legal work for you, do the property sourcing for you, and in the case of investing, do the accounting for you. God forbid, they may even try to handle the Financial Planning and your Life Insurance for you, along with other extras.

When it comes to dealing with a vertically-integrated, one-stop company that says they will do absolutely everything, be cautious. Keep in mind these companies tend to sell Off-the-Plan and House and Land packages. I have often found that the valuations on these projects come in short – meaning that what they are valued at does not match the amount you signed a contract for.

For instance, one client of mine paid $470,000 for a property for which the valuation came back at only $400,000. It is easy to get sucked into the whole vortex of the spruiking company because they really know how to convince you that it is one of the best possible investments you could ever be involved in.

There can be a clear conflict of interest when dealing with vertically integrated companies as well.

The truth is, these companies will get the builders to do the house and land package for them, put their fee on top of that, package that up, and sell it to a trusting investor. Unfortunately, in Victoria at the moment, these companies are not required to disclose what they actually earn from these transactions. They might tell their client that the properties have been receiving low valuations lately and that the buyer may have to either use Lender's Mortgage Insurance (LMI) or put in a bit of extra money. What a bloody cheek! I have heard of instances where the spruikers have put as much as $50,000 on top of the land and build cost. You have to realise that valuers (they value properties for the lenders) know what a property costs to build, so this sort of deception simply can't fly. In the end, the purchaser is the one that suffers – no one else.

Stick with the plan

I would also warn against following hot property trends. I can almost guarantee that as soon as you see a 'mining town boom' article in the investor magazines with people raving about rental yields, that in about six- months' time, those rental yields will start to drop along with the value of the properties.

There was an interesting example of this in the news not too long ago. It was at the height of the mining boom. Some people had originally paid $1.28 million for a property that they recently tried to auction. It passed in for $325,000.

That can happen during boom times, when people get $4,000 a week rent and think it's just heaven. But times such as these dry up, just as is happening with the mining boom at the time of writing. Don't go for the latest hotspots like these. Normally when people talk about places like this, the spin is that you should have been in on it five years earlier; then, you'd have made all your money. I'd call that speculating, and unless you have a chunk of money to blow, I wouldn't say it's wise to get involved in speculating.

Key Point

Situations like these are why it is so important to have a plan, right from the beginning. Plan. Plan. Plan. Especially for investing, but also for owner-occupied purchases. Planning and having a strategy is the key. Have a goal in mind and use a trusted team.

If you have a solid plan and strategy, and are getting the right advice from your team, your friends and family will be less able to sway you. You'll know that you have customer specific advice and you won't get sucked into other foolishness. Because you have a plan, you'll know where you're going.

Know how the game works

Things can potentially go wrong if you don't understand the risks and how the game works beforehand. For instance, you may not even be able to get the rent you need from an investment property, which means you will end up having to sell.

When people red-line their finances, they only need one or two things to go wrong and they're in a world of pain. I wouldn't wish that on anyone.

Some people have punted successfully, but in my opinion, you have to have a buffer zone. You must have the ability to access a little bit of cash in a bank account, a little line of credit, or something that's just there to support you when things get a little tough.

Another way to guard yourself from trouble is by not signing an unconditional contract before your finances have even been approved. By the very nature of that term "unconditional," once you sign it you own that property and must pay for it, regardless of whether or not it meets your financial institution's approval. There is no way out of it; you must pay for it, usually within 60-90 days of signing, regardless of whether you are able to get a loan for it. Having said that, if you are comfortable about the property and "it all stacks up," then making an unconditional offer can be a very powerful negotiating tactic.

This is why it is important to be certain your finances are in order before signing, that you have done your due diligence and know what fair value is, and that your lender of choice has carried out a full financial assessment of your situation. You want the bank to say, "On the financial level, as far as your income, your savings, and everything, we're happy to lend you the money." When you do things in this way, there's a pretty decent chance that the valuation will stack up well, which will mean that the contract of sale will probably be accepted; and boom, you're all done.

Subject to finance

Some people assume that every deal is "Subject to Finance." The "Subject to Finance" clause is only available if you're purchasing by private treaty, and it may not necessarily be subject only to finance, but specifically subject to finance through a particular lender and for a particular amount. If your finance falls through, and you didn't state which lender or an amount, a ruthless vendor has the right to say, "I'll lend you the money at 10%." You do have a cooling-off period after signing, but you need to educate yourself on this as well.

Two people may offer exactly the same amount of money for a property. The one that's prepared to go unconditional may get sway over the one that wants “Subject to Finance.” That is a risk you may have to take, and that is when you want to be really solid. Being in a solid financial position is a very powerful bargaining tool that can allow you to go unconditional. This is when it is important to be pre-approved and to have done your homework so you know the true value of the property. And certainly, when you buy at auction, if you're a successful bidder and you win, you are the owner of that property. There is no “Subject to Finance” clause.

If you make an offer 3 days before an auction or 3 days after, you are deemed to be under auction conditions.

Calculating borrowing capacity

To find out how much you can be approved for, you can go to any bank website, punch in your numbers, and it will work out your borrowing capacity. It will tell you that you can borrow up to X-amount of dollars.

Do not do this! Here's why.

The problem with bank website calculators is they haven't seen your financials. They don't know your full financial status. You could have a slightly poor credit report; maybe you have some defaults, or you've had lots of credit inquiries. The calculator won't know to factor these things in, so it cannot give you an accurate number.

Key Point

Never try basing your purchasing or borrowing capacity on what the bank calculator or a particular website says. It's a guide and that's all it is.

When it comes to reality, you're going to be assessed on your income, your credit file, the amount of your savings, your employment history, and many, many other factors that the bank website calculator does not take into account.

So, steer clear of them.

Pre-approval

Having pre-approval by your lender is imperative, and it needs to be up to date when you purchase. A pre-approval is generally valid for 90 days. After that, you have to supply a new pay slip, show your savings statement, and sign a new personal consent to renew it for another 90 days. By law, after 180 days, you have to submit a completely new application, because the information is deemed to be no longer current and therefore irrelevant. You may have a window where you're protected, but after a certain date you'll have to re-do it, which is why you shouldn't just get a pre-approval and assume it remains valid indefinitely.

In this changing environment, with investment loans, if you have a pre-approval and you only want to put 5% of your money in, that lender may turn around and decide to only lend at 90%. Your pre-approval for 95% isn't going to be valid anymore, so you'll need to rethink your strategy or be willing to spend more money.

Ideally, when you go for a pre-approval, you should try to go for the maximum amount. After all, you don't want to be in a position where you've found something you really love that costs more than the pre-approval amount you applied for. Rather than having to go back and ask for a larger amount, it is better to apply in the beginning for pre-approval for the maximum the lender is comfortable with you borrowing.

Not all pre-approvals are the same. You cannot always rely on a pre-approval. Some banks only do a credit check for the pre-approval, without even looking at your other information. These lenders are, more or less, saying, "Yup, based on the first look, things appear fine; but we're only going to look at all the information when you have a property." Such pre-approvals will be subject to everything.

I will not use a lender that only does the credit report. For such a big investment, whether that be owner occupied or investment, I want my clients to be properly vetted. I only go to lenders that will give a full financial assessment. These usually come back with only a few outstanding conditions, such as please supply a Contract of Sale, we require a satisfactory valuation of the property, or, if it's an investment a rent appraisal and if LMI is required that approval is obtained from lender's mortgage insurance, etc.

Valuable Resource

To find out what your borrowing capacity is and get a proper loan pre-approval in place, contact Steve at The Loan Operator for a chat:

Phone: 1300 885 437
Email: steve@theloanoperator.com.au

What does it take to become a home owner?

Becoming a home owner takes more than just saving a deposit and making regular mortgage repayments. There are costs associated with making a home purchase which can total 5.5% on top of the purchase price, or even as high as 7% if you don't have a 20% deposit.

The effort and costs certainly make it all worthwhile, as residential property has a strong and proven track record for creating wealth for many Australians, and has the added benefit of a giving you a place to call home.

What's involved?

When borrowing money, you can usually borrow up to 90-95% of the purchase price. Most lenders will go up to 95% on owner occupied properties and 90% for investment. There are exceptions to the rule and a good mortgage broker will be across all of this and up-to-date on policy changes over time.

This means that if you were to borrow at 95% of purchase price and your purchasing costs are 5.5%, then as a starting point you need to have saved at least 10.5% of the purchase price. The cost of lenders mortgage insurance is usually added (capitalised) to the base loan amount (which applies when borrowing more than 80% of the purchase price). This can be challenging for first home buyers, particularly if you're currently renting.

Saving for a deposit is simple; spend less than you earn and put yourself on a tight budget until you reach your savings target.

Usually buying your first property is the most challenging. However, once you have at least one property under your belt, your future purchases will be much easier. Property has a track record of growing in value, which you can then use to upgrade your home or to purchase further property to create more wealth.

Here are the costs associated with purchasing a home:

Pest and building inspections

These pre-purchase inspection reports may seem like an unnecessary cost, but when you're making the biggest purchase of your life, it's a small price to pay to ensure you aren't buying an expensive repair job.

Termite damage or structural problems could cost thousands to rectify, and if the inspection shows problems, it can be used to negotiate a lower purchase price.

Conveyancing

This is all of the paperwork involved in the legal transfer of ownership. It's usually performed by a solicitor or a conveyancer.

You can buy DIY kits, but if you're a first-time buyer, you may feel more at ease hiring a professional.

Loan fees

Depending on the type of loan you select, lenders may charge an establishment fee and a settlement fee. You don't have to fork the cash out at settlement, because the fees can be added to the total amount you borrow. You may also be charged monthly or annual bank fees.

Government taxes

Stamp duty is the big one. It's an upfront tax calculated on the amount borrowed and the purchase price, which can add thousands to your total bill. First home buyers (in Victoria) are currently entitled to a 50% discount if the purchase price is $600,000 or less.

Lenders Mortgage Insurance

If your deposit is less than 20% of the value of the property, most lenders will insist on Lenders Mortgage Insurance (LMI). This is a type of insurance that protects the bank. This is a good reason to keep saving for a few more months if you are close to having that magic 20% deposit. That way you can avoid the extra expense of LMI.

There are also other methods for first home buyers to avoid the cost of LMI. If a parent has an unencumbered property and is willing to put up their home up as security guarantor, you may be able to forego it. While talking insurance, you should take out building and contents insurance to protect both your property and belongings and finally you should consider Income, Life, TPD and Trauma insurance in case you become unemployed or sick thus ensuring you can meet your financial commitments as well.

Moving costs

Remember to factor in the cost of removalists and reconnecting amenities such as gas, electricity, water, phone/internet and Foxtel. They may seem like small expenses, but they add up.

If you're selling a home, you may need to consider renting for a period or storing belongings until settlement.

Strata fees

When buying a strata-title property the strata fees will be listed on the marketing material. These help with general maintenance of common areas and facilities, and are usually paid quarterly. It's also wise to organise an inspection of the records and accounts of the Owners Corporation by a qualified strata searcher. This is called a Strata Search and will cost in the vicinity of $250-300. It provides information about the building that's not apparent from a physical inspection, such as a history of repairs, proposed expenditure and the value of the sinking fund.

Council rates

Rates contribute to the running of your local council and the services they provide. How much you pay depends on the value of your property and the yearly cost of the council's expenses.

If you've been renting you may not have been paying water rates so this is something to bear in mind. It's a good time to be even more water efficient now that you're paying for it.

Here is the budget for a (fictional) $500,000 house with a $450,000 loan in Melbourne:

Building & Pest inspections	$700
Conveyancing	$700
Loan fees	$600
Lenders Mortgage Insurance	$8,534
Government fees and Stamp duty	$23,439
Moving costs and connection fees	$1,000
TOTAL	$34,973

If you have a 20% deposit and can avoid the cost of LMI, then the total would be $26,439 (~5.5% of the purchase price).

Special Contribution

The following content has been provided by Craig Hemer, a Licenced Conveyancer from Sargeants Conveyancing Hawthorn.

The essential conveyancing guide to purchasing property

A purchaser enters into any contract on the basis of buyer beware. Therefore, it is beneficial to seek feedback on contracts and Section 32 Vendor Statements in advance of buying.

Buying at auction

If you are purchasing a property at an auction, the primary consideration is that you, the buyer, have no cooling off rights. If you win the auction, you are locked into the contract and you have no option to exit. Therefore, you need to have done your due diligence before the day of the auction. This also applies should you make an offer that is accepted either 3 business days before or after the advertised auction date.

If you are seeking any special consideration, that needs to be agreed upon with a selling agent before the auction. That might include a variation in the amount of the deposit to be paid, although in general terms, at auctions the expected deposit is 10%. Other special considerations might include a settlement date, whether that be 30 days, 60 days, or 90 days.

If you are considering having a building or a pest inspection done, you need to do that before the auction. Taking care of this and other things before an auction are highly recommended. This gives the relevant parties enough time to turn around some feedback. Depending on the property, there is generally not a great deal of further investigation required. However, in some instances it is wise for the buyer to be diligent in checking the Vendors statement to investigate potential issues including the need for repairs and maintenance.

With one property, the owner's corporation certificate included detail about future repair works over the next three to five years; however potential buyers who are not familiar with the documentation in the Vendors Statement may miss this detail. In this instance the repairs were going to result in an additional levy of $4,000 per year for the next four years. That would have been an additional cost of $16,000 to the purchaser. That's not to say that the property would not be a good property to buy. It may well be, but the buyer would need to take that into consideration when calculating the price he is prepared to pay for it.

Contract: cooling off rights

If someone negotiates a purchase outside of an auction, they get a cooling off period, which means that they have the opportunity to change their mind. However, if the buyer does exercise their cooling off provision, they pay a penalty of 0.2% of the purchase price. If someone offers a million dollars, then they are risking $2,000 to cool off.

If the buyer wishes to put in an offer on a property before an auction, or if the property is passed in at auction and a buyer subsequently wants to put an offer in on the property, either three days before or three business days after the advertised date of the auction, they forego their cooling off rights. If they make an offer within that window around the auction, they still are essentially buying it on auction terms. If they want to maintain their cooling off rights, they should make the offer at least four days either side of an advertised auction date.

Making your offer "subject to finance"

When a property is being sold outside of an auction and you can negotiate a contract, you can make it subject to finance. In that instance, you should nominate a potential lender or use the generic definition "authorized deposit taking institution." This is a defined term, and there is a specific list of what an authorized deposit taking institution is; in the main, that's a bank. By naming a bank or using that term, you are much less likely to be forced into borrowing from a third-tier lender that will charge high rates of interest.

You also need to put in a realistic loan amount. This way, if you make the contract subject to a minimum loan amount of $X, if the loan comes through and its $X-$5, you can still exit the contract because you don't have sufficient funding to complete the contract. You have to be quite specific. If the bank undervalues the property, then the bank won't give you the finance that you've stated in the contract. That means you don't have to find the short-fall and can just say, "I'm out." Whereas, if you just say "subject to finance" without being specific about the amount or lender, if the lender doesn't value it enough or doesn't give you enough money, you may not be able to exit under that subject to finance clause.

You also need to put in an approval date. Most real-estate agents will suggest that time frame is seven days, but if you talk to a bank or a broker, they generally require about 14 days to get everything through. They need to get the documents in and order a valuation. Then, a valuer needs to value the property. Don't get too fussed about that. If seven days goes in the contract, that's okay. Under general conditions, you automatically get two additional business days. Then, if you get close to that seven-day period, your conveyancer should seek an extension. In most instances a vendor will grant an extension to the finance clause. If they don't, that means the contract is out of means, and it might have to go back on the market. In most instances, certainly for the first request, a vendor will grant the requested extension.

If a finance clause is included in the contract you must make every possible effort to obtain the finance. You can only exit a contract under a finance clause by providing a letter of refusal from a reputable lender.

Names

It's also worth mentioning that when signing the contract, you should use your full name and make sure that it matches the name that will be included in your loan documents. Doing so saves extra paperwork, and it can save some grief. Here's a great example of why this is important:

Key Point

One buyer gave their broker their correct full names, but they didn't give their lender their correct full names. The lender issued mortgage documents in the names they had provided, only to find out that those weren't actually their full names in accordance with their identification, the mortgage documents had to be cancelled, redrawn, and reissued. That process took the bank three weeks, which put off settlement, resulting in penalties being applied. Any delay in settlement of course means that a purchaser cannot gain access to the property and therefore may need to find alternate accommodation for the period of delay.

It is important to always use your full legal name, as per your birth certificate, passport, and license. Many people have names that they go by, but to become a legal owner, you must use your full, legal name.

Nominations

If the intended owner or owners of a property are not present to sign the contract, then the party signing the contract should sign using their own name but add the term "and/or nominee." That means that, while party A may sign the contract, the actual ownership will eventually go to party A and party B; or if party A signs it, ownership might actually go to party B and C, two completely different people. That's called nominations, where the people signing the contract declare that, when the transfer goes through, the property will belong to these two other people.

Tenants in common

If two people are buying a property, it is important to be clear about whether they are buying it as "joint proprietors" or as "tenants in common." Joint proprietors automatically own equal shares. As joint proprietors, if one of the proprietors dies, their share of the property automatically passes to the surviving proprietor. Take a husband and wife, for example. If the husband dies, the wife doesn't have to do anything; the property automatically shifts to her.

Tenants in common is generally used when a property is not going to be the principal place of residence for either party. It may be an investment property, and for tax purposes, it may be beneficial to have the majority of the property owned in one party's name, not the other. So it could be 90% owned by person A and 10% owned by person B, or it could be a 50% share each.

Under ownership as tenants-in-common, if one of the owners dies, their share of the property does not automatically pass to the other owner. Rather, it passes in accordance with their will, which means they could leave their share of the property to the RSPCA, as an example, or to their dog or cat. If people purchase using tenants in common, they need to have their will up to date due to that or a similar scenario.

Buying "off the plan" property

"Off the plan" basically means that you are buying a property that does not exist at the time of signing the contract. This could be anything from a block of vacant land to an apartment in a 500 unit building.

The risks of buying off-the-plan are that the value of the property may change from the time the contract is signed to the time of settlement. This presents considerable risk for a buyer where market values decline over time. Alternately the buyer's personal circumstances may change to a point where they can't service the required loan. Irrespective of any such changes the buyer is obligated to complete the contract. If the buyer, for any reason can't provide sufficient funds to complete the purchase, the buyer is likely to lose their deposit.

"Off the plan" contracts also include a "sunset clause" or a "registration period." This clause provides a time line for completion of the development; however, this time frame is often quite extensive (the time frame can often be up to 60 months). Effectively, this means that irrespective of the expected date of completion (registration) indicated by the selling agent, it could be that completion may by as far away as the time noted in the sunset clause (registration period).

If the end of the registration period is reached either party can cancel the contract.

If an "off the plan" purchase includes construction, buyers need to be aware that they are putting their complete trust in the nominated builder for the quality of works. It is wise to diligently check the builders' credentials by inspecting any work they have previously completed. You would like to think that the builder or developer would pay attention to defects quite promptly and efficiently, but that is not always the case. Probably about 98% of the time, everything turns out OK, but yours may be a one-off.

With off-the-plan, the developer generally has what's called a variation limit, which means that they can vary the plans by up to 5%, based on council instructions. There is also a potential clause that allows the developer to substitute goods and fittings with something of the same quality if the specified ones are not available at the time. This essentially means that you might not get exactly what you think you might be getting.

Contract: goods to be sold

In the contract of sale Goods/Chattels will generally be described with a general statement such as "All fixed floor coverings, window furnishings and fixtures and fittings as inspected."

A standard clause in a contract expects goods to be sold with the property, with all fixed floorcoverings, electric light fittings, and window finishing's. That generally means any heating and cooling fixtures, the oven, exhaust fan and the cooktop, but it may not mean the dishwasher or any item that could easily be removed.

If the property had a swimming pool in it, for example, it may not include the pool cleaning equipment. If the property has a television attached to a wall in one of the rooms, the contract of sale probably won't include the television. It also doesn't include the bracket that's holding the television in place. Removing the bracket will leave a hole in the wall, and it is important to outline who is responsible for repairing the hole and painting over it.

Most people don't even think about this, and can therefore be a little bit upset about things that disappear at the time of sale that they thought would have been included. That all has to be ticked off, so be very diligent in terms of what is staying with the property. Add it to the contract under the "goods" area.

Pay attention to the small things, such as whether or not the heating and air conditioning should have remote controls. Try to negotiate that all goods should be in working order at the time of settlement.

Contact: subject to lease

Before signing the contract, it is important to note whether the property is subject to a lease.

Unless the tenant agrees to move out early, they have every right to stay in the property until the end of the lease. Irrespective of the ending date of a lease a tenant is entitled to a minimum of 60 days' notice to vacate. A buyer can only give notice to vacate once the contract is signed, and the contract has gone unconditional (for example once finance is approved, where the contract is subject to finance).

Insurance

A wise buyer insures the property as soon as they sign the contract of sale, unless the building insurance is covered by an Owners Corporation. This is a practicality, not a legality. Legally, the vendor is obliged to maintain insurance until the day of settlement, but there is no way to guarantee that they maintain insurance over that period of time.

As a risk management practice, it just makes good sense to insure your building from the day you sign the contract. If, for example, you sign a contract without taking insurance, and the vendor cancels his insurance, where something happens to the property, the buyer can sue the vendor, but the buyer then needs to manage what could be a lengthy and complicated process involving the engagement of solicitors.

If the buyer has insurance in place, the buyer's insurance company will manage the process and provide immediate solutions for the buyer.

Title insurance

Title insurance can be used as a risk management tool in the conveyancing transaction.

The Title insurer assists in resolving issues, and providing compensation in cases of Boundary misalignment (incorrect fence positioning), unsatisfied conditions of planning permits and illegal building works.

It has been reported that as many as 30% of pre-existing free-standing properties in Victoria have illegal building works on them, which could be as small as a deck or as large as a full extension on the property. Any issues that arise from illegal building works are the responsibility of the current owner and there is no ability to pursue a previous owner for compensation. Title insurance provides peace of mind where any potential illegal building works exist on a property.

Title insurance is a one-off expense for the life of ownership of the property. Generally, for a property of up to $500,000 in value, it's only $400, which makes it very beneficial

Stamp-duty concessions

Stamp-duty concessions may be available for purchasers. This area falls into the conveyancer's domain—they can assist by preparing the relevant forms for receiving any eligible concessions.

Now, if a first-time owner is also eligible for the First-Home-Owner's Grant as they are purchasing a new property—that's a separate exercise, outside of conveyancing. That application is launched through their lender. Sometimes people are a bit confused about who does what, so the first home owners grant is arranged through the lender whilst first home owner and principal place of residence stamp-duty concessions are managed through the conveyancer.

Settlement

There are a number of documents that buyers are required to sign leading up to settlement. Depending on the buyers' individual circumstances these could include, the Transfer of Land, Duties form 62, Verification of Identity forms, nomination forms as previously mentioned, and any stamp duty concession forms.

The Transfer of Land is the document that is ultimately used by Land Victoria to change ownership of the property.

Duties form 62 is a declaration of residential status. This serves to ensure that Australian residents are not charged additional stamp duty paid by foreign residents.

Verification of Identity requirements differ from the identity requirements of a lender. The Verification of Identity process in land and property transfers has been introduced by the State Government to reduce the risk of fraudulent property transactions.

Leading up to settlement, the purchaser must contact their preferred electricity and gas supplier to organize those connections and change them over. The conveyancer does the same for council and the water authority, and, where applicable any Owners Corporation.

Up to seven days before settlement, the purchaser is entitled to undertake a pre-settlement inspection of the property. The purpose of which is to ensure that the property is largely in the same condition as it was on the day they signed the contract. If the buyer sees something wrong, they can point that out and request that something be done about it. The inspection is not a time to find faults or defects that weren't checked prior to signing the contract. As an example, if there was a hole in a wall that might have been hidden by some furniture, or a wall mounted television at the time of signing the contract, the buyer has no right to have the wall repaired if the hole is visible and evident during the pre-settlement inspection.

The purchaser is also, to a large degree, at the mercy of the goodwill of the vendor in terms of the cleanliness of the property at the time of settlement.

There is always, of course, the opportunity to have significant issues addressed and corrected before settlement. Your conveyancer would provide specific advice depending on the issue and circumstances.

On settlement day, a buyer can collect keys from the agent's office once settlement is confirmed. Settlements generally occur in the afternoon and therefore buyers should plan to collect keys mid to late afternoon of the day of settlement. Buyers do not need to attend settlement as the conveyancer represents the buyer to witness the exchange of documents and funds. Essentially, at settlement, the conveyancer is the gate keeper, conducting the exchange of the funds and documents with the banks.

Once that is all signed off by all attending, the conveyancer will contact the selling agent to confirm settlement and authorise the handover of keys. The buyer can collect keys to his new property once this has been done.

What conveyancers do

The obligation of the conveyancer is to ultimately ensure that settlement happens in accordance with the dates specified in the contract of sale.

From that point of view, he becomes the liaison point that links all of the relevant parties together.

Acting for a purchaser, he assumes the purchaser's role, coordinating with the purchaser's lender and with the vendor's representative ensuring that the vendor's representative is talking appropriately to the vendor's lender. He further ensures that everyone ultimately gets together at an agreed time at the nominated date of settlement to finalize the contract of sale.

Part of that includes undertaking any necessary checks and balances to ensure that all of the contractual obligations are complied with from a purchaser's viewpoint, including paying deposits on time, financing, etcetera. Then, providing relevant documentation to the banks so that the bank is happy to move forward once they have issued mortgage documents.

It is important to work closely with your conveyancer in advance to make sure every aspect of your purchase runs smoothly.

The conveyancer also ensures that the vendor has paid all Council, Water rates, any applicable Owners Corporation fees and Land Tax up to the day of settlement.

Choosing a conveyancer

Getting some advice from a conveyancer before you sign on the dotted line is really important. The buyer needs someone that understands all of these things; someone to review your contracts and section 32s, which is an important job that a conveyancer can help with. This is in addition to the conveyancer's second role, the transactional role of making sure that everything happens when it needs to happen, from the point of signing the contract, all the way through to settlement, and being that liaison.

Most people only engage a conveyancer for that second role. However, a wise purchaser seeks advice upfront, when it can reduce their risk and save them from dealing with issues. In this regard the conveyancer's role is to help the purchaser understand that they need to undertake their own due diligence in relation to the property they are purchasing.

Talk to your potential conveyancer about the transaction so you can make sure you are comfortable working with them. Decide whether the conveyancer is answering all the questions you're asking. You should feel good about their guidance and how they explain how and when things happen.

The real job of the conveyancer is to make things as simple and as easy as possible for the purchaser. A conveyancer that is not as experienced or not as good at what they do may cause unnecessary challenges or stress for the purchaser, especially if they are not on top of it or if they miss things.

Conveyancing fees

Conveyancing fees are quite variable, and they change from state to state and from area to area. In NSW, for example, the fees may be almost double of that applicable in Victoria. They range from $2-$3 per document page, or the expense may be based on time. Some conveyancing companies charge depending on the type of property. Others will do it as a no-charge service under anticipation that, if the quality of the feedback is substantial enough, they will stand a high chance of retaining that client when they do actually purchase.

In the 1970s the average conveyancing fee charged by solicitors was $5,500. The average now is probably $1,250. So, the regulation of the market has certainly changed the fees for clients, and some would argue as to whether that's a sacrifice in terms of the quality of service.

Craig Hemer, Licenced Conveyancer
Sargeants Conveyancing Hawthorn
www.sargeants2settle.com.au

CHAPTER 2

Understanding your current financial situation

Credit score

The absolute first step to buying a property is understanding your current financial situation. Your credit rating is vitally important when it comes to your finances and buying a property, getting a mortgage, etc. We all have a credit file that contains information regarding any overdue credit accounts, payment defaults, any credit applications, commercial credit information, and any public record information. It also shows a history of where you have lived, right up to where you reside at present. It also states your employment history - Is nothing sacred? I hear you ask. Nope!

Credit scoring is a mathematical assessment of the data that's included in your report. The lenders use it to help determine your likelihood of defaulting on a loan. From the data on the report, you are assigned a score that can range from 200 to 1200. The lenders go by statistical information that suggests that the higher your credit score, the lower the risk is that you will default. A score of around 550 will indicate that you are an average risk. The higher you score, the better. If you have a score of around 200 or so, lenders believe there's probably a 50% chance that you're eventually going to default on something. Normally, when you put an application in to a lender, the first thing they'll do is a credit check. With some lenders, if you get a poor credit score, that's the end of the deal. That's why, if you have any concerns, it's really important to be honest with your broker, especially if you've had any defaults or any issues, whatsoever. The big problem is that many people don't even realize that they have black marks on their credit files.

Case Study

One borrower, I will call him Jack, thought he was completely clear. However, in a previous life, Jack had owned a retail shop that he had gotten into a lot of trouble with. He had some debts from that, but he negotiated with ANZ over one of his credit card debts. He owed them about $15,000, and told them, "Well, I'll give you $7,000 as a settlement," to which ANZ said "Yep, we'll take it," and he thought that was it.

Jack didn't mention that to me when I did a Needs Analysis for him, and the best lender that came up for him was ANZ. We submitted the deal, got through, then ANZ said, "No, sorry." While there was nothing on his Credit File, the lender had black marked Jack internally.

This is why it is very important to disclose everything when you're in that first interview. It may well be that there is a really good, logical explanation for that default, and you may be advised to go to a lender that doesn't credit score. The big lenders will all credit score, partly due to the massive volume of applications they get. They simply can't go through every single one, so they use credit scoring as a pass test to determine whether a loan should go to step one in their process.

A credit check is a little bit like a reference check for a job interview, where everything sounds good and the employer likes you, until they find your previous employer and find out that you never went to work. It really doesn't matter how well you presented yourself, you're not getting that job. It is the same with a lender; it doesn't matter how good your application is, if they check your credit rating, and it shows too low a figure, or they find black marks on it, they're not giving you the money. Well, maybe they will, but they'll charge you a lot more for it.

Keep in mind that some lenders credit score which can in some cases mean an automatic decline of an application whereas other lenders do not credit score meaning each application will be treated on its merits allowing for any mitigating circumstances to be considered. Again a good mortgage broker will know which lenders credit score and which don't.

What can go wrong

Many things can end up on your credit report; it could be a phone contract, credit cards, residential or personal loans, or hire purchases. It's worth checking yours, even if you don't think anything is on it. Maybe you just moved house and you missed your telephone bill arriving at the old one. If the phone company does not have a forwarding address, all of the sudden, you're in default because you haven't paid the bill. You probably thought everything was under control, but the telephone company doesn't know how to get in contact with you, so they send that off to a debt collector. Then, all of the sudden, bang, that's on your credit report.

The black mark could simply be something as simple as trying for many preapprovals from different lenders. Or, maybe, with the 0% interest they've got on credit card transfers right now, you go and apply for 5 or 6 different cards. That all goes on your credit report; especially preapprovals for home loans. If the lender sees five or six different lenders within a short period of time for the same amount of money, it sends off sparks in their head, and they wonder, "What's going on here?" You really do not want to make mistakes here; you want to treat your credit file like gold. Don't be frivolous with it, applying for store credit. If you're gearing up toward buying a house, you want your credit file looking really clean and presentable.

Checking things out

If you do check your credit report and there's something you're not sure about or if you go for a mortgage or a home loan and get declined due to your credit file, the first thing you should do is ask credit companies such as Veda or Dun & Bradstreet for their report and who has made the complaint.

> **Valuable Resource**
>
> You can check your credit file report, by going to My Credit File and requesting your credit report; it's free. Visit www.mycreditfile.com.au.

There are also companies that can assist you. Keep in mind that serious defaults on a car loan or a credit card are harder to remove than marks from telecommunications or utility companies. If there are legitimate reasons, you can actually have those removed. But be careful about who you work with to help you have them removed.

This is a bit of a dodgy area; people are charging quite a lot of money and saying, "We guarantee to remove defaults." Don't get sucked into that. People who've done that eventually discover that the default has not been removed, although money has certainly been removed from their pocket. However, the fact that you have some defaults doesn't mean that you can't get a loan through specialist lending. However, the more defaults or issues with your credit file, the further you are away from potentially getting the best possible interest rates.

One way to look at it is you get rewarded for having a nice clean credit file that tells the banks, in essence, that you're far more reliable and likely to repay the loan debt than someone that has many defaults. But don't be put off if that doesn't describe you. You can still get into the market, and you can redeem yourself too, by just having a period of good credit history. Many of those defaults will drop off after 5 years.

Keeping things in check

If you are planning on purchasing a property, keep your credit in top shape by planning a little bit ahead. Don't just apply for that store card because it comes free; think before applying for anything that has a contract, including credit cards, store cards, and cars. Be mindful that any debt will affect your borrowing capacity. Don't all of a sudden go buy a new car or forget to pay the credit card. You can always buy the car after you've bought the property. Before you make such a move, have a conversation with your broker, mention what you're thinking of doing, and ask about how it will affect your chances of getting the loan.

There are many different types of debt, and they're all credit facilities that you must declare, even HECS or HELP debt, higher education, or a loan from the government. You may not think that getting the solar panels on your roof through your energy company goes on your report, but all of a sudden, there it is. You have to declare everything, because there's no point in not declaring everything. You have to be very upfront with your broker about what your liabilities are. They're on your credit report, and if you don't disclose them, it raises the question of what else you may potentially be hiding.

Credit cards are the killer for most people. We all tell ourselves that we're going to pay them off every month. However, what you need to realize is that lenders assess credit cards based on your limit, not the balance. From the bank's point of view, you may be paying it off monthly, but the day you hit hard times, you could easily max that card out. As a general rule, the banks assess the credit card at 3% of its limit monthly. You may think it's great that you have a $50,000 limit on your credit card, but a high limit on a credit card can have a massive effect on your borrowing capacity. Having said that, a couple of lenders will ignore that, if you can prove over a 3-month period that you pay that card off monthly. However, most of them will assess the limit at 3%.

Key Point

Did you know that for every $1,000 extra on your Credit Card limit that this can reduce your borrowing capacity by up to $5,500 with some lenders? You can do the maths, but this can be the difference between owning a property and not.

So pay your debts off all the time, on time, every time, whenever possible, even if you need to set up a direct debit to make sure you've made all your repayments. Soon, credit reporting is going to change into what they call positive credit reporting. The banks haven't quite implemented it yet, but it focuses on whether you have been making your payments on time.

Special Contribution

The following content has been provided by John Dickinson, Director of Clean Credit.

Your credit history can make or break

People say it all the time, "How can a seemingly insignificant credit listing stop me from getting a loan?"

It does seem inappropriate that something like a small paid default to a phone carrier, listed years ago, still has the ability to cause so much trouble for people trying to secure credit. After all, such a listing may not represent that person's financial position today at all, and certainly not their current risk profile.

Tips to avoid credit issues

1. Always communicate with your credit provider. If you have fallen on hard times and are struggling to manage all your bills, call your credit provider and explain the situation. They will need to advise you of your hardship options and assist you in setting up a suitable payment plan or a temporary hold on your account, etc. If you are going away for an extended period of time or are moving house, let the credit provider know and provide a forwarding address for all mail to be sent to. If you do not communicate with the provider, you put yourself in danger of being defaulted. As you

know, this will affect your ability to access finance or credit for 5-7 years.

2. Always try to get formal assurances in writing. For example, if you are disputing a service, a bill or any other issue with your account, it is highly advisable that you attain formal confirmation of the dispute/complaint from the credit provider. This will be extremely valuable if the credit provider in question lists a default against you before the dispute has been resolved.

3. Always update your credit providers with any changes in contact details. If you move address, putting a mail re-direction in place will only be a temporary fix. It is imperative that you call your credit providers and provide the new details.

4. Try to keep copies of any correspondence (emails, letters, etc.) that you receive from credit providers, and do not ignore any demand letters or bills that they send to you. It is easy to miss a bill or two, and before you know it, you have defaulted. If you receive a final demand or default notice from a credit provider, do not take this lightly as this is often the final step that they take before listing a default against you. If you receive a demand/default notice, contact your credit provider as soon as possible to sort out the issue.

5. If you work away or live in an area with limited or no phone reception, make sure that you have advised your credit provider(s) of this and given them your best contact method.

6. If you notice that a direct debit payment was declined, or you don't receive a bill that you know you owe, don't wait for the credit provider to contact you. Contact them and organise a new debit date. Many of the credit providers have a huge client base and insufficient resources. If a problem occurs, they may not have the capacity to spend much time trying to get hold of you to resolve the issue. This is why it is so important for you to take control of your accounts and keep track of payments made.

How credit scoring works

Let's look a little deeper into how credit scoring actually works. Veda Advantage, Australia's largest credit reporting agency, has made significant changes to how a credit report is presented—and in turn, assessed—by credit providers. However, the credit score remains consistent.

The purpose of the Veda Advantage's credit scoring system is to provide a single, highly visible means of assessing risk. Credit scores range between -200 and 1200, the lower the score the higher the risk is considered to be. Now, the really scary stuff. Let's take a look at how the system actually works.

According to Veda Advantage, a credit score of 200 represents odds of 1:1, which means the applicant has a 50% chance of having an adverse event on their credit file within the next twelve months. For every additional 100 points, the odds double, meaning the applicant has less chance of having an adverse event on their credit file.

This table reflects how Veda Advantage relates a credit score to risk.

VedaScore 1,1	Good Bad odds	Chance of adverse on file in next 12 months
…	…	…
100	0.5:1	67%
200	1:1	50%
300	2:1	33%
400	4:1	20%
500	8:1	11%
600	16:1	6%
…	…	…

Let's take a close look at this. Say a person has a credit score of 300. According to this scoring system, that person has a 33% chance of having an adverse credit event in the next twelve months; a credit score of 400 still shows as 20% chance. Where do you think a credit score would need to be before a credit provider starts saying yes?

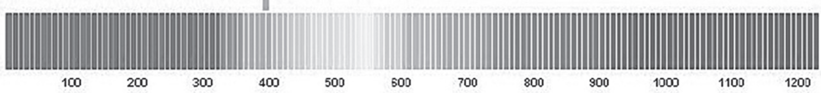
While each credit provider has their own credit policies and procedures, as a general guide they would like to see borrowers have a credit score of at least 600. For the most part, when a person applies online for a credit facility, such as a credit card, it is the system itself that decides whether to approve or decline the application and the system is typically set to review and respond based on the applicant's credit score. A credit score of less than 600 will most likely lead to an automatic decline by the system. I am sure many of you are thinking that a person would have to have a terrible credit history to have a credit score of 300; think again.

Let's look at a real example.

VedaScore Details

390

VedaScore: 390
Relative Risk: -3.2
Applicant Odds: 3.7:1
Population Odds: 11.9:1



This application has been scored using VedaScore 1.1 and is compared with the Veda sub population. VedaScore uses all available Veda bureau data to calculate a risk estimate. The primary purpose of the scores is to predict the likelihood of a future adverse event being recorded in the Individual's Veda bureau file.

Key Contributing Factors impacting this assessment	Impact on Risk
Default Information Recorded	Greatly Increases Risk
Individual Shopping Pattern	Moderately Increases Risk
Specific Default Data	Moderately Decreases Risk
Authorised Agent Information	Marginally Increases Risk

Summary Characteristics

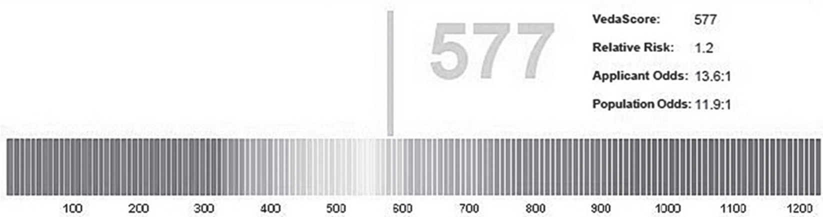
Known Identities:	1	**Age of credit file:**	19 years 3 months
Adverse on file:	Yes	**Current Directorships:**	0
Credit Enquiries - Last 12 months:	2	**Previous Directorships:**	0
Credit Enquiries - last 5 years:	35	**Proprietorships:**	0
Total Value of Outstanding Defaults:	0	**File notes:**	No
Authorised Agents - Last 12 months:	1	**Authorised Agents - last 5 years:**	4

This person had a credit score of 390, due primarily to a small paid telecommunication default that was recorded two years ago. According to the Veda Advantage credit scoring system, this score indicated over a 20% chance of having an adverse credit event in the next twelve months.

Do you think this person had trouble getting approved? You bet.

To demonstrate what an affect even a small credit issue can have on a credit score, let's see what happened after the default was removed from the credit report.

VedaScore Details



VedaScore:	577
Relative Risk:	1.2
Applicant Odds:	13.6:1
Population Odds:	11.9:1

This application has been scored using VedaScore 1.1 and is compared with the Veda sub population. VedaScore uses all available Veda bureau data to calculate a risk estimate. The primary purpose of the scores is to predict the likelihood of a future adverse event being recorded in the Individual's Veda bureau file.

Key Contributing Factors impacting this assessment	Impact on Risk
Lack of Consumer Adverse Information	Greatly Decreases Risk
Current and Historic Credit Type Sought	Moderately Decreases Risk
Authorised Agent Information	Moderately Increases Risk
Number of Consumer Credit Applications	Moderately Increases Risk

Summary Characteristics

Known Identities:	1	**Age of credit file:**	19 years 4 months
Adverse on file:	No	**Current Directorships:**	0
Credit Enquiries - Last 12 months:	1	**Previous Directorships:**	0
Credit Enquiries - last 5 years:	35	**Proprietorships:**	0
Total Value of Outstanding Defaults:	0	**File notes:**	No
Authorised Agents - Last 12 months:	2	**Authorised Agents - last 5 years:**	5

There you have it. The credit score moved from 390 to 577!

That's 187 points, and most importantly, the risk of the applicant having an adverse credit event in the next twelve months has moved from over

20% to well under 10%, which is all the difference a credit provider required to turn a decline into an approval.

The purpose of this exercise was not to demonstrate that, in the right circumstances, negative credit listings can be removed from a credit file. The purpose is to show you the affect that even one small, seemingly insignificant, credit event can have on a person's credit score.

Many credit providers understand that credit scoring's broad-brush approach results in many people not qualifying for finance even though, in reality, they would prove to be quite reliable and credit worthy.

However, the problem, of course, is that credit providers subscribe to organisations such as Veda Advantage to help them determine risk, and from their perspective, not applying these principles to their risk assessment process would defeat the purpose. Given this, credit scoring and the problems it can cause is a fact of life that we will all have to get used to.

John Dickinson, Director
Clean Credit
www.cleancredit.com.au

Borrowing capacity

When it comes to improving your borrowing power, choosing the right bank is really important, because some banks will assess debts owed to other financial institutions at their repayments, as opposed to putting a percentage buffer on top of them, in some cases up to 2.75%.

When it comes to calculating how much you can afford to pay for a property, all of your other loans and debt become very important to the lenders. They are interested in your income, and the money that's coming in versus the money that's going out.

Case Study

The following table is a Summary Report for a couple with two dependent children. One partner earns $62,000 pa, the other $48,000 pa. They have a Personal Loan for a car, with balance owing of $15,000 and they make repayments on this loan of $550 pm. This table shows the maximum loan 29 different lenders would lend in this scenario – notice how big the range is!

Disclaimer:

Maximum Loan is calculated on 80% LVR and considers only income, commitments and households.

The Maximum Borrowing Amount & Assessment Results shown here are a GUIDE only. This is not an approval of the amount able to be borrowed and final approval rests with the lender. This report is not to be submitted with the loan application to the lender – the applicant's servicing position must be confirmed in the lender's own serviceability calculator and this is supplied with the Loan Application.

Lender policies are constantly changing and the maximum loan available from each lender may have changed significantly since the time of writing.

Whist all care has been taken in the preparation of repayment schedules, graphs and other loan details and estimates of fees, no responsibility will be held for their reliability. We recommend that all loan details and fee estimates are confirmed with the appropriate Lender(s), Government Department and/or your legal representative prior to you making a decision on whether to proceed with a loan.

It's extremely important to have your borrowing capacity assessed by a mortgage broker (not just one bank) who has access to multiple lenders – because the results between lenders can be significant.

Online borrowing capacity calculators should be avoided at all costs. Speak to an experienced mortgage professional who can help you through this complex assessment process to get you the best outcome.

Case Study (Cont.)

Lender	Maximum Loan
Liberty Financial	$571,357
Future Financial	$555,509
Homeloans Ltd	$530,258
Pepper Home Loans	$530,258
ME Bank	$528,400
ANZ Bank	$527,576
PN Bank	$522,406
Bankwest	$516,200
AMP Bank	$505,885
Latrobe	$503,600
Bank of Melbourne	$503,596
Australian First Mortgage	$503,480
ChoiceLend	$498,137
NAB	$498,137
Adelaide Bank	$495,956
Commonwealth Bank	$489,902
The Rock	$482,573
Phoenix-Circle Credit Union	$475,000
QBE	$475,000
Westpac	$470,526
Citibank	$450,196
Genworth	$445,540
Paramount Mortgage Services	$445,540
ING Direct	$438,000
Macquarie	$431,000
Heritage Bank	$401,000
Suncorp Metway	$379,372
Auswide Bank	$378,000

How the banks view debt

What is important to remember is that every lender treats debt differently.

Let's say your loan costs you $1,000 a month. If you go to lender A, they may say "You're paying $1,000 a month on that loan, so we're going to take that into account when calculating your borrowing capacity." Whereas, another lender may say, "We see you're paying $1,000 a month, but we're actually going to log it as $1,100 a month, in case something changes." This buffer reduces your borrowing capacity.

Some say that lenders who do this are being responsible with their lending. Now, if it's a variable home loan, rates do waver, so that kind of makes sense. However, for other situations, it can be frustrating.

For instance, say you've taken out a car loan, and the payments are fixed for that whole period, some lenders will still put a buffer on that, even though the payments can't change.

We're taking a snapshot of right here, right now; we're not considering whether, in two years' time, if the interest rate goes up 2%, will you still be able to afford this loan. A couple of lenders out there just do everything at a blanket 8%, which means you're not going to get maximum borrowing capacity from them.

However, they will reward you with a very good experience if you meet their criteria, and if you're borrowing less than 80% of the property value you're probably going to get a really nice interest rate as well.

I know some lenders that were very generous with treating repayments at the repayment amount and not assessing existing debts based on a rate higher than the actual interest rate, whether that be new or existing lending. We're in a different environment, and it may be getting a little harder, but there are still niches for each type of lender. You just need more expertise on your side now.

The benefit of using a broker

A broker knows much more than just the products, policies, and niche of one bank. He knows that what may not be possible at one bank may be possible at another one, and he knows which one. All lenders have different criteria and niches; they have their own little stress tests and they each treat debt slightly differently. Brokers should know all the little niches of all the different lenders, so by just speaking to a broker, you improve your borrowing capacity.

If you go into the bank on your own, they only have their suite of products to offer and they only use their policies when determining whether you can or you can't do something. Say that a couple that banks with bank A go into that bank to buy for their first time, and bank A says, "You can buy a property up to $400,000." If they do not use a broker, they will take what bank A says as gospel, even though the property of their dreams may be $450,000. They would never know that lender C or F would actually lend them the amount they need because they don't have a broker to tell them that.

Lowering debt to increase borrowing capacity

Paying down debt is another way to improve your borrowing capacity. If you have a personal loan, try to fast track the payments and get out of it quickly. Make a concerted effort to reduce all debt and to reduce your credit card limits. If you're not using your credit card limit, put the ego aside reduce your credit card limit and see how your borrowing capacity increases. I know some people who are actually chopping up their cards and only using Visa debit, so if they don't have the money, they don't get it. That's a really good way to force yourself to save, or at least think about what you're buying.

All this is about trying to make you look attractive to the lender. If you have a few cards, and your credit looks a little bit messy, you need someone who can take a strategic look at your situation and work out ways of making you look more attractive. It is about reducing debt.

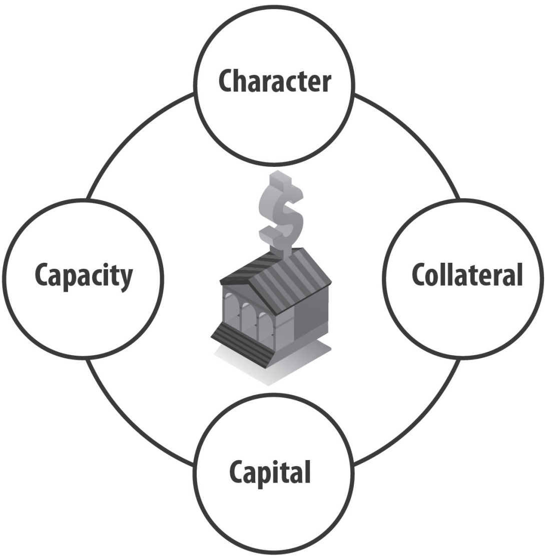
Key Point

If you have a card with a $50,000 credit limit, but you never go over $6,000 in any one month, if you drop the card's limit down to $10,000, the difference in what the banks are willing to loan is just phenomenal.

The fact that you've been given credit is a plus in one sense, but you don't want too much of it either. Especially not 5 or 6 credit cards, because when banks see that, it's pretty much a deal ender, especially if you're trying to borrow with a top tier lender. You may still be able to get specialist lending, but you're going to pay more for that. So, again, it comes down to being prepared and just being smart about your finances.

The 4 C's: What the banks look for

What the banks look for when you go to borrow from them can be broadly put into four categories, each starting with a C: Character, Collateral, Capacity, and Capital.



Character

When it comes to character, the banks are looking at the stability of your employment or the consistency of your income. They also look at whether you've been living in the same place for a while or if you have moved 5 times in 2 years. They want to see stability.

Many people don't realize that things like how many times you've moved in the last 5 years, or how many different places you've lived is important, but it is. The banks get your report, so if they see that you've moved 5 or 6 times within the last 2 or 3 years, they're going to wonder what's going on. They just want to see that you're what they would call a 'solid citizen'.

They want to see that you have been in the same job for a while, or in the same industry and advancing in your career. So, if you're thinking that you want to purchase or get into the market, wait until you've successfully bought and settled on a property before you change jobs. If you've just started a new job, most lenders want to know that you have gotten past your 3- or 6-month probationary period and that you still have the job.

If this job change is a promotion, where you make more money, you may be thinking you will be eligible for a bigger loan. However, because it's a new job, you may end up having to wait 3 or 6 months before the lender will be happy to lend you the money. This is especially true if the move is from one profession to a completely different one, in which case, some lenders may want you to have been in that role for 12 months before borrowing.

As far as character, they also look at credit inquiries. If you've applied for numerous loans within the last 6-12 months, they will see multiple inquiries, potentially red flagged. If they're for the same amount of money each time, that waves flags that you don't necessarily need to have waving.

Collateral

Next is Collateral, which reflects the value of the property that you're buying and providing the bank as security for your loan. The banks job is to minimize their risk when lending you money, so they want you to buy property they consider low risk – and they will lend you more money than if you buy a property they consider higher risk.

For example: they won't lend you as much money if you purchase a serviced apartment, a small unit that is under 30 square meters in size, or in certain locations such as mining towns. Some lenders won't give you any loan for these types of properties.

So the type of Collateral is very important and if you want to borrow the maximum amount, you will need to buy a property the bank is happy with. On properties they really like, especially owner occupied properties, they may allow you a 95% loan-to-value ratio (LVR); and, in some cases, they will even add the cost of their lender's mortgage insurance premium to your loan, making your LVR 97%.

Capital

The collateral is the security that you are putting up for the lender to loan against. Capital is how much you're putting in. Some people refer to it as, "How much skin in the game," or "How much hurt money."

The more you put in, the better it is for you, because you'll have a smaller loan. It also means less risk for the bank, so they love it. Often, banks seem to be a little bit more generous with valuations when the loan is 80% of the value of the property or less.

Capacity

Capacity describes your ability to actually service the loan. All your income, your various streams of income, are taken into consideration, along with existing debts as well as potential new debts. The bank is looking at whether you can service that loan.

Keep in mind that they will buffer your new borrowings, adding a percentage to the amount to allow for changes in the coming months and years. They're stress testing you. Normally, that buffer range is between about 2%, even up to around 3%, depending on the lender. What they really want to make certain of is that you could still afford to service that loan, if your interest rates went up by 2%.

Every lender looks at the same four Cs—Character, Collateral, Capital, Capacity—but they each look at them slightly differently. But, they're all interested in character and whether you have a good track record.

Key Point

You can do a few things to improve how you look to the bank. As you prepare to buy property:

- Clamp down on credit cards and personal loans, and consolidate if you have a few debts.
- Don't move house and don't buy a car, and don't change jobs.
- Save up a good deposit or come up with one somehow. Try for a large enough deposit that it makes the banks happier to look at your loan.

Additionally, don't buy a property that's at the absolute limit of your capacity. It's very important that you leave yourself a buffer. I want to stress that you don't want to be a slave to debt; you also want to be able to live as well. If you can't enjoy life because you're stuck at home, living on boiled rice, you will probably grow to resent the property and the restrictions on your life style.

Long-term plan

You need a long-term plan, and most people don't have one. Having a plan can get you where you want to be.

Let's say that, for example, you can't quite afford to buy and live in the suburb that you passionately want to live in. If you have a strategy, a plan, you can make moves to get into the market in other ways, it may be possible.

Special Contribution

The following content has been provided by Andrew Crossley, a Buyer's Advocate and Property Advisor from Australian Property Advisory Group.

Why use a buyer's advocate to help purchase your property?

When someone is looking to buy a property, whether it's an owner-occupied or an investment property, they typically deal with a real-estate agent. While those people may feel that the agent is showing them the property and helping them out, the agent is really working to maximize the sale price, which is counter to what the buyer wants.

The agent is not there to get the best price for the buyer. In fact, it is the opposite; they are trying to get the most money out of the buyer. To rely on a real-estate agent is against the buyer's interests in every way, shape, and form.

A buyer's advocate represents the buyer, not the seller. A good buyer's advocate protects their client from bias and non-objective opinions, provided by real-estate agents and property-marketing companies. So, a buyer's advocate, or a buyer's agent, in the true sense, acts on behalf of the buyer to source a property. They are independent of the property; they're not engaged or employed by the seller.

A real-estate agent essentially works for the vendor and is not independent of the property. They may be very friendly to the buyer, and answer many questions, but anyone who is employed to sell property cannot look after a buyer properly, and they do not look after the buyers' best interests. They have a vested interest in the property and they cannot ethically or 'otherwise' represent the buyer in the same transaction.

It's a little bit like comparing a mortgage broker to a bank. When someone walks into a bank, the only products that bank can offer are that banks products, whereas, a mortgage broker can offer products from a range of lenders. A real-estate agent is looking to sell the property they have to sell, whereas the buyer's advocate sources a variety of available properties and presents these to the buyer, most importantly, properties that the buyer's agent has not been engaged to sell or market by the vendor.

Many people are time poor and need someone to help with the legwork to find a property that meets their needs. They don't have time to go to open houses every weekend. They don't have time to go to auctions or the time required to understand the rules of the game at an auction. They may fear emotion taking over at an auction, causing them to bid above an amount they should bid.

It's important for each buyer to seek out the services of someone who will look after them personally. Someone who will educate them and shelter them from the games that real-estate agents play and the non-disclosure regularly practiced by property-marketing companies as to commissions and bonuses that will be earned by promoting any property.

A buyer's agent helps those time poor people with research, with sourcing, with attending auctions, with attending open houses, with doing all the leg work, and negotiating on the buyers' behalf. In fact, a good buyer's agent is typically better at negotiating than a buyer is, because they do it regularly, which means the buyer's agent can potentially save the buyer a considerable amount of money.

What makes a good buyer's advocate?

A buyer's agent traditionally follows a brief. They go out and find what the client is looking for; what the client wants. A bad buyer's agent is just an order taker. They may not follow the brief properly, or they short list properties that only meet some, not all, of the client's stated criteria.

Perhaps he/she is lazy and can't be bothered to spend the necessary time to find more appropriate properties. Many of them don't have the adequate financial knowledge they should have, and they may not consider things that would adversely affect the buyer's ability to apply for finance.

Perhaps they've met the brief. For example, a client comes along and they want a four-bedroom house with a swimming pool in Toorak as an investment property. The buyer's agent may find that property, on the right sized block, with the right size bedrooms, and maybe even the right colours. However, they may ignore things like whether or not it is on a busy road, whether it is near high tension power lines, whether it's near an industrial area, or even whether it's priced above the medium price. This buyer's agent may just try to find the property the client wants, rather than considering the size, the proximity, and the location, as well as all the things that go into getting a loan for the property.

On the other hand, a good buyer's agent helps guide the client ensuring they consider properties that align with their stated goals, rather than simply finding something the client thinks they want. This type of agent is aware of what properties to avoid.

He may guide the client away from considering a serviced apartment, student or studio accommodation, a high-rise, high-density apartment, or an apartment with under 50 square meters of living space. He helps take into account things that the buyer hasn't thought about. After all, his clients may think they know what they want, but they might not actually know what's best for them. To add some additional clarity here, as to the context used when referring to good and bad. I refer to the differences associated with a client who is involving emotion and or is just looking for a principle place of residence, as distinct from a person wanting to purchase an investment property.

It's easy to distinguish a buyer's agent that is not very good. They lose touch with the market, especially if all they focus on is owner-occupiers, as opposed to agents who focus on investors. Those who focus on investors pay attention to trends in data. Other people don't do that; they look at everything in terms of that moment in time. They may pay attention to media hype, hearsay, and opinion more so.

Good agents avoid hearsay, hype, and opinion and look for trends in several different data points, including median price, growth over twelve months and over the last five years, over the last ten years, the time on the market, the capital growth, yield, vacancy rates, stock on market, and supply and demand. A good buyer's agent also drills down to street level.

The best buyer's agent is insured and qualified to provide advice. At a bare minimum he/she is recognized as an agent's representative. However, it is better to deal with a fully licensed agent, licensed in more than one state is even better. He/she, to add even more value to the client, is in a position to provide advice and then should not only be insured to perform the duties of a buyer's agent, he should also have insurance that covers him/her to give advice.

This is a true distinction, unlike in other industries, where you can more easily buy insurance off the rack. In a regulated market, it's easier to tick boxes and buy insurance. In an unregulated market, you can't just tick boxes because there aren't really boxes to tick. You have to demonstrate a very compliant, ethical, buyer-centric model, complete with fee disclosure and a code of conduct, in order to be entitled to give advice. It's the difference between earning an entitlement, rather than simply ticking a box with the expectation that you're going to receive an entitlement.

Qualifications to look for?

They should also be a PIPA member. PIPA, which stands for Property Investment Professionals of Australia, is a group that provides education and a benchmark of qualifications. They also practice a code of conduct that any property advisor, if they're good, will adhere to. Going a step further, a good property advisor would be a qualified property investment advisor, rather than simply being a member of PIPA.

Property advice has to come from a property advisor; Not from a financial planner, nor a mortgage broker, nor an accountant, in the same way financial planners shouldn't and cannot give mortgage advice under their financial planning license. Property advice is a model that is buyer centric. It has come about because of the rise in the number of spruikers and because financial planners are not licensed, generally speaking, to provide specific advice on property.

ASIC does not recognize property as an investment security. The most a financial planner can do is allow some asset allocation toward property as an asset class. A financial planner cannot help you develop a financial plan that includes advice for a specific property. A good financial planner, if not suitably qualified, will point you in the direction of a buyer's agent or property advisor.

Property Investment advisors, operating solely as property advisors and or buyer's agents, can only deal with property, not shares or insurances. A property advisor looks at your risk profile, at your risk appetite, at your goals, and they do a fact find on you, to look at your assets, your liabilities, and your income. They really hash out what is not unsuitable in respect to your job security, your health, your age, and your goals. A financial planner doesn't, on the whole, do that from a property perspective, (if qualified or operating purely under their financial planning license/ license provider.

A property advisor is equally important, if not more so than a financial planner because property is one of the best ways to build wealth. After all, most people who have made money in life have made it through property. A greater percentage of the world's millionaires are property, not share, millionaires.

Some financial planners have dual accreditations that allow them to put another hat on as a property advisor because they may be insured and be a member of PIPA. However, if they're not a member of PIPA or PIAA, or they're not insured to provide advice, and they're not disclosing what they're earning, just walk away.

Buyer's advocate fees

Obviously, someone who has this level of expertise is going to require some sort of fee or commission. I think many people are scared of fees and commissions; they see a big fee, and they get worried. Actually, they should be more fearful of not paying a fee, because you normally get what you pay for.

It depends on what you want and what you expect to get in return. Some people just want to go to a popular fast food chain. That's well and good; you know what you're getting. Some people want fine dining or they want healthier foods, and they're going to spend more money for that. You have to shop around for the price you're willing to pay.

It is similar to paying a fee to a financial planner for them to design a plan to meet your needs. That's a no brainer because that person could make that fee back for you many, many times over. A very good buyer's agent or a property advisor can guide you toward a better location to invest in than what you might have chosen yourself. They can also help with finding a property that has a lower risk of having future problems, saving you money on repairs, maintenance, location problems, issues applying for a loan, and more. Furthermore, when you go into a transaction with an experienced negotiator going to bat on your behalf, there is a greater likelihood that they will make some money for you or save you some money in that transaction.

Many people buy a car with little forethought. They buy a lounge suite without any consideration other than its colour and whether it fits in the room. When you're buying a property, as much as you can, you want to reduce the risks of making any mistakes, as just one can cost you several hundred thousand dollars.

I think the figures speak for themselves; it makes sense to pay someone a few thousand dollars to help you reduce the risk of making a several hundred-thousand-dollar mistake. It is important to look at what you are getting to understand that the fee allows you to employ someone to locate and interpret data in a way that reduces the risk of investing in property. There are some intangible things they save you from, as well as the many tangible ones. Not only that, they do all the work for you, in locating and researching property, so you don't have to lose time and money and stress about it in the process.

Better than free

There's a difference in what happens when you pay for expertise and when you go to some seminar expecting to receive something for free. Many of those free informational seminars are run by spruikers, which are basically sales people. Anyone selling something is spruiking something. When you go to one of these property-marketing companies, you may not pay them anything, and they will probably give you a beautiful, glossy brochure. For many people, it is very appealing to not have to pay anything, especially when it all looks so nice.

What people don't think about is that they shouldn't have to pay anything to deal with a person who represents the seller, so not being paid for the bits of information they may share is no real bargain. Some people are drawn in by having something attractive offered to them, even when what is offered, while appealing, is not necessarily suitable to their personal situation.

If you want someone to help you make more potential capital growth or yield and to reduce risk with your purchase, do not deal with a property-marketing company. If you really like dealing with someone who typically doesn't disclose what they're earning, or typically is employed by the developer or vendor; great, go right ahead. If you really want to be sold to under the guise of helping you; well, you should get your information and property assistance from one of these marketing companies.

For some people, unfortunately, the fear of doing something is greater than the fear of doing nothing. These people may retire just on the Government pension, like 85% of the rest of the population, and play bingo for the rest of their lives because they can't afford anything else. Nothing against bingo, but it would be nice to have options other than only being able to afford to go to the local bingo hall.

On the other hand, sometimes people do get excited about really low interest rates and think, "Maybe it is time I overcome my 'coulda-shoulda-woulda' attitude, and inaction or procrastination, and actually do something." Then, they go out and buy from a spruiker, or real-estate agent thinking that getting involved in the property-market is all they really need to focus on. The reality is that could be the worst thing they could do.

It's great that they are going to buy property; it's absolutely better than doing nothing about their future. But they need to give themselves the respect they deserve by trying to do it better; to do it right. Regardless of how appealing it is, it is not good when the property leads the transaction rather than the buyer's best interest leading the choice of property. An investor shouldn't just buy anything just to have something or just because interest rates are low. They should deal with someone who represents the buyer, not the seller.

People struggle with knowing whom they can trust and many people have broken that trust in the past. However, many experts are out there who will do the right thing, who do disclose their fees and who are independent/objective.

What to look for in an investment property

What investors should look for in a property depends on their individual circumstances and their goals. Obviously, there are some common things you should look at. These can include: a trend in certain data, supply and demand, population, infrastructure, proximity to 'good' infrastructure, a suitable dwelling for the demographic in that area that allows it to rent out easily, and it is preferable not be on main roads, near high-tension power lines, under 50m² of living, or in high rises.

Sometimes developers will calculate the living space based on the measurement around the outer shell. However, it is possibly best judged by looking at the internal dimensions, not including the thickness of the walls. This sometimes creates a big discrepancy between the actual living space and what the developer claims as living space, and people can be misled by that. If you do buy a really small dwelling, under 50m², you're going to have fewer people that would want to buy it in the future, it is more difficult to sell and is riskier, which means it may be hard for you to finance it.

There are many ramifications to buying the wrong type of property. From a lending point of view, if it's hard for you to get a loan on a property, obviously, when you eventually sell it, it may be hard or harder for the next person to buy it as well, due possibly to finance limitations. You may end up with a limited resale market and therefore, lose some profit because you have to lower the price.

In fact, you may also be limited in how much you can borrow based on the type of dwelling. If you can only borrow 60% of the property value, you have to put in much more of your own money. This will present future problems for building your portfolio because you've lost the opportunity to use that money elsewhere. It's a huge opportunity cost; a huge cost to use an unnecessary amount of equity in a property.

Some people don't want to affect their lifestyle with too much out-of-pocket expense in owning a property. This risk is more prevalent if you buy the wrong 'established property'. The risks are; higher repairs, higher maintenance costs, and less depreciation, among others. But, you can buy established and reduce the impact on your lifestyle if you have a buyer's agent help you, and by doing so, you decrease your risk of buying something that needs extensive repairs or maintenance.

New property has its place, but you have different kinds of new. You have construction contracts, which are around six to eight months away from being completed. With a construction contract, your finance approval is valid from day one; whereas, with off-the-plan, you apply for finance now, sign the contract now, but it may take a year to three years to build. By that time, your finance will have expired. Then, you have to apply for finance again. If, by then, you've had a child, if you have more debt, if you have more credit cards, if you've lost your job, if your income's changed, or maybe your goals have changed, you may not be able to get finance again and you would lose your 10% deposit.

Points to consider when buying

1. Seek advice from a suitably qualified and insured individual whom represents the buyer.

2. Thoroughly research everything.
3. Have a plan.
4. Start with your goals and work backwards.
5. Implement a finance strategy with the help of a property advisor.
6. Avoid property-marketing companies.
7. Research key criteria, which include the number of days on market and potential for capital growth, vacancy rates, population growth, supply and demand, percentage of investors in the area, infrastructure, and suitable dwelling for the demographic.
8. Have a suitable strategy for meeting your individual needs, whether new or existing suits your plan better, as well as capital growth vs. cash flow, inner city or regional. They can all have their merits, but not all are suitable for everyone.

What you should know about spruikers

At least real-estate agents are honest about their goals and what they are trying to do a lot of the time. They are clear that they are selling a specific property.

The derogatory term, spruiker, refers to property-marketing companies (generally) who can far too often be less ethical and less honest about who they represent and where their vested interests lie. They typically don't disclose what they earn. There are many things wrong with a spruiker. At least with a real-estate agent, you know what they're earning and who they're representing.

A spruiker is smooth, and it's to be drawn in to the tales they tell. A spruiker will sell you a property off a stock list. They can tell you how wonderful off-the-plan apartments are. How wonderful living in a city is. How wonderful the house and land estates are, but they only tell you part of the story. Such properties may grow in value, but probably not as much as the better researched property you find using someone that represents you, not the seller, and can sift through much of the stock out there.

It's vitally important that you make yourself aware of what's going on behind the scenes; the motives behind what property-marketing companies and spruikers are doing. Many of these property-marketing companies are incentivized to promote a certain building to you and this can include being based on a large bonus they could receive in return.

Property-marketing companies may often be very liberal with the truth and the facts. They're often liberal with how they disclose reality and with how they correlate all the facts. For example, these property-marketing companies, these spruikers, will talk about population growth in isolation from the area's supply and demand. You can appear to have population growth, but what you may be seeing is an overkill of supply that the population growth does not come close to mitigating in the short term.

Spruikers will typically use throwaway lines. They'll say things like, "Property has doubled every 7-10 years." In many areas it has, but it may not continue that way in the next 10 or 20 years. The areas that have that sort of growth may become harder to find. Often, new areas have a huge amount of supply, so the sheer cost of holding a property for the short or medium term becomes untenable, if the investor has to drop their rent to compete.

If you've been invited to a seminar where you're basically locked in a room with somebody who's trying to put you into a property, where things are happening too quickly, they are building things up and are pushing you to make a decision, it's a dead giveaway that you're dealing with a property-marketing company or a spruiker. Just walk away from that; do your research, double-check things.

Many people don't have the time or the knowledge of how and where to go for the research, or how to interpret it. They don't know what data is important, what data is not, and what data should be looked at in conjunction with other data. Therefore, don't just do your own research;

get someone representing you, the buyer, to do the research and help you and educate you in that process. Otherwise, you risk giving up because you run out of time, or you take the easy option and listen to the guy, convincing yourself that it will all be okay.

One of the best ways to tell whether you are dealing with a spruiker or someone you can trust is to look at their documentation, to determine if they disclose what they're earning to you. If they do, make sure they have insurance to give advice, rather than only having insurance for selling a property. People have a right to earn money, but property spruikers do not typically disclose what they're earning and that's wrong. It's unethical and nonconforming to how a compliant model should be.

Anyone can get insurance to sell property. I use that as a point of difference because every mortgage broker, financial planner would typically have professional indemnity insurance, as would accountants, lawyer and doctors and cleaners. In property, insurance is harder to get, so the one's that do have it for property investment advice are the ones classified by the insurers as a lower risk, and therefore, safer for a buyer to use.

Anyone that offers to find you only new property you must suspect as being a spruiker. The professional you work with should thoroughly understand your needs, your goals, before setting out to source a property for you. Some people are very good at pretending they do that, only to circle round and come back to their limited supply of stock, usually in one area, or one part of town, or one state.

A true property advisor would have access to new and established properties across Australia – and certainly across the eastern seaboard of Australia, where 80% of the population is located. You don't necessarily have to have someone who searches property in Tasmania, Canberra, or Northern Territory, but certainly in Queensland, New South Wales, and Victoria, rather than being limited to one state.

Avoid: The vertically-integrated system; this involves several people, such as a conveyancer, a broker, a salesman, maybe an accountant that usually have access to only a certain few lenders/products that they know may provide a loan for the specific product they have to sell. That doesn't mean it's a good product. The fact that there are a limited number of lenders that will lend on that product is a giveaway that you shouldn't buy that product.

A vertically-integrated company promotes the fact that they are a one stop shop and they do everything for you. However, they often have undisclosed fees or disclosed fees that are very high, which they profit from. They have vested interests in what they're doing, rather than keeping the buyer's interest essential to the situation.

Vertically-integrated models are self-centric, rather than buyer centric. You should deal with independent conveyancers, mortgage brokers, and accountants. In a vertically-integrated company everyone's singing the same tune and you're none the wiser.

Take it externally to your accountant, who can give you some better advice. An external broker would be able to assess whether you should avoid that property from a lending point of view.

The conveyancer in a vertically-integrated model will normally charge much more money under the guise that you need someone to understand the contract. If the contract is that hard to understand, don't buy it anyway. Eventually, when you want to sell the property, you run the risk that fewer people will want to buy it.

My client wanted a 10-year plan to reach his goal of attaining $200,000 in passive income from property. This required a more aggressive approach than used with many clients, acquiring several properties in a condensed acquisition phase, lengthening the holding phase; then, maximising the exit phase.

One of the properties that was researched and sourced was a double dual-occupancy property for $745,000; four lots of income from four different rentable dwellings, with a yield of $1,200 per week. The market and demand for this type of property has since shifted in an even more positive direction, and now the market value is over $850,000. Once subdivided, it could be worth well over $950,000 (excluding further expected market growth in the area). He is well on the way to reaching his goal, simply because he chose to hire me to continually research the market for him and source excellent suburbs around the country as well as properties to suit the demographic in those suburbs.

Andrew Crossley, Buyers Advocate and Property Advisor
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Budgeting

First off, having a plan is about budgeting. As a rough rule of thumb, it's estimated that the average mortgage is between 30-40% of your monthly salary. That suggests that you owe it to yourself to know what your true expenses are, to truly know whether you can properly afford a property.

ME Bank conducted a savings intention survey. It indicated that less than half of Australian households set an annual budget, and less than half of those studied who do set a budget, stick to it. It also revealed that 40% of households studied don't keep track of their monthly expenses at all. A similar proportion don't pay their credit cards off each month. If you think about that, credit cards interest rates are 19-20%, so put plainly, it's just wasting money.

You'd be amazed at where you can actually waste money. If you are working in the city, you may buy your lunch every day, and you may have three coffees a day. But think about it; would you rather have three coffees a day or would you rather buy an investment property? Sometimes, it can be just that simple. Budgeting is about deciding what you really want and coming up with a plan for it. At some point, you are going to hit an age where you're going to have to think about this.

Good savings habits require commitment to detail, and you need to stay disciplined about it. Keep track of your real costs, that way you can set realistic budgets, which may be the very thing that will get you into the house you want. It just makes sense.

Valuable Resource

The MoneySmart website (www.moneysmart.gov.au) has a fantastic calculator. If you can put an hour aside, dedicate the time, and honestly put in all your income and expenses, it will give you a good indication of what is actually possible.

Break up your fixed costs, like electricity, water, which you really can't control, versus your variable ones which are more of the luxury items. Maybe you like to go out for dinner three nights a week; determine whether you can cut that to one. You would be amazed by where you actually waste money. By creating a budget, it makes you more accountable, which can be all it takes to get you on the path to saving.

Many people don't like budgets, don't like planning, but simply keeping track of the money you spend is not a difficult task. You have to make a decision about whether you want to continue on this path, or whether you want to get a bit smarter with your money and invest it for the future by buying property. Making that decision is not that difficult either. Then, it's easy to make a property checklist; just get out a piece of paper and write down what you want.

Develop the dream

Once you have a budget, it's time to work out what you really want. Start thinking about your ideal house, or unit, whatever it may be. It's time to think about where you want to live, and what sort of features you are looking for in a house. There are checklists available (see the next page) to help with this part of planning by allowing you to tick things off, like how close you want it to be to public transport. Maybe you love the café culture. You really want to start thinking about where you want to live and what you want to live in.

What are you looking for?		Essential	Preferrable	Handy
LOCATION	Close to work			
	Close to schools			
	Close to parks			
	Close to shops			
	Close to amenities (i.e. hospitals)			
	Close to sports grounds/local clubs			
	Close to train station/bus routes/public transportation			
	Close to family and friends			
	Close to leisure and entertainment (i.e cinemas)			
INTERNAL FEATURES	Separate dining room			
	Separate children's rumpus room/parents' retreat			
	Open plan layout			
	Guest accomodation			
	Additional toilet/bath			
	Study			
	Modern Kitchen			
	Built-in heating/cooling system			
	Built-in wardrobes			
	Additional storage			
EXTERNAL FEATURES	Fully fenced yard			
	Double/lock-up garage or workshop			
	Gas cooking/heating			
	Outdoor area			
	Off-street car parking			
	North facing			
	Swimming pool			
	Security System			
	Fully remodeled/landscaped - no work required			
	Requires remodeling/landscaping - work required			
	No steps			
	Low maintenance			
	Street lighting			

When you make a list of what things are important to you when shopping for a house, it gives you little prompters about what type of property you actually want to live in. It also helps you to think about the future a little bit, allowing you to project forward and see where you want to be.

You may want three or four investment properties, and that owner occupied property that you've purchased could be a very important vehicle that allows you to get into investing. Buying the right owner occupied property with good capital growth creates equity, which you can then release to allow you to get into the world of investing.

Once you have thought about the dream, it's time to engage your broker to see whether the dream can be fact or fiction as far as affordability goes. All the things that you're after may not marry up with what you're potentially able to borrow from a lender. Your broker will look at all the figures and break down what is and is not possible. This is when you start creating a checklist of what you want based on what you can get.

Buying property requires big scale planning. If we were choosing a holiday, we would plan that to the n^{th} degree. We'd know what planes we're catching, what we are going to be doing on each day, etc. We know we do this, so we know we have the ability to plan things very methodically if we want to, and to save for them. We work out which are the most cost-effective flights, how much we can afford for accommodations, what's the best deal, and how long should we stay. We need to do that same type of planning for property.

Renting vs owning

Some people want to live in the ritzy, if you like, suburbs where they know they can't afford to buy, so they will rent there and buy an investment property elsewhere that will give them some capital growth. They're still buying property, but it may not be their owner-occupied property. They have a plan; they know they want to live in this particular area, even though they know they can't afford to actually buy there. They can afford to rent, and they can still afford to invest in property in other areas.

CHAPTER 3

Your expert team

Your team

Some people are completely time poor, and simply don't have the time to do all the necessary activities that are involved in purchasing property. These people will need help. Really though, any one person, especially one who is not even in the property investing industry, simply can't be expected to become an expert in all the necessary areas.

In order to just go into the bank and organize your financing, all of a sudden, you have to have all of this legal knowledge, and the ability to read contracts. If you decide to do all of the conveyances and inspections yourself, you have to determine whether the property you're potentially going to buy is structurally sound, or whether it has any pests or vermin. Then, you have to prove it.

You have to work out exactly how much insurance coverage you need. You need to know how to negotiate properly, because negotiating is a skill, and there are very good negotiators as well as some very poor negotiators. And what about all the accounting work required for investment purchases? You have to be able to do that yourself as well.

All in all, you have to be a very highly skilled individual with a large amount of time on your hands. Yes, you may save yourself a lot of money by doing it all yourself. However, if we put a value on time, it's really is a no-brainer. Why not get people who are experts in their field to help you? In many cases, such as with a finance broker, you don't need to pay these professionals anyway, because the bank actually pays them to introduce business to them.

Each person on your team brings expertise and years of experience with them.

Take the financing for example; you could try to go online and research 10, 20, 30 different lenders, which means a couple hundred products. You could try to do the comparisons, and spend the good part of a week or two weeks trying to get through them and whittle the possibilities down to the best one or two.

However, after all that work, you won't have accessed a tenth of the expertise and products, and you may not have even looked at the one that is truly right for you. On top of that, it's not just about looking up who's going to lend you the most money at the cheapest rate; you also have to know all the lender's intricacies and policies.

When you go it alone, you can also risk buying the wrong property. When you sit down with a buyer's advocate, you can discuss what your criteria are for the property. You can decide whether you want it to be cash flow positive, neutral, or if you actually want capital growth. Your buyer's advocate can help you decide. He can help you see that you may be able to buy a cheaper property that still has great capital growth potential; the only reason it may be cheaper is that it needs some cosmetic renovations, which adds extra capital value to the property.

You also need experts for the building and pest inspections, because, if you buy a property and then realize it has termites, it's too late. If you haven't done everything possible to ensure this is a good property, which can be difficult when trying to do it all on your own, when the bank does their evaluation, the lender could decide that it is not a suitable security.

If it is an investment property, you need a property manager to manage your property as if it was their own, and an accountant for preparing your tax to ensure you take advantage of all allowed deductions.

Who is on your team

If you really look at everything buying property requires, it's very hard to be an expert in every single field. That's why you need to have that team. Let's just recap who's on the team:

- Your Mortgage Broker is your conduit to all the different lenders, and to the particular loan that suits your circumstances.
- The Solicitor/conveyancer has a two-part role; first, when you're making a preliminary investigation of a property, they will assess the Section 32, otherwise known as the Vendors Statement. Once a property has been purchased, they're also involved in the settlement process, where there are many things they deal with, including insurance and permits.
- The Building Inspector makes sure that what you're purchasing is sound in structure and that there are no major issues for you to be concerned about.
- The Pest Inspector looks for termites or white ants, or anything pest related that may be an issue with the property.
- Even though the Real-Estate agent is working for the vendor, which you should keep in mind, it's very important to stay in contact or get to know your real-estate agent.
- The Buyers Advocate searches for properties for you to purchase that fit your criteria. They can also negotiate on your behalf.
- Financial Planner's deal with a broad assortment of things; however, in this instance, at the bare minimum, they help you figure out insurances. When you put yourself into a large amount of debt, especially if there are other people involved, whether that is your partner or your children, you need to think about

life insurance, total permanent disability insurance, and income protection. Financial planning can also be more holistic; it can help you plan for the future, as well.

If you are thinking about investing, you will deal with some additional players:

- The Accountants predominantly deal with your tax returns; do the negative gearing calculations, and the forms that need to be sent to the Australian Taxation Office (ATO).
- Quantity Surveyors prepare what we call a Depreciation schedule which is then supplied to your Accountant come tax time. As a building gets older and items within it wear out, they depreciate in value. The ATO allows property investors to claim a deduction related to the building and plant and equipment items contained within it. It can be claimed by any owner of an income producing property. This deduction essentially reduces the investment property owner's taxable income – they pay less tax!
- After you've purchased an investment property, you will want to employ the services of a Property Manager to manage your asset; to ensure that it's tenanted and well looked after.

Special Contribution

The following content has been provided by Tony Nagle, an Accountant from Nagle Accounting Pty Ltd.

Insights for the owner-occupier buying their first property

Why buy a house?

You always need somewhere to live. The purchase of your first home or apartment is the sensible first step in any financial plan. What was previously rent now becomes a partial repayment of equity which should increase over time. An additional benefit is that your principle residence is not subject to capital gains tax which is like a free kick from the government. When you downsize you can cash out tax free.

Other benefits of home ownership include protection against rental increases and stability of tenure. It's always good to try to buy something that's big enough to grow into, as the transaction costs from switching properties are enormous with stamp duty and selling costs the main culprits.

I would recommend where possible to pay principal plus interest on your repayments, thus you are paying your loan off and this helps to build equity in your property.

Flexibility & loan type

While our experience over the last 10 to 15 years may indicate otherwise, you can't always rely on property to increase in value at a greater rate than inflation. The best way to build equity is to pay off principal and interest via an offset account. By making principal and interest repayments you are paying your loan down from day one. This enforced savings, combined with the hope of capital growth, over time creates more equity in your house that can be released should you decide to invest in the future. It's quite possible that your first property purchase may become an investment property down the track, so it's a smart idea to make any extra repayments over and above the minimum monthly payment into an offset account, rather than directly onto the loan itself. This has the effect of saving you interest and also ensures that you have the maximum deductible debt possible if you decide to convert this property into an investment. Offset accounts are sensible in that they allow you the flexibility to access funds and re-allocate to other investments for the best taxation outcome.

Where possible, it's always best to borrow the maximum you can and put the additional funds into an offset account as long as you have the discipline not to redraw on it to fund a lifestyle beyond your means. I stress this point as it doesn't suit everyone. Some people just can't save and if you are one of these people don't over borrow.

Employment is becoming increasingly fluid. It's best to keep some money available to cover the times between jobs and to cover unforeseen expenses. Once again an offset account gives you this ability to cover these bumps in the road. In addition, the banks often change their lending criteria. If your current employment is solid its best to take advantage of what the bank will lend you at the time.

Over-riding all this is the need to not over-commit. Stress-test yourself; think about what would happen if interest rates increase, or you lost your job. Create a buffer so you won't be forced to sell the house.

Ownership considerations

You should consider the industry type of the major breadwinner of the household. If you are a sole trader or in a litigious position, it's always best to keep your name off the title where possible. This set-up helps protect your principle residence from legal action and is easy to organise but you should speak to a lawyer.

This transfer is only valid for a principle residence not an investment property. A change of ownership to an investment property gives rise to capital gain tax.

Negative gearing and superannuation

Negative gearing makes sense for those who are high-income earners in that the loss on the property can be claimed as a tax deduction against other income. For anyone earning over $180,000 per annum this deduction is 49%.

Generally, it is best to put the negative geared property and the borrowings in the name of the person who is earning the most income to maximise the benefit. The flipside is this person will also pay the tax on the capital gain.

Superannuation can often yield a better tax outcome than negative gearing. The tax rate of funds going into super is 15% up to a maximum of $30,000 or $35,000 depending on your age.

I strongly recommend people seek professional advice before embarking on any of the above. These ideas should get you thinking and do not constitute professional advice. Everyone's situation is different and it is important to be clear what your short and long term plans are.

Tony Nagle, Accountant
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Special Contribution

The following content has been provided by Luke Blackwood, a Building Inspector from Inspector Hawkeye.

All about building inspectors

What a building inspector is

Building inspectors are qualified and licensed builders, contracted by vendors, landlords, and potential buyers to inspect and comment on the current condition of a property.

Why someone should utilise a building inspector

Whether you are a home buyer or an investor, buying property is a big investment and not without risks. Building inspections provide valuable knowledge about the property of interest in a concise and easy to read report.

Building inspectors are not all the same

As the building inspection business is unregulated, it is important to ensure that you ask whether the person conducting your inspection is a licensed builder.

Key points a good inspector will look for

A good inspector will look through the house room by room, searching for evidence of any structural defects or water egress. The items an inspector will be looking for include cracks in the walls, structures that have moved out of level, deterioration of building materials, signs of poor workmanship, and general wear and tear defects. The inspectors will also look for other contributing factors to a property's status, such as the fall of the land, neighbouring structures, and localised vegetation.

Insisting on an inspection can really pay off

Once, a perspective buyer was considering a $2,000,000 plus home at auction in the Eastern Suburbs of Melbourne. To the untrained eye, the home was extremely well presented and would tick all the boxes of a great family home. The buyer insisted on a building inspection and a number of issues with the recent renovations were discovered. Many of the works that had taken place on the property did not meet Australian Safety Standards. The client withdrew interest and staved off purchasing a disaster.

How an inspection helps when dealing with a volume builder

The house-and-land owner is often left with the arduous task of watching and evaluating their builder's progress of works throughout the construction. Without insider knowledge of the construction process, this can be very stressful. Many quality building inspectors offer a service where they inspect the progress and quality of the build at defined stages to ensure quality for the home owner. This service cost may range from $1,500 - $2,000.

Luke Blackwood, Building Inspector
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Special Contribution

The following content has been provided by Kym Ryan, a Property Management Specialist and Director of De Freitas & Ryan Melbourne.

Why and when to engage a property manager

People typically engage a property manager in two main instances. In the first instance, the property is vacant, and they want it to become an investment property by leasing to a tenant. On the other hand, they may currently have a tenant in the property, but it may be self-managed by the landlord or another agent. In this instance, they're generally looking for experienced management, often because they're unhappy with the existing managing agent or because they're finding it to be just too big of a task to handle on their own.

If it's a vacant property, the property manager's first task is to find a tenant. The property manager will arrange the advertising for the home, list it on the internet and carry out inspections. Then, they qualify all possible tenants, checking all their credentials and deciding whether they will be a suitable fit for that property.

Once a tenant or tenants are accepted, the property manager handles the lease process, including lodging the bond with the bond authority and completing a condition report before the tenant moves in. This ensures that, at the end of the tenancy the condition of the property can be compared to make sure that the tenant hasn't abused it beyond fair wear and tear.

Then, the property manager's job moves on to managing the property. If any need for repairs arises, the property manager talks to the owner and arranges the repairs. They also carry out routine inspections and handle any disputes that arise, negotiating between the landlord and the tenant. If a dispute can't be negotiated, the property manager applies to VCAT, which is the Tribunal that resolves such matters.

The property manager collects the rent and disperses it into the owner's account, after paying any repairs, maintenance or other costs. The benefit of an agent handling this for a landlord is that, at the end of the financial year, there is an income and expenditure report; one report that tells the accountant how much income has been received and all the expenses that property has incurred over that twelve-month period.

At the end of the tenancy, when the tenant vacates, the property manager conducts a final inspection. The property manager ensures that the tenant has left the property in accordance with the original condition report. Once the tenant gives notice, the agent will advertise for new tenants to lease the home. A good manager will keep the landlord informed at all times as to what's happening at their property and be a buffer between the landlord and tenant.

What a good property manager offers

Property management is really about understanding people. You have to appreciate people and enjoy helping them with problems. A great one realizes the importance of keeping both the property owner and the tenants happy by helping them to find solutions to various issues quickly and cost effectively.

It's about treating people well, respecting their needs, and being available to take their phone calls. For me, it's above valuing people, having compassion, understanding and respect for their requests and needs.

A property manager with in depth knowledge of the rental market can be helpful to a buyer who is in the process of looking at purchasing an investment property. Sales agents can often be over confident with a rental price, expecting to get more for the property if the buyer thinks they will be able to achieve a higher rental return. That agent may very well be correct, but the rental market fluctuates up and down. When the property settles, the buyer often can't get the rent that was quoted.

As well as a rental appraisal, a property investor would greatly benefit from a property manager who can provide an independent report based on what other properties in that particular area are leasing for. Then, that investor is able to determine a realistic rental that could be achieved. If you've done your research, which the property manager can help you with, then, at least you've gone into the transaction with your eyes wide open. It shouldn't cost the buyer anything to have a property manager look at the property they're considering. A property manager offers a perspective of the property seen through a tenant's eyes which can be very helpful.

Property owners and prospective property owners are generally busy professionals, who can't easily talk during business hours. Even though a property manager may work with one buyer for as much as six months before they buy a property, one should be always available to help owners with their rental appraisals and be there to offer their opinion. This is the level of service we provide for our clients and it helps guide them through the process. By engaging a professional property manager, you are tapping into their experience and knowledge and a greater database with resources.

Landlords don't have access to the same tools that property managers do. We find that most tenants will research properties on the internet, and most landlords don't have access to advertise, which restricts their market for prospective tenants. Agents also have stock for lease boards which they use on rental properties and this keeps the cost to a minimum. Landlords would need to spend a considerable amount of money to obtain a sign which they may use once. Property managers can also hold a subscription with National Tenancy Database which enables them to check any bad history a tenant may have and hasn't disclosed on their application form.

The national tenancy database

Bad tenants who are smart and savvy don't turn to agents when looking for a place to rent. They know that property managers have access to tools, such as the National Tenancy Database (NTD), and can find out about their history, whereas landlords can't. Such tenants could present themselves to a private landlord as really nice people, making up an entire history, complete with friends as previous landlords.

An inexperienced landlord may believe whatever the tenant says. Whereas, agents don't take everyone at face value; agents have to do their research to make sure the tenant can back up what they say. They are trained and have access to NTD which helps to further determine if a tenant is suitable or not. The disadvantage of self-managing is that owners have limited experience and data access.

Sometimes, owners want to manage the property themselves, but turn to a manager to find a tenant. Once the new tenant understands that the owner will manage it after the rental application process, they can become very hesitant to move forward. The owner may be experienced and understand the Tenancies Act but often tenants don't feel comfortable dealing directly.

Another possible issue with the owner managing the property is that they can tend to get too close to the tenant. This can cause the landlord to compromise his rental income negotiation, creating a situation where the tenants have greater power in rental matters. However, if there's an agent involved, it's a business transaction. The tenant will ring the agent with the same request, but the agent is able to negotiate the situation to get the best outcome for the owner.

Without a professional trained mediator, things can go horribly wrong. Sometimes, even with an agent involved, things get complicated. Some owners get too involved with the tenant and they may never increase the rent because they don't want to upset the tenant. They end up with a lower rental return as they don't want to compromise the relationship. This type of owner really needs to have an agent who will ensure that the property keeps in line with the market and that everything's in order negotiating on their behalf.

An agent also protects the owner by managing a challenging tenant. If you have a difficult tenant, and you've been managing the property yourself, disclosing all your personal details may make you feel uncomfortable should things turn sour with the relationship. Agents use their experience to manage situations to get the best outcome for their landlords and tenants often relate better when they realise situations aren't taken personally as it is all in a day's work for a property manager.

If a private landlord has to go to VCAT with an issue, the chances are they haven't been previously and may find the process daunting which may not result in the best representation. VCAT are quite strict with their systems and procedures and expect that landlords/agents bringing matters before them have the skill to do so.

When weighing up the hassle of doing it yourself or engaging a property manager, the cost of the management fee, which is tax-deductible, seems very reasonable. There's the time factor, the risk factor, and there's the financial return factor. There's also repairs and maintenance. You may have a tenant who is very fussy and has unreasonable requests. For example, the tenant may request an air conditioner and the landlord feels pressured to install one. An agent would point out that the property wasn't leased with one and so installation is not part of the landlord's responsibility. If the owner does decide to install the agent would point out that increasing the rent would provide an opportunity to a better rental return and is justified from installing the air conditioner.

From the landlord's point of view, the property manager, representing the owner's interest, can make sure that, if they do put an air conditioner in, they'll collect $20 extra a week, making it a win-win for all.

Insurance

Many landlord protection insurance companies will not insure private landlords; you have to have the property managed by an agent, which says a lot. As your investment property is worth a considerable amount of money, most would think it a necessity to have insurance. In a way, having a property manager—the right property manager, who works for that money—is a form of insurance. A good property manager will practice due diligence when looking for a tenant, doing everything they can to lease to a good candidate. They also perform routine inspections, which should be carried out every six months.

Inspections

Regardless of how good the tenant is, it's important to inspect the property on a regular basis. An agent should physically inspect and check things every six months to make sure that everything is in order. Furthermore, many landlords may not think much of the importance of inspections. They may be happy with the tenant because they're looking after the property, and they're not messy people. The property owner thinks that, if the property is not getting trashed, everything is fine.

However, it's important to look at those little things that might not be reported, like maintenance issues, or things that could result in costly maintenance in the future if they're not dealt with now. For instance, is there grass growing out of the gutters that needs to be cleaned? If the tenant hasn't reported it to you, and it's not cleaned it's most likely going to result in costly roof leaks.

Choosing a property manager

Hiring a professional can not only save you time and money, peace of mind is priceless. Having extensive knowledge of the Residential Tenancies Act gives you confidence they will represent your best interest. People often ask how they can determine if a property manager is right for them.

Experience is a key indicator. Studies of the Real Estate industry show that the majority of property managers have up to ten-year's experience. Therefore, if you have someone who is still enthusiastic and keen, and they've been doing the job in excess of ten years, you can feel confident that they're generally happy to continue working in their current working environment.

You need to connect with your property manager. You're relying on this person to look after your most valuable Asset/s; you have to trust them. Trust is a really big factor. Let's face it, people deal with people, so that's an important part of the equation. You are trusting your agents to provide feedback and report on the condition of your investment property.

It's very important to put yourself in the shoes of a tenant looking for a rental property. Prospective tenants should be treated very well, because those inquiries help insure that the properties lease as quickly as possible. If agents are slow to respond to your inquiry, they may not be the type of agent you are looking for.

One of the benefits in dealing with a boutique company is that you're often working with the person who runs the agency and whose business relies on your success. Often in large companies there can be less incentive for employees to stay long term and build those long term relationships.

Property management fees

When it comes to property managers, fees are negotiable. The standard average fee is 7% + GST. However, some people pay 5%, others pay 8%. Many of the boutique companies charge at the higher end of the scale due to the level of service.

What is really important is to determine what level of service you are getting for that fee. If a property manager offers a cheap fee they will need to manage more properties than an agent who is charging a higher rate per property. Are they going to have the time to effectively manage the property? It is important to get the right balance between fee and service to ensure your needs are met.

You can engage an inexpensive agent who manages many properties—an agency that may have a large turnover of staff, as well as other issues—but you only pay 5% to put your property in their hands. Or, you can choose an experienced agent who comes with a high recommendation, but who charges 7%. When you compare the difference between 5% and 7%, it may only be a couple of dollars but you get total peace of mind knowing that you and your property are well looked after.

Obviously, you get what you pay for. By a quick calculation between the cheapest, around 5%, and around 7%, you are looking at a 2% difference of, let's say, $500 a week rent. That is $10 a week, around $500 a year. It is close to a weeks' rent. Now, what if that cheap agent isn't able to rent your property and it sits vacant for a week? Or what if they underquoted by $10 a week? There's the extra $500 difference. A proactive agent may cost more but the value you experience will save you time and money.

When it comes to deciding how much you want to pay for the fee, it may be a good idea to ask yourself what type of landlord you are. Are you a landlord who values quality? If so a cheap fee may not deliver the level of service you are after. Some people are happy with a cheap fee; they just want to know that the agent is there should any technical issues arise. But what happens if things turn pear-shaped, and you have to go to VCAT? Is that 5% really going to do you justice then?

Is poor service going to end up costing you money? Most owners would rather pay more for an agent who's going to be looking after the property because the financial benefits are there. It's funny how people often don't look at those numbers. It's a little bit like insurance. People sometimes look for the cheapest insurance, but when they need to make a claim, they realize that it doesn't actually give them any benefit.

Kym Ryan, Property Management Specialist and Director
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Special Contribution

The following content has been provided by Bradley Beer, the CEO of BMT Tax Depreciation.

Crunch the numbers and save

Want to be $96 per week better off?

Before walking away from purchasing a first or next investment property, make sure to crunch the numbers correctly. That next bargain may actually be affordable if property depreciation is claimed.

Astute investors will usually consider the potential rental return of the property, the property's location in proximity to local services and facilities, local employment drivers and historical growth of properties within the area. They should also work out the tax deductible costs and other deductions involved in owning the property such as property management fees, rates, interest, repairs, maintenance and property depreciation. These deductions add to the investor's net cash return and every deductible dollar comes back to the owner at their marginal tax rate.

More often than not, investors fail to consider the financial benefit of claiming depreciation prior to making their purchase. The following example shows how one property investor identified an additional yearly cash flow of $4,992 from property depreciation.

The property investor was considering purchasing a ten-year-old house priced at $560,000. They did some preliminary research and asked their Property Manager for a rental appraisal of the property, which resulted in an expected rental income of $530 per week, or $27,560 per year. The investor was also able to work out an estimate of the costs involved in owning the property. Expenses including interest rates, property

Ten year old house priced at $560,000			
Scenario without depreciation claim		**Scenario with depreciation claim of $13,500**	
Annual expenses	$36,060	Annual expenses	$36,060
Annual income ($530 x 52 weeks)	$27,560	Annual income ($530 x 52 weeks)	$27,560
Pre tax cash flow (income - expenses)	-$8,500	Pre tax cash flow (income - expenses)	-$8,500
Total taxation loss	**$8,500**	**Total taxation loss (pre tax cash flow + depreciation)**	**$22,000**
Tax refund (tax loss x tax rate of 37%)	$3,145	Tax refund (tax loss x tax rate of 37%)	$8,140
Annual costs of the investment property (pre tax cash flow + refund)	$5,355	Annual costs of the investment property (pre tax cash flow + refund)	$360
Weekly cost of the investment property	$103	Weekly cost of the investment property	$7
Difference of $96 per week			

2014_TK1

The depreciation estimates in this case study have been calculated using the diminishing value method of depreciation and are based on a full financial year claim.

management fees, rates, repairs and maintenance costs came to a total of $36,060 per annum.

They contacted BMT Tax Depreciation for a free assessment of the likely depreciation deductions they could expect from the property and found that they would be able to claim approximately $13,500 in depreciation in the first full year.

The previous table provides a summary of these costs and the investor's annual position, depending on whether or not depreciation is claimed.

Without claiming depreciation, the property investor would experience a loss of $103 per week during the first year of owning the property. By claiming depreciation, the weekly cost is reduced to $7, saving them $96 per week or $4,992 in the first year of ownership.

An investor who crunches their numbers prior to making a purchase will gain a better perspective on the affordability of the property and their future cash flow position. Once they purchase the property, a specialist Quantity Surveyor can be engaged to prepare a property depreciation schedule to ensure depreciation deductions are accurate and maximised.

BMT Tax Depreciation offer a number of ways for investors to obtain an estimate of the depreciation deductions that will be available for any investment property they are considering purchasing. The BMT Tax Depreciation Calculator is available online or as a mobile app for iPhone or Android. Investors need to know only a few details about a prospective property in order to calculate a quick estimate.

To use the calculator online, visit:
www.bmtqs.com.au/tax-depreciation-calculator

To download the app, visit:
www.bmtqs.com.au/tax-depreciation-calc-app-support

Alternatively, investors can call BMT Tax Depreciation on 1300 728 726 for a free over the phone estimate of potential deductions.

Depreciation differences: old versus new residential properties

Property depreciation is a non-cash tax deduction available to the owners of income producing properties.

As a building gets older, items wear out – they depreciate. The Australian Taxation Office (ATO) allows property owners to claim this depreciation as a tax deduction. Depreciation on mechanical and removable plant and equipment items such as carpets, stoves, blinds, hot water systems, light shades and heaters are all valid deductions. There are also deductions available for the wear and tear of the structural element of a building, commonly called a capital works deduction.

Investors often wonder about the depreciation potential of older properties compared to new properties. The simple answer is that the owners of newer properties will receive higher depreciation deductions. However, all investment properties both new and old can attract depreciation deductions for their owners.

Newer properties have newer fixtures and fittings, so the starting value of those items is higher, resulting in higher depreciation deductions. The same applies to the capital works deduction. 2.5% of the structural costs of a building can be claimed per year for forty years. Construction costs generally increase over time, making building write-off deductions on new buildings higher.

Owners of older properties can claim the residual value of the building up to forty years from construction. For example, if an investment property is five years old, the owner will have thirty-five years left of capital works deductions to claim.

Capital works deductions are governed by the date that construction began. If a residential building commenced construction before the 15th of September 1987, there is no building write-off available. Investors who own properties that are built before this date will still be able to make a claim on the fixtures and fittings within the property and include

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House	Purchase price	Depreciation year 1	Depreciation year 2	Depreciation year 3	Depreciation year 4	Depreciation year 5
Older residential house - constructed 1980	$460,000	$3,298	$2,738	$2,488	$1,968	$1,865
Recent residential house - constructed 2005	$460,000	$12,278	$10,964	$10,454	$9,697	$9,125
New residential house - constructed 2012	$460,000	$13,516	$11,864	$10,525	$10,149	$9,156

any recent renovations, even if the renovation was carried out by a previous owner.

It is always worth getting advice about the depreciation potential of a property regardless of age. The deductions are not as high on older properties but there are usually enough deductions to make the process worthwhile.

The table here shows the difference a depreciation claim can make for the owners of new, old and recently constructed investment properties.

The depreciation deductions in this case study have been calculated using the diminishing value method. The depreciation found within properties of the same price and age can vary significantly depending on the property size and number of plant and equipment assets found in the property. Additional deductions may also apply if there has been any additional works or renovations completed.

As you can see, although the owner of a newer residential house constructed after 2012 will receive much higher deductions, the owner of an older house constructed in 1980 will still receive substantial deductions. In the first financial year alone they can claim $3,298 in deductions and over five years' deductions total to $12,357.

To obtain a free estimate of the deductions available in any investment property or for obligation free advice, investors should contact BMT Tax Depreciation on 1300 728 726 and speak with one of their friendly staff.

Bradley Beer, Chief Executive Officer
BMT Tax Depreciation
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CHAPTER 4

Borrowing and finance: how it works

Borrowing and finance

To understand borrowing and finance, you need to know who all the players are and how the mortgage broking market works. There are, of course, the banks themselves that you can speak with directly to borrow money from; then, there are third party channels, which are mortgage or finance brokers.

I think banks were initially somewhat opposed to brokers and didn't really like the fact that they were encroaching on their turf, but many of them have now come to see the positives of broking. The overheads for the banks are far less, as brokers are now responsible for over 50% of all written loans, and that number is only increasing. Mortgage brokers are almost unpaid employees of every lender that they're accredited to, in the sense that, if they do not write a loan, they don't get paid.

Brokers fill a need for a more personalized service, which people are craving. The stats show that mortgage brokers are orchestrating more and more loans, and that's partly because they offer many more choices and have a lot more experience.

You can go into a bank branch and get a young twenty-year old, who really has no experience whatsoever, who will try to tell you how to invest your money, or how you should structure it. This isn't true of all banks; there are obviously some very good ones.

The key difference for me is the experience factor. Many brokers are accredited with up to twenty-five different lenders, so they are invariably going to be able to find a solution for nearly every person's particular circumstance.

The mortgage broking market allows customers the ability to approach one mortgage broker who has access to many different lenders, instead of going to any number of banks. If you're trying to compare 3 or 4 or 5 different lenders, a broker saves you time on those appointments. In fact, you can do it all virtually, in the comfort of your living room or on your lunch break, because brokers offer a great deal of flexibility.

There are many loan options available, and each borrower's circumstances are completely different. There's the classic situation where clients have gone into their lender, requested to do something, and that lender has said, "No." A broker is able to say, "Yes, we can." He may need to structure it a certain way, and he may need to use other lenders to do that, but he can generally achieve the result they want. You simply can't do that at most banks; their policy is their policy.

A good broker knows how each lender will treat existing debts, whether that be from other financial institutions or existing debt with the same lender, all this can drastically affect how much you can borrow.

Brokers are still working for banks, in a sense; they are just not working for only one bank. That's the key ingredient. A broker's role is to fit the best product to the client's needs. He is paid a commission for doing that, and he has to be very transparent in how much he is paid.

When you go to a bank, they have a vested interest. Everyone at a bank has to meet a sales target. They get bonuses for a certain number of transactions. How often have you been standing at the teller when she asks you about the last time you had your insurances checked, or something similar. They're constantly selling, trying to get their numbers up.

Many people have a relationship with their bank that goes back to when they were kids. They feel it's easier to go back to the bank they've been with for twenty years for a loan. If you have a really good relationship there, and the bank manager has been there year in and year out and has not been moved to another branch, it may be a good idea to stick with that person at that bank. However, what I find is that many people who have been banking with the same bank for twenty years are absolutely shocked when they go for a loan and are not approved.

I believe that you can have a better relationship with your broker, because you can depend on them being there for the long term. In banks, the star performers often move to different branches. After you've built up that relationship with that person, they leave, and you virtually have to tell your story all over again.

Regardless of who you use, the broker or the bank, someone makes money off your loan.

When you look at the cost of using a broker versus going to a major lender, the bank has staff they have to pay. If you think about it from a bank's point of view, the broker is probably a much cheaper proposition, because they don't have to pay their staff to manage the loan. The broker gets an upfront percentage of the loan of between 0.5 to 0.7% of the loan amount, and a monthly trailing income which is calculated on the current loan balance.

The trailing income, a certain percentage of that loan per month, allows the broker to continue to service the client. That's the expectation of a good broker. The banks pay them that money to look after the client. That is why a good broker will keep in touch with you via a monthly newsletter, contacting you yearly for a review of your loan, and making sure your circumstances or your plans haven't changed - for example you might be thinking of starting a family.

Banks typically sell products, while mortgage brokers are generally more advice or strategy oriented. They have the ability to structure things in the right way. If you walk into a bank, they are generally not going to sit down with you and try to understand your situation and help you with a longer-term plan. They'll just help you get a home loan. Whereas, a good mortgage broker would typically think about strategy first and not start by throwing loan products at you straight away.

Cross securitizing

Cross securitization is when one property is being used as security to support the purchase of another property. Simply put, cross collateralisation is a form of loan structuring where more than one property is used to secure a loan. So the borrower uses another property (aside from the one that is being loaned for) as a security for the lender.

Banks love cross collateralisation and you can understand why. They have access to and control over more of your portfolio, reducing risk to them.

Down the track, unwinding these arrangements can be very problematic. Ideally, you would release the necessary equity from one property (ideally 20% + costs so as to avoid LMI), then apply for a loan at 80% for the new property, because that way you keep the loans and properties separate, which gives you more control of your assets.

In the event that you need to sell one of the properties that is currently involved in a cross securitisation setup, the lender may dictate the terms or conditions to the sale and limit the ways in which any sale proceeds are used.

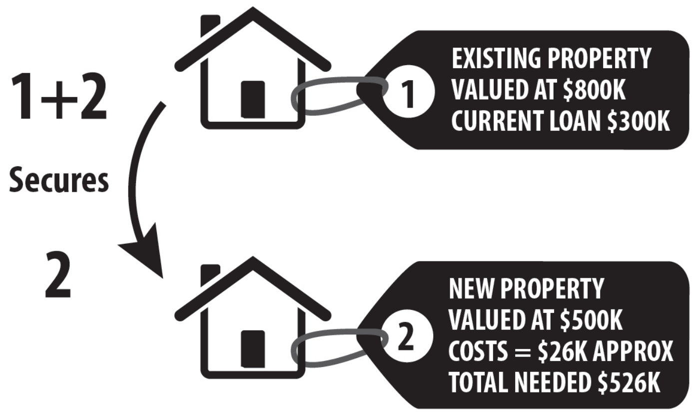
If a property is sold, the lender might require the borrower to use the money from that sale to pay down the loans of other cross securitised properties and reduce the amount borrowed. This means you won't be able to use the money from the property sold at your own discretion.

Case Study

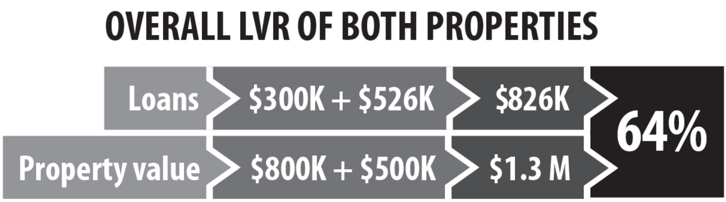
Let me try to explain with the following example.

Let's say you have sold Property 1. The one that has all of the equity. The lender quite possibly could demand that you reduce the loan against Property 2 down to the equivalent LVR of 64% of its value as that was the original LVR when the second loan was taken out when using two properties as security.

So that loan will now reduce to $336,640 ($526,000 x 64%).



Property 1 used to allow 100% lend against property 2



Case Study (Cont.)

So if you envisaged walking away with $500,000 less any selling costs ($800,000 minus loan of $300,000 equals $500,000) from the sale of Property 1 this would not be the case.

I have used a worst case scenario here as one could quite reasonably negotiate to have the Property 2 loan reduced to an 80% lend thereby removing the need for LMI. But the key point to mention is you are not controlling your assets, someone else is!

Another major disadvantage of cross securitization lies in the ability to access equity in a property. Where properties are cross collateralised the overall equity gain or loss is measured as a sum each of the properties involved.

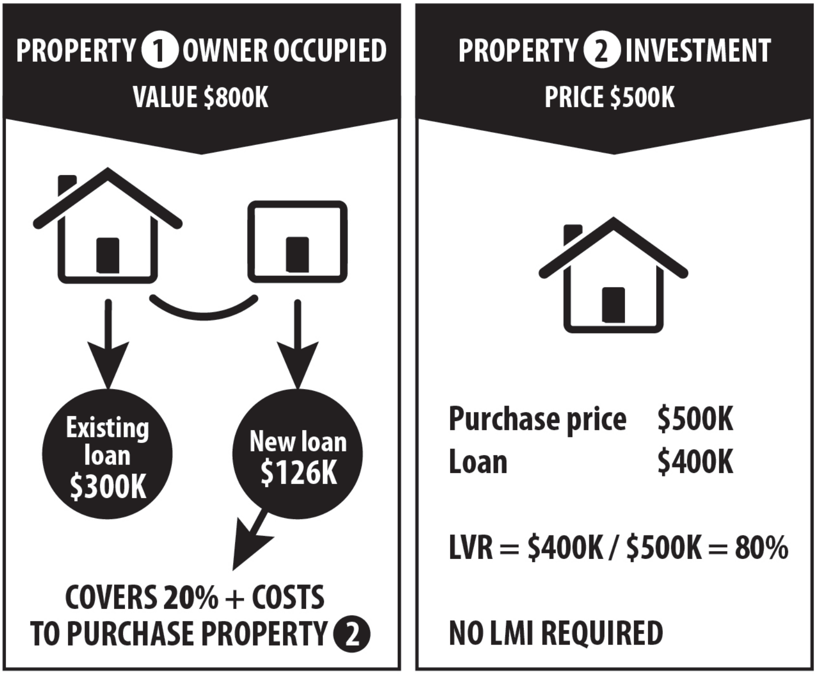
For example, you may experience capital growth in one property and wish to access that equity; however, the other property being used as security may have dropped in value and therefore the gain that you experienced in one property is essentially negated by the loss in another.

As a rule, I do not like cross securitizing properties. It's a very lazy way of doing things. But it's easy for the banks to do, and if people don't know the possible pitfalls at the onset, when they're told this is the way they should do things, they'll often just go right ahead and do it without questioning it. Remember do your homework.

Here's how I would structure the deal – 'The Smart Way' (see the graphic on the opposite page).

Notice also that by setting up a new loan split we have separated the owner occupied debt from the investment property debt. Your accountant and the ATO (Australian Taxation Office) will love you for this!

Never mix owner occupied debt and investment debt. Always keep them separate.



I personally have had to unravel cross-securitized situations for clients who have been referred to me where it was all a bit of a mess, but we were able to fix it all up and create a structure that was both easy for the client to understand and more importantly was Accountant and ATO friendly.

Bottom line is it should have been setup correctly in the first place. If you don't know what you're doing, if you don't have the right team and the right mortgage broker; then, when you approach a lender or a broker that doesn't know what they're doing, it is likely that the loan will be set up in a way that is in the banks favour.

Mortgage broker or bank?

When you're looking for a home loan, you could go to a credit adviser or to a bank. While a bank will only offer you its own product, a mortgage broker is an industry expert who will take the guesswork out of finding the mortgage product that suits you and your needs.

It's understandable that mortgage brokers are now the number one choice for consumers who are seeking a home loan or to refinance an existing loan. Businesses are also engaging credit advisers to help them with their finance needs from car and equipment leasing to loans to help their businesses expand.

What can a mortgage broker do for you?

The leg-work

Mortgage brokers already know the industry, the lenders, their products and requirements, saving you a lot of time and energy on research. They will also put the time into finding out about your particular credit situation and have a wealth of experience to help you simplify it.

Translate industry jargon

Mortgage brokers are able to make sense of what loan documents and lenders are saying – put it into lay-person's language, so to speak.

Get you what you want

Advisers will determine your borrowing needs and fiscal ability, and choose the appropriate product(s) to suit your requirements.

Give you a broader choice

Credit advisers have to offer a larger selection of loan products. While a bank can only offer you its own products, credit advisers can help you choose from a selection of loans provided by different lenders.

Act as your advocate

A good credit adviser wants the best for you, the client. They will be your cheer squad, middle-man, team player and coach throughout the process.

Help you compare apples, oranges and the whole fruit basket

Mortgage brokers have the knowledge and tools to compare hundreds of products and you get a loan suitable for your circumstances and needs.

Find you a good deal

Loan providers are always spruiking a special deal or two, and these could make a big difference to your repayments or success rate. A mortgage broker will know which of the deals on the market at the moment will be appropriate for you.

They're in it for the long haul

A mortgage broker won't just love you and leave you – they will oversee and manage the loan's progression right through to the end on your behalf. By the way, 'the end' isn't when you sign the documents and buy your property; you can expect your credit adviser to keep track of you and your changing needs, helping you should you need to switch products or wish to purchase another property.

The key is to choose a mortgage broker who is MFAA-accredited. The Mortgage & Finance Association of Australia (MFAA) is the peak national body representing professional credit advisers across Australia, and all members must adhere to professional development standards and a stringent code of conduct

Bottom line

I believe a 'switched on' mortgage broker should be considered one of your life long allies when it comes to your finance needs.

A property buyer who goes to only one bank limits his/her options considerably. That one bank won't know about the products other lenders have available. The bank staff are not trained or paid to know this.

Here's a story to illustrate this issue.

Case Study

Consider my client Jodi, who had just bought a property. We had obtained a pre-approval so the only outstanding conditions of the pre-approval were to supply a contract of sale and to receive a satisfactory evaluation of the property. The valuation was ordered to confirm the buying price and the suitability of the security to the lender. Guess what? The valuation came in less than the sale price.

In this instance the valuer was not convinced that Jodi had paid fair market value. This presented a dilemma to Jodi, as she didn't have any more cash to present towards the deal, so we appealed the valuation, and it was declined. So with a shortfall of $29,000, that was the end of the deal with that lender. Welcome to the world of valuations, where nothing is clear cut.

This type of situation is where having a broker can help. If Jodi was working strictly with that bank, it would have been the end of the deal all together. Because Jodi was dealing with a broker (me) and I was able to order an upfront valuation with another lender, who accepted the contract of sale price. They were able to proceed with the deal, and it was done within three weeks.

That's what a nimble-footed broker can bring to the table. If the deal doesn't work with the first lender, a good broker can move it elsewhere and make that deal settle.

If Jodi had gone directly to the bank, when the valuation didn't stack up, she would have had to go pleading to family or friends for more money and that was something she really did not want to do. Keep in mind If she could not access that money in this particular instance, she would have been in breach of her contract for not settling as the contract was unconditional and she could have lost her deposit and may have been charged re-advertising costs if the property was placed back onto the market. It opens up a Pandora's Box that you just don't want to open, which is what makes it so great that together we found a solution to her problem.

Case Study (Cont.)

If she didn't have a broker working things out for her, she would have been stressed and wouldn't have known what to do.

The big takeaway here is that, if your bank says no, don't take that as the final word. It only means no for them. Sometimes, what they say "no" to can still get a "yes" with a different bank. Figuring out where to turn requires knowing the bank's policies and their niches, which a good broker will know well.

CHAPTER 5

Getting finance for your property purchase

Financing a property purchase

Many people do not realize the sorts of things that must be paid and budgeted for when buying an owner-occupied property, and how they're all calculated. The first thing to consider is the cost of the property that you're buying. From that, as a rough rule of thumb, you can normally add about 5.5% to the purchase price, based on Victorian figures, which will give you an approximation of what the stamp duty and other government charges will be. Other figures to factor in are roughly $500 for the building inspector, and $750 to $1,200 for conveyancing, depending on who you employ. Solicitors tend to be a little bit more expensive than conveyancers are.

Currently, if you're a first time buyer in Victoria, and the purchase price is under $600,000, you should get the first-time buyers stamp duty concession, which is a 50% discount on your stamp duty payable. There are a number of concessions made and discounts for first-time owner-occupied buyers, but the ones you can take advantage of hinge on the type of property it is and the amount of the loan.

You also need to have a deposit to start with. Many first-time owner-occupied buyers seek a family pledge, or a family guarantee loan to help get into the property market sooner. By using the equity in a family member's property, this could remove the need to spend years saving for a deposit. These types of loans work by providing a family member's property, in most cases a parent's property that you use as part of the security for purchasing your property, which effectively means you can borrow 100% of the purchase price. So as long as you can afford the loan repayments, you can buy a property using this strategy without needing any savings. The Family Pledge also means that no LMI is payable as this ensures that the overall LVR is 80% or under.

Family pledge or security guarantor

No savings? A family pledge loan facility could be just the ticket to home ownership rather than paying someone else's mortgage with your current rent payments. When you're desperately trying to save up a deposit for a home and just see the prices of property climbing and climbing, it's difficult to remain patient. But there is another way: a guarantor can help.

The security guarantee allows borrowers who have a limited deposit to enter the housing market. In this situation, a relative or friend (usually a borrower's parent or parents) is prepared to use the equity in his or her own home to guarantee the deposit of the borrower.

Case Study

For a total loan amount of $600,000, in a security guarantor situation the borrower/s would take on the debt of 80% of the value of their loan, which would be $480,000, in their own name/s. The loan for the balance, $120,000, is then guaranteed in the names of the guarantor/s and borrower/s, limiting the guarantor's liability while providing security for the lender, meaning that lender's mortgage insurance is not necessary.

This is a very popular way of first home buyers entering the property market, this works well when borrowers don't have a substantial deposit, but their parents own their own home. It's a great option as long as the parents are comfortable with their child's ability to pay back the loan.

You as the borrower have to prove to the lender that you can service the whole $600,000 Contract of Sale price and purchasing costs from your income. Sometimes the total lend can be 105% of the value of your new property. So you prove you can service the whole loan and the guarantor guarantees that should you default on the loan repayments they will take responsibility for the 20% or thereabouts of the loan they guaranteed with their property. Obviously we hope this never transpires.

If you are renting before utilising a family pledge it is very important to ensure timely rent payments to the Real Estate Agent over a long period as this can help demonstrate to the lender that you both have the capacity to make repayments of a certain amount and also on a consistent basis when due. It is showing them that you are taking your financial responsibilities seriously.

Finally, after a period of say 3-5 years with your regular repayments and hopefully some capital growth, your property's value will have increased enough so that your loan as a percentage of the value of your home is less than or equal to 80%. Which means you can then approach your lender to have the guarantor's property removed as security for your loan, thus releasing them of any further obligations to the lender. So your property is the sole security for the loan.

Lenders mortgage insurance

If you are borrowing more than 80%, you need Lenders Mortgage Insurance (LMI), which is a premium that protects the bank should you default on the loan. It's a one off premium, capitalized onto your base loan amount. Don't confuse LMI with something that protects you, should you fall ill or lose your job. Lenders Mortgage Insurance is solely there to protect the lender, should you default.

When you borrow more than 80%, the banks deem that you become slightly riskier. The higher that loan to value ratio (LVR) goes, the riskier they consider you, especially when you get up into the 90% and the 95% range. If this happens, the LMI premium will increase quite dramatically. It is a sort of risk payment, based on statistics that indicate that the less a borrower actually contributes to a purchase, the greater chance there is that he/she may default.

Some people think that if you need Lenders Mortgage Insurance, you're not ready to get into the market, so you should keep saving. However, the other side of that is, if the market prices keep on going up, you may never get into the market without it. I'm not opposed to LMI at all; it can be a very valuable tool, as it does provide an opportunity to get into the market earlier.

The key is to work out whether LMI will help in your situation and in the area you want to buy in. Sometimes, it just doesn't make sense not to use LMI. By the time you save the extra money you need to avoid Lenders Mortgage Insurance, the property prices may have gone up by more than the difference.

In the end, all LMI does is slightly increase your monthly repayments on your home loan, which may well be an acceptable increase, especially if it gets you into the market or into the location you desire. If you're buying in an area that is experiencing 10% capital growth, with a medium price of $600,000, in one year's time its value will be $660,000. Buying now as opposed waiting to save enough may result in you never getting into the market as it keeps running away from you so to speak - so LMI may be a wise choice.

Borrowing capacity

Lenders work out how much you can borrow by calculating your ability to borrow on your income. Your primary source of income will generally be your job, or your business, if you're self-employed. You may also earn money off shares, or you may have properties that return rents and contribute to your income stream.

The bank will consider these and weigh them against your outgoing costs, including credit cards, personal loans, or HECS debts. They look closely at income in vs. income out, which allows them to work out how much they're prepared to let you borrow. They will generally stress test that figure, adding a buffer of between 2.25% to 3.50%.

When you look at the current interest rates and start thinking you can afford a certain amount to allow you to purchase in a specific location, you need to realize that the banks don't base their loans strictly on today's rates; they try to predict what will happen in the future. Rates do go up, so the banks want to know that, when they do, you will still have the capacity to make the repayments, even if rates go by 3%.

Borrowing capacity is your income minus your costs which include your day to day expenses as well. Keep in mind the banks use the Household Expenditure Model (HEM) as a minimum when working out what it costs a couple to live per month for example. With pressure from the authorities like ASIC just relying solely on the HEM as a set figure is not acceptable these days; whatever you have leftover is what you can realistically afford to pay toward the loan. If you don't have that money, if it is routinely tied up elsewhere, you shouldn't take out the loan. Be realistic. The last thing you want to do is get into a painful situation where life just becomes unbearable and you become a slave to your loan, or you have to sell. That's just not fun.

Key Point

If you want to know how much you can borrow, you need to run the numbers with an expert. There isn't really a standard, because all the banks have their own criteria.

When it comes to borrowing capacity, the loan to value ratio (LVR) affects the rate and the amount you can borrow, because many lenders price their mortgages or the interest rate according to the actual loan size along with the loan to value ratio. If you borrow less than 80%, there's no Lenders Mortgage Insurance, and the bank will give you a better rate than if you're borrowing at 95%. That is because it is less risky for them.

Some lenders don't do it that way, but the LVR and the actual loan size can have a bearing on how much you can borrow because some lenders will buffer on top of the actual interest rate.

What you *can* borrow vs what you *should* borrow

Everyone asks, "How much can I borrow?" The better question is, "How much should I borrow?"

A good way to judge how much you *should* borrow is to work out whether you can easily afford to make repayments at 1 - 2% above what the actual rate is. You want at least to know where your money is going. You have to be really aware of your lifestyle and what you want out of life. Then, add a little bit of a safety net above that.

Let's say that you put everything on your credit card, and you clear that credit card each month and you figure that's what you spend. It's better to really work out your fixed expenses vs. your variable ones. Maybe, when you look at some of those variable ones, you may decide you could lower those expenses, if you really wanted to or had to. For instance, you might have a gym membership that you still pay every fortnight, even though you haven't actually been to the gym in 7 months. Sound familiar?

Historically, the answer to the question of how much you can borrow has been about one third of your salary. When you start paying over 40%, things start getting really, really tight. I've seen the destruction that financial stress can have on people and you don't need it.

Everyone is different when it comes to these things. There are some who figure they'll be fine without working out a budget, and those who work hard to search out extra money in the budget for a buffer or for making extra repayments. That is the best choice, because then you're building good habits and the capacity to service that loan if rates should rise.

You need to be realistic about what sort of lifestyle you want to live. If you're one of those people that is simply not prepared to give up going out for dinners or on overseas trips, etc., you need to work out how to live within your lifestyle.

Keeping up with all of this and advising is what a good broker does, which is another reason to have one in your corner. An expert broker who is staying up to date with all the changes can help you maximize your opportunities.

Pre-approval

A borrowing capacity is not an approval. Borrowing capacity just works out that you can borrow a certain amount, based on the information you put into the calculator. It's an indicator, but it hasn't been submitted to any lenders in any way.

While all the numbers may have looked fantastic on the calculators, you may have issues on your credit report. It could show defaults, or maybe you've just made many credit inquiries for totally logical reasons. It's better when a lender actually does a proper financial assessment of the application, ensuring that all aspects have been reviewed.

A pre-approval gives you the confidence to go to an auction or to bid on properties.

Basically, when you get pre-approval, what the bank is saying is that they have looked over all the information you supplied so far, and they're willing to lend you money. However, they're going to hedge their bets until they've actually seen the property that you're trying to buy.

When you get the pre-approval—your broker will normally email it to you—it will show you what the outstanding conditions are. If it says you are pre-approved to borrow up to $500,000, "Subject to a satisfactory valuation," that's okay. Or if it says, "Subject to Lenders Mortgage Insurance approval," that's okay, too.

Investment

So far, most of this applies to both owner-occupied and investment properties. However, there are some very specific differences when you buy for investment. To start with, you need to determine what type of investment property you are looking for.

There's an art to buying the right investment properties. What we're really thinking about here are rentals, not necessarily the dream home you really want to live in. There is a difference between an investment property and your owner-occupied home, where emotions are far more heavily involved, as they should be. Your owner-occupied home is the house you want to live in, as opposed to investment properties, which have different criteria that they need to fulfil. Namely capital growth and renter appeal.

After all, think about why you are buying an investment property. Most of the time, it's because you want to grow or create wealth, which means there is a very set criteria for these types of properties.

Key Point

Setting up financing for investments is also different. If you have an owner occupied property, the rule of thumb is that you would have a principal and interest loan, which is considered bad debt because you cannot claim it, so you would want to pay that loan off. However, on the investor side, you would get an interest only loan, because you don't necessarily want to pay the principal off right away. You hope your property will grow in value within 7 to 10 years and be worth way more than the value of the loan.

It's important to save when investing to build a little buffer for yourself to help during the tough times because time in the market is the key to achieving your goals. You want to try have at least a 7- to 10-year plan when investing in property, because it's very rare that an investment property is going to be an absolute gold mine for you in the first couple of years. You may get your costs back; maybe just a little bit more. Really, though, it's more long term. It's not a quick financial fix.

When you hear about boom areas, where people talk about how unbelievable what's happening there is, and they say that you just have to get in, you really need to remember that, if it sounds too good to be true, it probably is. Research shows that there are certain areas that are consistently good investments, and that has to do with supply, which is why you would want to buy close to the city but not right in the CBD. You probably have heard it all before but property within a 5 -20 kilometre radius of the CBD is king.

Choosing an investment property really is involved, and you don't want to go out willy-nilly and buy anything. First, you need to decide what your goals are and why you're buying this property in the first place. The things that drive capital growth are a bit of scarcity or something unique. Maybe the property is not actually on the main road in the suburb; instead, it's a few streets back, where it's a little bit leafy. If you are buying in a block of flats, hopefully there's a mix of owner occupied and rentals in there.

Special Contribution

The following content has been provided by Philip Leigh, an Accountant from Gillards Accountants.

Property investment, negative gearing and important tax issues

The term "negative gearing" describes a situation in which your interest's expenses put your property into a loss scenario for the financial year. Should this be the case, you must find the money to meet the shortfall you're left owing to the bank. Under Australian Tax laws, you can offset the loss against other income; hence, qualifying for a tax break equivalent to your marginal tax rate, provided that you meet all the applicable rules relating to property ownership.

If you are a wage earner, you may get tax back, as your income is reduced by these losses. Alternatively, if you are an investor, you may be able to reduce your tax payable by offsetting the loss.

Negative gearing is a way of getting into the property market using borrowed money. Anticipating that both rent and property values will go up in the future, as history has shown they will, you are merely making a prudent and educated investment that takes advantage of that tendency.

Having said that, it is possible for values to go down and rental rates to diminish. A change in roads, council developments, population movements, modern alternatives, neighbourhood demographics, and condition of the property, just to mention a few, all influence the future potential of any property.

There is risk in putting down your hard-earned money as a deposit and making a commitment to pay the bank its monthly sum—in good times and bad. This amount must come out of either your weekly earnings or your nest egg. The trick is to do as much homework as possible to ensure that the potential rewards justify the risk.

Thus, the first concern is whether you can afford to allocate your money to this investment, which may not be wise, especially if money is a bit tight or if the future holds a bit of uncertainty. The next concern is whether the property fits your requirements and budget. You should never over commit. Certainty is never assured, so do not bet the farm.

Having said that, don't let tax interfere with a good business decision. Thus, the property, the tenant, the loan, and the upside must all add up before you consider the tax consequences. Having to pay a million in tax could be the best problem to have because you may very well have made at least two million in profit. It is certainly better to pay a million in tax than it is to lose a million.

There will be times when the best tax structure does not suit your circumstances. The same setup does not work for everyone and for every property. Just because your neighbour boasts about what he did and that he paid no tax, does not mean your circumstances could have the same outcome.

Tax in Australia is quite complex and investments must be bought in the most suitable structure. The most obvious structure is no structure at all; you buy the property in your own name. This is a fixed entitlement, and all benefits go to you. This is the simplest structure, and it allows you to offset any negative result from the property's yearly rental performance against your current income.

Under current tax law, when you sell the property, you are entitled to a 50% discount prior to taxation. When you meet the rules, this is the only free-of-tax money you can legally get. The remaining 50 % of the gain is taxed at your marginal rate. The highest marginal rate is 45% (plus Medicare and any budget repair levy you may qualify for), which means that, at worse, your capital gain will be taxed at about 25% of the total gain.

Further options could include a partnership, trust, trading company or even a superannuation fund. You need to consult an accountant for advice as what structure best suits your situation. Many people do not realise that negative gearing does not last forever. You may get a tax break, but eventually, you should become positively geared and pay tax on the profits.

Common issues people forget when purchasing property are:

- Land Tax—the State tax for owners who can afford property. This yearly obligation is based on the struck valuation of your property.
- Body corporate fees for apartments. These are ongoing, shared expenses that never seem to go down.

- Body corporate sinking fund, another cost that is required to maintain the entire property at a reasonable standard.
- Vacancy issues. Everything is rentable at some price. If you hold out for top dollar, you may not meet the market; then, your cash flow will stop, and you will need to fund all expenses from your profits.
- No repair or renovation comes cheap; if they do, they do not last long. Factor in a reasonable war chest for repairs.
- Time to sell. The Rothschild's Banking Family had a saying: "It's better to sell too soon than too late."

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Property vs shares

I've presented at a few seminars and clients will often ask me: what's better, property or shares? I say that, if you're comfortable with shares and you can get a return of between 7 and 10%, which is what you're trying to get with property, and you're more excited about shares, well do it, as long as the strategy works.

There's always this debate between shares and property. The thing is, the banks don't often lend more than 50, 60, 70% maximum against shares like BHP or CBA. This really says that the banks are far more comfortable with property than they are with shares, simply based on how much money they're prepared to lend you. Of course the property vs shares debate is more complex than this, but the key topic here is leverage – and property is a clear winner in this department over shares. With any investment strategy, you need to consider your financial situation, goals and seek professional advice – because what is suitable for you will be very different to another. Both shares and property can be part of any investment portfolio.

Key Point

My argument for investing in property is that, for not a massive outlay, you start with a bigger asset. Investing in property is all about this fact: leverage, which is being able to own a large amount of assets with a small amount of your own money.

Property and shares may both be growing at 10%; however, if you had $100,000 to invest, you would be able to put that $100,000 toward a $500,000 property, while you could only leverage that $100,000 into at best $170,000 in shares – because the banks won't lend you as much money against shares as they will property.

Good debt vs bad debt

Good debt is investment debt, or debt that you can actually claim against your tax. Bad debt is something like your owner-occupied property, or the financing on your household car; they're all considered bad debt because you can't claim them as an expense against your income. You don't want to mix these, especially for accounting purposes, because the ATO does not like two forms of debt mixed together. They want to know specifically what borrowings relate to what.

When you work with a broker, he/she will set up everything correctly from the start to make sure it's accountant-friendly. Normally, a broker will also work with the accountant to understand what he/she is trying to achieve. This is what makes a good team, good people around you who work well with each other for your benefit.

Many people don't like the idea of debt because they don't realize there is such a thing as good debt. They think all debt is bad, because they have to pay it all off. However, understand that debt that works to create wealth or income for you, if properly managed, is actually a good thing. It's a very powerful tool, which is why property is such a good investment.

Many people can't grasp it and worry that property prices can't keep going up, but if you just look back over the last 100 years, property prices do keep going up. This is especially true of properties in the right area, which is a crucial part of creating wealth through property investment—buying in the right area.

Avoiding problems

So far, we've talked about financing the property purchase, how much you should borrow, and how it all works. Now, let's focus on the things to avoid; the ways people get into trouble when trying to work out their own finance.

You may go through some rocky times, especially, in the beginning. Therefore, I suggest you have some spare cash to see you through these times if they eventuate, or set up a little line of credit when you first set up your loan, something that is there in case of any shortfalls. The emergency fund and that's what it is there for – not a new boat or car – to allow you to hold onto your assets if you hit a rough patch and need extra funds to meet your current commitments.

This assumes that you have bought the right property, and that it is increasing in value. Circumstances may arise where you just might need an extra $150 a month, a small line of credit is ideal for this. Ideally, you do not want to be forced to sell a property before it's had the chance to achieve some capital growth and normally this takes, at best, a minimum of 7 to 10 years.

Avoid the obvious things that can go wrong, such as not having enough money at settlement, not putting enough money aside to complete the purchase, relying on one lender appraisal of your borrowing capacity when other lenders may offer more, or not getting a quality pre-approval.

Redlining

It is important to sit down with your broker beforehand to work out what the repayments will be, so you can decide on the level with which you are comfortable. Your broker will do a Needs Analysis and make legitimate inquiries into your living expenses.

Good brokers will advise against redlining, even if the client seems fine with borrowing beyond their means. Good brokers know that, eventually, a redlined client will default on their mortgage, often within one year's time. That's not a good situation for the broker to be involved in, and it's definitely not good for the client.

Limited-time offers

Another trap you can fall for is going to one of those special, free-education nights where they push a "tonight only" offer. You need to walk away from these types of promotions. The speakers are generally very clever at stirring up emotions and getting you going. Eventually, you start believing that you have to act on the deal they're peddling immediately. Don't do it; just walk away.

It is vitally important to have any contract checked before you do anything, and these deals don't offer you the time to check them out or have them looked over. It is better to just walk away, let the emotion subside; then, after you have thought it over and had it checked out, you can often go back to that company and they will still honour the deal.

It's far better to walk away from something that could be a huge mistake than it is to let your emotions rule your decision.

Take it seriously

You have to treat investment property like a business. You shouldn't invest in property just because that's what everyone else is doing. You can't get into something that's so big just because it's what your brother or your friend did, or because it's what the people on TV are doing.

You have to get the right advice for you. You have to have a plan and treat property investment like a business. If you invest in property without having a plan, you could end up spending all your money and have nothing left for when the hot water system at the investment property blows up or something when else goes wrong.

Types of loan products

Basic home loans

PROS: Interest rates are often half to one percent below the standard variable rate.

CONS: Limited features, less flexibility and possible penalty fees for early loan repayment.

Standard variable-rate home loans

PROS: Make regular repayments based on the current interest rate. Effective if rates do not rise.

CONS: Should interest rates increase, your regular mortgage repayments will rise.

Fixed-rate home loans

PROS: Fix your interest rate for a specific period, giving certainty to regular repayment amounts.

CONS: Should interest rates fall you'll still need to repay your mortgage at the agreed fixed-rate. There are potentially also high loan break costs payable, if you wish to end the fixed-rate term early. Fixed-rate loans may also limit additional repayments that can be made during the fixed-rate term.

Split-rate home loans

PROS: Fix a portion of your interest rate to give certainty to monthly repayments while also benefit from a variable-rate portion should rates drop.

CONS: If interest rates do drop, you'll be left paying a higher rate for your fixed-rate portion. If you break the fixed-rate period early, you may be subject to break costs and you may be limited to extra repayments on the loan.

Interest-only home loans

PROS: Pay only the interest component on your mortgage for a set term. An ideal option for borrowers with investment properties.

CONS: Repayments do not reduce the principal component of your mortgage.

Low-doc home loans

PROS: Can help you enter the property market if you're a self-employed, contract or seasonal worker without regular income or proof of income.

CONS: Typically have higher interest rates. You may also have to pay Lenders Mortgage Insurance (LMI).

CHAPTER 6

Finding and buying a property

A good reason to use a buyer's advocate is to help you decide what type of property to buy. It's their job to sit down with you to work out what your property buying goals are. If you're a proficient person who can read the property market just fine on your own, and you have all the time in the world to do that, well, maybe you don't need a buyer's advocate.

> **Key Point**
>
> Many people find that it's far better to spend a little bit of money on a buyer's advocate rather than doing it themselves. When they go at it themselves, many people discover that the property they buy doesn't give them what they were ultimately hoping to achieve from the purchase.

You can look up the average capital growth of an area over the last 5 years on sites such as realestate.com.au. With that, you can compare properties in areas that have been averaging 2% per year with ones in areas that have been averaging 10%. That information could help you decide to purchase a particular property based on where it is located.

There are good areas all around Australia to buy property, but avoid the so called "Hot spots;" you can be guaranteed that, probably within 6 months to a year, they'll be a very cold spot. Broaden your horizons and look at other suburbs in your own state, or even look interstate. And again, use professional people to help you; people you can really trust to do the right thing by you.

Really, when you consider the size of the potential financial outlay that you're considering, it's imperative that you do your research. If you're not prepared to do your research or make the effort to surround yourself with quality professionals, perhaps you shouldn't invest. Maybe you're just better off putting any spare cash into your super.

Case Study

My clients David and Claire seriously did their homework before buying a property. They built a relationship with two real-estate agents in the area, they were keen to buy and seriously did their homework on what properties were worth. This proved to be the winning formula for them in regards to eventually buying a property that matched the goals they hoped to achieve. They knew exactly what a 2-bedroom house on a certain size block was selling for and when it came time to negotiate they were armed with the correct information.

Things to consider when buying a property

Here are some basic tips to consider when purchasing property, whether it be for investment or owner occupied purposes. Keep in mind that your capacity to repay a loan will determine exactly what you are capable of buying and whereabouts.

Investment properties

Try to avoid properties on main roads; try be a couple of streets off the main road. Look in suburbs with good public transport. Ideally in the 10-25 Kilometre ring of the CBD. Endeavour to be in close proximity to public transport. Close to café's and lifestyle. Renters tend to love these areas.

Make sure if you are purchasing an apartment that the living area is over 50sqm in size. You don't want it to be to poky and they are easier to rent. Most lenders prefer > than 50sqm's in living area which ultimately means it's easier to obtain finance. Imperative - make sure it comes with a carpark!

Key Point

Did you know that if you purchase a property that is less than 40sqm in living area and there is no balcony or carpark then there is only one lender in Australia that will lend against this security and only to 80%.

The banks, by what they are prepared to lend against certain securities, quite clearly are telling us what they deem to be superior securities to purchase.

Avoid the CBD as there will be another tower of apartments going up before you know it. Which quite simply means the chances of capital growth are slim, as there is a glut of properties available. No scarcity whatsoever. Many lenders simply are not prepared to lend as much on apartments in the CBD, so if you are still keen it simply means you will be asked to contribute more of your own cash towards the deal.

In the end, how much of your money you want to put into that transaction is key, and that may dictate the type of property you should be looking at. If you are trying to buy a serviced apartment or something similar, the bank may only be willing to lend you only 55-60% of the value, whereas on a residential 50-square meter apartment, you can still get a 90% lend inclusive of LMI.

Closer to the City, the scarcity of land makes the property more valuable, which helps explain why location matters so much to the value of a property.

Right now, many lenders are not lending more than 90% to investors, inclusive of lenders mortgage insurance, some have even dropped their LVR to 80% and thus allowing no LMI. The landscape is always changing, which means that you have to do your research. Your broker is a good ally to help you do this.

When buying apartments or units try to ensure there is a good mix of owner-occupiers and renters, as this will ensure that the complex is maintained well. Also try to make sure that at a minimum there are 12 apartments in the complex, and preferably no more than about 30.

Definitely avoid complexes that have lifts, a pool and gymnasium because you will be paying much higher body corporate fees for this privilege and this will impact on your day to day running costs, thus affecting your overall yield from the property.

Key Point

If you're investing and concerned with capital growth, out in House and Land areas capital growth is not generally going to be as good.

It's the land component that adds value to property, and when you get further out of town, there is still plenty of land available. Closer to the City, the scarcity of land makes it more valuable, which helps explain why location matters so much to the value of a property.

But if this is where you can afford to buy then I strongly believe it is better to be in the market in some form than not at all.

Buying a $300,000 property on a 70% LVR requires a much larger deposit than buying a bigger, $400,000 property in an area or where the bank will lend you 90% or more.

In essence, when choosing a property, you need to consider where your deposit will get you the most 'bang for your buck', and your mortgage broker and buyer's advocate can help you with this.

Owner occupied properties

I do appreciate that when purchasing your own home that many more emotions are at play and to be honest this makes sense – it's your home and you want certain attributes. Quite frankly if this is where you plan to live for a long period of time and raise your family then all of the information that I have mentioned regarding investment properties does not really come into play. However, if the property you are about to purchase is viewed as a stepping stone to your dream home, then again it is very important to consider where and what you purchase. If this is your plan, then you want good capital growth, so you can ultimately sell that property to move into the one that you really want. You want to know when it comes time to sell, that there are as many people as possible with the ability and desire to buy your property, and that there are as many lenders as possible that will gladly lend money for it.

It is important to plan your property goals, and employ the right people to help you achieve your goals. It is important to sit down with someone who can help you do the research first, rather than going into the market blindly, falling in love with a location, and buying what you think is a fantastic property only to find out down the track this was not the case.

How to find the property

Many online sites can help you do the research to find the property you're looking for.

Valuable Resource

You can check what properties are for sale using online property resources such as www.realestate.com.au or www.domain.com.au.

Australian Property Monitors (www.apm.com.au) is a website where you can get summaries of what's happening in the area, including median prices, what's been selling, and the demographics, such as whether it is a high family area and what the average age of people living there is.

House and land

Then, there's the whole world of House and Land, which is another Pandora's Box that Denham from CDA Construction can give us some really good tips on how to navigate (see Expert Contribution to follow).

Disappointing results can often happen with House and Land packages. Many people find themselves in the situation where they've paid up front money, but the valuation just doesn't value up.

Case Study

Take Ben and Tennille, for example.

They were buying in a newly developing estate where the majority of houses were single story, four bedrooms. Ben and Tennille wanted to put in a double story, but that just didn't stack up at the valuation.

The issues were, because the area was still very young, the majority of houses were single story and the infrastructure wasn't in place, it impacted quite heavily on the valuation of the property.

With House and Land packages especially, you have to buy according to what the norm is in the area. If you want to build a very large home, you will probably need to have a little bit of extra cash to make that happen.

With Ben and Tennille, when they had the disappointment of the bad valuation of the double story, they chose a single story construction as an alternative. Their house is now being built, and they're very pleased.

Funny thing is, they were renting a double story house and ended up being thankful they did not build a double story, because they learned they can't stand going up and down the stairs!

That's a good example of forward planning and really thinking about what you want vs. what you think you want.

Special Contribution

The following content has been provided by Denham Bowen, Director and Licenced Real Estate Agent of Think Property.

Factors for a prospective purchaser to consider when purchasing house and land

When purchasing house and land, prospective purchasers should keep a few key considerations in mind. The most important thing to consider is affordability. It is important to do an assessment of your finances to determine your budget.

Next, prepare a checklist of your criteria and the things of importance to you and your family, identifying your needs and wants. With this checklist in hand, review the properties you are most interested in based on how they stack up across the following key factors:

- Research the area/builder/designs that interest you.
- A pros vs cons profile of the Area and Estates within that area.
- The existing and new infrastructure, i.e. transport, upgrade of roads, easy access to freeway, train station, shopping centres, schools, cafes, parks, beaches, etc.
- Size of the block you desire that's required to fit your selected house design and requirements.
- Understand the design guidelines and restrictive covenants for the block and estate including the fall over the block and how this impacts over the Build Area (if applicable).
- Upon selecting the block get it assessed by your preferred Builder for additional site costs (if applicable).
- Ask the Builder to explain why and what these additional site costs are.

- Understand what you're getting for your money.

Finally, picture yourselves living in the home and area. Before you get serious, though, be sure to inquire about any questions you have about the property. Don't assume anything; get everything in writing.

Time to completion

A house and land deal should take around 5-6 months from land settlement. That is a fair and reasonable time frame. Remember, it's how well the house is built, NOT how soon it can be built.

The difference between a one-part and a two-part contract and how it impacts your purchase

With a one-part contract, the purchaser pays a deposit, usually 5-10%, upon signing. The builder/developer carries the holding costs (bank interest on land and construction) to deliver the package to completion. At which time, the purchaser pays the balance of 90-95% at settlement.

With a two-part contract, the purchaser signs a land contract for the land purchase transaction, and a separate build contract with the builder for construction. The purchaser must obtain finance for the land settlement and the construction loan to fund the progress payments during construction, from beginning to completion. The purchaser settles the contract on the land; then, draws from their construction loan facility at the completion of every build stage, beginning with the deposit; then, base, frame, lock-up, fixing, and completion. In this scenario, the purchaser carries the holding costs.

There is the risk of the builder taking longer than anticipated, which will have an impact on the amount of holding costs paid over the time it takes to complete the home. Ensure that there's a penalty for late completion clause in the building contract to cover your expenses in the event this occurs. Industry standard is $250 per week for every week the handover is late to the date stipulated in the contract.

How valuations stack up with house and land deals, and what a potential buyer should be aware of in terms of rebates, kickbacks if investing, and rental guarantees

Valuations vary and are dependent on many factors about the area profile, the estate, house design, inclusions, the size of the home, and comparative sales in that specific area. Purchasers must do their own research to adopt a strong understanding of value within the preferred area(s) and estates that appeal to them.

Over capitalising and building a home that doesn't fit into an areas mainstream can impact valuations. In addition, purchasers need to be aware that rebates, commissions, rental guarantees, bonus offers and other "add on" incentives may have a negative impact on valuations.

Does the area dictate what I should build?

Yes, the majority of new land estates have specific Covenants and Design Guidelines, which must be adhered to, which requires the developer's approval. This maintains a consistent street scape and standard throughout these Estates and protects one's investment.

How do I know if my builder is any good?

Research the builder and speak to clients who have built, or are currently building, with your preferred builder. The internet, review sites, and conversations with the builder's clients will give the best indication of the experience, service, communication, delivery, and, most importantly, the quality they deliver.

In addition, request to inspect a house that is close to completion, as this will be a true reflection of the standard you'll be receiving. This is the reality of what the home will be, rather than the display model, which is used by the builder to showcase their standards, incorporating every upgrade into the model. Be aware that the majority of buyers will never be able to afford the standard of fittings and features included in display homes.

Should I buy the land first, then engage a builder?

There are advantages and disadvantages associated with purchasing the land first without knowing the type of house design you'll want to put on it. I would recommend that you find the house design that meets your needs first; then, find the block it will fit on.

Beware of purchasing the land first, only to discover that the site costs blow out your budget, and/or the block dimensions don't accommodate the display home design you want to build. This can leave you having to custom design a home that fits, which usually ends up being very costly.

If you are looking at purchasing the land first, be sure to have it assessed by a builder to understand any additional associated site costs and requirements (i.e. site fall, retaining walls, site cut, drainage, etc.) that may blow out the budget.

The keys to a pain free house and land project

1. Identify the requirements that fit into your budget.
2. Take the time to research and establish an understanding of the size of home that fits into your budget.
3. Research the builder and inspect a home under construction that's close to completion. This will be the true reflection of the value you'll be receiving for your money. Speak to clients that have built and are currently building with that preferred builder.
4. Understand what you're getting. The display home includes every upgrade to showcase the Builder's quality and standard of what they can deliver. It's the one with all the "Bells and whistles," not necessarily the one you can afford.

5. You've heard the saying, "if you fail to prepare, prepare to fail." Prepare a checklist so you don't forget anything. Create a Folder of what you like, including photos. Itemise it with references to the brochure, land estate, display village, or area where you visited the home you saw it in. You'd be surprised by how many people forget where they saw what.

6. Don't get caught up in the sales hype, bonus offers, or pressure tactics that salespeople use. Go with your gut feeling. If it doesn't feel right, don't do it.

7. Ask questions.

8. Don't commit without knowing all the facts and what you're getting for the money.

9. Make sure that it's a Fixed-Price Contract (if possible) – so costs don't escalate and leave you spending way over your original budget.

Denham Bowen, Director and Licenced Real Estate Agent
Think Property
www.thinkprop.com.au

Established vs new

Many people want to know whether it is better to buy an established property or a brand new one. This really depends on the location. Again, this is why research is so important. Many people prefer buying an established property because there's this feeling that the properties that were built in the 70s and 80s are of better construction, and because, in certain suburbs, there's just no more land available to build new properties.

Other people like to buy brand new because they have the budget for it and they want all the latest features and they want to live in Southbank or right on top of Camberwell Junction. However, you can't have all this new development happening without changing the nature and the feel of a neighbourhood. Regardless, some suburbs and councils have become very pro-development, and all of the sudden, we're seeing all of these high rises pop up, changing the whole landscape. This is happening in Brunswick, South Yarra, Hawthorn East, and other areas.

It really just comes down to choice and preference. Personally, I prefer established property, as I have had good results with buying them.

Choosing established vs. brand new property. If you're buying brand new, you will normally pay a drastically reduced stamp duty and if it is an investment property you will receive greater depreciation benefits than you would if it was an established property. Just make sure that if you are buying Off The Plan that your lender is comfortable with the security and is prepared to lend you the money. I only say this because some lenders have differing appetites for this type of housing.

Titles

There are particular types of titles that people may run into problems with when financing. A key one called Company Title comes up occasionally around areas like Elwood and St. Kilda. The banks are not as comfortable with it because, in a sense, they don't control the asset quite as much as they would like to. Because of that, they are not prepared to lend as much against those properties. On the other hand, two key titles that the banks are totally comfortable with are Strata Title for apartments, and Freehold for houses. These two are the key titles you want to be dealing with.

The purchasing process

So, you've been pre-approved for your finance, and now it's time to go shopping. You have sat down with your broker who would have helped you decide that you're not buying anything less than 50 square meters minimum as far as apartments go. You've found a property that you're interested in buying. The next step is to ask the real-estate agent to supply you with the Section 32, also known as the Vendor's Statement, for that property.

Before you sign anything, the first thing you need to do is get that Section 32 looked at by your solicitor/conveyancer. You want to make sure that there are no unforeseen liabilities that would become your responsibility once you buy that property. If it's a house that you want to renovate, there could be issues with easements that could prohibit you from doing renovations.

Key Point

The vendor's statement, or the section 32, is the key document that tells you everything you need to know about that property. It is like the road-worthy for that property, telling you what's good about it and whether there are any issues to be concerned about. The solicitor/conveyancer will look it over and advise you of any issues.

"Subject to..."

So, let's say that you like that property, and you have gotten the all clear from the solicitor. You may decide that you want a "Subject to Finance," or "Subject to Building and Pest Inspections" clause. If you sign an unconditional contract, that would mean that it's your property and that you have to buy it, no matter what.

It's a good idea to insert a "Subject to Finance" clause, because you want to make sure that your lender is just as happy with the property before you commit to ownership.

If you do put in the "Subject to Finance" clause, you will need to state which specific lender you are working with and the amount of money that you are applying for. If you don't do that, an unscrupulous vendor or seller could offer to lend you the finance at 12% or something ridiculous like that, meaning you do have finance approved (by the vendor) and may be forced into accepting that deal or face penalties or legal action against you. Therefore, you do need to be very specific in this clause with the exact amount of money that you want to borrow and from where.

If you are buying a house and you are a bit concerned about the structure, maybe you're not sure whether there's been termites in the wood for example, that's when it becomes very important to include a "Subject to a Building and Pest Inspection" clause. That way, you protect yourself. Should there be anything structurally wrong with the house; you have the right to renegotiate or potentially pull out of the deal.

It can be a very powerful bargaining tool to say that you're prepared to go unconditional on the contract. Only consider this if you are very confident with your research, or your buyer's advocate's research, you're totally comfortable that the property will be valued at the contract of sale price, and you've been properly pre-approved and only have the contract of sale and a satisfactory valuation of the property to go. This strategy is good if you are up against another perspective buyer who is offering exactly the same amount of money, but with a "Subject to Finance" clause.

Your unconditional offer may be the tipping point, sending the deal in your favour. It is very powerful to be able to say to the seller, "I'm prepared with an unconditional offer, but it's only available for 2 days." When you put a bit of time constraint on it, you gently force the seller to make a decision.

However, it is very important to make sure all your ducks are in a row and that you're very comfortable with the price that you're offering. Be sure that the property is sound and that it's supported by comparable sales in the area. Your buyer's advocate or broker can order property reports and comparable sales so you can really assess the deal.

Special Contribution

The following content has been provided by Leigh Maher, the Director of Oak Estate Agents.

The role of a real estate agent

Real-estate agents are employed solely by the vendor, "the seller." They are employed to market and negotiate exclusively on the vendor's behalf, for whom they must endeavour to achieve the highest possible price within the parameters of the law.

Agents who are members of the Real Estate Institute of Victoria (REIV) must work within the boundaries set forth by the REIV code of ethics and professional standards. It is wise to ask any agent you work with whether they are a member of the REIV. If they are not members of the REIV, ask them if they have been disqualified, and if not, ask why they have chosen not to become a member.

Consumer Affairs Victoria monitors real-estate agents. If you are concerned about the integrity of an agent, look them up on the CAV website to see if any formal complaints have been lodged against either the agent or the company.

Real-estate firms each have a unique protocol that buyers must follow when making an offer. Under competitive circumstances, it is very important that the firm clearly defines its buyer protocol, as it lets you know whether they will give you the opportunity to improve your offer, or if you must step forward with your maximum offer at first hand.

A credible real estate agent should be able to articulate their organisation's process for making an offer. They may even have a buyer's guideline that you are required to sign, confirming that you have a clear understanding of the process.

Negotiation tips for the first time buyer: an insider's perspective

One tried and true property purchasing method is to remember that, if you miss out on a property, you can quickly make an offer on another one. If you intend to use this method, you should have an address ready. This way the agent representing the vendor can communicate clearly the potential loss of your offer to another property.

Be certain that you can make an unconditional offer. If you feel comfortable, remove any "subject to" conditions from your offer, e.g. subject to finance, pest, and building conditions. Try to offer as clean a contract as possible. Including a 14 days subject-to-finance clause will definitely put you behind the eight ball.

If you only feel comfortable moving forward with such clauses in place, be sure that the time frame of the clause lands within the cooling off period. This way, if you are competing against a cleaner contract, but you have offered the higher price, the vendor may be price-influenced and may have sufficient confidence in the property to accept your offer.

A tell-tale sign that an agent is not playing by the rules

By law, an agent must not tell you that you are competing with another buyer if you are not. If you feel this is the case, ask the agent if the competing offer has been formally documented. If not, you can report them to Consumer Affairs Victoria. If you are competing with a verbal offer, the agent may try to get a better offer from you. It is very risky for an agent to act dishonestly in this manner; generally, it's not worth the potential loss of their license.

Considerations when buying via private sale

Buying via private sale allows you to make an offer that is subject to additional conditions, which you cannot do when buying at an auction. The pricing of a private sale is typically clearer, and you may be able to negotiate the deposit. To avoid competing blindly, be sure you understand the agent's buyer guidelines and protocols. Any piece of quality real estate will be highly sought after. If you have to compete to buy it, that property is generally going to be well worth the effort. When it comes time for you to sell, the market will probably be similarly competitive, which will increase your profits.

Common mistakes buyers make

Buyers often seek advice from friends and family who have never worked in real estate, or who may have bought a couple of properties and now consider their knowledge base to be extensive. This is not wise. I don't ask my butcher for financial advice or my accountant for real-estate advice. Rather, find an agent who you feel is a straight talker. Better yet, think about engaging a buyer's advocate.

Tips to ensuring a successful purchase

- Do your due diligence.
- Attend some auctions.
- Don't be afraid to go with your gut; you and your family need to feel at home in the surroundings.
- Buying the ugliest house on the best street can save you money, and can earn more over time through improvements.

How can a good relationship with an estate agent help you even though they are working for the vendor?

Trust! Accessibility! Service!

Lee Maher, Director
Oak Estate Agents
www.oakfinancial.com.au

Insurance

Ideally, you've already been pre-approved, leaving the only outstanding conditions a contract of sale and a satisfactory valuation of the property.

Sometimes, when you go over 80% lend, a 3rd party must get involved, the lender's mortgage insurer. So, you may have 3 small steps to go through; but generally, if the bank's happy to proceed, it will proceed through the insurer as well. Some banks are able to self-insure up to a certain point via what's called a Delegated Underwriting Authority. The lender's mortgage insurance that you pay is also there purely to protect the bank. It doesn't protect you at all; it just insures that, should you default on your loan; the lender will get their money back.

Now, let's say that the bank has ticked off everything on the loan, but you may not be settling on the property for another 60 days. You may want to take out insurance on that house, even though you won't have ownership for another 60 days. It's a bit unclear about who is actually responsible should something happen to that house during that time. Often, you can get a cover note from an insurance company covering the property should something go wrong, and they generally don't charge you for the period that you don't actually own it.

This becomes very important in some situations, such as when you are purchasing a property and selling the property you already own at the same time. If you are very much relying on the sale of the first property to help facilitate the purchase of the new property, and you let the insurance lapse on the first property, you could be in real trouble should something happen. If that first house burns down for example before you sold it, you would be left with no property and no equity to buy the property you want to buy.

Valuations

A valuation is an assessment by a valuer of what a property is worth when compared to other properties in that area. Ideally, when you buy a property, you want the valuer to determine that its value is at least the contract of sale price. The bank's valuation is not necessarily what the market would pay for that property; it is almost a worse-case scenario. Their valuation ensures them that, should you default on your loan, and the bank is forced to sell your property, they'll be able to get their money back.

When you get a loan to value ratio that's up in the 95% range, it's even more important for you to do your research to make sure you are paying fair market value. The higher the loan to value ratio, the more you need to be certain of the property's value. With lower LVRs, there seems to be a little bit more leniency. When the loan is for 80%, so there's no lender's mortgage insurance, we tend to find that the valuations are a little bit more favourable.

Now, if the loan to value ratio is 50%, which means the buyer and the bank are each putting in 50%, the bank won't mind so much what the buyer paid, even if the customer over paid by 20%. The bank still figures they're only risking their 50%, which means the bank will still be able to get their money back if the property defaults. On the other hand, if the buyer has over paid and the bank has 95% of the interest in that property, virtually all of the risk is on the bank.

Case Study

Jodi, a recent property buyer, had been pre-approved and decided to go with an unconditional contract via her buyer's advocate. The property valuation came in short. She then did an upfront valuation with another lender, who accepted the contract at the price of sale.

It's clear that valuations are not a black and white science. It's totally up to the valuer's interpretation of the figures; the comparable sales, and how the valuer chooses to interpret those comparable sales. Some valuers are far more conservative than others. Some may be very pessimistic about property; others may be more optimistic. As the above example shows, two valuers can value the same property at a different price.

By working with a broker instead of with a bank, Jodi was still able to buy that property as the broker worked hard to find a way around the issue. If she hadn't been working with a broker, the bank would have just told her, "We're sorry, but there's nothing we can do," and she would have had to rush off to try to borrow money from family. A broker, on the other hand, can be very nimble at finding solutions for any situation.

You can always challenge a valuation if it comes in short. However, if you've had a poor valuation, it's very difficult to change that particular valuer's point of view. Some have better luck going to another lender.

This example highlights the importance of having a team of experts on your side that know how to avoid or deal with these sorts of challenges, because they can and will come up. It is especially crucial when you are up in the higher LVRs. You either need to know the market yourself really well because you've studied it and you're passionately interested in it, or you need to get a professional in there whose job it is to nail what a property is worth. A good buyer's advocate can nail this.

Buying at auction

If the property you find to buy is one that is going to auction, that changes the process a little in terms of how things work. Many people feel that the auction process is stressful and daunting because they don't know much about it.

Key Point

When you buy at auction, the key thing to consider is that, if you are the successful bidder at auction, you cannot put a "Subject to Finance" or any other clause into the contract.

If you're the successful bidder, you own the property, and you need to come up with the finance to purchase that property.

Hopefully, if you're bidding at auction, you would already have your pre-approval, so you'd know how much you can borrow. It's good to also have a little bit of a buffer set aside in case you over bid; it's wise to make sure that you have a bit of spare cash to contribute towards that purchase.

Know your finance pre-approved limit and have your deposit money available; if the hammer comes down and you suddenly own the property, you need to pay the deposit that day. With an auction, the general rule is that you put a 10% deposit down.

A current trend is to only pay a 5% deposit at auction. However, you can't turn up, place the winning bid, and declare that you're only going to put 5% down. If you want to vary the normal terms, you need to have discussed that with the real-estate agent beforehand, who will then discuss it with the seller. Otherwise, the expectation is that you will put 10% down; although, sometimes, you may be allowed to put down a smaller deposit on the day of the action, but the balance is expected a few days after the auction.

When buying at auction, it's very important to have done your research on what the property is truly worth.

At auction, you have to be very mindful of what your limit is. Many people get emotionally involved in auctions, and they can end up blowing their budget and getting in way over their head. You must absolutely stick to your budget and try to avoid pushing your bid past the maximum amount that you can service with the lender.

If you're one that gets really emotional and tight, employ a buyer's advocate to bid for you. A good advocate will know how to read a crowd; how to intimidate other potential purchasers so that you get the result that you want.

Special Contribution

The following content has been provided by Sally Morrison, a Sales Consultant from Jellis Craig Hawthorn.

Things to consider when buying at auction

- There is no cooling-off period at auction, including purchases made 3 days before or after the auction.
- It is an unconditional cash sale, not subject to any building inspections or finance.
- A 10% deposit is required at the signing of the contracts.
- You must have your solicitor or conveyancer details available to enter onto the contract of sale.
- You cannot negotiate the deposit on auction day. You need to speak with the agent during the week prior to the auction to seek approval from the vendor for any varying terms regarding the deposit. This may include a variation to the expected 10% deposit, transferring the funds via EFT if you don't have a cheque book, or providing some sort of security on the day of purchase, e.g. $10,000 with the balance of funds due on the following Monday.

Common mistakes made by purchasers at auction

- Waiting until the property is about to be passed in to bid.
- Not bidding until someone else bids.
- Not bidding at all. Once the property is passed in on a vendor bid, no buyer has the exclusive right to negotiate with the vendor at their reserve price
- Not confirming settlement terms with the agent prior to the auction.

- Bidding as a couple and not realising signatures are required from both parties unless you have power of attorney for the other person.

Tips to bidding successfully at auction

- Bid boldly and aggressively. Stand close to the auctioneer and make your bids clear
- Bid high to stop other buyers from bidding. If the price indication is $600,000-$660,000, start the bidding at $660,000 or even higher.
- If a property is passed in, be firm on your price. You are the market; if the vendor would like to sell, they will need to negotiate.

What is the psychology of the price range quoted before auction?

- Price ranges give buyers a guide as to whether they should inspect a property. Call the agent weekly to ask how the interest is developing and where the vendor's expectations are.

Useful auction hints

- Always make your interest known to the agents. It's important that the agent keeps you informed of offers made prior to the auction and gives you the opportunity to compete in a private auction.
- Be nice to the agents, and the agent will be nice to you.

Your guide on how to buy at auction

1. Have your cheque book with you on auction day.
2. Familiarise yourself with the Auction Rules on display at the property.

3. Stand in clear view of the agent.
4. When the auctioneer states the property is 'on the market,' it will be sold to the highest bidder.
5. If the bidding does not reach the vendor's reserve price, the property will be passed in to the highest bidder, who has first right in negotiations.
6. Upon sale, signed contracts will be exchanged, and a deposit must be paid.

Sally Morrison, Sales Consultant
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Buying off the plan

The term "buying off the plan," in reality, means the buyer is actually buying the property virtually, based on the developer's presentation of a drawing and some lovely mock-ups done by artists. The developer really tries to paint a picture of how beautiful life is going to be in this new development.

In essence, you're dealing with a sales person, just like when you deal with a real-estate agent when you're buying an established property. Often, the developer needs to sell X amount of properties before a bank will lend him the money to start construction. As the buyer, you may not take ownership of this property for anywhere from one to three years, depending on how long it takes for the build.

Third party people can sell these properties to you and get a commission, which can be quite high, and you the buyer are the one that pays that because it is worked into your purchasing price. A real-estate agent obviously wants to sell a property as well, but they are probably not going to be quite as persistent as a developer's sales rep potentially is. They are also not going to hit you with every sales tactic. The real-estate agent already has the property to sell; whereas, the developer is very much relying on making about 70% of sales before they can actually get the funding to start the development.

Key Point

The take away is, never sign the contract on the spot when dealing with a sales person. Always take the contract away and have it vetted or assessed by a solicitor. I can't stress that enough. Never sign right there, even if they say it's a limited time offer.

As with all property purchases, my big piece of advice is to do your homework and spend time researching the developer that you're buying off. You want to see examples of their previous work. You want to find out whether their valuations are coming in at the contract of sale price.

Don't listen to the sales person, who tells you all about the great depreciation that you are potentially going to be able to claim, and about saving on the stamp duty. They will tell you that, because this property doesn't exist right now, you're not going to pay stamp duty on it.

The truth is that you will pay a massively reduced stamp duty, because you're only going to be charged on the land component, and that is really not much. After all, you're buying into this massive block of land, with maybe 200 apartments planned for the block. When you divide the land value between those 200 properties, the land component reduces quite dramatically, equating to a stamp duty savings.

This is where many people get into trouble because they get sold on what the sales people say about the stamp duty savings and the depreciation that you'll be able to claim if you're an investor. All the properties are brand new, so you're able to claim maximum depreciation.

At the end of the day, not all instances of buying off the plan are bad; there are many good opportunities. However, it's important to make sure you do your research and use experts, to make sure that everything checks out in your favour. The experts you employ will know what things to be cautious of with one of these kinds of property purchases.

Most banks will not do a pre-approval for buying off the plan. However, if you buy off the plan today based on a pre-approval for the finance, and that property takes 2 years to complete, if you've lost your job or something happens financially in that time, you may not be eligible for the loan when the project is complete.

Key Point

Another thing to consider is that developers measure living area differently than how valuers measure living area. A valuer calls the living area the net lettable, which means the space that's there at the end of the construction, i.e. after the wall studs and plaster have been inserted. A developer quite often bases their measurement on the bare shell.

Also it's worth keeping in mind that the developers are also allowed a 5% variance on this measurement, so they do not have to be exact when it comes to living area size when they are selling to you. I only mention this as it could affect your finance if the apartment ends up been smaller in size than the lender is prepared to accept. Most lenders prefer a living area of more than 50sqm as a rule.

There is also a little thing called the sunset clause which is an expiry date that a developer must pay your deposit back if the project does not proceed. Say you put your 10% deposit down, and the sunset clause is set for four years from the date you signed the contract. Then, let's say the project doesn't go ahead because the developer couldn't get the funding for it. You will potentially have to wait four years to get your money back.

I do know people who have bought off the plan and have actually made money, but you really need to do your research on that front. James, a client of mine who came to me needing finance, is a great example of why you need to do your research. His mother was sure that this was a great way to get ahead. She trusted these people and convinced James too. After all, the developer was going to do everything for the deal; they'll do the conveyancing, they'll help with the finance, what more could you need.

Now, I've mentioned before how important it is to avoid the traps of a vertically integrated company that do everything in house; you're not going to get an impartial viewpoint because they're all feeding each other. Here's a good example of how important it is:

Case Study

James went into this having been told about the location, location, location. He paid $470,000 for this single-bedroom apartment, but when it came time for the valuation, it was valued at $400,000. That's a big hit to take, especially if you're an investor; that's not the way you want to start out investing. In this case, this was going to be James' owner-occupied property, so he could cop the loss. Ideally, you hope to buy cheaper than the intrinsic value of the property, so you actually make money from the outset.

Special Contribution

The following content has been provided by Darryl Simms, a Property Investment Specialist, Founder of Latte Property and Author of "50 Must Know Property Investing Tips."

Buying off the plan property

Regardless of whether you are buying a new property to live in or as an investment, it is critical to undertake careful research and due diligence during your selection process. Below are a few of the risks and benefits associated with buying Off The Plan property, to help you make a more informed approach on your property journey.

When buying Off The Plan you are not able to walk through the property, so you are reliant on what has been presented in the floor plans and marketing materials plus your own ability to visualise the end product. The less informed buyers or those that have fallen into a well-oiled developers' marketing machine, can end up with an apartment that is much smaller than anticipated. It takes skill and experience to interpret floor plans and to identify those that will be dysfunctional due to the size, location within the building and/or the internal layout.

If property market values slow down or fall, you are still required to proceed with your purchase once the construction is completed, or you risk losing your 10% deposit. Whilst this may only be a short-term price fluctuation it could put financial pressure on you at the time. This risk can be mitigated by ensuring you have a buffer of funds, either in the form of extra cash or borrowed funds from equity in another property.

Conservative bank valuations can also pose problems at settlement if you don't have enough savings or equity in another property to make up the shortfall. Large high-density apartments in the CBD and house and land packages in the outer suburbs seem to be the main locations that are impacted by lower bank valuations. By avoiding these types of properties in high-risk locations you can easily address this issue.

Oversupply of similar properties being built in the same area either now or in the near future is another risk to your investment that is often overlooked, particularly in CBD and adjoining postcodes. Once again, it is easy to reduce this risk, by simply avoiding the areas that are currently oversupplied, or will be in the future.

Your property may not complete on time due to slow sales and/or construction delays, this can increase to many months with larger projects. Careful background checks on the developer and the builder can go a long way towards avoiding delays. It is important to check that their previous projects were completed on time and if they were delayed, how significant were the delays.

Interest rates may fluctuate up and/or down from when you sign your Off The Plan contract to when your property actually completes/settles. This of course could affect your after-tax cash flows in either a positive or negative way. Therefore, before you purchase any property, Off The Plan or established, it is important to have your property and/or finance provider 'stress test' your ability to make loan repayments. Even though most banks 'stress test' your borrowing capacity when deciding how much to lend you, it is a good idea to run the numbers yourself on 2 or 3 different interest rates, ranging from current rates to at least 2% above. There is no real need to run numbers on what will happen if rates drop as that will simply be a nice little surprise for you that should not be counted on.

Buying a high-rise apartment that promises a stunning view can sometimes result in disappointment after construction, or in a worst-case scenario, your view may be totally obscured by another project that commenced after you purchased yours. The best way to reduce or remove this risk is to conduct thorough checks with council planning. Alternatively, you can focus on securing the most functional floor plan rather than paying extra for a potential view that may never eventuate.

One of the well-known and biggest reasons for buying Off The Plan property is the potential for huge stamp duty savings. For example, in Victoria on a $500,000 purchase, you could potentially save over $18,700 on stamp duty when you purchase a new Off The Plan property instead of an established one. In recent years both the State and Federal governments have also offered significant grants and incentives to buy Off The Plan properties, to stimulate housing construction. It pays to check what financial incentives are applicable prior to making your purchase, as these grants are continually changing.

A lesser-known reason to buy a new Off The Plan property is the increased tax depreciation that is available. Increased depreciation means your holding costs will be much lower as the taxman is covering a larger portion of your investment property expenses, which can help you fast track your wealth creation through property investing. At Latte Property, we've had great success showing property investors how to reduce their after tax contributions down to less than a latte a day.

Speaking of tax benefits, there has been much talk of abolishing negative gearing by various politicians in the past. Negative gearing allows an investor to effectively reduce their taxable income and is used by many Australian property investors as an excellent form of financial leverage. Public perception is that only the wealthy can benefit from negative gearing; however, the truth is the majority of property investors that are leveraging from negative gearing are actually people earning less than $85,000 per annum. Despite all of the talk of removing negative gearing in recent times it is unlikely it will be totally abolished. It has become clear that if it were to be abolished, Off The Plan properties would still retain negative gearing benefits. The Australian government needs everyday property investors to continue providing affordable accommodation for our rapidly growing population, and keeping negative gearing for new properties will continue to stimulate more construction.

When you mention Off The Plan, many buyers immediately think of high-rise apartments that are located in the CBD of major cities. They may also believe that the high-density apartment projects run the risk of coming in below valuation and should be avoided at all costs. Several years ago this is exactly what happened with some high-density apartment projects in the Melbourne CBD and Docklands. High-density projects usually carry much greater risk and intending buyers have every good reason to be fearful of large Off The Plan developments. The good news is that in recent years there has been an increase in supply of smaller Off The Plan developments outside of the CBD. This is allowing buyers to purchase lower density properties in nice leafy suburbs offering a better quality of life than the CBD apartments. Many of the boutique apartments and townhouse projects still have easy access to the CBD, yet deliver greater appeal to both tenants and owner occupiers, resulting in higher rental returns and stronger capital growth.

Investors who buy new townhouses, units, apartments and full sized homes Off The Plan can do very well if they engage a quality provider to help them choose their property carefully, based on location, past performance, forecast capital growth, suburb demographics and various other factors.

Buying Off The Plan is one of the easiest and cheapest ways for an investor to enter the property market, or to add to his/her property portfolio, as you only need a 10% deposit. The remaining balance and/or finance is not required until construction has been completed, which may be anything from 6 months to 2 or 3 years, depending on the size of the development. Also, if you own an existing property or have access to equity in a family member's property, you may be able to borrow your deposit instead of waiting to save up for your purchase. This gets you into the property market sooner and can position you for greater capital growth returns, particularly in an up swinging market.

Fear of not being able to find a tenant for several weeks or even months can prevent property buyers from purchasing their first investment property. By purchasing a new property, you will find the high demand from tenants will help you rent out your property quickly and will usually deliver higher rental returns than older properties. New properties located within 2 to 10km of the CBD will also attract higher quality tenants, such as young professionals. Higher income professionals tend to look after your property much better and are more likely to become long-term tenants resulting in lower stress and higher returns for you.

Many of the problems associated with property investing are avoided with new properties, which allows for a more relaxed approach to property investing. Your ongoing maintenance is greatly reduced and this not only reduces your costs but also allows for a more stress free existence (no calls on the weekend to advise of problems such as, the hot water service just died or the plumbing has sprung a leak in the kitchen flooding the lounge and bedroom carpets).

Aside from the increased tax benefits associated with Off The Plan boutique apartments and townhouse projects, they are also popular with both the owner occupied and rental markets. This makes them a smarter investment for both owner-occupied and property investment buyers, as the increased demand from both markets will drive up rental returns and selling prices.

Another benefit from purchasing a boutique apartment or townhouse is the faster build time it offers. Many townhouse and boutique apartment projects complete in 9 to 15 months, in comparison with larger CBD apartment projects taking 3 to 5 years to complete. Faster build times can be an important factor for investors wanting or needing to secure tax benefits sooner rather than later. Owner occupied buyers will usually want to move into their new home sooner if possible, with the exception of some first home buyers who are wanting extra time to save more.

Buying a boutique townhouse or apartment project in the right location, such as away from busy roads yet close to schools, shops, cafes and restaurants, will always offer that extra appeal to a wider variety of tenants. Especially properties that are also within walking distance to train stations and/or tram and bus services.

At Latte Property we specialise in locating high quality, low to medium density, Off The Plan apartments and boutique townhouse projects. By focusing on this type of stock we are able to deliver much better results for our investors whilst reducing their risks.

Free Download: 9 Reasons to Avoid CBD Apartments:
www.latteproperty.com.au/AvoidCBD

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Key Point

The property buyers check list

It's not possible to list everything you should check, but the following is a good start – ask your lawyer/conveyancer for a comprehensive list (and consider a professional building report):

1. The dimensions of the land, including whether it is the same as what appears on the title.

2. The structure of the building, for example the foundations, plumbing, wiring, dampness, cracks in the walls.

3. Pest infestation.

4. Whether any part of the building overhangs an adjoining property.

5. The condition of the fences.

6. The gutters, eaves, roof, exposed pipes.

7. The tendency of the land to flood - ask the neighbours if the property is in a low lying area, especially if it is located at or near the bottom of an incline.

8. If there is a vacant block of land next to or near the property, check with the council. For instance, you would probably want to know if a block of flats or apartments is to be built next door, or a huge house will be built that will allow the neighbour to look over your back yard.

9. Whether there are any zoning or building restrictions on the property.

10. Whether there are any easements. An easement is something that restricts the ability to use of the land, for instance whether there is a right of way across the property.

11. Whether there are any roads or freeways proposed to be built in the area.

Key Point (Cont.)

12. Whether any renovations were completed without council approval. Wiring and plumbing must also have been legally connected.

13. Is this the type of area you want to live in?

14. Is there the public transport you need, and a reasonable distance to shops, schools etc.

15. Do I know the price performance for the area?

16. Have I conducted at least two inspections at different times of the day to check traffic and noise, and the exposure to the sun?

17. Are the rooms a sufficient size?

18. Does the laundry allow easy access to the yard?

19. Is the kitchen designed to work well (you will curse yourself later if it doesn't!)

20. Is the house insulated?

CHAPTER 7

Protecting your future: insurances and wills

Brokers have the responsibility to ask their clients about whether they have life insurance, total permanent disability, trauma insurance, and income protection. We have to ask these questions because taking a loan out means you're increasing your financial risk. Putting someone into a $500,000 mortgage who may only have life insurance of $100,000 is risky, especially if it's a couple with a couple of children, and a one income family.

What would happen if that income earner passed away, or was severely injured, and had no coverage? Unfortunately, statistics show that, when people do not have insurances in place, if the major income earner is unable to earn that money, either through death or injury, within 6-8 months, the house will need to be sold.

A good broker will insist that their clients at least have a conversation with a financial planner to discuss the bare minimum insurance level that would at least cover the mortgage. You can take out loan protection insurance through a bank so that, if for some reason you can't work, or you lose your job, or your health is really poor, at least your home loan is covered. Knowing that things are taken care can be a great relief.

Case Study

Mia and Andrew were a one income-earner household because Andrew had gone back to school to complete an engineering degree. He was pretty ambivalent towards life insurance and thought it had nothing to do with them as they were young and healthy. However, Mia was quite mindful as she had been in a car accident a while ago. She definitely wanted to make sure they had insurance in place.

On the first anniversary of their loan, I put a call in to Mia to find out how things were going. I didn't hear back from her, which was most unusual because Mia always got back to me when I called. About a month after that, I got a call from Andrew who told me that Mia had died on the operating table.

Andrew was very thankful that Mia had persisted with getting the relevant insurance. They had a 1-year old child, and having the insurance meant that the house was paid off, and that he had $100,000 to live on and $100,000 to go towards their daughter's education. Andrew went from being completely indifferent about it, to thinking that anyone who doesn't take out the necessary insurances is an idiot.

Without the insurance, Andrew would have probably had to sell the property and move back interstate. He wouldn't have been able to spend time with his daughter, which he has been able to do to help them both get through the loss. It gives him choices about what he wants to do. He is not forced by circumstance to have to do something he doesn't want to.

Everyone thinks disaster won't happen to them, or they think it's such an unlikely prospect that they don't want to think about it. However, the reality is, it is going to happen to a percentage of people and if it happens to you, you want to make sure that things are covered.

It's interesting that we will automatically pay our car insurance and our house insurance, but we won't insure ourselves. We'll insure our things but we won't insure ourselves. You may even take out health insurance, but then you take out this whopping big loan, and you never think to insure yourself. You have to insure yourself, because you're the reason you have all those other things.

Estate planning and having a will

If you want to determine how your assets are allocated once you've died, you need a will. It's as simple as that. Otherwise, the state could determine how your assets should be divided up, and that can cause a lot of unnecessary stress on loved ones. They've just lost you; then, they've got to fight with the state about how your assets will be divided up.

Although most people don't want to think about it, for a very small cost, you get great peace of mind. Once every year or two, you can have these things looked over and forget about it. Then, in the unlikely and horrible event that something happens, you can be assured that whoever is left behind is going to be looked after.

Special Contribution

The following content has been provided by Steve Gilbert, an Independent Financial Advisor from Gilbert Financial Advice and Services.

There are four major types of insurance

- Life insurance
- Total permanent disability (TPD)
- Trauma insurance
- Income protection

The type or types that are right for you are dependent on the stage of life you're in.

Life insurance

Life insurance is pretty easy to figure out. If you die, or suffer from a terminal illness and have less than 12 months to live, the life insurance company will provide your beneficiary, or estate with a lump sum payment.

Life insurance ensures that your family is financially taken care of. If a person has debt, perhaps from buying a house or for another investment, it's always good to at least cover that debt amount. If the person has a family, there is reason to nominate a higher level; enough to cover the debt, as well as to provide an amount of money for the spouse to do with as they see fit, perhaps allowing the kids to go to private school.

Total permanent disability

Total permanent disability is the situation where the person has suffered from a total and permanent disability that will prevent them from ever being able to work again. For a single person, there is a single lump sum for the total permanent disability to help them reshape their life. This type of insurance is good for all people, because you can counter claim total permanent disability with income protection. Then, at the back end, there is this income-protection policy that helps them to live day to day.

Trauma insurance

Trauma insurance provides benefits in the event of a heart attack, cancer, stroke, etc. It's like a line of medical insurance. A good recommendation is to carry anywhere between $100,000 to $200,000 worth of trauma insurance. With the occupation or the definitions, sometimes trauma claims have not been meet because it does not meet the specifics. Hence, there is reason to be a bit weary of trauma insurance.

Now, each of those three insurances are lump-sum insurances; they pay out the lump sum you nominate. Income protection is different.

Income protection

The money that you have from your income is tax assessable. Therefore, the income protection premiums are tax deductible, while they are not for the other three.

With income protection, the insurance company will only insure 75% of your income. The rationale for that is, while you're not working, you're not incurring the same amount of expenses; therefore, you don't need 100% of your income. You can add on your superannuation amount as well, which is wise to do. Income protection can also in some instances cover your super contributions so in the event of a long term claim you are still contributing to super and will not be disadvantaged at retirement.

A young professional who has no kids and no wife will benefit most from income protection. Since he has no financial ties to anybody, and nobody is financially dependent on him, life insurance becomes a bit of a moot point. On the other hand, if he were a married man, the argument would be the absolute opposite. After all, he has a moral obligation to protect his family if he is the major breadwinner and he dies prematurely.

Shockingly, only 11% of working Australians have income protection. Income-protection insurance is the most important insurance, apart from third-party insurance on your car. Everyone insures their house, but how many people do you know who have personally lost their house through fire? Compare that to how many people you know that have had cancer, a heart attack, been hit by a car, or been injured at work.

One in three working Australians will have a two-year period when they will not be able to work due to accident, illness, or injury. That is a very high ratio; yet we insure our houses, but we don't insure our income, which is bizarre.

If a young family, or a husband and wife who are homeowners, are up to their neck in debt, they should have the income-protection policy inside their super fund until they build up a cash reserve. It's not ideal, but something is better than nothing.

If they don't do it this way, six months down the road, they will undoubtedly come to a situation where they start believing that this insurance is costing them too much, and they will want to cut the insurance. If they do drop it, hopefully, things come right, but the odds are against them.

The companies that are advertising on the television are fantastic for creating more awareness. However, they can't give advice like a financial adviser, who can use any insurance product out there. They have the ability to customize the policy to suit the person and create tax deductibility. They can make sure you get an insurance policy that fits you, and you don't have to pay an arm and a leg for it. And, you know it is going to work, which is the bottom line.

Insurance inside superannuation

It is best to have your insurance inside superannuation, because of the taxation benefits. Having your life insurance inside a super, means that your life is insured against your death, but it is owned and paid for by the superfund. If you have it stand alone, not in the super, you pay for it after tax; receiving the benefit is not taxed. However, some superannuation funds won't pay out on different definitions, so you have to be mindful about 'any or own' occupation classifications. Furthermore, there may be tax implications on the way out as well, depending upon the structure and the person.

Another point regarding superannuation. If you have your insurances inside superannuation, and you are claiming personal insurance, it's probably one of the worst times in your life. Think ahead about whether you really want the hassle of arguing with a life insurance or a superannuation company to get your money out. Generally, the answer is no.

Many people think there is insurance already bundled into their superannuation, but that is not adequate. These are automatic acceptance policies, that don't require any medicals, but the amount is usually far below what the average person needs. They'll say you get something like $200,000 worth of life insurance, TPD, and maybe a bit of salary continuance, but you have to pay for it out of your own pocket. Not many people have a mortgage below two-hundred-thousand dollars, which is why these are not adequate. There are many differences in the quality of the insurances held inside super compared to the insurance that a financial adviser will recommend. As well as a broader policy being provided by a financial adviser, in the event of a claim they will be there with you to navigate you through the claims process.

One man had forty-thousand dollars in his super, but his premium was going to be fourteen grand a year, and that's just not realistic. This is when having a good advisor is so important.

Understanding insurance and managing money

Many people don't think highly of insurance; they treat it like a white shoe brigade, or red necks from the far north trying to scam the dollar out of them. But, after sitting on the sidelines where you get to see what happens when they don't have it, you change your tune very quickly. They think, "All insurance is sort of the same. I think I'm covered," and they stick their head in the sand.

Most people don't even know what the waiting period on their income-protection policy is. There are thirty-day, sixty-day, and ninety-day waiting periods. If the person does not have a cash reserve, it is good to go with a thirty-day waiting period. However, if they do have a cash reserve, the ninety-day waiting period cuts their costs quite considerably.

Typically, the only way people compare insurances is by price. They don't realize that, when they do that, they are probably giving up certain benefits, and that their insurance won't actually do what they need it to do, should they need it. When it comes to serious things, like your financial and your family's financial future, you can't just compare on price. You have to make sure the benefits actually stack up to what you would need, should something actually happen.

Life insurance is pretty easy to figure out. It's such a defining moment; you're dead, and if you're dead, you can't work anymore. However, if you have suffered a trauma but are still alive, you can no longer earn the same income, and maybe no income at all, depending on your trauma or disability. This happens much more often than people think, and those situations can actually be much worse than death financially. Getting the right advice is important. That is why, when it comes to structuring trauma insurance and income protection, it is beneficial to have an expert get involved.

A financial adviser can come up with an investment strategy that gets you to your investment goal. Along the way, they may make twenty mistakes, but they still enable you to meet your goal. However, if someone gets the insurance side of things wrong once, and you need it, you miss out completely, and there is no going back.

This is not rocket science; there is just a lot to it, and much of it is legislative understanding. Every year, they make new laws, and there are so many different laws that everything gets lost in the bureaucracy and the paperwork. There is a law for this; a law for that; a law for scratching your left ear; and people get lost trying to understand it all. People fear what they don't understand, so they just don't do it.

The other reason many people don't understand money and how to manage it is because of the Australian culture. Many migrants come to Australia, and they are much savvier with their money. But, here in Australia, there's a "should be all right" attitude. I should be all right. Even though I've spent all my money and have no savings, it should be all right; I get paid next week.

People just think it will all be right. Most people—especially the newer generations—want everything now, and they are not prepared to work or wait for it. They are spending beyond their means as it is; they have no thought for setting money aside.

It's a shift people need to make in their thinking. A decision to be a bit smarter now so, when they're older, they'll be much better off than they would be if they just keep doing things aimlessly.

Choosing a financial advisor

When people do think about getting some advice and setting things up for the future, they begin to wonder how they can figure out if a financial planner is any good. To make sure you find one who fits your needs, start by writing down the reasons you want to go see a financial advisor. There could be five or six reasons; maybe you want to send the kids to private school, or you want to pay off your mortgage quicker. Whatever it is, be sure to write it down.

With those things in mind, go talk to the financial advisor. If he can clarify things for you and show you ways to meet your objectives, you are probably dealing with a good one. Also, use all the tools at hand. There is a new asset registry online, where you can find a financial advisor's ratings.

The best way to understand it is to go to an independent financial advisor. Banks have their own products they have to try to sell. Whereas, a financial advisor who earns their living off commissions from client fees is typically not beholding to anybody and can choose any product or strategy they feel is necessary for the client.

While every financial advisor is in it to make money, the good ones are also in it to help people. Mind you, nothing in life comes free, especially the opportunity to make or save money. However, a good financial advisor can save you $400,000 - $500,000.

Johnny Depp is famous for saying, "Money can't buy you happiness, but it can buy you a big enough boat to sail right up to it." That is what a good financial planner can help you with. So, when you start to think their five-thousand-dollar fee is a bit rich, keep in mind that it is nothing compared to the several-hundred grand they may save you or help you earn. After all, by helping you build a financial strategy, a good financial planner or adviser can allow you to achieve your life goals and to do the things you want to do.

However, you have to be realistic. If you only earn fifty dollars a week, and you want to be a millionaire in two weeks' time, it's not going to happen.

A good financial advisor will help you see your options and offer their advice based around what they think you should do. Keep in mind that they are only options; taking the advice is up to you. A financial planner is someone who can give you the direction, assistance, and motivation to create a plan, but they don't have a magic wand. You have to buy into it and accept responsibility for your own financial situation. It's not up to the financial advisor.

Remember that money is not everything; your health is more important. If you can't sleep at night because of a financial decision you make; then, it is not worth it. Find a financial advisor that has that kind of mentality. And when you want to make changes in your life that may affect your financial future, talk to your financial advisor, especially if you want to make changes to your investments. Half the time, people want to make changes because they talked with their friend Bob at the barbeque, after he had about fifty-two beers, and he told them that this share is fantastic.

A good financial advisor will listen to Bob's drunken advice and say, "Hang on. Just listen to what you just said. Really think about where you are getting this advice."

Budgeting

People make budgeting hard, but it is actually easy. Just don't spend as much as you earn. It's that simple. Knowledge is power. Give yourself knowledge about your spending; get an exercise book and write down everything you spend every day. Write down everything, whether it came from your Visa card, cash, or as a direct debit. You don't have to total it up every day, just keep track of it.

A budget doesn't have to be a fancy complicated spreadsheet. It can be something as easy as just looking at those statements and writing things down in a workbook. A financial advisor can do it for you, but they're going to charge you for it, and it is time consuming for them. Besides, you have to take responsibility for your own money. When you look it over, you will be surprised to find how much you actually spend on X, Y, and Z.

After three months, you will start to see patterns of overspending appear. The classic example is the gym membership. In one quarter, you can spend $400 on a gym membership. That $400 could have been that push bike you've been wanting that you can't afford at the moment.

Then, there's coffee. Some people have two coffees a day, which can add up to $10 a day. Times that by 5 days a week, and that's $50 a week. Now, multiply that by 52, and you're spending $3,000 a year after taxes. Buy an espresso machine instead. Even if you buy the most expensive machine, you still save several grand.

One man was an alcoholic and a heavy smoker. He started tracking how he spent his money. When he totalled up how much he spent on cigarettes and alcohol, he gave them up. As bazaar as it is, he wasn't as worried about his health as he was about his finances. In the end, it bettered his life.

Once you know where you are spending your money, you can make better choices going forward. This is where you begin to create a budget, and your financial advisor can help you set up a system that works for you.

Many people were raised using the envelope system, where their parents taught them that a third of their money goes to savings, a third goes to living, and a third goes to spending, and you would put each third into envelopes. Each week, for living, put $10 away. Put $10 a week away for electricity and utilities, and $10 away for food.

At the end of the month, go back to the envelopes, and you should have enough for each. With this system, you'll never have a problem paying bills. The percentage levels may vary over time, but if you have that mentality—of a third, a third, and a third—you can't really go wrong.

The same system is good for investing. You can put a little bit of money into your superannuation account, a little into a small share fund, and a little into a bank account. The trick is in structuring the finances to make the money flow into products that will be beneficial for you in the future.

Today, banking takes place electronically more and more, but you can still use the envelope system; you just have to set things up differently. You can use a spreadsheet that divides where the money should go. However, the easiest way is to go online and set up three separate accounts, one for spending, one for living, and a savings account.

Using this method, it is easy to begin a habit of saving. It doesn't matter how little or how much it is. Even if you just save a dollar a week, once the habit is created, it is hard to break. It's like smoking; It's easy to start, but so hard to stop.

Learning how to budget and how to put some money aside are important first steps to creating wealth. Once those are in place, the next big thing to focus on is compounding interest. Albert Einstein said that compounding interest was the greatest mathematical discovery of all time for mankind.

If you plant an acorn, big things grow from little things. What starts small grows and grows and grows; it compounds and gets bigger and bigger.

Investing your money

It's not hard to invest. All you have to do is find good quality assets. Ninety percent of your investment portfolio should be blue chip assets, property, shares, and gold. The other ten percent can be as speculative as you want it to be.

If you want to try something, try it. However, if you are going to invest, invest in blue chips. There are some really good get rich quick schemes—casino, Texas Lotto, gambling, horses. That is extreme luck, and luck doesn't build wealth.

The Australian share market returns between 11% and 12%. That's more money than you put into it. There is a rule of seventy-two, which is Albert Einstein's theory of compounding interest. If it is 12%, then you divide 72 by 12; it is 6 years for that asset to double.

If you have $100,000, in 6 years it will be $200,000. In another 6 years, it will be $400,000. In another 6 years, it will be $800,000. In another 6 years, it will be $1.6 million. And those are all just blue chip shares.

Taking things to the next level, leveraging is one of the best ways to create wealth, but people get burned because they get greedy. They leverage too much. You have to leverage at safe levels.

If you take another $100,000 and you took a margin loan, instead of having the $1.6 million in 24 years, you would have $3.2 million, minus your lending costs, which will probably be $500,000. You are still way above.

If you have a half decent financial advisor, he will see any impending drop. He won't be able to predict it ahead of time, but he will see the drop coming down. When the Global Financial Crisis (GFC) came around, most advisors got on the phone and told their clients that they needed to put their money into cash right now. That is what a good advisor does.

The three most important things about wealth creation are, invest in something you are comfortable with, make sure it is always a blue-chip quality asset, and most importantly, don't be greedy. When you are ready to address your finances, define what your goals and objectives are first. Then, find a financial advisor that can thoroughly address them all.

Some people get a bit overboard with saving, investing, or with wealth creation. Save money, but don't forget to live as well. What is the point of having millions and millions of dollars if you just die? You can't take it with you.

Steve Gilbert, Independent Financial Advisor
Gilbert Financial Advice and Services
www.gfas.com.au

Special Contribution

The following content has been provided by Lloyd Dewar, the Principle of Dewar Law.

The complete guide to wills

What is a will?

A Will is a legal document by which a person ("the testator") expresses their wishes as to who should receive the testator's assets ("estate") upon the testator's death. A recipient or intended recipient of assets under a Will is called "a beneficiary."

Types of wills

In reality, there are not different types of Wills; they merely have different objects making some Wills more complicated than others. A simple Will merely distributes the estate to certain beneficiaries. More complex Wills may:

- Give a beneficiary a right to stay in the testator's house until death (life interest in land); or
- Create an ongoing trust to manage the estate (testamentary trust Will).

Lawyers sometimes differentiate between *formal* and *informal* Wills. Formal Wills are professionally-drafted in legal jargon. Informal Wills are not professionally-drafted or contain all the legal formalities, but are an expression of the testator's wishes as to the distribution of the estate.

Why you should have a formal will

If there isn't a Will, the estate is distributed by state-appointed trustees in accordance with the rules of intestacy. Therefore, you should have a Will:

1. To ensure your estate is distributed in accordance with your wishes.
2. To minimise disputes between family members after your death.
3. To exclude unworthy persons from claiming estate assets and to minimise the chances of such claims.
4. To give money to charitable causes that are meaningful to you.
5. To give (non-binding) directions as to who should take care of your children.
6. To ensure your estate is dealt with by your choice of a competent and trusted executor.

When to review or update your will

You should review and/or update your Will:

1. At the end of a new significant relationship (e.g. estrangement, separation, divorce).
2. Whenever you enter into a new significant relationship (de facto or marriage).
3. Upon the procuring a major asset (e.g. a house) whether by purchase or inheritance.
4. Upon the death of a beneficiary or trustee of your current Will.
5. Upon the coming of age of any children.
6. If you move interstate or overseas.

Is a formal will always binding?

A formal Will is not always binding as to all of its terms. In recent years, many governments, including Victoria's, have revised probate laws to expand the rights of certain parties to challenge a Will if they believe they should have been provided for (or better provided for) under the Will. This is known as a "Part 4 claim." Also, a Will may be invalid if it is later proved that the testator was legally incapable at the time the Will was signed, e.g. due to mental illness.

What is worse than not having a will?

The only thing worse than not having a Will is having an ambiguous, uncertain or otherwise poorly-drafted Will. Such Wills often end up in lengthy (years) and expensive (six figure) probate court cases.

To maximize your chances of avoiding such complications, ensure that a lawyer drafts your Will.

Lloyd Dewar, Principle
Dewar Law
www.dewarlaw.com.au

CHAPTER 8

Eliminating your mortgage fast

Pop the cork, you now own the property

Now that you have your home loan and have moved into your brand new home, here are some really cool ways to pay it off fast. The following techniques are guaranteed to help pay down your loan faster, which will save you interest.

Pay it off quickly

The quicker you pay off your mortgage, the less you end up having to pay on it overall.

Case Study

Let's say that you just got yourself a $400,000 loan at 6.0% over a 30-year term. This would mean a principal and interest repayment of $2,398 per month. Over the 30-year term, your total repayments would amount to just over $863,000 to pay back the original $400,000 loan. However, if you have enough spare income to pay an extra $1,000 per month, it would reduce your home loan term by a staggering 15 years and 2 months, saving you over $258,000 in interest.

You could put that money to good use and maybe buy an investment property. I am not advocating that you live like a pauper; just make extra repayments when you can. You still have to enjoy life, so don't be a slave to your mortgage.

Make accelerated, fortnightly repayments

It is easy to make an extra monthly repayment each year without really feeling the squeeze. Simply divide your monthly payment in two and then pay fortnightly instead of monthly. You would make what equates to 13 payments each year instead of 12, as there are 26 fortnights in a year.

By doing this, instead of paying $28,776 per year, you would actually pay $31,174. This simple adjustment in the payment schedule can shave up to 4.5 years off your 30-year loan term and save you around $69,000.

Can you pretend the interest rate is higher?

As I currently write this, $400,000 loans receive an interest rate of around 4.6% pa from some of the major lenders, requiring a repayment of only $2,051 per month. If you can afford to pretend that the rate is 6.0% and pay $2,398 per month, this self-imposed buffer of 1.4% would mean that you are paying an extra $347 per month. If you can do this, you will cut your 30-year loan term down to about 21.8 years. Even if 1.4% is not achievable, paying more than is actually required each month, regardless of how much it is, brings down the length of your loan term.

Do you really need to buy that?

Maybe you think it will be too hard to come up with the extra money to put toward the loan. While the methods I have described should be fairly painless, you may find them even easier to actualize if you take control of unnecessary spending. Are you still paying your gym membership, even though you haven't been there for the last 6 months? Can you give up the smokes? Do you buy your lunch and two lattes every day?

Case Study

When I had my music shop, I used to buy lunch and have at least two coff ees a day. The total cost was about $18 per day (lunch, $12 and coff ee, $3.50 each), or $90 per week. Allowing for 4-weeks' leave per year, that equates to $4,320 per year. What would happen if I bought my lunch once a week and had just one coffee a day? My weekly spend would go down to $29.50 per week, giving me just over $60 per week to put towards my mortgage. That equates to $260 per month.

I am sure there are areas that, if you were honest with yourself, you could find ways to save some money. When you shop for groceries, make a list and stick to it. Cut out impulse buys; do you really need that brand new car when one a few years old will cost considerably less. Can you do public transport?

Lump sum payments

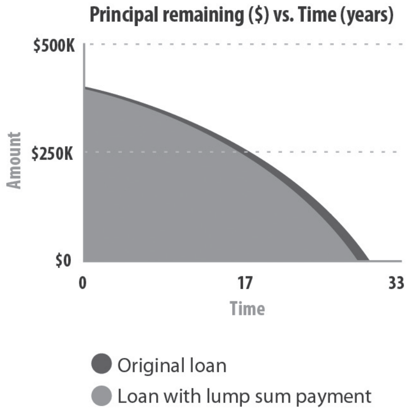
Many people routinely receive a large chunk of money, and they generally have all sorts of plans of what to do with it. These may be a lump sum from a tax return or a work bonus. Instead of spending it on a holiday or a new wardrobe, consider putting it towards your mortgage. A lump sum repayment of $5,000 on a $400,000 loan in Year 2 of a 30-year loan, with an interest rate of 6.0%, will reduce the loan term down to 29 years and 1 month, saving you over $21,000 in interest (see diagram on the next page). Imagine how much it would reduce your loan if you were to receive a refund or bonus every year of a similar amount and put each one toward your mortgage.

Valuable Resource

The Loan Operator website has a number of calculators you can use, one of which to see how a lump sum payment lowers the loan term and overall cost of the loan. Visit: www.theloanoperator.com.au

LUMP SUM PAYMENT

Loan term	30 YEARS
Loan amount	$ 400,000
Interest rate	6%
Repayment frequency	Monthly
Once-off lump sum repayment	$ 5,000
Lump sum made at year	2 YEARS



RESULTS	
Current monthly repayments	$2,398.20
Original total amount	$863,352.76
Updated total amount	$842,289.61
Interest you will save	$21,063.15
Time you will save	**0** years **11** months
Updated loan term	**29** years **1** month

Use an offset account

An offset account is a transaction account linked to your variable-rate home loan. The money in that account offsets your loan balance. The more money you have in the account, the less interest you pay on your home loan.

Instead of putting your spare cash into an interest-bearing account, where you earn very little interest and pay tax on the interest you do earn, transfer any spare money you have into your offset account.

Case Study

Let's say you could keep a balance of $10,000 per month in your offset account against your $400,000 loan, with an interest rate of 6.0%. This means that the bank only charges interest on $390,000. The interest payable on a $400,000 loan at 6.0% is $2,000 per month, however on a $390,000 loan at 6.0% the interest is only $1,950 per month.

In this instance the bank would credit your loan account $50 for the month. As a result of this $10,000 in the offset account, you would save around $46,874 over the term of the loan in interest and shave about 1 year and 7 months off your 30 year loan term (see diagram on the next page).

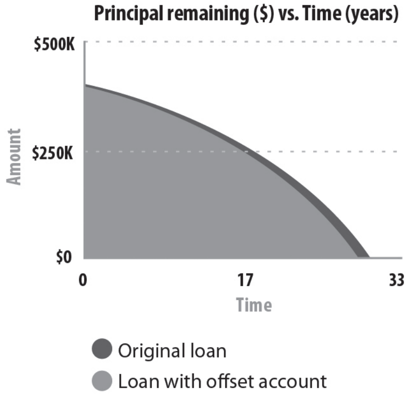
To make your offset work better for you, have your salary or wages paid into your offset. If your pay goes directly into your offset account, it immediately reduces the interest you pay on your home loan. Even if it's only in there for a couple of days, it adds up, and you can still take your money out as with a normal bank account.

With this set up, use your credit card for everyday purchases. To do this, you need to be a disciplined spender, and you need to know how much your monthly expenses are. Keep enough money for your expenses (groceries, utility bills, etc.) in your account, but use your credit card to pay for them instead. This allows you to keep the maximum amount in your account at all times, offsetting interest. Then, at the end of the month, transfer the money you have set aside from your offset account and pay off your credit card balance in full so that you don't accrue any credit card interest.

It is crucial that you set aside the money for your expenses in your account so that you're able to pay off all the expenses you've put onto your credit card at the end of each month. If you're not able to do this, you'll end up paying interest on your credit card. If you're not disciplined with your credit card, this may not be the best option for you.

OFFSET ACCOUNT

Loan term	30 YEARS
Loan amount	$ 400,000
Interest rate	6%
Repayment frequency	Monthly
Offset account balance	$ 10,000
Start offset balance at	0 YEARS



RESULTS

Current monthly repayments	$2,398.20
Interest you will save	$46,874.57
Time you will save	**1** year **7** months
Updated loan term	**28** years **5** months

Consolidate your debts

Many people carry a personal loan at 12% interest and have a couple of credit cards, which they don't clear the balances on each month, potentially accruing interest charges in the vicinity of 18-20%.

Assuming that you have a bit of equity in your property, you may be able to consolidate these debts into your home loan, bringing the interest rate down to 5-6%.

Here is how to make this really work for you; pay the new consolidated loan the sum total of all the original loan repayments. This means that you pay extra off your home loan without really feeling it; you were already paying that same amount every month.

Use your equity

This one is a little left of centre, considering I have been showing you ways to reduce debt. Now, I am going to suggest borrowing more, ultimately to reduce debt.

When I first entered the world of finance broking, I would hear stories about people paying off their loan in 10 years. I always thought that only the wealthy could do this; there was no way I could manage to double my repayments to make this happen. Again with our $400,000 loan, at 6%, I would need to pay $2,050 extra per month, on top off the already $2,398. Whoa, a bit of an ask?

However, to achieve this aim, you could purchase a well selected investment property. I must stress that this really relies on choosing the right property to achieve capital growth, a property that will double in value every 10 years. This strategy may not be suitable for everyone.

Case Study

Scenario

- Current home value $500,000.
- Current mortgage $300,000.
- Current loan repayments $1,610 per month.
- Interest rate 5% per annum.
- Time remaining with mortgage 30 years.
- Total repayments over 30 years $579,438.

Case Study (Cont.)

Position Year 1

	HOME	INVESTMENT
PROPERTY VALUE	$500,000	$400,000
HOME LOAN	$300,000	
INVESTMENT LOAN	$100,000	$300,000
EQUITY	$100,000	$100,000

For ease of illustration I have not included costs such as stamp duty etc. As a rule of thumb in Victoria one should add 5.5% to the purchase price to ascertain associated costs for an investment property.

Position Year 10

	HOME	INVESTMENT
PROPERTY VALUE	$1,000,000	$800,000
HOME LOAN	$300,000	
INVESTMENT LOAN	$100,000	$300,000
EQUITY	$600,000	$500,000

Sell investment property for $800,000 and repay both investment loan and home loan leaving no debt on your current home loan.

End Position

Investment property sold for $800,000. Investment loan of $300,000, paid out. Investment loan of $100,000 attached to own home paid out. Home loan of $300,000 paid out.

Own home worth $1,000,000 with no debt. Cash in bank $100,000, time to invest again.

Case Study (Cont.)

Disclaimer and notes

Does not take into account principle and interest repayments on existing home loan, balance after 10 years = $244,000. Selling costs and capital gains not taken into consideration for this example.

The information provided is of a general nature and we would encourage you to discuss your personal circumstance with your broker or financial planner. You should seek professional advice before you implement any new approach to ensure that it is appropriate for your circumstance. Past results do not guarantee future performance.

Can you get a better interest rate?

Maybe you are wondering what a reduction in your interest rate would mean. I must stress here that, when you decide to refinance, you need to take all the costs associated with that refinance into consideration. These include the outgoing lender's discharge cost, mortgage registration fees, and a possible application fee with the new lender. There is also the hassle of having to shift all banking to the new lender.

Review your mortgage with a broker

A quality broker reviews your loan annually to ensure that it is still suited to your needs. Let's face it, not only does life change, lenders are also constantly updating and changing their product offerings, so it is imperative to have someone who is looking out for you.

Can you remember the last time your bank called you to offer a better deal on your current loan, or to let you know about a special deal offered by the opposition, or to discuss some of the options I have raised here? That just isn't going to happen. When you work strictly with a bank, you are very much on your own, regardless of the changes in your life or in the world of property and mortgages.

If you have an investment property, and it is your only property because you may have chosen to rent, these techniques may also apply. By paying the loan down, thus, creating more equity in the property, you could potentially buy another investment property to create even more wealth.

Case Study

Refinancing to a better deal can pay off. A 0.5% saving on a $400,000 loan would look like this:

Before: $400,000 @ 6.0% = $2,398 per month
Now: $400,000 @ 5.5% = $2,271 per month

The yearly savings would be around $1,524 a year.

Now, if you paid that extra monthly savings of $127 into your loan instead of spending it, at the new rate of 5.5%, that loan would be paid out in just 26.35 years.

CHAPTER 9

Putting it all together

You now know what's required to successfully buy a property, and hopefully you have the confidence to move forward. We've outlined the key people that you will need to be surrounded by. You've been empowered. You know the importance of research and due diligence, and surrounding yourself with good people, as we've outlined in this book. Just doing that will take you a long way toward successfully getting into the property market.

Knowledge empowers, so use the knowledge that's here. I didn't make it up; it comes from observations I've made, my personal experiences and those of my clients.

Unless you put this plan into action, it's pretty useless. You don't need to act immediately or with great haste. In the process, if you feel pressure from someone, the sense that you have to "do it right now," you don't. Take a step back and re-assess everything. If you have a plan, it can do away with the emotional element, as well as impulse.

Key Point

Your step-by-step checklist for being home owner ready.

ARRANGING YOUR FINANCES

- $ Contact your mortgage broker to explore financing options.
- $ Arrange supporting documents (i.e. pay slips, group certificates, credit card statements and other relevant documents).
- $ Assess lending capabilities with your mortgage broker, shortlist loan options and determine the most appropriate loan from the shortlist.
- $ Submit loan application with all supporting documents.
- $ Obtain pre-approval.

Note: Finance can be secured before or after you find a property. However, borrowers should consider a pre-approval so that they have a true measure of their borrowing capacity before they commit to a purchase.

*Pre-approvals are usually always subject to further conditions.

BUYING YOUR HOUSE

- $ Engage a solicitor or conveyancer to check sale contract.
- $ Place offer for home/bid at auction.
- $ Complete building and pest inspections, strata and title searches.

Key Point (Cont.)

- Sign contracts along with submitting agreed deposit.
- Arrange insurances (including contents, building and/or income protection).
- If applicable, process first home owner grants (FHOG).
- Complete settlement.
- Pick up keys.

MOVING INTO YOUR HOME

- If currently renting, advise landlord that you're moving.
- Collect bond from rental agency.
- Arrange disconnection of utilities and cleaning of old premises (if required).
- Arrange quotes from removalist companies/schedule moving times.
- Connect the gas, electricity and other utilities.
- Connect pay TV and internet.
- Connect new phone line.
- Redirect mail (can be arranged through your local post office).
- Redirect newspaper delivery.
- Advise family and friends of new address and phone details.
- Clean up home before you move in.
- Move the family in.
- Enjoy your new home!

THE LOAN OPERATOR

What Steve Morrison stands for:

Here's what I am not:

- I don't wear a suit and tie.
- I don't speak in acronyms.
- I am never too busy to serve you.
- I don't have a one size fits all mentality.
- I don't talk down to my clients.
- I don't assume you understand all aspects of finance.
- I don't make you feel small for asking a so called dumb question.
- I don't make things complicated.
- I don't say I will get back to you and never do.

Here's what I am:

- I love my business and the opportunity to meet and help people with finance and hope you will come to see me as your trusted advisor when it comes to all things finance.
- I take my role as a mortgage broker seriously and take great satisfaction from my clients' happiness and success.
- I will be in touch each year on the anniversary of your loan to make sure it is still meeting your requirements.

- I have surrounded myself with a team of quality people that supports every aspect of property ownership.
- I support local charities that do good work in the community.
- I have been a musician playing the drums for over 40 years and I am still active in the Melbourne music scene.
- I also love golf, travelling, reading, keeping fit and wealth creation.
- I love to say yes but will be honest with you if something is not possible…I will nonetheless advise of a plan to move forward.
- I have an amazing family, my partner of over 25 years, Kim, and I have two children who have been taught to think for themselves which certainly keeps us on our toes.

The Loan Operator offers you:

Choice

Gives you access to more than 25 different lenders, enabling you to choose from a wide range of competitive home loan rates and features.

Clarity

Explores and explains your home loan options before helping you to settle on the best deal for your personal circumstances.

Team

Surrounded by a team of quality people that supports you in every aspect of property ownership.

Solutions

Solves problems and looks outside the box to find a solution to your unique financial situation.

Empowerment

Empowers you to make informed and confident decisions about your financial future.

Partnership

Remains your financial partner after your home loan is signed sealed and delivered, always happy to help and answer any questions be it about your existing loan or exploring new possibilities.

The Loan Operator is the mortgage advisor you will happily recommend to your family and friends.

The Loan Operator process

We oversee the entire process, saving you time, stress and money. Our key motivation is to help you obtain the right finance solution so you can concentrate on building your future. We want to be a Mortgage Advisor that you are proud to refer to your friends, family and co-workers.

» STEP 1 – FIRST CONTACT

  By taking the time to answer a few brief questions, we will be able to establish an understanding of your finance requirements and arrange a convenient time to meet.

» STEP 2 – CLIENT NEEDS ANALYSIS

  Next, it's time to meet, to discuss your current needs, objectives and key requirements in detail.

» STEP 3 – INVESTIGATION

  Within a few days of conducting a detailed analysis of your information we will report back to you with our findings. Depending on your request this may include your borrowing capacity, costs associated with a purchase, loan comparison reports, finance structures, etc.

» STEP 4 – WHAT'S BEST FOR YOU?

This is the fun bit. Researching in detail our vast lender panel we will recommend a finance solution specific to your personal circumstance. From here we will discuss in detail the pros and cons of each recommended product (usually two or three) before making a decision on your preferred option.

» STEP 5 – TAKE ACTION

We arrange a time to meet with you to sign the loan application. We then submit the application along with all supporting documentation to your chosen lender. Our friendly office staff will keep you up to date with your applications progress.

» STEP 6 – SETTLEMENT

Now is the time to 'rest easy' knowing that every stage of your loan application has been managed by us, ensuring a hassle free experience.

» STEP 7 - OUR ADVANTAGE PLUS PROGRAM

As your mortgage advisor we make this Promise - our advice will always be based on the premise that 'Your Best Interests Are Paramount'. Our Advantage Plus program entitles you to an annual review of your loan portfolio, ongoing mortgage advice. Plus, updates on market trends and relevant mortgage news.

In a nutshell, we believe our role as your Mortgage Advisor is to 'shop' our panel of lenders to find the best mortgage package available to match your individual needs and circumstances.

Best of all for you, this service is in most cases FREE as the lender or bank normally pays our fee.

Why choose The Loan Operator?

You'll be glad you chose The Loan Operator to be your finance professional.

- ✓ We are a fully accredited member of the (MFAA). Mortgage and Finance Association of Australia.
- ✓ You can depend on us to organise and manage your finance needs: from application to settlement and beyond, saving you Time, Stress and Money.
- ✓ We eliminate the need for stressful bank interviews.
- ✓ We are available during and after normal business hours.
- ✓ Our dealings with you are kept fully confidential.
- ✓ We provide access to Australia's leading financial institutions, giving you choice and convenience.
- ✓ We can assist you with having your loan preapproved before your next home or investment property purchase.
- ✓ Our priority is to develop simple, efficient loan strategies saving you time and money.
- ✓ We work for you, not the banks.

When was your last finance review?

Are you paying too much or missing out on investment opportunities? When was your last finance review?

Answer these few simple questions and ask yourself: Could I be saving thousands of dollars? Could I be investing to grow my wealth for the future?

- Are you paying a competitive interest rate?
- Does your bank inform you of their latest products?
- Does your current lender keep in contact with you to ensure that your loan is working for you?
- Can you get access to funds when you need to?

- Does your mortgage provide the opportunity for flexibility, allowing you to build wealth and manage your investment portfolio?

If you answered "No" to any of these questions, then you must get a finance review as soon as possible.

Valuable Resource

To arrange a Free Finance Review contact Steve Morrison today:

Phone: 1300 885 437

Email: steve@theloanoperator.com.au

COMMON QUESTIONS

First home buyers

How much money can I borrow?

We're all unique when it comes to our finances and borrowing needs. And different lenders lend very different amounts. Even if your own bank won't lend you the amount you want, do not assume others won't.

How do I choose the loan that's right for me?

Our guides to loan types and features will help you learn about the main options available. There are hundreds of different home loans available.

How much do I need for a deposit?

Usually between 5%—10% of the value of a property, which you pay when signing a Contract of Sale. Speak with us to discuss your options for a deposit. You may be able to borrow against the equity in your existing home or an investment property.

How much will regular repayments be?

Because there so many different loan products, some with lower introductory rates, I recommend going to the Repayment Calculator on our our website at, http://theloanoperator.com.au/calculator/loan-repayment-calculator/ for an estimate.

How often do I make home loan repayments—weekly, fortnightly or monthly?

Most lenders offer flexible repayment options to suit your pay cycle. Aim for weekly or fortnightly repayments, instead of monthly, as you will make more payments in a year, which will shave dollars and time off your loan.

What fees and costs should I budget for?

There are a number of fees involved when buying a property. To avoid any surprises, the list below sets out all of the usual costs:

- **Stamp duty—**this is the big one. All other costs are relatively small by comparison. Stamp duty rates vary between state and territory governments and also depend on the value of the property you buy. You may also have to pay stamp duty on the mortgage itself.
- **Legal/conveyancing fees—**generally around $1,000—$1,500; these fees cover the entire legal rigor around your property purchase, including title searches.
- **Building inspection—**this should be carried out by a qualified expert, such as a structural engineer, before you purchase the property. Your Contract of Sale should be subject to the building inspection, so if there are any structural problems you have the option to withdraw from the purchase without any significant financial penalties. A building inspection and report can cost up to $1,000, depending on the size of the property.
- **Pest inspection—**also to be carried out before purchase to ensure the property is free of problems, such as white ants. Your Contract of Sale should be subject to the pest inspection, so if any unwanted crawlies are found you may have the option to withdraw from the purchase without any significant financial penalties. Allow up to $500 depending on the size of the property.

- **Lender costs—**Most lenders charge establishment fees to help cover the costs of their own valuation as well as administration fees. Allow about $600 to $800.
- **Moving costs—**don't forget to factor in the cost of a removalist if you plan on using one.
- **Mortgage insurance costs—**if you borrow more than 80% of the purchase price of the property, you'll also need to pay Lender Mortgage Insurance. You may also choose to take out Mortgage Protection Insurance. If you buy a strata title, regular strata fees are payable.
- **Ongoing costs—**you will need to include council and water rates along with regular loan repayments. It is important to also take out building insurance and contents insurance. Your lender will probably require a minimum sum insured for the building to cover the loan, but make sure you actually take out enough building insurance to cover what it would cost if you had to rebuild. Likewise, make sure you have enough contents coverage should you need to replace everything if the worst happens.

Refinancing

Can I get a mortgage where I pay less than I'm paying now?

In almost all cases, yes. But if for some reason I can't find you a cheaper loan, there was certainly no harm in trying. With lenders adjusting their rates outside of the Reserve Bank of Australia, now is a great time to shop around and check that you have the right loan for your needs, I am a great starting point. It will depend what interest rate you're currently paying, what type of home loan you have (e.g. fixed, variable, interest only, line of credit) and what features you want in your loan.

Can I consolidate credit card or other debts into a home loan?

This is one of the reasons many people refinance. The advantage is that you pay a much lower interest rate on a mortgage than for most other forms of debt—e.g. credit cards, overdraft facilities, personal loans etc. Providing you have sufficient equity in your property, you may be able to consolidate all your debt on a home loan. If you take this option though it is important to make sure you maintain your repayments at their current level or you could end up paying more over a longer period of time.

What fees and costs are involved in switching mortgages?

Penalty fees could apply if you're paying off a fixed rate mortgage early, but it usually costs only a few hundred dollars in administrative costs to your current lender for a variable mortgage. But I wouldn't recommend a loan where these costs are not substantially offset by repayment savings when you switch home loans.

Property investing

Good reasons to invest in property

Investing in property is a sound investment strategy for Australians that are focused, educated and proactive.

Property investment has long been a favourite with Australians and with good reason. Over the generations and numerous market cycles it has delivered solid returns and created lasting wealth for hundreds of thousands of everyday people.

Property investment is not as complex as investments such as stocks and shares, bonds or other financial products. The investment principles involved in property are also relatively simple and, with the right approach, realistic objectives and plenty of groundwork, the risks are comparatively low.

Choose your investment

In a time of increasing volatility in global share markets, there is significant appeal in sinking your hard earned funds into a stable investment. Residential property is widely regarded as a solid and reliable asset class – but don't confuse a low risk investment with low returns. With the right structure and approach, property can deliver very attractive returns to investors over the long term.

So why exactly can property deliver the investor's Holy Grail of sound return on investment for minimum risk? One of the biggest appeals of property investment is the opportunity to leverage. Put simply, leverage means the ability to borrow money to increase your buying power and through this maximise your returns.

Most banks and lenders will allow you to borrow up to 80% of the value of an investment property and this can create incredible potential to generate significant returns on the 20% that you contribute to a property purchase. A quick example highlights just how effective this can be:

An investment property bought for $300,000 would require a $60,000 deposit while the lender would provide a $240,000 loan – assuming the borrower was able to service the repayments. Stamp duty, legal costs and other buying expenses can vary, but let's say they come to $20,000 for this scenario.

Let's assume that the property grew in value at a modest rate – say 5% each year. So after 12 months the property would be worth $315,000, after 2 years $330,750 and after 3 years $347,287, 4 years $364,651, 5 years $382,883.

Let's assume that the property was sold after 5 years for $382,883. If the investor took out an interest only loan, the original $240,000 would still be owed to the lender.

For the sake of simplicity, let's assume agents' fees and other selling expenses came to $12,883 – that would leave $370,000. Take away the

$240,000 loan, initial $60,000 deposit and $20,000 expenses, and it would deliver a gross profit of $50,000 less capital gains tax.

This is just a rough example; however, it does illustrate the true potential investors have to maximise returns with the backing of a lender.

Research essential for good returns

While it is impossible to guarantee that property will go up in value year on year, historically on average Australian property has doubled in value every 8 to 12 years. Imagine, then, the potential to create wealth if an investment property was held for 20, 30 or 40 years?

It is easy to see the opportunities for significant capital gains but there is another equally compelling attraction to owning investment property: the potential for cash flow. All the time that your investment property is quietly growing in value your tenants will be paying off your mortgage. While there may be a shortfall in the first few years, over time as the rental value increases, this shortfall should turn into a steady stream of income.

Rental values have also generally tracked upwards and so there is a very good chance that your investment property will also deliver rising income over the years. And once the rental returns outweigh the mortgage repayments, the extra funds can be channelled back into the loan to help drive down the principal sum. While this may take some years, the result will be an income generating asset that is essentially index linked.

Of course, there may be times when the property is not rented – you should therefore have funds available to cover this possibility.

Know what you want

One of the fundamentals of success in property investment is to understand your objectives before you make a purchase. And the first golden rule of investment is to be realistic.

If you expect to see your investment double in value in just a few years, you are likely to be disappointed. True, some properties can appreciate in value very quickly but this is the exception rather than the norm. And considering the current flat market in many locations across Australia, it might be unrealistic.

It is also important to remember that property is not a liquid asset – your money is tied up and can't be released quickly. It is for this reason that it is prudent to take a minimum of a three to five-year view if selling the property for a profit is your goal.

Also, your return will depend on where the property is located – this includes access to transport, infrastructure, schools, hospitals and entertainment.

It is therefore essential to research an area thoroughly before you make a commitment. But an investment property in a good location that has been bought at or below market value is likely to deliver the richest returns if held for the long term.

Whether you're looking for a nest egg for retirement, a boost to your income further down the track or simply improving your financial position, property investment is a tried and trusted option for Australians of all walks of life.

Planning your investment

Key to establishing your investment strategy is deciding whether you're seeking cash flow or capital growth.

Property ownership is close to the hearts of most Australians and so it's easy to understand why so many people consider property as a sound investment.

The beauty of property investment is its simplicity, however to achieve the greatest success with your investment strategy you need to be sure of your objectives from the outset.

If there is one trap that new investors fall into, it is not having a clear outline of their investment goals.

Set your sights

Goal setting is critical in property investment as it ultimately determines some of the subtleties of your approach when it comes to buying and managing your property/s.

While ultimately all investors are looking for the best possible return on their investment there are different ways that this can be achieved. In simple terms, investors generally fall into two camps: short term and long term.

Short term investors are generally seeking the biggest possible return on their investment, which they will realise when they sell.

A short term strategy may involve finding property that is undervalued so that there is the greatest potential for capital growth. This could include buying property with the potential to add value through renovation, building a granny flat, a sub-division and development or just targeting a suburb that has sound potential for price growth.

Investors with a short term strategy are usually looking for the maximum possible capital gain in a set timeframe, where they may seek to sell or to refinance the property to release some of the increased equity.

Looking for liquidity?

With a focus on capital growth some investors may have less of a focus on the cash-flow – or rental value – that their property generates.

When it comes to a long term strategy, cash flow is a much bigger consideration because it is this that will ultimately drive the return for investors if the goal is not to sell the property for a profit.

Long term investors may have a far greater focus on the rental value that their property can generate, with the ultimate goal being a cash positive investment – or a property where the rental covers the mortgage repayments.

Over the years, as the rental increases, the rent can be channelled back into the property which will eventually drive down the mortgage, leaving the investor with a property that delivers a monthly income.

Ultimately, it is possible for investors to achieve both capital growth and cash flow however this is by no means assured. Investors that know their strategy from the outset and stick to their game plan have the greatest chance of achieving their goals – be them short or long term.

What's the difference between an investment loan and an ordinary home loan?

Most of the same types of home loans and loan features apply for investors as for owner occupiers. Some lenders may charge higher rates for investment properties if the associated risks are higher.

Can I use equity in my home as a deposit for an investment property?

Many an investor has started out by utilising the equity of their own home. Banks will usually accept equity in a home (or other property) as additional collateral against which they are prepared to lend. This means you could potentially borrow the full purchase price of the property, as well as all costs (stamp duty and other fees) without having to contribute any cash. The risk in using your home as collateral is that if you can't fund the mortgage for the investment property, the investment property and your home are at risk. When we meet, we can go through the options you have available.

What is negative gearing?

This is when the cost of owning a property is higher than the income it produces. If the rent you get for an investment property is less than the interest repayments, strata fees, maintenance and other costs, your investment is negatively geared, or making a loss. This loss can be offset against your income, reducing your income tax bill.

What is landlord's insurance?

Landlord's insurance provides standard building and contents cover plus cover for theft or malicious damage to the property by tenants and covers loss of rent in certain circumstances. It also covers the owner's liability (e.g. if a tradesperson is injured while working in the property). Landlord's insurance is an affordable extra safeguard and strongly recommended for all investors.

Valuable Resource

Have you got another unanswered question on your mind? We are happy to take questions anytime, just email or call us:

Phone: 1300 885 437
Email: steve@theloanoperator.com.au

TOOLS & RESOURCES

There are a number of valuable tools and resources mentioned throughout this book. To make things even easier for you we have compiled all the websites, resources and tools into one place below.

In addition, there have been over a dozen expert contributions to this book from my network of trusted industry professionals – so to help build your expert team, I have included a list of these professionals below. Look them up and call upon their expertise to help you navigate the property and finance minefield.

I would wish you "good luck," but you don't need luck when you have an expert professional team on your side.

My credit file

You can check your credit file report, by going to My Credit File and requesting your credit report; it's free. Visit www.mycreditfile.com.au.

MoneySmart

There is a fantastic calculator on the MoneySmart website. You can access it at: www.moneysmart.gov.au. If you can put an hour aside, dedicate the time, and honestly put in all your income and expenses, it will give you a good indication of what is actually possible. Go to your laptop with all your financial statements, all your sources of income, create a list of every single monthly expense you have, and input it all into that calculator.

Property resources

You can check what properties are for sale using online property resources such as www.realestate.com.au or www.domain.com.au.

You also have sites like Australian Property Monitors www.apm.com.au, where you can start getting summaries of what's happening in the area, including median prices, what's been selling, and the demographics, such as whether it is a high family area and what the average age of people living there is.

Loan calculators

The Loan Operator website has a number of calculators you can use to help you – but please keep in mind these are not a substitute for working your numbers with a trained and licenced professional.

To access the calculators, visit: www.theloanoperator.com.au

Expert professionals

Mortgage, finance and lending

- The Loan Operator
  Steve Morrison, Director
  www.theloanoperator.com.au

Property

- Australian Property Advisory Group
  Andrew Crossley, Buyers Advocate and Property Advisor
  www.australianpropertyadvisorygroup.com.au

- BMT Tax Depreciation
  Bradley Beer, Chief Executive Officer
  www.bmtqs.com.au

- De Freitas & Ryan Melbourne
  Kym Ryan, Property Management Specialist and Director
  www.dfrmelbourne.com.au
- Inspector Hawkeye
  Luke Blackwood, Building Inspector
  www.inspectorhawkeye.com.au
- Jellis Craig Hawthorn
  Sally Morrison, Sales Consultant
  www.jelliscraig.com.au
- Latte Property
  Darryl Simms, Property Investment Specialist
  www.latteproperty.com.au
- Oak Estate Agents
  Lee Maher, Director
  www.oakfinancial.com.au
- Think Property
  Denham Bowen, Director and Licenced Real Estate Agent
  www.thinkprop.com.au

Financial advice

- Gilbert Financial Advice and Services
  Steve Gilbert, Independent Financial Advisor
  www.gfas.com.au

Accounting

- Gillards Accountants
  Philip Leigh, Accountant
  www.gillardsaccountants.com.au
- Nagle Accounting Pty Ltd
  Tony Nagle, Accountant
  www.nagle.net.au

Conveyancing and legal

- Clean Credit
  John Dickinson, Director
  www.cleancredit.com.au

- Dewar Law
  Lloyd Dewar, Principle
  www.dewarlaw.com.au

- Sargeants Conveyancing Hawthorn
  Craig Hemer, Licenced Conveyancer
  www.sargeants2settle.com.au

GLOSSARY OF TERMS

A

Acceptable referee

Includes accountants, solicitors, magistrate, doctor & justice of the peace.

Acceptance

To agree to the terms and conditions of an offer or contract.

Additional repayment

Extra funds paid into the loan over and above the minimum prescribed payments.

Agent (Real Estate)

A licensed and fully trained individual who aids in the process of selling a property.

Allotment

The area of land that is subdivided into smaller portions of land.

Amortisation

To pay off principal and interest under a loan over a period of time, usually by instalments.

Application fee

The fee that is charged by a lender when you lodge a loan application.

Appreciation

When the value of the property increases from its original value.

Auction

The public sale of property where the highest bidder is normally the successful buyer.

B

Body corporate levy

The fee paid to a body corporate to cover various administrative costs relating to the common property.

Bridging finance

A shorter term loan that is taken out to purchase a new property before selling your existing property.

Break cost

Relates to fixed rate loans where the borrower terminates the loan contract before the expiry of the fixed rate period.

Building inspection

An inspection generally carried out prior to the purchase of a property to ensure the building is structurally sound. Contracts of sale can be made subject to the satisfactory building inspection.

Building insurance

Insurance taken out by the owner of the property to insure the property against risks such as fire, landslip etc. The responsibility to insure the property often passes to the buyer on exchange of contracts.

C

Capital gain

The amount by which proceeds from the sale of property exceeds the original purchase price.

Certificate of title

This document details the land dimensions and ownership details, and whether there are any encumbrances.

Certificate of currency

A certificate issued by an insurance company showing that a building is insured.

Company title

The title where the unit holders are shareholders in a private company.

Comparison rates

A comparison rate is a tool to help consumers identify the true cost of a loan. It is a rate which includes both the interest rate and the ascertainable fees and charges relating to a loan, reduced to a single percentage figure.

Contents insurance

Insurance that covers the material possessions within your home, for example, electrical goods such as Plasma TVs and stereo systems, furniture, curtains and carpets. Certain items, such as expensive computers, may need additional insurance.

Contract of sale

A written agreement outlining the terms and conditions for the purchase or sale of property.

Conveyancing

The legal process for the transfer of ownership of real estate.

Cooling off period

Depending on which state you are transacting there is between a 2-5 day period after exchange of contracts during which time the contracts may be cancelled. Check with your relevant Authorities.

D

Default

Failure to meet debt payment on due date.

Deposit

A portion of the purchase price, usually 10%, is paid by the buyer at the time of exchanging contracts on the purchase of a property.

Depreciation

The value of the property decreases.

Depreciation schedule

The tax depreciation schedule provides the basis for claiming non cash deductions on both Division 40 (plant and equipment) and Division 43 (capital works allowance) on your income producing investment property when you do your tax return.

Debt service ratio

Maximum of the applicants weekly, fortnightly or monthly wage which will support loan repayments over the agreed loan term. Usually expressed as a percentage – most lenders set a maximum DSR between 30% to 33%.

Deferred establishment fee

Fee imposed by some lenders where the borrower has sought refinance with another lender within the first few years of the loan.

Deposit bonds

Are a guarantee or bond that substitutes for a cash deposit between signing contracts and settlements. Deposit Bonds can be up to 10% of the purchase price and can be issued for all or part of the deposit amount required.

Drawdown

Debiting of loan funds at settlement.

Discharge fee

Fee charged when a loan is discharged.

E

Economic cost

A fee which may be payable if, during a fixed rate period, the borrower makes certain changes such as switching the loan from a fixed to variable rate or fully prepaying the loan prior to the expiry of the fixed rate period. Economic cost is the lender's estimate of its loss resulting from the change.

Equity

The difference between what you owe and what your property is currently worth.

Exchange of contracts

An exchange of contracts is when the buyer and seller enter into a binding contract that commits them to the purchase/sale of the property.

F

Fixed interest rate

An interest rate that allows you to lock it in for a set time period, with fixed monthly repayments.

Formal approval

When the lender formally approves your loan application and offers you unconditional approval.

Full doc loan

Full Doc loans are designed for borrowers who can provide full documentation of their income. This can include payslips, tax returns and other financial statements. Full Doc loans offer the customer greater options when it comes to loan choice as well as a lower rate.

G

Gross income

Total income before tax.

GiroPost

A facility allowing you to conduct banking transactions through the post office.

H

Home equity loan

A home equity account gives you a revolving line of credit secured by the value of your house. This allows you to use the funds for any other purpose such as the purchase of a second property, or shares or other investments. The interest rate is generally higher than a standard variable rate and these accounts are not suitable for everyone.

Honeymoon rate

Term applied to introductory loans. The rate can be fixed, capped or variable for the first 12 months of the loan. At the end of the term the loan reverts to the standard variable rate.

I

Interest only loan

Usually a short term arrangement whereby payments are made on the interest only, not the principal.

J

Joint tenants

The holding of property by two or more people in equal shares.

L

Lender's mortgage insurance (LMI)

Some lenders may provide up to 95% of funds for a property loan if you agree to take out mortgage insurance (LMI). This figure is a one off payment usually made at the time of settlement. The figure is calculated based on variables such as the loan amount, the value of your property and the exact LVR (i.e. the figure between 80% & 95%). This payment allows the lender to recoup the unpaid principal in the event of default and the borrowers' debt is transferred to the mortgage insurer.

Line of credit

A line of credit is a flexible transactional mortgage that allows you to access your funds through a variety of methods including credit card, cheque or EFTPOS. A line of credit is a great option for those wishing to access the equity in their existing home for investment or other purposes such as renovations, a holiday or buying a car.

Lo doc loans

Designed for borrowers who are unable to disclose regular income. Instead of providing tax returns or extensive financial statements, borrowers can sign a form stating their income.

Loan to value ratio (LVR)

This is the measure of the amount of the loan compared to the value of the property. For example, if you have borrowed $160,000 and your property is valued at $200,000, the LVR would be 80%.

M

Mortgage offset

Offset accounts can help reduce your tax bill by offsetting taxable income from deposit accounts against interest paid in after tax dollars on mortgage repayments. However, not all offset accounts are equal, with many not paying the same interest as you are charged on your mortgage.

Mortgage protection insurance

This type of insurance is taken out by a borrower to cover the borrower's loan repayments in the event that they are not able to meet them through specific events such as serious illness or redundancy.

Mortgagee

The institution who lends the money.

Mortgagor

The person who borrows the funds.

N

Negative gearing

Where the return on an investment is insufficient to meet the costs of the investment, leading to a reduction in assessable income for taxation purposes.

Net income

Gross income less tax.

O

Ombudsman

The Australia banking industry ombudsman provides an avenue through which customers can make complaints about their bank and have them dealt with independently.

Offset loan

Helps reduce interest costs on a loan by linking the loan to a deposit account. The balance in the transaction account 'offsets' the loan principal. Interest is then calculated on the loan principal minus the balance in the account. For example, if the principal on the loan is $180,000 and there is $5000 in the transaction account, then interest is only calculated on $175,000.

Off the plan

Buying an Apartment, House or Townhouse off-the-plan means signing a contract to purchase a property that is yet to be built. You can view the design and building plans but there is no physical property to see or inspect.

P

Passed in

A property is 'passed in' at auction if the highest bid fails to meet the reserve price set by the seller.

Portable loans

A portable loan allows you to sell your house and move the loan facility to a new one without having to refinance. The main benefits of portability apart from not having to refinance is utilisation of stamp duty and not having to pay break costs if you are on a fixed rate.

Pre-approval

When a lender advises you in writing how much they will lend you, subject to lending terms and conditions.

Principal

The amount owing on your loan.

Principal & interest loans

A loan in which both the principal and interest are paid during the term of the loan.

Private sale

A method of sale which has no specified closing date and is usually negotiated between a buyer and seller with the assistance of an agent (as distinct from a sale at auction).

R

Redraw facility

Allows you to access any additional repayments you have made on your loan.

Refinancing

To move your loan from one lending institution to another.

Reserve price

At an auction, this is the minimum price acceptable to the seller of the property.

S

Security

The property that the lender has at its security over the funds lent, to ensure its debt can be recovered.

Settlement

The completion of the sale transaction. Final payments are made at settlement in exchange for the relevant documents. The purchaser can then take ownership of the property.

Serviceability

The applicant's ability to re pay (or 'service') the loan.

Service fee

Usually a monthly fee levied to cover bank cost of administering & maintaining the loan account i.e. fixed and variable costs such as staff, IT software / hardware.

Split loan

A split loan is when the total loan amount is split into more than one component, so that different loan features can be applied to different components. For example, you may choose to split a loan so that part of it has a fixed interest rate and the other part has a variable rate.

Stamp duty

Stamp duty is a state government charge that may be payable on the purchase price of your home and on the value of your home loan. The amount payable varies between states and territories. Go to your state or territory's website for the stamp duty in your area – we've listed their web addresses below. While stamp duty can be a significant upfront expense, valuable concessions are available for first home buyers.

State/Territory	Website
New South Wales	www.osr.nsw.gov.au
Australian Capital Territory	www.revenue.act.gov.au
Northern Territory	www.revenue.nt.gov.au
Queensland	www.osr.qld.gov.au
South Australia	www.revenuesa.sa.gov.au
Tasmania	www.treasury.tas.gov.au
Victoria	www.sro.vic.gov.au
Western Australia	www.dtf.wa.gov.au

Standard variable rate (SVR)

The rate which lenders apply to their 'premium' home loan product. Carries features such as a redraw facility, portability, salary account and mortgage offset.

Strata title

Title that is commonly used for units, which forms part of the owner's corporation.

Switching fee

A fee charged where an existing borrower wishes to change from one loan type to another e.g. variable rate loan to fixed rate loan.

T

Tenants in common

The holding of property by two or more people in equal or unequal shares

Torrens title

Title that grants ownership of land.

Transfer

A document registered in the Land Titles Office recording the change of ownership.

U

UCCC

The uniform consumer credit code. A federal act of parliament to ensure uniformity amongst all credit providers. E.g. all loan contracts must now adhere to a uniform format as specified by the act. It must set out all fees

/ charges that the borrower (and, if required, guarantor) are liable for under the loan contract.

V

Valuation

A report as required by the lender detailing a professional opinion of the property's value.

Valuation fee

Fee which may be charged if the lender seeks to cover the cost of valuing the property taken as security for the loan.

Variable interest rate

Variable home loan interest rates move up and down with market interest rates.

Valuable Resource

Is there anything else we haven't covered that you want to know about? We are happy to talk anytime, just email or call us:

Phone: 1300 885 437
Email: steve@theloanoperator.com.au

CLIENT TESTIMONIALS

Penny and Stuart

The moment we met Steve I knew he was there purely to help us. Trustworthy and friendly. Steve wasted no time helping us find a better home loan that would work for us. We are very happy with the outcome and are now going to save over $50,000 during the course of our loan. Thank you so much Steve for all your time, hard work and friendship.

Penelope and Jason

This is the fourth time Steve has assisted us in securing finance for a property. We have found him incredibly well-informed, practical and personable. Moreover, Steve has held my hand navigating the financials - The experience has been like travelling to a foreign land, where you do not speak the language or understand the customs, and having the very best guide and interpreter at your side.

Dave Hancock

I highly recommend Steve to anyone thinking of financing the purchase of a property. Not only is he an expert in the field, he is conscientious, caring, a great communicator and a really nice guy to boot. My experience was second to none.

Andy and Dy

We all have busy lifestyles. To not have to worry about all the details and research of finding the best possible loan was brilliant. I don't know why you would try to do it yourself when this service is available. Steve went out of his way to help in ways *that I just wouldn't have thought of. I have and will continue to recommend him to others. The people I have recommending Steve to have had similar experiences.*

Matt and Cassandra

As a first home buyer Steve provided exceptional service and guidance throughout the process of buying a home. He was very patient and understanding and made the whole process a lot less scary. Steve was never too busy for us and very flexible meeting outside of working hours where ever we wanted to meet. We highly recommend his services and look forward to working with him in the future.

Al and Louise

Steve was always available and quickly responded to any enquiries we had. He made things easy for us and did everything to get us the best deal.

Nat and Andy

Steve will go above and beyond the call of duty to get the best deal for his clients. He shows great empathy, and is honest, conscientious and trustworthy. He will refer to others if beyond his scope of expertise to always get his client the best advice and/or products available

Sara Bryant

Great service from Stephen, he went above and beyond for me to get me my house! He also communicated with me every step of the way to keep me updated at all stages. Nothing was too much trouble :)

Dave and Claire

Steve was amazing. The maze that is the home loan market was made a great deal easier to navigate having the direction and knowledge Steve provided. Steve not only led the way through the maze but did it with confidence, humour and patience. No question was a silly question and he seemed to have the right information at the right time and was never fazed when a difficulty arose, he just got on with finding a solution. The last week before settlement is usually a stressful one and it turned out to be a smooth ride with Steve's calm advice and follow up. We highly *recommend Steve to anyone looking for a home and in need of accurate financial advice executed in a confident and friendly manner.*

Carol Johnston

Steve is professional, approachable, was always available to answer my questions and helped steer me through my first home purchase. I am very happy with his service and look forward to working with him in future.

Jodi

Steve was extremely patient and helpful as I negotiated my way through the very daunting task of securing my first mortgage.We encountered some bumps along the way and Steve went above and beyond to assist me with these issues.

Pete and Jen

I've used Stephen Morrison's Property Purchasing expertise for 5 years and after 2 houses successfully purchased and or financed, I recommend Stephen at the Loan Operator to anyone who wants diligent, meticulous and extremely knowledgeable guidance.

Pete Pilley Richmond

Expert service and personal attention. I had formally done loans myself but am now a convert. I saved money and the process was much more convenient and streamlined.

Helen and Dugald

Hi Steve, Thanks so much for your constant assistance throughout the last few months.We of course couldn't have done it without you and will be recommending you to all our friends and work mates. Made what we envisioned to be a nightmare into a straightforward experience. No question was considered too stupid or simple. So grateful.

Jules and James

Steve was helpful and great to work with. He explains things in language we understand, and we got a much better rate than we expected!

Rose and Lynden

We needed a home loan and a service that helped us sort through a range of difficult issues. At times I was quite anxious but Steve expertly managed the process for us, whilst providing support and excellent advice throughout. Steve was at all times patient, reassuring, yet honest with us. We are extremely grateful that Steve worked hard, doing everything possible to steer us through the difficulties and enable us to achieve our dream. Thank you Steve.

Neil and Athena

Steve made the whole process of securing our new loan simple. He went out of his way to help us and make the process as painless as possible. I would have no hesitation in recommending his services to anyone.

Leroy Wilks

Stephen was fantastic, he explored many different options to find the right one for me finding me the best deal possible and made the whole experience as hassle free as possible! Thanks for everything!

Bernd and Tanja

Hence we are relatively new residents here in Australia, Steve was the perfect partner to find the best home loan for us.

Christian and Amber

Being self-employed, buying a new house before we had sold our old one, Steve simplified a complex process and provided us with sound knowledge around a multitude of potential outcomes. The best outcome resulted and we thank Steve for his patience and professionalism.

Angela Richards

As I have discovered over many years of consulting with Steve about my financial situation, he is always available & willing to indulge my many questions, etc. Steve has thoroughly researched the best options to accommodate my needs & provides feedback in layman's terms, so that all information is easy to understand & therefore easier to confidently act on. Steve's willingness to meet after hours & come to my home makes this process far more manageable & functional, & it also maintains a more personal feel as a result. I have recommended Steve to many, many friends & acquaintances who are looking at loans for various purposes & all have followed up with him. They report the same professional & functional service as I have experienced, and I am sure this has resulted in them also recommending his services to others. I wouldn't go anywhere else for support with my finances on this level.

Jim Morraitis

Very prompt, friendly, and appropriate advice.

Mel and Andy

Steve was a lovely person to deal with. Friendly and professional, I would recommend him to anyone.

Chris and Leanne

Steve Morrison is both very well informed in his field and generous with his wealth of knowledge. His service is efficient and thorough; his style, smooth and relaxed. We have no hesitation in recommending Steve to anyone in the market for property finance.

Ben and Tennille

Steve went over and beyond the call of duty to get the best outcome for our home loan. He was basically on call 24/7, which meant he was available at any time to answer questions, give advice and liaise with the bank. His communication through the entire process was 7 star and we would recommend him to friends, colleagues and family.

Kara Hibbert

Steve did a fantastic job. He was always on top of things and I didn't have to worry about anything.Would recommend him to my family and friends.

Rick and Anna

Steve is a fantastic operator who really understands the needs of his clients. His advice and direction through the loan process was exceptional and l would highly recommend his services to anyone in need of such assistance.

Mel and Grant

We were recommended Steve from a friend when we were thinking about buying a place. I wasn't sure if we needed a mortgage broker but after our initial consultation I was really impressed with the detail and level of service that Steve provides. He explained everything in a clear and precise manor and at every stage we knew exactly what was happening. The process was fast and Steve proved to be very flexible and understanding.We would recommend his services to anyone we know buying a place.

Greg and Rosie

Steve Morrison has assisted us over the last few years with navigating the maze of home and business loans. As a couple who are both self-employed, having someone who is patient, informative and understanding, was paramount. Our plans changed a couple of times over the years and Steve was always accommodating and was able to give us lots of great advice as we made decisions moving forward.We are now the proud owners of our first home and a new business franchise.We know that we are always in good hands with Steve and we recommend him to anyone who is considering utilising a loan of any kind.

Manny Sgubopulos

Steve made the experience in setting up my first loan so easy and understandable. I would highly recommend his services to all my family and friends and will definitely be contacting him for future help.

Mark and Kim

Steve was fantastic. He went out if his way to help us every step of the way, and at times/places that suited us.We could not have navigated our way through this process without his advice.

James Mason

Steve played a fundamental part in helping me through of a messy situation involving an off the plan purchase.Without Steve's assistance and support, I would have found myself caught up in the trap.

Liam and Rachel

Steve was very patient in helping us reach our goal; we couldn't have done it without his expertise, persistence and optimism! We will be sure to recommend you to any of our friends looking for financial advice and help. Thanks for helping us through what ended up being a very long process.We are very happy with the outcome.

Magda P and Elliot C

Steve was extremely friendly and easy to work with.We never had to worry about our home loan not being approved in time for settlement; he made us feel very relaxed. I would recommend him to all of my friends wanting to buy a home. Steve - thanks a million for all your work.You found the perfect home loan, handled all the correspondence and paperwork, and now we are sitting back in our perfect house! Seriously, can't thank you enough. EC

Andrea Windsor

I found Steve to be extremely patient and understanding to my needs regarding refinancing my home loan. My original application was rejected by the bank and Steve was proactive, using his skills and knowledge of the industry to finally accommodate my specifications. All the way through he was positive and if he couldn't answer his phone he always returned my calls promptly and was available for text messages too.

Carolina and Santiago

All paperwork can be a hassle. With Steve everything went smooth and we didn't have to do much. Everything was done on time and we are very happy with the outcome. Thanks again!

James Harvey

The Loan Operator offered clear and professional advice and was a pleasure to work with.

Matt and Tracy

Steve provided a fantastic service for our last two loans. He listened to our needs and provided us with the best options. He was very patient when we changed our plans and offered great advice at all times. Steve has strong communication skills and it always punctual with fast turnaround times, and a great guy to boot! I highly recommend Steve for your next mortgage; he will be the only person that I will call in the future.

Heath and Verona

Steve was great to work with; he was always professional and willing to make the time to answer any of our questions. It was good to have someone so knowledgeable keeping us informed of the progress of the application.

Ros and Angela

Steve was approachable, friendly and helpful throughout the whole process, from initial conversations to an unexpected Saturday morning at an auction. We felt informed and supported and as such what could have been a daunting journey was made with apparent ease. We went from pre-approval to buying our house in one week!

Plamen and Petya

Very satisfied with The Loan Operator services. Very professional, willing to go the extra mile for you, easy to reach, patient and happy to explain in simple terms the *confusing at times terminology which helps in making informed decisions. Steve found a better interest rate than our current one and also helped us plan buying an investment property – this was our initial reason to turn to him, but in the process we found out we need to save a bit more money to do so.With no hesitation we will recommend Steve to other people and we are looking forward to work with him again next year to organise our investment property mortgage.*

Jean and Nisha

Hi Steve, your simple and friendly communication with regards to the home loan choices and your advice was excellent…you made the whole process very smooth. Definitely would recommend your services to friends and family.

Emily and Tim Jaksch

Steve was amazing, finance is not my area of expertise and kind of scares me but he was seriously the most helpful mortgage broker I have ever encountered. My previous experience with brokers is they don't really care about you and your personal circumstances and they just want to do the deal and treat you like a number. But Steve listened, went the extra mile and always kept me up to date as to what was happening. He made a very stressful situation, calm by fighting for me with the bank and ended up saving me a lot with my new home loan deal which is AMAZING. I have borrowed slightly more and am paying less which is just so exciting and such a great outcome. I would have no hesitation in recommending his services. If you are looking for someone who is going to go the extra mile, then Steve is your man!

Nathan and Caitie

Steve was of great assistance in selecting from the many mortgage options out there, always returning calls promptly and answering our many questions.

Graeme Haddon

Steve helped me through the process of getting a loan and finding a property every step of the way. Assisting, at times, beyond the call of duty to advise on issues that arose. He was a great help from beginning to final settlement.

Sonia and Sandro

Steve and Damian guided us through the process every step of the way.What was complicated was made seamless with an excellent outcome.

Briele and Manuel

After 7 years of dissatisfaction and confusion with our mortgages, Steve was able to sort it all out in a few months.We are so happy with the outcome and how it will benefit our family.We recommend his service to anyone who will listen

Matt and Amy

Steve handled our loan application in a very professional and efficient manner. He has the knack of putting people at ease despite having to discuss income and expenses in depth. His friendly nature and financial expertise helped us find a mortgage solution that suited our needs. Thanks Steve – look forward to hearing from you in the future.

John S

With Steve as my Broker I felt informed but not inundated and understood but not cosseted. He was tenacious when needed and patient when appropriate. Next time I need finance I'll be straight back to him. I almost look forward to it.

Saveta Bizoev

Steve you have helped me in securing my home thank you so much. Your help and support is amazing throughout the whole time, always available to answer any questions I had and going above and beyond to make it happen.Words can't describe how pleased I am with the outcome…I have you to thank for my smooth future. Thank you.

Chris and Jess

With us coming into the market of buying our very first home we were very intimidated by everything that was involved. We found Steve to be the right choice for us because he kept us very well informed, answered every question that came *into to our head and made us feel very comfortable. We are very happy with the service that Steve supplied in the short time span until we were able to own our own home. I would recommend him to anyone. 100% happy!!*

Liz Dunne

Steve's friendliness, open-ness and warm personality made this whole experience a lot less daunting for me. His constant follow-up and advice made me feel very secure and safe. He was always available, no matter what time and nothing was ever too much trouble. I feel so much wiser and educated in this field now and confident for the future - all thanks to Steve. I definitely recommend Steve at the Loan Operator

Carol Thorne

Steve was incredibly helpful during this process (divorce proceedings). He understood and was amazing during various delays we encountered, answered every question - even if it wasn't something strictly within his job. I couldn't recommend him highly enough and he has my upmost thanks!

Helen Brown-May

Steve is a great person to work with, as he is thoughtful and thorough. He has been very smart to come up with a plan that is not only a much better deal but enabled me to buy 2 houses rather than one!

Brett and Georgina

Steve and Damian kept us well informed of the process of re-financing and settling the new property every step of the way.Very approachable and helpful

Simon and Alexis

Our experience with Steve and Damian has been fantastic. From the initial consultation until settlement everything was smooth, on time and we were kept informed of the process and its progress. It took the stress of dealing with banks and finding a mortgage out of our hands so we could just concentrate on finding our new property.

Anna T

I can't recommend Steve enough. His patience, knowledge and expertise are a winning combination. Thankyou Steve for all your help!

Lousie DiNatale

Steve did a great job answering the many questions I had as a first home owner. Thanks Steve, I will be recommending you to my family and friends.

Tom and Renjini

I would recommend Steve to anyone looking for a bank loan or a refinance. Steve has provided me with exceptional service and I am certain you will find his service valuable to you.

Ben Joss

Stephen was an exceptionably easy person to deal with. Even as I threw time critical challenges at him, he was always positively accommodating. Thanks Steve

Scott and Jess

With the help of Steve and the team at The Loan Operator, organising our home loan was almost effortless. They were extremely obliging in helping us get our finance organised quickly—and made it happen during the Christmas break. They negotiated with the bank on our behalf to get the lowest interest rate and they kept us well informed through the entire process.

Angie Richards

My experience of recently purchasing an investment property was made all the easier on a variety of levels due to the services provided by Steve Morrison (The Loan Operator). Steve was flexible with meeting times, scheduling outside business hours in order to accommodate my availability. He would consistently touch base to confirm appointments & was always punctual, organised & efficient in terms of the information he disseminated during our meetings. Steve's approach was very thorough & he made sure he was fully aware of my financial situation & the extent *to which I thought I could extend myself in terms of repaying investment loans. He spent a great deal of time researching which bank & loan package was the best option for me & offered a variety of options, providing background information, pros, cons, etc. Communication was never a concern, as if Steve could not take a call immediately, he would return my call or email at the first possible opportunity. I felt well-informed & confident due to the extent to which I was included in the whole process, & no question or concern was ever too big or too small as far as Steve was concerned. Steve recommended other services to me, a tax agent & a conveyancer, & both of these gentlemen had similar approaches to Steve – thorough, timely, helpful, etc. I have continued to utilise the services of both, & I will certainly be using Steve Morrison's mortgage broking service if I am looking for additional loans in the future.*

Andy M

Thanks so much for all your efforts Steve, it is greatly appreciated. I hope we will be seeing you in the future for a bigger mortgage and a bigger house!!

Chris Tanti

I am very happy with the service I received from Steve. I had very little knowledge and did not know how to begin finding the right home loan for my needs. Steve explained things very clearly to me, and he found me an excellent product at a very good interest rate with flexibility to redraw as I need. The service provided was friendly, timely, and trustworthy. Thanks Steve.

Steven W

Steve has been a great help with all aspects of buying my home. If I have ever had any questions or concerns he is only a phone call away. It has been a pleasure to have someone on my side when dealing with the banks. Someone who is able to find the best deal for me as well as someone who can explain all the paperwork that I have to go through. It has given me a sense of relief to know that whatever the banks throw at me I have someone on my side to help me through it.

Mark and Kellie

Steve put plenty of options on the table, including some we never knew we had. He made the differences easy to understand, particularly in dollar terms, saving us heaps in the process. The application almost seemed too easy, but Steve kept us on the level whenever we thought we missed something. Really reassuring for what is usually a stressful process.

David and Virginia

"Steve handled everything with loads of patience AND a smile. He saved us lots of time and confusion trying to work out the different financial options and came through with an ideal solution. We are grateful for his attention to detail and willingness to go the extra mile for us."

Alex N

Steve is an absolute pleasure to deal with and really does go above and beyond the call of duty. No meeting time or place was an issue and a fantastic response time to all queries. Great to have Steve's support and knowledge on your side. Makes all the paperwork and headaches a lot easier to deal with.

Jane Edwards

Steve provided a much appreciated and trusted service, with an outcome I'm very pleased with. Steve was willing to provide as much time as required to explain things in detail and answer questions. I never felt rushed, like I had in the past with other brokers.

Anita and Ross

Steve Morrison and The Loan Operator quickly understood our needs and limitations and were able to find a refinance package for us that suited our needs perfectly. As a result, we have been able to grow our business, renovate our house and clear debt that was holding us back. We even managed a holiday in Fiji. Thanks Steve for all your understanding and assistance.

Jason L

Steve is a magician. He has helped to transform a house-shaped debt into an investment property that pays for itself. I didn't think it was possible. Though unlike most magicians his powers are not mystifying but based on a common sense understanding of what is possible. Thanks again Steve.

John Meehan

When organizing the restructuring of my loans, Steve made it very easy. I was informed regularly of any interest rate changes during the process. Steve helped in filling in all the forms. Overall, Steve was very informative, he outlined the options to me and made the whole process very easy.

Frank and Claudia

My wife and I are very pleased to have reconfigured our mortgage through The Loan Operator. Thank you Steve for your professionalism at all times and the expert advice you provided helping us take very well informed decisions.

Jonathan M

Service was very good and responses rapid. I felt as though Steve was keeping on top of the process, which allowed me to relax.

Leigh and Milly

Steve is a well informed and astute, and consequently we made the best, informed choice for us without any pressure. He is genuinely consultative and he genuinely operates in our best interests on our behalf. His actions are transparent and we were always kept in the loop. Steve met punctually at the place and times most suitable to us. He is polite, he listens, and he offers pertinent choices and advice. He knows his stuff. We are pleased beyond expectations with the outcome we achieved with Steve, and with the quality of our interactions.

Marty and Verity

Steve Morrison was most helpful, professional and amiable in helping us to switch to a far better mortgage deal. He provided us with options, sourced a deal that saved us almost $30,000 over the life of the loan, and was always available to answer questions.

Marlene Williams

When I first got in touch with the Loan Operator about an investment property and a loan to facilitate this I was very apprehensive. Steve guided me through the process step by step and was always available to answer any questions. I was made to feel comfortable and in control of the process but there wasn't any pressure to do what I didn't want to. Information was given and explained in detail so I understood. Steve Morrison made what I foresaw as a scary, complicated process a manageable process with his careful, caring guidance and reassurance along the way. I was more than happy with the personal attention and would recommend Steve Morrison from the Loan Operator to anyone seeking a loan for whatever purpose.

Mia and Andrew

We love our new house!!! We couldn't be more satisfied with the service Steve provided. Despite our unconventional finances and my employment in a creative industry, Steve rose to the challenge and found a lender that was suitable for our needs. Thanks Steve for helping our little family find a home, this really has changed our lives.

Rowena and Dean

My partner and I were very pleased with the service provided by The Loan Operator. Buying a new home can be daunting especially when it is the first purchase of a home. The Loan Operator helped us to simplify the process, providing advice and guidance on all the options available to us. Thanks for all your support Steve.

Mick and Jen

We had not been in the position of needing a loan for anything like this amount before so when my wife and I decided we wanted to be involved in a sizeable investment it was a bewildering concept to raise the capital.We were recommended Steve Morrison from The Loan Operator by our accountant and were really pleased and comforted by his patience and approachability in all facets and stages of the loan process. He was easy to deal with and very reliable, trustworthy and transparent at all times and we have no hesitation in recommending his services to anyone else in the same position.

Alex and Kat

Easy to get along with, easy to understand, fantastic response time. Have already started talking to Steve about my next loan…

Alicia McHugh

Steve was more than helpful when I recently purchased my first home. I had no idea where to start when applying for a loan or any of the processes involved in purchasing a property for that matter! I was quickly put at ease by Steve's obvious expertise and willingness to go the extra mile to get me the best deal and then ultimately into my new house! I would have no hesitation in recommending his services to the first home buyer or anyone looking to purchase a property.

Chan Keo

THANK YOU!! I must say that the service that Steve Morrison from 'The Loan Operator' supplied, went above and beyond my expectation. Steve made the whole process of refinancing so easy and stress free. Along with finding the best deal for my circumstance, the service they provide way surpasses other lenders and banks I had previously dealt with. I would like to take this opportunity to say thank you to Steve and his team for helping me!

Trish Pilley

I am very happy to recommend Steve Morrison to you. He recently organised a Reverse Mortgage for me and at all times was professional, efficient and courteous.

The background information he provided enabled me to make a well-informed decision about whether to take this course and at no time did I feel pressured. All my dealings with Steve were satisfactory and friendly.

Michael and Rebekah

Steve Morrison was recommended to me and I'm so glad we took that advice. As first home buyers it was fantastic to have Steve on board to guide us through all the banks and their different loan options. He was very patient and happily answered all of our (many) questions. He even took us through all the forms that required signing, explaining them at each step of the way.Without Steve, the whole process would definitely have been extremely stressful and instead it was seamless and we are so grateful. I would definitely recommend Steve and 'The Loan Operator'

Tony and Jo

We found Steve really straight forward to deal with. He laid out all the options, knew the benefits/problems with each product. We were consolidating a number of loans and he followed through with the banks to ensure accounts were set up correctly and funds were available at the right time. I strongly recommend him to you.

Kerry P

The tedious task of changing banks for a better rate can be time consuming and stressful. Fortunately for me, Steve Morrison…spared me all this by negotiating everything on my behalf. Steve not only facilitated a smooth transition but also ensured that the lines of communication were always open. I look forward to Steve assisting me with my next home loan. I highly recommend Steve to anyone seeking professional mortgage services.

Maz and Jodie

We thought if we went to the big guys, it would be an easier process to find and get a mortgage…not so and our experience was tainted forever. Enter Steve Morrison who so effectively and efficiently, not just got us the right loan, but made sure all the i's were dotted and the t's were crossed.

Otis and Eve

From the outset we found Steve's manner very accommodating – nothing appeared to be too much trouble. He took all concerns on board – answered our questions where he could, got back to us with answers which required a bit more research. At all times we felt we were in good hands. Even when papers had been signed and everything was in essence complete – I felt I had missed something and went back to him for clarification – quick as a flash, he was happy to investigate and put us at ease. All in all, it was a very pleasant experience. Thank you Steve

Alice and Macca

Dear Steve, thank you so much for your guidance and professional advice regarding our home loan. It was such a relief to be able to form a relationship enabling clear communication and to trust your opinion. For people like us that have no idea how the mortgage world really works it's great to be able to tell you our needs and for you to do the research! We are really happy with the outcome and will definitely recommend you to our friends and family. Thanks again Steve

Andy and Nat

Steve did a great job helping us to find a solution to our financial woes. We were in a bit of a mess and not many institutions would touch us. But Steve worked very hard to find the right solution and now we have one mortgage and feel much less burdened. Thanks Loan Operator

Beverley and Matt

Steve provided us with personal, informative service and helped us tremendously in our first house purchase. Thanks very much.

Amelia and Pete

Steve has been faultless in his endeavours to provide us with financial solutions that met our requirements. Not only is he knowledgeable but conscientious and caring. I couldn't recommend him highly enough.

Mike and Rebecca

The Loan Operator gave us advice we weren't getting previously off the bank and the service was spot on…the restructure/refinance has set us up with the confidence to pay off our Home Loan faster…We were kept informed along the way as to where we were at and what the next step was…Great experience, I have recommended Steve already to my friends and colleagues

Maryanne and Tino

Tino and I would like to thank you for all your help in getting our loan completed for us. We could not have done it without you! We are very much appreciative of your professional service, your communication skills and your friendly nature.

Tamara and Paul

Steve Morrison helped my partner and I to secure an equity loan for investment purposes earlier this year. We found him to be extremely helpful and knowledgeable. He clearly discussed our loan options with us during a meeting at our home and then kept us updated on the progress of our application – both in person and over the phone. We felt comfortable calling him at any time with any questions we had. It was very reassuring to have his friendly assistance after spending a few months trying unsuccessfully to negotiate with the banks on our own.

Bruce and Wendy

Steve Morrison was an absolute revelation. Not only did he save us money on our mortgage, he also kept us well informed through every step of the process. Steve is a true professional with a supportive and stress-free style that leaves you feeling confident you have landed the best deal possible. We highly recommend Steve from 'The Loan Operator.'

Mary and Luigi

It was through thorough work ethics and commitment that Steve Morrison got us over the line with our loan. He went above and beyond our expectations.

Jamie and Kerryn

We thought finding the right home loan to suit our needs was going to be a stressful & daunting task but in employing Steve to assist us this turned out to be the best decision we made. Steve was able to provide us with appropriate options and was always available to answer any queries or concerns, he was professional whilst maintaining a relaxed informal environment where we never felt under any pressure. Because of our positive experience we wouldn't hesitate in recommending Steve to family & friends for any future refinancing.

Jess and Phil

Our home and investment loans were complex and difficult to understand. Frustrated, we visited Steve with the aim to make our loans simple and easy to manage. Steve was fantastic, he reorganised and uncomplicated our loans.We now understand where money is going each month and feel more in control of our finances. Steve was friendly and easy to talk to throughout the whole process and presented our loan options in easy to understand language.We are grateful to Steve for making our finances simple and easy and would recommend him to others.

Duncan and Jody

We can highly recommend Steve to anyone requiring any assistance with mortgage advice while dealing with purchasing or refinancing property. Steve's enthusiasm and patience to deal with any client's frustration and issues make Steve a trustworthy mortgage broker who will be on your side for the entire journey. For anyone looking at all possibilities even the most challenging options Steve @ The Loan Operator is the one to contact. Steve will make sure all possibilities are covered and nothing is missed before making any final financial decisions.

Penelope B

Last year (2011), my accountant recommended I talk to Steve Morrison about organising a loan for the purchase of a house. As an artist with a variable income and a highly irregular set of financial circumstances, and absolutely no experience in the world of loans and banks, Steve was a font of wisdom, generous and patient, and really able to "hold my hand" through all of these unchartered waters. The *language Steve used was my language - not financial or bank jargon or terminology: however, if something needed translation, Steve helped me understand.*

Cam MacDonald

Couldn't recommend Steve any higher. As someone who was brand new to the idea of investment, Steve made things so much easier for me, whether it was simplifying yards upon yards of mumbo jumbo into easy to understand information, or even assisting me on a couple of inspections! Every time the idea of investment got intimidating Steve calmed me down, and made it as easy as it should be. From our first meeting, through his meetings with financiers, right up until settlement, Steve kept me in the loop every step of the way, and allowed me to make the best decisions for myself. I was thrilled with the process, and am even more thrilled with the result. Steve should be the first port of call to any investor unsure of their place in the property market.