5 SIMPLE TIPS TO GET PROPERTY FINANCE IN TODAY'S TIGHT LENDING MARKET

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INTRODUCTION

Until recently, obtaining finance for the purchase of Australian residential property was the easiest and most accessible it had been in years.

The restrictive measures and stringent criteria enforced by banks and lenders following the Global Finance Crisis were wound back.

Just as importantly, interest rates are presently the lowest they've been in years, if not decades; where the historical average for mortgage interest rates is around 7-8%, Australian property owners are currently paying 4-5%.

This has been good news for investors… Until APRA (the Australian Prudential Regulation Authority) stepped in mid-2015 to put the brakes on investor loans.

Concerned about the risk of a potential property bubble forming, particularly in Sydney and Melbourne, APRA prompted Australian banks and lenders to enforce a number of measures that have had the impact of making it extremely difficult for would-be investors to get finance approval.

These have included:

- **Decreasing LVRs**: Where investors were previously able to access 90% loans (or even higher), this level of LVR is increasingly difficult to secure, with a maximum of 80% LVR imposed by many lenders.

- **Increased interest rates on new loans:** For those investors who can come up with at least 20% of the property's purchase price as a deposit, the interest rate they'll pay on their mortgage is now higher than it is for owner occupiers.
- **Increased interest rates on existing loans:** Investors with existing properties in their portfolio have felt the pinch of APRA's crackdown, with many banks imposing an interest rate margin of up to 0.30% on all investment loans on their books.
- **Lower borrowing power:** The above-mentioned interest rate hikes have conspired to lower investors' borrowing power.
- **Postcode restrictions:** There are certain areas in Australia that banks and lenders consider "too risky" and either won't lend for property in this postcodes, or require a much higher deposit of up to 40%.
- **Higher assessment rates during loan processing:** In the past, banks have typically 'loaded' the current interest rate by 2.0% to ensure that mortgage holders would still be able to afford their loan if interest rates increased. Now, many lenders and even mortgage insurers are using an assessment rate of at least 8% – which is up to 4% higher than actual rates.

These are just some of the challenges facing investors in today's market – and that's if you're an ordinary, everyday Australian with a good credit rating. Throw a complicated application or imperfect credit history in the mix, and it may seem like getting finance approval is 'mission impossible'.

I've helped hundreds of investors buy properties over the years and in my experience, I've learnt that securing suitable property finance is just as important as finding the right deal.

I've compiled this report to help give you the edge when completing your finance application.

Follow the tips outlined in this report and you'll give yourself the best possible chance of securing a loan approval ¬– and you'll be well on your way to securing your next investment!

Yours in success,

Todd Polke

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FINANCE TIP #1: REDUCE YOUR DISCRETIONARY DEBT

It goes without saying that the better shape your personal finances are in, the better chance you'll have or getting your mortgage application approved.

But did you realise that the amount of personal debt you are carrying could limit your borrowing power by tens of thousands of dollars – and could potentially stand in your way of obtaining a loan approval altogether?

Every lender treats credit cards and personal loans differently, but as a general rule, the more personal debt you have in your name, the more financial risk your lender sees.

As a general rule, most lenders assume you will need to repay at least 3% of your credit cards' overall limit each month. If you have several credit cards totalling $20,000 in limits, then lenders may assume you need to contribute up to $600 of your after-tax income per month towards repaying that debt.

Note that they make this assumption on your credit limit, not your credit balance. You could have a credit card with a balance of zero and a limit of $10,000, and banks will crunch the numbers on your loan application by assuming that you have a full $10,000 debt.

They evaluate your potential to spend that money as a "sure thing" to ensure you will still have the capacity to repay the loan if you do indeed spent right up to your credit cards' limits.

Those unused limits on your credit cards can be detrimental to your mortgage borrowing capacity, as every $1,000 in credit card limits adds an additional $30 per month (minimum) to your monthly expenses – and consequently reduces your borrowing power.

By how much, depends on the lender you're applying with. I've heard of some lenders who evaluate a $5,000 credit card limit as reducing an applicant's borrowing power by up to $25,000!

I did a quick calculation using Aussie Home Loans' mortgage calculator, as it combines lending policies and criteria from over a dozen lenders.

I've entered an example scenario of a couple with no dependants earning $70,000 each, with personal expenses per month of $3,500 combined, borrowing at an interest rate of 4.75%.

The borrowing power results were stunning:

	Minimum monthly repayment	Combined borrowing power
With credit card debt of $10,000	$300	$733,000
With credit card debt of $20,000	$600	$691,000
With credit card debt of $30,000	$900	$649,000
With credit card debt of $40,000	$1200	$607,000
With credit card debt of $50,000	$1500	$565,000

For each $10,000 worth of credit card debt recorded between two applicants, their combined borrowing power was reduced by a **$42,000**!

As a result, it seems pretty clear to me that cutting up your credit cards and cancelling your accounts – or at the very least, minimising your credit limits and working hard to pay off your remaining balances – is going to put you in a much better position when applying for mortgage finance.

My tip?

Focus on eliminating as many personal debts as possible in the months prior to applying for a loan application. The lower your personal debts, the greater your borrowing power will be and the more appealing your application will become to potential lenders.

FINANCE TIP #2: ENSURE YOU HAVE A BLEMISH-FREE CREDIT RATING

There's a really cool scene in The Matrix (stay with me here!) where the characters begin talking about Morpheus, and someone says, "He knows more about you than you could ever imagine."

Banks and lenders are kind of like this as well: they know a lot more about you and your personal spending habits, your debt repayment attitudes and your attitude towards financial responsibility overall than you probably know yourself!

It's their job to keep track of these types of things and from a credit history standpoint, it is important for you as a loan applicant to investigate what the banks think they know about you.

Ultimately, every credit transaction you're involved in – whether it's a phone contract, a home energy plan, a credit card or a personal loan – is evaluated by credit reporting agencies.

The way that we as consumers buy, spend and manage our credit is recorded and scored, both positively and negatively, giving potential lenders a decent amount of information to work with.

By visiting the website www.mycreditfile.com.au, you can obtain a copy of this report completely free of charge. For a small annual fee, you can get a subscription so that any time there's a hit on your credit record, you are notified straight away. This is a valuable protective measure you can take against potential credit fraud.

Just as importantly, staying on top of your credit profile means you can become proactive about any potential credit blemishes that could be stopping you from getting a loan.

If you've got an overdue bill, such as a Telstra account that is or was in arrears, as soon as you are overdue by even a slight amount, it could hit your credit record with a black mark and a default. As soon as you've got a default on your record, you may have to say goodbye to mainstream lending for a number of years.

There are a number of debtors that can impact your credit rating: it could be an overdue or unpaid phone bill, store credit card, internet bill, debt with the tax office or a standard credit card or personal loan. The amount could be as little as $200. And if you default on your payment, that listing could be entered on your credit record and generally, it stays there for five years.

A credit default or black mark is obviously going to increase your risk profile in your banks' view, but the good news is, you are able to dispute transactions if you believe they've been listed incorrectly or unfairly. You can actually manage your credit file to keep clean.

That makes this is an important resource for investors, as your credit file effectively gives banks and lenders an overview of your financial habits.

They can see your conduct and your character as a consumer, an investor and a spender. They get a real sense of the story behind you and your money – and you want to do everything in your power to make sure that story is a positive one.

My tip?

This is a service that gives you an insight into what the banks' see when they review your loan application, and you can access it absolutely free of charge – so why wouldn't you use it?

I recommend to my clients that at a minimum, they get an updated copy of their credit profile every 12 months. It will literally take you a few minutes to order and it gives you peace of mind that your official credit history reflects your genuine situation. Visit www.mycreditfile.com.au and request your free copy today.

FINANCE TIP #3: ENSURE YOU HAVE THE RIGHT PROPERTIES IN YOUR PORTFOLIO

When it comes to the properties in your portfolio, nothing is sacred.

People often get very emotional and caught up in property, and as a result we can become very connected to our portfolio, but to me that makes no business sense whatsoever.

It comes back to asking yourself what you value more; do you value this property that you currently own more, or do you value your financial freedom and freedom security more?

If you answer the latter, and an asset that you own in your portfolio is failing to serve its purpose or take you where you want to go, then there's no place for it. You simply don't have time for lazy money in your portfolio, and you especially don't have room for something that is sucking you dry. There is just no space for it.

What a lot of people don't realise is that when they continue to hold an under-performing property in their portfolio, it can substantially impact your ability to get finance on further investments.

For instance, let's say you own a property that is draining your cashflow to the tune of $75 per week. Now, that might not seem like a lot of money in itself, but when you add that up, that's more than $300 per month.

Going back to my earlier example of the impact of credit card debt, a property debt of $300 per month could have the same impact – which was to reduce your potential borrowing power by $42,000.

Multiply this by, say, three under-performing assets in your portfolio, and that could reduce your borrowing power by $100,000 to $200,000, depending on your lender.

What impact will that have on your wealth creation goals over the long term?

On the contrary, a positive cash flow investment can have the opposite impact on your borrowing power.

I've been working with an investor in Sydney, Jeanette, for a number of years. Jeanette is a single divorcee with minimal cash reserves, but a strong drive to grow her wealth.

Jeanette and I have worked together to help her locate quality property assets in central, growing locations, with a focus on delivering a strong cash flow.

This additional cash flow doesn't just help her to build future property deposits, but it helps to boost her income from the banks' perspective, which in turn increases her borrowing power.

This is a powerful strategy that all investors, and in particular low income earners, can use to fast track their journey towards property success.

My tip?

Make sure every property in your portfolio is serving its purpose and helping you move forward towards your financial goals.

If a particular property isn't performing as you hoped, don't hesitate in cutting it loose. Remember: emotions and investing don't belong in the same sentence. If you become emotional about your investing decisions, you're almost guaranteed to lose money.

FINANCE TIP #4: USE A MORTGAGE BROKER

For many property buyers, the natural inclination is to contact your own personal bank when applying for finance.

This is not always going to result in the best outcome for you, because each bank and lender has their own policies and criteria – and it could easily be the case that your usual bank may not be the best fit for your personal lending requirements.

If you go to your local bank manager, you've got to ask the question: whose interest do they really have in mind?

Is choosing the right loan product that will suit you as their customer their number one goal – or are they just offering the products that most closely suits your needs, based on what they have to offer in their own limited selection?

In my experience, there's not one single lender or bank who is going to say, "Do you know what? Our loans are not the right fit for you; you should go and see XYZ bank down the road, because they have a better set of loans to suit your situation."

This issue here is that each lender has its own serviceability calculations and depending on what it is, it can make a genuinely significant difference to your investment journey.

If you approach one lender, you might have servicing of $700,000 in new loans. But if you go to another lender down the road, you might find you have as much as say $1.2 million borrowing power at your disposal.

I've seen this sort of dramatic variance time and time again, with differences of $500,000 or even $700,000 in borrowing power between lenders – even though they're assessing the exact same situation.

There are a number of ways that using an experienced, professional mortgage broker can pay off for you, particularly if you fall into a niche market (i.e. self-employed, advanced investor, development construction loans etc.) and require specialised advice.

Here are a few of the benefits a savvy mortgage broker brings to the table:

They know their market inside out

The mortgage market in Australia is huge – there are literally hundreds of mortgage products in the market. Would you like to have the banker who knows five or six products advising you on your huge financial decision, or would you prefer to work with someone who spends their days navigating dozens of different loan products?

They can help you find the ideal lender

Your mortgage broker may recommend a lender or product you've never heard of before, because it's there job to find you the best possible fit for your situation.

Many people feel more comfortable borrowing from 'the Big 4' but the reality is, smaller lenders and building societies may be in a position to offer you a better deal for your situation.

They can structure your finance to suit your individual situation

Mortgage brokers are in constant touch with the market place, which means they will be best placed to find the unique loan product and lender that suits your situation.

For instance, they may direct you towards the lender that is more friendly towards self-employed borrowers, or introduce you to a lender that self-insures their mortgage products, meaning you don't have to jump through hoops with a lender's mortgage insurer.

They can help you fast track your application

With specialist knowledge of the mortgage market, your finance broker will direct you towards the best match between your situation and the lender's criteria.

They will then walk you through the process of which documents you need to support your application, which can help to fast track your loan acceptance. While other loan applicants are chasing updated payslips, your loan will be pushed through by a finance professional who is actively working in your best interests – resulting in faster loan acceptance, and less time wasted during the loan application process.

My tip?

Go to a mortgage broker (one who is experienced working with investors) who can compare multiple lenders and products on your behalf, rather than just speaking to one bank manager who just pushes their own product. Overall, this will save you time, stress, effort or money – and in many cases, a combination of all four.

FINANCE TIP #5: BE PREPARED TO PAY LMI

Lenders mortgage insurance is a fee you will have to pay if you want to borrow more than 80% of a property's value.

For instance: if you're planning to purchase a property for $600,000, and you only have an $80,000 deposit, you'll need to borrow $520,000. This equates to a deposit of around 13%, which means you need to borrow 87% of the property's value from the bank to complete the transaction.

Recently, many lenders have begun cracking down on the amount of money they're willing to lend investors. Some banks have restricted their investor loans – in the short term, at least – to a maximum LVR of 80%.

That said there are still plenty of lenders in the market who are still willing to lend over 80%. In order to borrow more than 80%, your lender will require that you pay this insurance premium. This premium protects the bank, not you. It covers your loan repayment to the bank, should you default on your loan, at which point the insurer will come after you to recoup their loss.

Many property buyers baulk at the idea of paying LMI, and I can understand why, as it can cost upwards of $10,000.

But here's my view on it. I like paying LMI.

Why? It all comes down to leverage.

Often, people have a fear associated with mortgage insurance. They think: why would I pay lenders mortgage insurance when it's going to cost me more money? Why wouldn't I just wait until I have the full 20% deposit, so I can afford this unnecessary expense?

Here's my view. LMI can make the difference between you getting your next deal a lot sooner, because rather than putting all of your money into the first deal, you can spread your capital across two investments.

Consider it this way: let's say you have borrowing power of $600,000, with $120,000 at your disposal for a deposit.

For simplicity in these examples, we'll assume that you have located neutrally geared investments which cost no money to own each year, with rental income perfectly balancing the costs.

Option 1: Purchase 1 property

Purchase price	$600,000
Deposit @ 20%	$120,000
LMI premium	$0
Loan amount	$480,000
Conservative capital growth after 5 years @ 4% p.a.	$130,000
Total equity after 5 years (deposit + growth - LMI)	**$230,000**

Option 2: Purchase 2 properties

	Property 1	Property 2
Purchase price	$500,000	$500,000
Deposit @ 10%	$50,000	$50,000
LMI premium	$8,000	$8,000
Loan amount	$450,000	$450,000
Conservative capital growth after 5 years @ 4% p.a.	$108,000	$108,000
Total equity after 5 years (deposit + growth - LMI)	$150,000	$150,000
	$300,000	

As you can see, by leveraging your money and making every last dollar work as hard as possible, you are able to enjoy a potential additional $70,000 in profits after five years in the market.

Keep in mind that these calculations are based on reasonably conservative projections of 5%; imagine what impact this could have if we factored in a growth rate of 7%, or even 10%?

My tip?

Consider factoring the payment of LMI as part of the cost of doing business. In the grand scheme, it's a small price to pay to be able to leverage your money more effectively – and will ultimately allow you to take advantage of compounded growth to build a profitable portfolio faster.

Whether you do this or not, of course will depend on your own personal circumstances and risk profile and I suggest you should always get qualified advice on this and other finance related issues.

BONUS TIP THIS COULD SAVE YOU THOUSANDS...

There's a little-known secret in the mortgage industry that many homeowners and investors are not aware of – and it has the power to potentially save you thousands, if not tens of thousands of dollars, on your next property deal.

Did you know that some 'professionals' are able to apply to have lenders mortgage insurance waived altogether?

A professional home loan package may be offered to those applicants that the banks consider to be 'vanilla borrowers' and they are often available with no lenders mortgage insurance payable – even if you're borrowing more than 80% of the property's value.

This is because lenders want to attract low-risk, high-income earning borrowers, as they're the most appealing type of debtor to have on their books.

So, they offer special loan features and discount rates – and, importantly, a reduction or complete waiver of LMI – which isn't usually available to the general public.

Could you qualify for a professional home loan package and exactly what are the benefits?

Earlier this year, my friend (a lawyer) was able to avoid a $22,000 LMI premium, because the bank considers her occupation low-risk. Talk about a win for the books!

SO JUST WHO IS CONSIDERED A PROFESSIONAL?

Professional home loan packages were once restricted to the top tier of white-collar industries, such as medical professionals, lawyers and accountants.

More often, they are now becoming available to all sorts of borrowers with sufficient income and assets, including nurses, defence force employees, scientists and engineers.

People who qualify for a professional home loan package are generally eligible for a discount of up to 1% annually on variable rate loans and up to 0.25% annually interest on fixed rate loans.

To give this some perspective, on a loan worth $500,000, a 1% annual rate discount equals $5,000 in saved interest payments.

Furthermore, professionals who work in recognised industries can qualify for waived LMI for up to 85% LVR, while some fortunate employees (generally those working in medical, finance, legal and select mining fields) can qualify for waived LMI up to 90% LVR.

There are certain conditions borrowers will need to meet to satisfy this criteria, such as membership to an industry association, specific income requirements and longevity in your career.

However, if you're one of the "lucky ones" you may be able to save up to $10,000 in LMI costs on a $500,000 property – or even more on a pricier property purchase.

My tip?

If you're in the market for a mortgage and you work in a professional industry (or you're not sure if you qualify for these loan discounts and LMI waivers), speak to a trusted and professional mortgage broker for advice. If your broker doesn't know what you're talking about, move on to another finance professional with more experience in this area.

It's only a few phone calls or meetings, but it could save you literally thousands of dollars and get you into your next property sooner.

You may think this report was about finance, but the way I see it, that's only a very small part of the equation.

My philosophy is: what do you want your life to be like? How much is that life going to cost? And how can you make sure every single aspect of your life is working towards those goals, by creating a strategy that will lead towards that outcome?

That is how I think, and in that regard property and finance is just a tool to help you reach your ultimate financial goal.

Obviously, the more efficiently your money is working for you and the better you're able to structure your finances, the sooner you'll reach your wealth and income creation goals.

It is supremely fulfilling to develop the type of financial confidence required to have freedom in your life.

I hope that the tips and advice outlined in this report help you give you that confidence, while helping you to get 'the edge' when putting together your next property finance application.

To Your Success,

Todd Polke