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Money Matters
with Bruce Cruickshank

Proactive investors ahead in the mortgage market

There's good news for landlords who are looking to expand their current property portfolio: Australian investors are able to take advantage of higher rental yields, a large pool of potential tenants and relaxed buyer competition. Here are some tips to smooth the process.

1. Choosing the right property
Seeking professional advice about the type of property to buy will maximise the investment. Your experienced agent who knows the market better than most is a valuable resource for advice and for negotiating with the property sellers.

2. Using equity from existing property
Tapping into the available equity in the home or another investment property can be a great launching platform for buying additional property. If sufficient equity is available, it is possible to make the purchase without having to put in any additional funds.

3. Picking the loan product most suitable for the investment strategy
The ability to make payments to suit current and future investment plans is an important criterion when choosing a loan product. With hundreds of loan products available in the market, consulting a professional mortgage broker could save valuable time and money.

4. Positive vs negative gearing
Costs associated with purchasing and maintaining an investment property, over and above the rental income, are tax deductible. Whether an investment should be positively or negatively geared depends on the overall household income and tax position. Advice should be sought from a tax accountant to structure the finances properly.

5. Costs associated with purchasing
Property investment usually incurs costs in the form of fees and charges and unexpected expenses by way of improvements and/or maintenance. It is important to budget for these expenses because the rental income may not always be enough to cover them.

With careful planning and professional advice the creation of wealth by investing in real estate is a real possibility. However, it should be remembered that this form of wealth creation is a long-term process.

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Home loan interest rates - to fix or not to fix

With general speculation as to where the interest rates could be heading, many borrowers may be considering the option of fixing all, or part, of the home loan.

However, there are various aspects to consider prior to making the decision.

- If the fixed rate is lower than the basic variable rate it makes the decision to fix much easier. But if the fixed rate happens to be higher than the basic variable rate, then moving to a fixed rate requires further consideration.
- Many lenders will charge a fee to change from the variable rate loan to a fixed rate loan and there could also be other charges.
- There are features such as offset or redraw facilities or the ability to make unlimited additional payments without penalty which comes with a variable product. These may not necessarily apply to a fixed rate product.
- In an emergency a variable loan product can be increased, without incurring many costs. It is not possible do this with a fixed rate loan.
- A variable rate product may incur a mortgage discharge fee. With a fixed rate loan, however, if the loan is paid out during the fixed rate term then in addition to the mortgage discharge fee, a break cost will also apply.

In summary, when taking into consideration the possible additional interest rate, fees and charges and the lack of features and benefits, switching to a fixed rate loan may not always be the best option.

Meeting the criteria set by mortgage lenders to obtain a home loan

Mortgage Lenders have set policies and criteria when assessing home loans or mortgage lending. Borrowers can minimize the risk of rejection by taking some simple steps.

Genuine Savings
Borrowers should ensure that they are able to provide proof of genuine savings. The easiest way would be to have a separate savings account into which funds are deposited regularly.

Stability of Employment
The employment record is an important factor when assessing serviceability, ie., capacity to repay the loan. Being in the same job for at least six months and having completed the period of probation is a minimum requirement with most lenders.

Suitability of the Property
Before making an offer on a property, borrowers should ascertain the criteria under which lenders will consider the particular type of property, eg, an apartment or a unit.

Borrower's Credit File
A negative credit file is something that most lenders will not overlook. The default listed on the credit file could be something as simple as an overlooked telecommunication bill.

Up-to-Date Documents
Financial institutions need documents to check the accuracy of the information provided in the application form. Pay slips, bank statements, existing loan statements and any other documents that provide confirmation of the income and liability status of the borrowers should be kept for this purpose.
Researching and planning to meet the lending criteria of the mortgage lenders will help to eliminate the rejection of the home loan application when a suitable property is located and an offer made.

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