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MORTGAGE TIPS TO MAKE YOUR MONEY WORK HARDER

Navigating the new lending landscape can be quite the challenge for investors, with many feeling hemmed in by too-tight criteria that make it difficult to refinance. So how can you make your money work harder for you, despite the challenging lending environment?

WITH lender policies and the tightening of assessments happening almost weekly, you can't afford to 'set and forget' your mortgage at present. Even if you don't have plans to add to your portfolio in the near future, you need to be thinking ahead 12 months, two years and five years from now, as the mortgage structures and products you use now can impact on your options down the track.

For these reasons and more, it might just be critical that you assess your current lending and portfolio now, says Jane Slack-Smith, director of Investors Choice Mortgages and founder of the Your Property Success website for online property education. After all, you never know what options are available to you unless you ask.

"For example, you might now be able to extend your interest only term to a full 10 years, without a full lending assessment," Slack-Smith says.

"Or you could capitalise on refinancing to a lender who will still allow a 90% LVR for investors. There are many changes and even tightening of servicing to come, which could include limiting rental yields to 6%, removing negative gearing benefits, ignoring bonus or commission income, or increasing living expenses. All of these have been tabled and will affect your ability to grow or even maintain your portfolio in the next few years."

This is why a mortgage review is critical now so that you can get your ducks in a row well ahead of any changes that could kill your ability to borrow.

"Contact your broker so they can assist you with an assessment across all the lenders and lock in current lender policies, before APRA brings on the next changes," Slack-Smith says.

Following are some more tips for making your money work harder for you in the current mortgage market.

Find ways to make old products work for you

One of the significant recent changes has been the APRA requirement that lenders reduce the number of loans that are interest only.

"Interest-only loans can be used strategically by investors to pay down their home and pay off personal debt, while simultaneously optimising their net cash flow position on their investment property," Slack-Smith says.

"I argue that even homeowners, especially first home owners, who have wiped out all their savings should have a period of time on interest-only terms to allow them to rebuild a safety buffer of cash. There is no doubt extending the interest-only term to its maximum is what most investors would prefer, and one way of doing this is by switching to or refinancing to a line of credit [LOC]."

At the time of writing this traditional product was still available for this purpose, though some lenders only have 10-year LOC products, so beware of this.

"Most of the larger lenders offer a 25-year interest-only LOC. These loans do require you to pay back all the principal at the end of the loan term, so you need to be mindful of that, and it is not a loan that allows an offset account or fixing, so it has various pros and cons. You need to weigh these up against the benefit of having a long-term IO facility available to you."

Be strategic with your loans

Sana and Mona Ali, mortgage brokers and founders of Property Twins, suggest that if you're attempting to draw down equity from your own home you may want to consider borrowing as much as possible to maximise your available funds.

"You could borrow, for instance, up to 88% for your home, plus lenders mortgage insurance," Sana says.

"This will provide more available funds for investment purchases and allow you to make larger deposits on your investment properties, as your home can be P&I, with the home loan balance reducing every month. This, in turn, will enable an LVR of less than 80% on investment properties and therefore the option to make the investments interest only."

As an example, let's say John owns a property worth $700,000 and owes $350,000.

- **Scenario 1:** 80% of $700,000 is $560,000, with available equity of $560,000 less $350,000 = $210,000

- **Scenario 2:** 88% of $700,000 is $616,000, with available equity of $560,000 less $350,000 = $266,000

"In the latter scenario, John has more funds to put towards investment purchases, giving him flexibility to put in a larger deposit per investment property," Sana explains.

"This gives him the possibility to have an 80% LVR on the investment and the ability to pay IO repayments instead of P&I on his rental property, which would be required on an LVR greater than 80%."

Choose a lender in line with your goals

Suitable loan and lender selection involves much more than just finding the cheapest interest rate, Mona warns.

"Often, people get hung up on the interest rate and, in the end, face opportunity cost due to the decisions made and lenders selected, which may inhibit portfolio expansion," she says.

"Work with your broker to choose the most suitable lender, as different lenders have different offerings, such as cash-out policies. This is more important than ever with the changing lending landscape."

Incorrect lender selection with limitations on cash-out policies, especially where LMI is involved, may limit you from moving forward with your investment goals, Mona adds, so when selecting a lender, it's essential to keep your long-term goals in focus.

"Lender selection should never be solely transaction focused – it should tie in with your long-term strategy," she says.

Collaborate

In changing times, opportunity often abounds – and it's those who are willing to look outside the box who might benefit the most.

"Many people over the years have depended on the bank of mum and dad to help them with their first property purchase; however, this technique extends this circle," Slack-Smith says.

"Some will find they no longer can buy based on their own borrowing capacity, but there is definitely an opportunity to invest with family, siblings, friends or unrelated joint venture partners."

You may just find that, with your equity and their borrowing capacity, you can continue to grow and build your wealth with residential real estate.

"In China, by the end of this decade, there will be 30 million more single men than women, and families are pooling resources to give their boys a leg-up in the marriage market by collaborating," Slack-Smith adds.

"So this technique could involve the entire family and even bring the inheritance forward. There are many facets to collaborative investing, and with affordability being on the landscape for years to come it might just be something that families consider." YIP

"Many people over the years have depended on the bank of mum and dad to help them with their first property purchase"