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Property Investor Newsletter

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				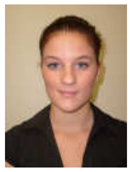
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Debt Management

Strange as it may seem, acquiring a new loan can be exciting for the property investor – the thrill of the purchase, followed by the anticipation of the application, the fury of the photocopier, the mystery of the credit assessors, the troublesome request for additional supporting documentation and finally the triumph of the approval. Compared to all that activity, the years of tedium the repayments inevitably involve are often forgotten.

Now that you have the loan, what do you do with it? Here are my assorted thoughts on how property investors should manage their loans.

1. **Paperwork in Order** – create a dedicated manila folder for each loan and label it well. KEEP all those annoying pamphlets and booklets from the bank, and most importantly hang onto the Letter of Offer for your loan facility. Create a datasheet to put on the front of the file, recording the lender, loan account number, original drawdown amount, establishment fees, fixed rate expiry date, early termination fee expiry date and REMEMBER THIS ONE write down the purpose of the loan. The purpose can be as simple as "Buy 123 Smith St, Pleasantville"; however after you have been investing for a while you might find some loans are used for re-financing others, or for working capital. For your accountant's sake, and certainly if you are ever audited, always record your loan purpose. When you re-finance, create a new dedicated manila folder, note at the front of the folder which loan this one paid out, the principle being to establish a flow of funds back to the original loan drawdown and purpose. All this paperwork sounds boring, but the denial of tax deductions will cost you much more than the new rate discount that you obtained by refinancing.

2. **Monitor Loan Rates –** the bank that offered you a great rate when you first bought the property will not always be the cheapest. I suggest reviewing your loan every two to three years and doing a comparision against similar products. Certainly review the loan at key dates which would include:
   a. Expiry of Honeymoon Rate
   b. Expiry of Fixed Interest Rate Period
   c. Expiry of Early Termination Fee
   d. When your income position has substantially improved, for example pay rises or sustained rent increases.
   e. When your equity position has substantially improved, for example an increase in property values has reduced your loan to value ratio to under 80% meaning you could re-finance to a loan product without mortgage insurance in many cases.

3. **Use Spare Cash to Pay Off Debt –** long-term readers of this newsletter will know that my position is that cash is better spent on increasing your asset base by additional purchases rather than paying off debt; however I will admit that there is a time to pay off your existing loans. That repayment time is when you cannot find a home for your investment capital (in other words no decent investment opportunities) and you are in danger of frittering away your hard-earned savings on trivialities like restaurants, clothes and holidays. May it not be so! If you find the cash piling up and the urge to burn some, pay off your debt instead. So the question quickly turns to which debt to pay off first. Remember the golden rule: PAY OFF PERSONAL DEBT FIRST before repaying any investment debt. And the

silver rule which is related – DO NOT MIX INVESTMENT DEBT WITH PERSONAL DEBT. I will now explain these in more detail. Your personal debts, like credit cards, furniture and white goods loans, car loans, and your owner-occupied housing loan, have interest payments that are not tax-deductible; which makes their debt twice as expensive. Pay off your personal debts first; starting with the ones with the highest interest rate. Once you have paid off one of these debts, you will find an incredible freeing feeling and want to keep on going, as a snowball effect builds. Before you know it you will be personal debt free. Once you achieve this position, remember to not borrow for personal needs again (apart from possibly your own residence). Pay cash for personal items, and borrow for investment. Now regarding the DO NOT MIX advice –one trap is to pay some money off an investment loan with your spare cash and then redraw those funds when you need them again for a personal requirement. By redrawing, you have changed the purpose of that portion of your borrowing from investment to personal, and your tax-deductibility on that loan will start to diminish. Far better in this situation would be to park the cash in a loan offset account, which will reduce the loan interest while it is stored there, and then you can extract the cash when required without ill-effect.

4. **Prepare Yourself for Your Next Purchase –** you are a smart cookie and realise that we are in the early stages of a market upswing, and you want to be ready to buy another investment property. What should you do to get your own house in order?

    a. Repay Personal Debts – get rid of all those silly little loans for stuff you bought for your house and car. Bite the bullet, live tight for a month or two and repay them. You will be doing wonders for your Debt Servicing Ratio at the banks, quite easily enhancing the potential purchase price of your next investment property by $50,000 or more.

    b. Close Credit Cards – if you have multiple credit cards, I ask do you really need them? Those reward points you are chasing could easily prevent you getting another property. For example, every $1000 in credit card limit reduces your borrowing power by around $3000. Closing a $10,000 Visa Card could enable you to borrow $320,000 instead of $290,000. So close all your credit cards except one, and reduce the limit on that one to what you need for ONE months transactional requirements, and of course REPAY the entire transactional balance at the end of each month. If you cannot do this, you are not ready to buy another investment property.

    c. Order a Copy of your Credit File – you can order this online at http://www.vedaadvantage.com/personal/mcf/my-credit-file.dot for free if you are not in a hurry. Have a read through your report and make sure it is accurate and you don't have any defaults. If there are problems, sort them out well before your file hits the desk of a loan approval officer. Actually your file doesn't go to a human anymore, instead it goes directly to a credit scoring computer, and anything out of the ordinary or problematic in your application means it will go straight to DECLINE faster than you can say "Insulation is an anagram of 'A Union List' " !

Remember, manage your debt or your debt will manage you.

Happy Investing

Adam Bettison

RECENTLY LISTED AND SOLD

BEECHBORO
Sold
3x1
Large Patio Area
$349,000

MARANGAROO
Sold
4x2
Pool and Spa
$479,000

BEECHBORO
Sold In Two Days
Land Area 544m2
Frontage 17m
$299,000

BEECHBORO
New Listing
4x2
Large Living Areas
$399,000

RECENTLY LEASED

LANGFORD
House
3 Bedroom
1 Bathroom
$280P/W

BEECHBORO
House
4 Bedroom
2 Bathroom
$420P/W

MORLEY
House
3 Bedroom
1 Bathroom
$300P/W

MIDVALE
House
4 Bedroom
2 Bathroom
$335P/W

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