

**SAMPLE WORK - FINANCE (AUSTRALIA) –
© 2008 – Princeton Commercial Holdings LLC
All rights reserved – May not be reproduced, published or transmitted**

Financing For Profit

Whatever your reason for buying real estate, you need to be an educated buyer, especially when it comes to establishing mortgage financing for your purchase.

In this guide, we will cover:

- **Types of mortgages**
- **Mortgage financing options**
- **Components of a mortgage**
- **Optional mortgage features**
- **How to secure the finance that you need**
- **Working with mortgage professionals**
- **How to choose the mortgage that's right for you**
- **Dynamic financing strategies**
- **Keeping your house in order**
- **Finance protection plan**
- **The secrets of creative property finance**

Introduction to property finance

Nine out of ten properties purchases rely on some type of mortgage financing. There are many approaches to financing your property purchase and like any major financial investments, it is important to research your mortgage options upfront and determine the most financially sound way of proceeding with your real estate investment. Finding the best mortgage deal that is right for you and your situation not only allows you to spend as little money as possible but also puts you in a strong position to acquire further investment property significantly increasing your overall profit.

Types of Mortgages

While the world of mortgage financing may seem confusing, once you have an understanding of the various mortgages available, you can narrow it down to the ones that will work best for your personal financial situation.

Because there are different types of mortgages with different features, it is important to spend time learning about mortgage financing, as well as spending time with your mortgage broker or lender. This allows you to learn which mortgages are available to you and the features these mortgages may have as well. This is the best way for you to evaluate mortgage financing and make an educated decision on the option that is best suited to your financial situation.

Let's first learn about the types of mortgages being offered by various lenders.

Because there are different types of mortgages with different features, it is important to learn and understand how the various types of mortgages work before you can decide which one is best for you. Lenders usually offer 15 to 30-year mortgages of different types of mortgages which include:

Fixed rate mortgages

Fixed rate mortgages have a fixed interest rate for the term of the mortgage. In a low interest rate environment or in an interest rate environment that is very volatile, fixed rate mortgages tend to be much more popular than adjustable rate mortgages. Since fixed rate mortgages are fixed, these are also popular mortgages for those who are risk averse.

Variable rate mortgages

On the other side of the spectrum from fixed rate mortgages are variable rate mortgages. Variable rate mortgages tend to be the most popular types of mortgages in Australia and usually have a term of 20 or 25 years. The interest rate of a variable rate mortgage may adjust up or it may adjust down, depending on what is happening in the interest rate environment. Interest rates for variable rate mortgages are set by the Reserve Bank of Australia (RBA). If interest rates are going up, then the interest rate of a variable mortgage may go up. If interest rates are going down then the interest rate of a variable rate mortgage may go down. There are two types of variable rate loans--standard and basic variable. The main difference between the two types of variable rate loans is the type of borrower.

Standard variable rate loans

Standard variable rate loans are by far the most popular of the two types of variable loans offered and usually have a term of 20 or 25 years. This type of mortgage loan caters to borrowers who meet mainstream criteria and have a good credit. Some of the features standard variable home loans usually include redraw facilities, portability features, and the ability to make additional payments (you can learn more about the optional features offered by lenders later in this guide). When these types of features are added to the mortgage, the interest rates on standard variable mortgage loans are higher than basic variable loans.

How to overcome difficulties in raising the required cash

With the current credit squeeze, 100 and 110% mortgages may be hard to come by while at the same time there are excellent investment opportunities in this type of market. So what do you do if you do not have the required cash for the down payment?

Well, there are many possibilities that you could look and these include:

- Assess the equity in your own home and use it to raise finance
- Bring in a partner or partners who have the cash
- Borrow from close family or friends
- Sell any belongings that you do not need or use
- Get a long term personal loan
- Get a long term business loan
- Start saving from your current income

Now what if your credit history is poor? Do not leave it as it is there are many ways of repairing it and removing various items from it.

Now what's about if you have no credit history at all? Make one, start to borrow small amounts, make payments on time and build up a sparkling credit history.

Mortgage Market conditions

The availability of mortgages and terms and conditions of these mortgages vary depending on the economic conditions and where we are in the property cycle. In the current credit crunch situation, which is affecting the real estate market worldwide, it is more difficult to get a mortgage as requirements are getting stricter. Lenders will look more closely at your credit history, will reduce the percentage of the property value that

you can borrow and you will also find at the same time that interest rates are higher and mortgages take a bit longer to arrange.

While the property market and mortgage conditions are more difficult, you will find that the market presents more opportunities for you to buy at really good prices.

.....

**SAMPLE WORK - FINANCE (AUSTRALIA) –
© 2008 – Princeton Commercial Holdings LLC
All rights reserved – May not be reproduced, published or transmitted**

How to Secure the Financing that You Need

Before you go out into the mortgage world, it is important to know what type of financing you need. This is why you need to gather information and let the information soak in before establishing a mortgage loan. Having this information helps to ensure that you choose the right loan for you. First, you need to know how much money you can realistically borrow and still afford to make the monthly mortgage payments. Second, make sure you have enough money saved—money for a down payment and money to cover the other costs and fees associated with establishing a mortgage.

It really comes down to choosing a mortgage loan that meets your goals and your needs. Find out what the terms and conditions of the loan are and what kind of flexibility the mortgage provides. Find out the interest rate you'll be charged and make sure that it is competitive with what other lending institutions are offering. Finally, make sure that the mortgage lender or broker you are working with understands your needs, goals, and wants. This is the only way you will be able to find the mortgage that is best for you. Do not rush into anything. Take your time and prepare before agreeing to any particular mortgage.

Three mortgage sources

Now that you are ready to search for a mortgage, there are three ways you can approach this:

1. Directly to the mortgage lenders,
2. Mortgage brokers
3. Online using the Internet

There are advantages and disadvantages to using each resource and no one option is the right fit for everyone.

1. Directly to the lender

Your first option to consider is going directly to the mortgage lenders. Mortgage lenders are usually banks or other lending institutions that lend their own money when financing the purchase of a home. Once the mortgage lender provides the money to the borrower for the purchase of the property, the lender then registers the mortgage against the title to the property, while the borrower retains possession of the property. Since mortgage lenders loan their own institutions' money, it sets its own interest rates and establishes its own types of mortgages. So if you go to XYZ Lending then you have to choose one of their mortgage products. Mortgage brokers on the other hand are slightly different.

2. Mortgage Broker

Mortgage brokers do not represent any one lending institution. They act more as a liaison between the borrower and the lending institution. Mortgage brokers have established business relationships with many different mortgage lenders where they can shop for your mortgage. This means that you may be able to receive a better deal through a mortgage broker than what is currently being offered on the market. There are some further things to keep in mind though when choosing a mortgage broker to work with—one that is right for you.

SAMPLE WORK - FINANCE (AUSTRALIA) –
© 2008 – Princeton Commercial Holdings LLC
All rights reserved – May not be reproduced, published or transmitted

Questions to ask a mortgage broker	√	Comments
1. How are you paid?		
2. What fees do you charge?		
3. How do you compare the various loans and lenders and how do you determine which is the best loan for my needs?		
4. What is the comparison rate for the mortgage loans you are recommending to me?		
5. Are you a mortgage lender as well as a mortgage broker?		
6. Can you provide me with client references?		
7. Do you have professional indemnity insurance?		
8. What are your privacy guidelines for handling my personal information?		
9. General questions to find out more about your broker:		
<ul style="list-style-type: none"> • How many lenders do you deal with? 		
<ul style="list-style-type: none"> • Do you deal with just 		

banks or other type of lenders?		
<ul style="list-style-type: none"> • What advantage do I have coming to you, instead of going direct to the lender? 		
<ul style="list-style-type: none"> • On average, how many mortgages do you arrange every month? 		
<ul style="list-style-type: none"> • What is the average size mortgage that you arrange? 		
<ul style="list-style-type: none"> • What percentage of property value will your lenders finance? 		
<ul style="list-style-type: none"> • What are your professional qualifications and experience? 		
10. Ask questions, as applicable, regarding your circumstances, such as credit history, employment, income and so on.		
Shopping for a mortgage		
<input type="checkbox"/> What type of mortgages do you offer? Are both fixed-rate and adjustable mortgage loans available?		
<input type="checkbox"/> What is the interest rate for each mortgage available to me?		
<input type="checkbox"/> What are the qualifying guidelines for each loan?		
<input type="checkbox"/> What is the percentage that		

I can borrow?		
<input type="checkbox"/> What are the required documents for this loan?		
<input type="checkbox"/> How long will it take to process my application?		
<input type="checkbox"/> What are some of the factors that may contribute to delay the approval of my loan?		
<input type="checkbox"/> Are funds for a second mortgage available?		
Rate lock questions		
<input type="checkbox"/> When can I lock-in the interest?		
<input type="checkbox"/> What is required to lock-in the current interest rate?		
<input type="checkbox"/> Is there an additional fee to lock-in the interest rate?		
<input type="checkbox"/> Is a float down lock available in case rates drop after I have locked it?		
<input type="checkbox"/> What are all of the costs associated with the loan?		
<input type="checkbox"/> Are there any hidden or other fees I need to know about?		
<input type="checkbox"/> Is there a prepayment penalty on this loan? If so, what is the penalty and how long is the prepayment penalty in place?		
More questions for variable loans		
<input type="checkbox"/> How often will my interest		

rate adjust?		
<input type="checkbox"/> How is the new interest rate figured?		
<input type="checkbox"/> Is there a minimum or maximum on the rate change each times it adjusts?		
<input type="checkbox"/> What is the maximum rate that can be charged on the loan?		
<input type="checkbox"/> Can the initial term of the loan be extended?		
<input type="checkbox"/> Can I convert the loan to a fixed rate at some point?		
Mortgage features		
<input type="checkbox"/> Redraw		
<input type="checkbox"/> Offset loan		
<input type="checkbox"/> Repayment holiday		
<input type="checkbox"/> Portability		
Other facilities:		
<input type="checkbox"/> Online access		

Questions to ask you lender:	√	Comments
1. Do you deal with investment property or just owner-occupied mortgages?		
2. Can I change the type of mortgage at a later date?		
3. Would it be easy for me to		

.....

Mortgage comparison checklist	Mortgage A	Mortgage B	Mortgage C	Mortgage D	Mortgage E
General terms					
Terms of the mortgage (years)					
% borrowing					
Mortgage costs					
Establishment costs					
Other Setup costs					
Interest rate					
Lender solicitor fees					
Lender mortgage insurance					
Cost of reports required by the lender (Valuation,					

Loan documentation checklist	√	Comments
<input type="checkbox"/> Copy of salary payment/salary slips		
<input type="checkbox"/> Proof of employment (letter from your employer)		
<input type="checkbox"/> Credit card statements		
<input type="checkbox"/> Picture ID/driving license/passport		
<input type="checkbox"/> Bank statements (last 3-6 months, depending on the lender)		
<input type="checkbox"/> Title of land (copy can be obtained from the public records office)		
<input type="checkbox"/> Tax returns (last 2 years)		
<input type="checkbox"/> Copy of purchase sale agreement		
<input type="checkbox"/> Confirmation of own contribution towards property		
<input type="checkbox"/> Copy of business accounts for the self employed		
.....		

SAMPLE WORK - FINANCE (AUSTRALIA) –
© 2008 – Princeton Commercial Holdings LLC
All rights reserved – May not be reproduced, published or transmitted

Test yourself:

1. Match the circumstances to the most suitable mortgage type. You may match a mortgage type to more than one situation and vice -versa

Situation / circumstances	Mortgage type
1. Self-employed	A. Variable rate mortgage
2. Bad credit rating	B. Non-conforming loan
3. Contractor	C. Fixed rate mortgage
4. High interest rate environment	D. Low documentation
5. Re-habitation property	E. Line of credit
6. Investment property	F. Full documentation
7. Low interest rate environment	G. Investment mortgages
8. Active property investment, looking to buy many properties	
.....	

2. What are the two most important components of a mortgage?
3.
4. What are the three main comparison criteria when you choose between various mortgages?
5.
6. If a bank offers you a high percentage borrowing, what is the main aspect that you should consider before you go ahead?

Answers:

.....

For high percentage borrowing, the cash flow requirements over the period of the loan in a high growth area, usually imply that the rental income will not be able on its own to cover the mortgage payments and the expenditure you will incur in managing and maintain the property. So you will need to inject cash because of this shortfall and your main consideration should then be whether you are able to afford to cover this negative cash flow taking into consideration that the property may not produce a rental income at all times, as there may be times when the property will be vacant while you're finding a new tenant.....