

Financing the purchase of your Australia Property

Owing to the increased interest in Australia Properties in Asia by non resident investors, a number of Australian and non Australian banks have introduced their officers in Asia to assist these purchasers. Often the credit evaluations are done outside of Australia to expedite the application and avoid misunderstanding as the income documents provided are easily understood by the local bank officer.

In view that many of these overseas purchasers are buying for investment purposes, many sophisticated repayment options are introduced i.e. multiple currency loans, flexible currency switching and flexible repayment options. With such a wide range of options on offer, choosing the right mortgage can be just as complicated as choosing the right property itself.

As a prospective borrower, what should you look out for?

How much should I borrow?

The crucial issue here is your monthly cash flow. Use the mortgage calculator provided by this website to find out the likely monthly commitment for your property. Most banks will not include the rental from your first property into the cash flow analysis so your employment or business income must be able to satisfy the loan repayment.

Maximum loan to purchase price (LTV)

In general terms most lenders will lend to a maximum 80% of the value of the purchase price or market value whichever ever is lower. The key word here is "*which ever is lower*". Some banks will offer 70% or lower for multicurrency loans.

If you have purchased a property which market value does not match the purchase price upon completion, the lender will lower the loan amount.

Example :

Purchase price is A\$500,000

Valuation upon completion : A\$400,000

Based on 80% financing, your loan amount should be A\$400,000. However in view that the valuation has fallen, your loan will be adjusted to the lower of A\$320,000.

Make sure you borrow as much as possible and have some cash stand by to meet this last minute shortfall in case the property market cycle is against you.

Interest Rates :

In general the interest rates for overseas borrowers are calculated in monthly or quarterly basis. The interest cost will depends on *the spread and the cost of fund* for the loan currency.

It is difficult to calculate the *real effective interest cost* from each lender/bank as the total cost of borrowing must include some administration fee i.e. statement fee, phone calls, monthly account fees etc on top of the interest cost for the loan. We often suggest our investors to consider the total package from the lender.

Loans can be taken out at the current variable interest rate and will adjust upwards & downwards with the market, over the term of the loan. Or they can be taken out on a fixed rate over a set term from 6 months to 10 years. At the end of this term they usually automatically revert to the current variable rate at the time, or can be fixed again at the current fixed rate.]

Loan Tenure:

Generally loans can be written for up to 30 years or up to age 65. However with Australian banks in Australia, mostly likely the tenure is up to 30 years irregardless of age as the law does not allow discrimination by age.

Repayment Method

Which repayment method you should opt for will depend on your own personal circumstances. Do be open when discussing this with your lender or adviser.

(a) Principal and interest loan

Each repayment contains an element of both principal/capital and interest. Assuming the interest rate does not change, your repayment will remain unchanged. It is worth noting that the interest portion is highest during the early years of the loan period. (refer to our mortgage calculator at www.zincip.biz)

(b)Interest only loan

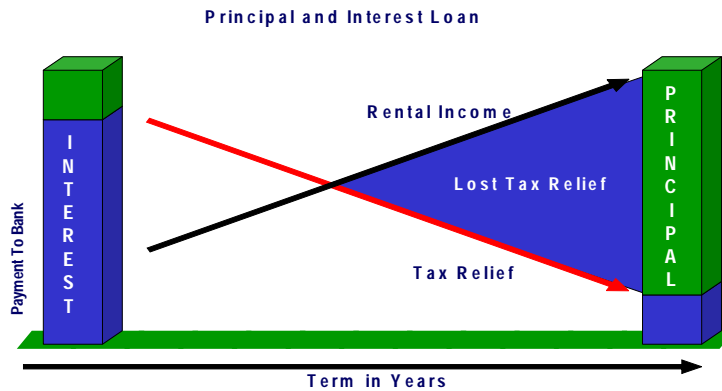
Under this form of loan repayment arrangement only interest (at a floating or fixed rate) is paid to the lender on a regular basis and there is no schedule for the repayment of capital. The capital can be repaid in this case in full at any time or upon the end of the tenure.

(c) Interest only with lump sum repayment plan

This is a variation from interest only loan where the borrower while only service the interest of the loan during the tenure, set a side a lump sum investment to repay the loan at any time. The amount placed for investment must be sufficient given an assumed, compounded annual growth rate i.e 6% to 8% pa encompassing the life of the loan, to make ultimate provision for the loan repayment. Returns over and above the loan amount would be for the benefit of the borrower and any shortfall would be for the borrower to make good.

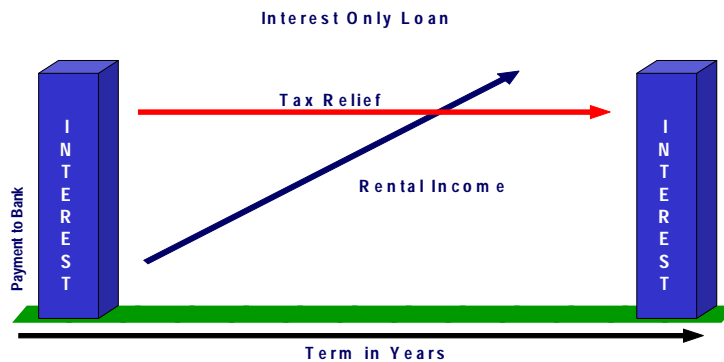
Tax implication and repayment method

There are complex tax implications to consider which vary according to the chosen repayment method. This is a particularly important consideration if you are buying property for investment purposes, looking to let the property and receive income from it, rather than to occupy it. Any NET rental income in Australia will likely be subject to tax and of course no one would wish to pay tax if it can be avoided.



With the principal and interest loan the interest portion of the repayment continually reduces throughout the loan period. In Australia it is only the interest portion which can be claimed against rental income to reduce tax liabilities. Thus borrowers find themselves having a reducing interest payment each year and therefore reducing relief against tax.

The Tax SOLUTION:



Interest only loans, alleviate this problem of reducing tax relief since the loan amount remains the same throughout the specified period. This enables you to maximize our claim for relief against tax liability on rental income.