



Investor Scenarios

SCENARIO 1: Use Your Equity to Purchase an Investment Property

Sally and George are existing home owners with equity in their home. They want to use their equity to help them purchase an investment property for approximately \$340K. They wish to avoid paying Lenders Mortgage Insurance therefore they will be borrowing only 80% of their available equity.
Let's see how this works.....

CURRENT SITUATION

Value of their Existing Property	\$450K
80% Value of their Existing Property	\$360K
Existing Home loan amount	\$320K
Available Equity (Loan – 80% Value)	\$40K

GOAL - PURCHASE INVESTMENT PROPERTY

Purchase Price of the Investment Property	\$340K
5% Deposit required to Purchase Investment Property	\$17K
*Approximate Purchasing Costs	\$18K
Total costs to Purchase Investment Property	\$35K
Action – Unlock Equity and take out Home Loan for amount	\$35K

*** This is an approximate cost for the Solicitor, Lenders Mortgage Insurance, Transfer Duty for the New purchase only**

SUMMARY

Sally and George now have three Home Loans as shown. They were able to achieve their goal of purchasing their Investment Property using the equity in their existing home.

Existing Home loan	\$320K
Home Loan to cover Deposit & Purchasing costs for the Investment Property	\$35K
Investment Property Home Loan	\$323K



SCENARIO 2: Own Multiple Properties and Purchase Another Property

John and Jean have been investing in property for a number of years and have grown their portfolio as shown below. They want to utilise equity in one of their properties to purchase another investment property for \$340K. They have reached their maximum borrowing capacity with their existing lender and need to go to a different lender for their new purchase.

Their portfolio looks like this

CURRENT SITUATION

Property	Value	Loan Amount	LVR
Property 1	\$400K	\$320K	80%
Property 2	\$370K	\$290K	80%
Property 3 (4 units strata title)*	\$500K	\$300K	60%
Property 4	\$350K	\$315K	90%
Property 5	\$320K	\$288K	90%
Totals	\$1,940,000	\$1,513,000	78%

GOAL - PURCHASE ANOTHER INVESTMENT PROPERTY

Purchase Price of the Investment Property	\$340K
Borrow at 95% of Purchase Price	\$323K
LMI for the purchase (approx)	\$6K
Transfer Duty (rounded)	\$10330
Solicitors fees	\$1500
Bank Fees (approx)	\$1000
5% Deposit to Purchase Investment Property	\$17K
Money required to complete the deal (rounded)	\$30K

We now follow the strategy to achieve their goal.

STRATEGY – EQUITY FROM PROPERTY 3

As they have reached their maximum borrowing capacity with their existing lender, we need to use another lender. Property 3 is a block of units with a 60% LVR.

We take the following steps:

1. Partially release one of the units valued at \$125K.
2. The existing lender now has security over three units, where the loan amount is \$300K with a valuation of \$375K which is LVR of 80%.



3. Provide title of the one unit to the new lender. The new lender's valuer has confirmed the value of the property.
4. The new lender will lend at 80% of \$125K to provide a loan for amount \$100K this is to be setup as a Line of Credit (LOC) loan.
5. The loan of \$100K will cover the costs to purchase the new property and have approx \$70K left over in the Line of Credit for further purchases or assist with costs.

SUMMARY – NEW SITUATION

Property	Value	Loan Amount	LVR
Property 1 – Lender 1	\$400K	\$320K	80%
Property 2 – Lender 1	\$370K	\$290K	80%
Property 3 (3 units strata title) - Lender 1	\$375K	\$300K	80%
Property 4 – Lender 1	\$350K	\$315K	90%
Property 5 – Lender 1	\$320K	\$288K	90%
New LOC Loan (using 1 unit) - Lender 2	\$125K	\$100K*	80%
Property 6 – Lender 2	\$340K	\$323K	95%

***NB: The LOC loan is set up for \$100K but only \$30K is used for the new purchase**

The examples above are for illustrative purposes only and in no way is to be taken as advice. We recommend you always take the time to speak to your financial advice accountant or solicitor in matters dealing with purchasing property so they may take into account your personal circumstances

For any more information, please contact Hidden Equity on 07 5438 1551 or email on info@hiddenequity.com.au

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