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## A GUIDE TO INVESTMENT LOANS

The types of loans available for investment properties are generally the same as the ones available for owner occupied properties – you can avail of the same interest rates, options and flexibility. The key to determining which loan is best for your investment comes down to your investment strategy.

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As with any large financial decision you make, it's always wise to seek investment advice from a professional before entering into any property investment. There are plenty of people in the financial and mortgage industry who can help you with this, your accountant, financial planner and mortgage provider.

The two primary ways in which investors build wealth through real estate:

- **Capital Gain:** relying on the increase in value of the property to be more than the initial price of the property plus your repayments and buying and selling once-off costs. For example, if you purchased for \$200,000, you sold it for \$300,000 and your repayments and additional costs were \$60,000 the gross capital gain is \$40,000.
- **Building Equity:** relying on an increase in value of the property and bringing down the loan. For example, if you purchased a property for \$200,000, and your loan was for \$150,000 you would have \$50,000 equity in the property. A few years later if the property was valued at \$225,000 and you had \$100,000 remaining on the loan you have \$125,000 equity in the property. Plus you benefit from the rental return on the investment property.

### Some tips to help you choose an investment loan:

#### 1. Your Investment Strategy

First, set your financial goals and investment strategy – are you looking at a long term or short term gain? Do you want to take a passive or aggressive approach? For example, are you looking to own a few properties where you can live comfortably off their rental income or, are you looking to build a portfolio of properties which you can sell, cash up and move to the south of France?

Will you structure your repayments to pay off the loan as quickly as possible or structure them in order to obtain a tax benefit?

There's plenty of information available about investing in property - devise a plan with your financial advisor or accountant, or to determine a strategy yourself.

#### 2. Your Loan Options

Second, research the types of loans available so you can explore all options when talking to your mortgage provider. Some of the more popular loan choices for investments are:

##### *Interest Only Loan*

This loan allows you to structure your payments where you are only paying off the interest accrued on the amount borrowed – the repayments are a lot less than those for a principal and interest loan. They are usually taken over a normal term (i.e. 25 years) with the interest only option being 1-5 years, and renegotiated after 1-5 years.

These loans are suitable if the investor is relying on a capital gain in the short-medium term.

##### *Introductory Rate or 'Honeymoon' Loan*

This loan is attractive as it offers lower interest rates than the standard fixed or variable rates for the initial (honeymoon) period of the loan (i.e. six to 12 months) before rolling over to the standard rates. The length of the honeymoon depends on the lender, as too does the rate

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