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Setting your property criteria and financing your investment property

FACTSHEET

Before your coach can begin setting your investment property criteria, we need to understand how much the bank will lend.

Setting your property criteria

UNDERSTANDING HOW MUCH YOU COULD BORROW

The first step to shaping your property criteria is understanding how much you can borrow, and therefore, what you can afford to buy. To determine this, your coach will provide a pre-assessment as an initial indication of your borrowing power.

If your income or financial situation could be considered "non-standard" by a bank, this could impact your borrowing capability. In this case, to remove any uncertainty around your lending potential, your coach will look to get a pre-approval through a mortgage adviser before setting your property criteria. This way you can be confident about what the banks will lend you when you start reviewing properties.

Non-standard includes self-employed, receiving large employment bonuses, multiple income streams, receiving child support, high living costs, and/or over 58 years old.

SETTING YOUR PROPERTY CRITERIA

Once we have a grasp on how much you could borrow, your coach will start determining your property criteria as they fit within your pre-assessed lending capacity.

This will include:

- → Capital growth rate
- → Rental yield
- → Purchase price
- → Type of property (stand-alone, townhouse, apartment, or dual income)

Once your property criteria have been set, you'll be able to start looking at the properties that fit within them.

Getting pre-approval

Once you are comfortable with the types of properties that fit within your criteria it's time to get a written pre-approval from a bank or other lending provider. For this, we'll refer you to an adviser at our mortgage partner Squirrel Mortgages (or your preferred broker.)

There may be a slight variation between the pre-assessed amount and the pre-approval from the bank. This is why we want to be sure of what the bank is willing to lend you, and the best way to do this is through a bank pre-approval.

Note: If your investment property has a long settlement, your pre-approval may need to be applied for again closer to settlement date to confirm to the bank that nothing material in your situation has changed.

ASSESSING YOUR LENDING OPTIONS

Before we start on the investment property pre-approval, we want to make sure you aren't missing a trick with your current mortgage. Your coach will work with a Squirrel Mortgage adviser to understand if there are any strategic or financial benefits to you in refinancing your current lending in addition to getting an investment property pre-approval.

This work will usually be done before the pre-approval process officially starts so you are comfortable that all options have been considered before any formal bank application is made.

When it comes to securing the mortgage for your investment property you have a few options.

You can:

1. Stick with your current bank and have the pre-approval for the investment property secured against your current home.
2. Refinance your home loan to a new bank and get the pre-approval for the investment property secured against your home at this new bank
3. Keep your current home loan as it is and borrow the deposit for the investment property against your home. Then, get pre-approval for the remaining 80% from a second bank.
4. Refinance your home loan to a new bank and borrow the deposit against your home. Then, get the pre-approval for the remaining 80% from another bank (which could be the bank your home loan was with originally).

SUBMITTING THE PAPERWORK

Once your coach is comfortable with the overarching mortgage strategy, they will instruct your mortgage provider to complete the pre-approval process.

You will be contacted by the mortgage broker team 24 hours after the referral is made to outline their online mortgage process and what information they need from you. They will require you to complete an online application, which will take approximately 7 minutes, and get you to upload key paperwork to their secure portal.

To fast-track this process, we will share any information we have on file and reduce the information you need to upload.

SUBMITTING THE APPLICATION TO THE BANK

Once an application is received with all the required information and documentation from you, they will send the application to the bank within 48hrs.

Bank turnaround times vary but are usually 7-10 working days from the date the application is received. So, you should expect to hear back 9-12 days from having submitted all your paperwork to Squirrel.

OFFER LETTER

Once the bank's pre-approval is received, you and your coach will be notified. If the pre-approval varies from the pre-assessed amount, your coach will further refine your property criteria to reflect the updated amount and you can start looking more seriously at suitable properties.

The offer letter is valid for 90 days. Your coach and mortgage adviser will outline the next steps, along with any bank conditions.

Securing your property

Once you've found a property that you're interested in purchasing, here's what to expect:

CONDITIONAL APPROVAL

Conditional approval is when we've found a property you like, and you've signed the Sale & Purchase agreement – you then get confirmation that the bank will lend you the money for this particular property.

This approval will come with a set of conditions that will need to be satisfied either ahead of going unconditional or ahead of settlement before the bank will grant the mortgage.

It will generally be valid for 90 days, so - where possible - we will renew this every three months until we're less than three months away from settlement. This helps ensure we're still on track to securing the finance we need to settle, or whether there's any other work we'll need to do to ensure a smooth handover.

DEPOSIT LOAN

Alongside the conditional approval, we may also look to secure a deposit loan – unless you have enough cash on hand to pay the 10% deposit yourself. This deposit needs to be paid at the point you go unconditional, so it's good to get this sorted early.

SETTLEMENT LOAN

The final part of financing your investment property is the settlement loan. This is the balance of the funds required to settle on the property and is paid at the time of settlement. Depending on how you're financing the property, this could be the remaining 90% of the value of the property or a mix of cash paid by you and the balance provided by the bank.

IF YOU'VE PURCHASED A LAND AND BUILD

If you've purchased a land and build property, the mortgage will be structured a little differently. After going unconditional you will settle on the land a few months later. At this stage, the bank will issue the first of two mortgages. This is the 'land loan' to cover the cost of the land and you will start paying mortgage repayments on this loan. Once construction has started, you will start drawing down from a 'construction loan' as build milestones are reached. This will be on a floating rate until settlement.

Once all the work is completed, you will pay the last instalment of the construction loan and settle on the property. At this stage, you will be able to fix the construction loan alongside the land loan.