

Special Report For Property Investors:
**“How to Structure Your Property Loans for
Maximum Stability and Control”**

Part 2:

How to structure new loans to avoid “crossing”

In Part 1 of this Report, we looked at “cross-collateralisation” of loan securities and some of the ways that it can potentially reduce the stability and flexibility of your loan portfolio.

Now in this instalment, we’ll look at some potential solutions.

Again, I stress – **cross-collateralisation isn’t a problem until it becomes a problem** – and your first line of defence is avoiding crossed loan structures in the first place.

How to structure a new loan so that it’s not crossed

Let’s return for a moment to our first example:

1. John owns Property A outright
2. John wishes to buy Property B but has no money for a deposit.
3. John buys Property B using a 106% loan and the Bank holds Property A **and** Property B as security against the loan for Property B.

Here’s another way for John to purchase the same investment property (IP) without crossing:

Finance Property A with Bank A. Finance it enough to cover the 20% deposit and 6% acquisition costs for Property B.

Then go to Bank B and borrow 80% for the new Investment Property B. Bank B will ask, “do you have sufficient funds?” Providing them with a bank balance from Bank A will suffice.

Now John has 1 loan with Bank A and 1 loan with Bank B. Neither bank has security held for both properties and if John chooses to sell he doesn’t have to answer to the other bank.

That’s a simple example. However, most investors don’t use a new bank every time they buy a new investment property. They often start out on a professional package where there are interest rate discounts for volume borrowed, a free credit card and a free savings account. So how do you structure loans with the same bank without cross collateralising?

How to structure loans with the same bank without cross collateralising

Firstly, you need to know if your bank will allow you to have stand-alone loans with stand-alone security.

Most banks do, but you must insist on it at application. You have to stipulate that you do not want your investment properties cross collateralised – otherwise, they will automatically do it. We ask for it every time and we still occasionally have to send documents back for reprinting.

Secondly, although as an investor it's possible to borrow up to 97% of a property's value as a stand alone loan, your approval is at the mercy of the Lenders Mortgage Insurer (There are a few lenders who will fund up to 106% against a single security, but in most cases the cost reflects the risk).

As an investor, it's sometimes better risk management to keep your Loan to Value Ratio (LVR) at or below 80% so that you're below the Lenders Mortgage Insurance threshold.

Back to John:

Let's say both Property A and Property B are worth \$100,000 each.

Step 1: Finance **Property A** with Bank A onto a Line Of Credit up to \$80,000. It's a stand-alone loan.

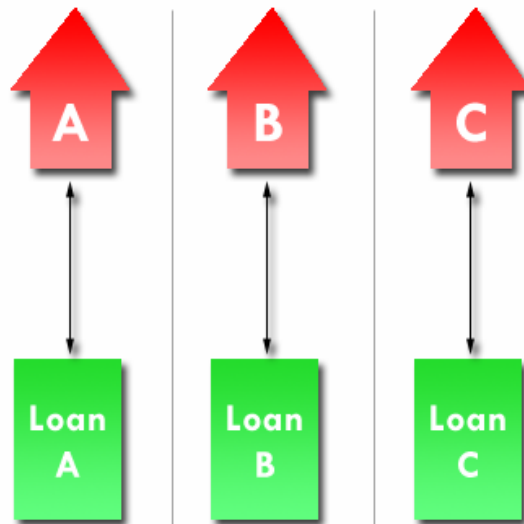
Step 2: Then take the deposit and acquisition costs from this account to contribute to the purchase of **Property B**. This is usually 20% deposit plus 6% acquisition costs, so that's \$26,000.

Step 3: Finance **Property B** also with Bank A with a 15-year Interest Only term loan for 80,000 (80% LVR, Loan to Value Ratio)

Then when John buys his second investment property, Property C...

He again takes his deposit and costs from the Line Of Credit secured against Property A. What he'll end up with is 3 stand-alone loans that are 80% against each security.

John's property portfolio now looks like this:



If you use a strategy like John's, you can revisit each loan and increase the loan balance or "top up" the loan **without having to have any of your other investment properties revalued or revisited.**

If you do this, then it's likely none of the 6 problems outlined in Part 1 should affect you.

"But my loans are still with the same bank – they still hold all my security anyway"

You could argue that since your loans are still with the same bank, they effectively hold all of your security anyway, and you're right.

However, the loans and properties are **not intertwined with each other** and each of your loans is at or below 80% LVR. If at any time you needed to sell one of your investment properties or refinance one you should not need to go back through the credit approval process for all of the other loans. You may only have to deal with one loan and one property. That gives you more control over your assets.

But what about uncrossing your existing portfolio?

As I mentioned earlier, crossing isn't a problem until it becomes a problem, and that's usually realised when you go for your next investment property and your lender says, "no more".

It's then that you may realise your current bank has you handcuffed to them. The clock is usually ticking against you and tempers and stress levels often rise.

So if you wish to continue on the road of buying property, it's either do it sooner or later.

Depending on your existing equity position it can be as simple as a fax or it can be as complex as refinancing all of your investment properties. Every case is different.

To find out more about how this applies to you, and to learn specific strategies for giving you greater control of your assets, call 1300 657 132 to arrange your [free property finance consultation](#). It's a low-key exploratory chat to help you reach your financial goals.

In the next instalment of this Report, you'll learn how you may be able to **uncross your properties using a simple fax...**

Do you know any other property investors who might be interested in this Report? Tell them about it using [this quick form](#).

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