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PropertyInvesting.com 'Insider'

Discover proven tips, strategies and techniques to dramatically increase your property investing profits

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Hi and welcome to your July 2003 edition of *'Insider'* - the PropertyInvesting.com e-bulletin for positive cashflow investors seeking a lifetime of passive income through real estate.

Are you receiving this newsletter for the first time? If so then I'd like to extend you a warm welcome on behalf of the entire Property Investing.com community.

The topics for this month's newsletter are:

Let's get started..

Book Launch - Your FREE VIP Invitation!

The hottest news I can share at the moment are the details of the release of my upcoming book *From 0 to 130 Properties in 3.5 Years*, which is now only a matter of days away.

From 0 to 130 Properties in 3.5 Years shares the journey of how Dave and I built our property investing empire from scratch and provides a lot of detail about the system I've pioneered to acquire so much property in so little time. Those who've already read the book (including the critics) universally praise it for being refreshingly based on commonsense and written from a very easy (but not basic) to read perspective.

In fact, *From 0 to 130 Properties in 3.5 Years* should be on the shelves in bookstores around Australia from Monday 4th August. You'll also be able to buy online from PropertyInvesting.com from 9am on Monday 4th August (I'm just finalising the re-release of the site which will allow me to offer free postage and handling for the book).

Furthermore, as a member of the PropertyInvesting.com community, I'd like to invite you to the official book launch, which promises to be an exciting event. It's scheduled to be held at a major bookstore in Melbourne on Friday 15th August beginning at 8pm. I'll be delivering a short (1/2 hr) presentation and afterwards would be delighted to sign books and answer your property questions. **Best of all... attending is absolutely free!**

If you'd like to come then you must to send Brent an e-mail (brent@propertyinvesting.com) with "RSVP" in the subject line. Availability is strictly limited and, since it's free, no doubt demand will be huge! Brent will then e-mail you with the details of the venue, how to get there, any last minute changes and he'll also issue a reminder a few days beforehand too.

Don't feel left out if you're not from Melbourne. It's very likely that I'll need to travel to other major cities for publicity purposes and I'll try to arrange similar dedicated PropertyInvesting.com meetings/get togethers when I have firmer dates.

'LVR', what is it and how does it work?

'LVR' is a finance term that stands for **L**oan to **V**aluation **R**atio.

In practical terms, LVR is simply the amount of money you're borrowing as a percentage of the lender's independently assessed valuation as to the worth of your property.

LVR = (Amount Borrowed ¸ Value of Property at time of loan)

For example, if you sought a loan for $80,000 on a property worth $100,000, then the LVR would be 80% ($80,000 ¸ $100,000).

Why Is LVR Important?

Lenders use LVR as an important gauge when assessing the potential risk in finance proposition.

Generally speaking, the higher the LVR, the bigger the lender's risk. This is because any default on a loan with a high LVR carries an added risk of financial loss to the lender resulting from the price obtained at a mortgagee auction (especially in a buyer's market) being less than the value of the loan balance.

The magic LVR figure is normally 80%. Loans at or below an LVR of 80% are generally considered less risky, whereas loans above 80%LVR make lenders start to feel a little nervous.

Sourcing High End LVRS

Your 'capital base' is your combined savings and equity. It represents the pool of funds available to pay deposits and closing costs on more property investment acquisitions. As an investor it makes sense to try and maximise your capital base, which means that you want to buy property in a way that uses the least amount of savings or equity possible. One way you can do this is to seek to borrow on a LVR of 90%+.

Once upon a time asking for a loan of 90%+ of valuation would have seen you laughed all the way out of the bank. But not any more! With increased competition for the borrowing buck, a number of loan products exist that allow you to borrow up to 100%+ of the value of the property. Eg: See the table at: http://www.infochoice.com.au/banking/tables/lending.asp

In order to access a high LVR loan, you'll need to:

1. Offer additional security or capital; and/or
2. Pay for lenders mortgage insurance (LMI)

Additional Security

This is also known as cross-securitisation, which means you offer two properties as collateral for the one mortgage.

Cross-securitisation means that if there's a shortfall between the proceeds of sale and the loan balance, then the other property may be sold to make good the financier's loss.

Lender's Mortgage Insurance (LMI)

Generally, financiers insure all loans against default using a product known as Lender's Mortgage Insurance. However, the customer usually only pays the cost of LMI when the LVR is greater than 80%. LMI can be expensive, up to several thousand dollars, so while you can maximise your capital base with a higher LVR, it comes at a financial cost.

Sustainability

I recently misquoted as saying I thought loans with an LVR of 90+% were unethical. What I actually said was that investing on the basis of an LVR of 90%+ was *not sustainable*.

This is because there are only a handful of lenders' mortgage insurers in Australia and although a lender might be willing to offer finance, if the lenders' mortgage insurer will not underwrite the loan, then it won't proceed.

You have a choice then:

- You can seek to spread your capital base as thin as possible, have higher cash on cash returns (since you leave low deposits), but you'll have to pay LMI and eventually risk not being able to secure any more finance as you may be perceived as a high risk; or
- You can keep your loans to 80%LVR, avoid LMI but have lower cash on cash returns. This way you'll be able to potentially keep borrowing as your risk profile is lower than if you'd borrowed at higher LVRs.

Dave and I have always chosen to do 80%LVR loans and to date, while we have experienced trouble sourcing finance from time to time, we have never been told that borrowing at 80% of valuation has placed us in the 'too risky' basket from a lender's perspective. In fact, we've been told the opposite many times.

How Is 'Valuation' Usually Determined?

While there are always exceptions to the rule, the figure used as the 'valuation' in a LVR calculation is the lower of:

- purchase price, *or*
- the figure determined by an independent registered valuer.

In almost all cases, the valuer will take the contract price as the market value.

Some investors have realised this and have become, well, shall we say 'creative' in their financing pursuits trying and exploit the definition of 'valuation'. For example, by increasing the contract price and then offering a discount on settlement.

An example of this is where a house worth $100,000 is sold for $130,000 with a $30,000 'early settlement' discount. The idea is to get the lender to lend based on say 80% of $130,000 ($104,000 meaning that you really get 100% financing) rather than 80% of the $100,000 (80% * ($130,000 - $30,000)) paid when the contract settles a day early.

This practice by itself is not dodgy - what makes it dodgy is a desire to defraud the lender by only telling half-truths (ie. not properly disclosing the early settlement discount or by being generally deceptive). There's a law called obtaining a financial advantage by deception so be very, very, very careful about the way that you set up your loans and always adopt the policy of full and open disclosure.

I'll continue my discussion of finance as it pertains to property investment next month.

See Me On TV

This is just a heads-up that Channel 7's Today Tonight program will be doing a feature on me on Monday 4th August 2003. It goes to air at 6:30pm in most areas, and I'll try to get a copy of the interview and make it available for viewing at www.PropertyInvesting.com as soon as possible.

Summary

It's an exciting time for me at the moment as it's the eve of my book arriving at bookstores. I'd like for you to celebrate with me and I sincerely hope that you can be at the book launch on the 15th August here in Melbourne. If you'd like to attend then please send Brent an e-mail at brent@propertyinvesting.com Remember you can also order your copy from the website from 9:00am Monday morning.

This month I've talked about LVRs. It's true that the more you borrow the higher the perceived risk from the lender's perspective. While it's advantageous to try and spread your capital base as widely as possible, in my opinion it's even more important to try and keep your access to finance continuing as long as possible. That's why Dave and I choose to only seek loans up to 80%LVR, which has resulted in us always being able to find finance (although there have been some trying times!)

Lastly, don't forget to write down in your diary 6:30pm on Monday 4th August - Channel 7 for the Today Tonight interview.

As always I wish you the best of luck with your property investing and remember that success comes from doing things differently.

Regards,

Steve McKnight

P.S. Don't forget to tell your friends about the site and this newsletter. The easiest way to do this is by using our simple "refer a friend" facility at: http://www.propertyinvesting.com/files/pop_welcome.htm

P.P.S. To read the back issues of this newsletter visit: http://www.PropertyInvesting.com/backissue