How to use the equity in your home to finance an investment property

Realise your property investment goals through capitalising on the equity built up in your home.

The idea of property investment is one that appeals to many Australians but sadly often overlooked because of the misconception that it is only within the reach of the wealthy.

> *You may be able to realise your investment goals by putting your current property to work for you.*

The reality is that with the right finance, planning and strategy an investment property may be easier to achieve than you think.

Ease the deposit burden

One of the key challenges to breaking into property investment is raising a deposit, but there are solutions.

Property buyers are typically required to contribute 20 per cent of the property's value, and for some this can be a stumbling block. But existing home owners may be able to unlock equity – or the increased value – that's built up in their own home to cover some or even all of the down payment on an investment property.

The following scenario illustrates how borrowers can capitalise on the equity in their homes to purchase an investment property.

Example

Dan and Jessica bought their four bedroom family home in Rockhampton in 2003 for $247,000 putting down a $49,400 deposit and taking out a loan for $197,600

The couple recently decided that they'd look at breaking into the investment market so they contacted their mortgage broker to discuss finance.

Their broker suggested that they get a valuation of their home, and they discovered that it was now estimated at $480,000.

Over the years Dan and Jessica had paid $48,000 off their original loan leaving $149,600 owing on the property.

Today's valuation of the property, less the outstanding loan, left them with $330,400 worth of equity.

Their broker suggested that they consider refinancing their own home to the loan ratio of 50 per cent to free up some equity for an investment. Based on the current property value that would give them a loan of $240,000 – making an additional $90,400 available for investment purposes.

This strategy appealed to Dan and Jessica because otherwise they would have needed to liquidate their managed funds to raise the deposit for the investment property and this was not a viable option as these fund balances were low due to recent poor performance.

They decided to put down a 20 per cent deposit on a $350,000 two bedroom apartment and take out an 80 per cent loan.

The deposit came to $70,000 leaving a further $20,400 to cover stamp duty and other expenses while a $280,000 loan covered the rest of the purchase price.

Now that Dan and Jessica had a bigger loan on their home their repayments had gone up, but they were pleased to discover that the repayment on their investment property was almost completely covered by the $385 weekly rental the investment property was generating.

And because the couple managed their investment themselves they reduced the overheads against the gross rent. By taking out an interest-only loan they also minimised their monthly outgoings and improved their cash flow.

For more information, or to request your free copy of the Home Buyers Guide, contact:

Help for first time investors through LMI

First time buyers can also crack the investment market without having to scrape together a huge deposit.

Traditionally lenders would look for a 20 per cent deposit from property buyers but today it's possible to borrow up to 95 per cent of a property's value with the help of lenders mortgage insurance (LMI).

LMI essentially protects the lender against the risk associated with providing borrowers with a higher percentage loan in the event that they default.

The cost of LMI can often be added to the overall loan amount, reducing the overall initial outlay.