

# Getting Finance Pre-Approved for an Investment Property

*Getting your finance organized can be one of the most daunting stages of buying an investment property. Hopefully this article can answer some of the questions you have and make the whole experience*

## Getting your Finance Pre-Approved

So now that you know what your basic plan is, it's time to start getting a little serious and put some structure into your actions. The first thing you need to do is to get "pre approval" for a loan. In other words you need to find a lender that suits your needs and get them to agree "in writing" to lend you a certain amount of money to buy a Property. I remember when I bought my first property feeling completely over my head when it came to getting my finance into place. I had so many questions "most of which I managed to answer by trial and error. I will try to give you a detailed overview of all the question, problems and answers that I have encountered with getting finance.

Q. Why do I need to get "pre approval" of a loan?

A. You don't NEED to get pre approval but I highly recommend you DO for a number of reasons.

- Pre-approval will let you to know EXACTLY how much your budget is and therefore allow you to exclude properties that are out of your price range. This can save you valuable time.
- If you are competing against other buyers then having "pre-approval" will definitely give you a big head start and allow you to take advantage of Vendors who are looking for a quick sale. Think about it "If you were the vendor and two people both offered you \$350k for your house BUT one of them had "pre-approval" whilst the other didn't. Who would you choose? It's a no brainer, there are even times when you offer \$1k - \$30k less than somebody else and they still choose you. Why? Because for one reason or another the vendor needs to sell straight away and they can't wait to find out if the other offer will be approved.
- Keep STRESS to an absolute Minimum. There is nothing worse than having your offer accepted and then having to wait for the bank to make their decision. This is especially the case if you haven't got a home loan before or are self employed.

Q. Should I use a Mortgage Broker?

A. Yes, a good mortgage broker should save you thousands of dollars and help you get a loan easily. If you are buying your first property then you will appreciate as much help as you can get. Mortgage brokers deal with banks every single day and they should know how to get you a loan and more importantly WHAT loan to get. Have you noticed that there are a million different loan options these days? A good mortgage broker will know which one suits your situation and save you lots of time and money. Always do your own research but if you

find someone who you trust you should have no problems. Best of all you don't even have to pay them; the bank will do that on your behalf. So really there is no reason NOT to use one. Just remember find a Broker who you trust and get along with.

Q. What sort of loan should I get, and what does Interest only mean?

A. The best person to advise you on this is your broker but generally speaking Investors only ever use Interest only loans. What this means is that they will never own the house outright, instead they make smaller repayments that only cover the interest bill. This can be a crazy idea to get your "head around" at first but the reason is quite simple. The lower your repayments are on your property the less restricted your cash flow is, therefore you have more excess money to help finance your next investment property. The logical question is "but if you never pay off the house how can you make any money?" As we learnt in Chapter 1, you can still access the equity in your property without selling or completely paying off the house (see chapter 8 for more details). It's also worth mentioning that the Interest component of an Investment loan IS tax deductible whilst the principle repayments are NOT, just another reason why Professional investors always use Interest only loans.

Q. Should I fix my Interest rate or leave it variable?

A. I have a basic rule or recommendation when it comes to this question. When you first see banks raise their long term fixed rates you know it is time fix your loan. Using this rule and some common sense you should be able to work out what's best for you.

Q. How much do I need to save for a deposit?

A. Once again it depends on your situation and circumstances. A "normal" property loan would include a 20% deposit but professional investors will always try and pay as little deposit as possible. So, would I recommend getting a 95% loan? With caution and common sense, yes I would - BUT every situation is different and I obviously wouldn't recommend for someone who is earning \$20,000 a year to get a 100% loan for a \$500,000 property. Use your common sense whilst doing everything possible to make it happen for you. The worst feeling in the world is when you have saved a decent deposit but decide to wait another 6 months to save that extra little bit only to find out that house prices have risen and your deposit is now effectively worth less than it was 6 months ago.

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