

## *Choosing The Right Investment Loan*

### **When structuring a home loan, investors have different needs to consider than owner occupiers.**

It's not uncommon to see investors make the costly mistake of taking out loans that don't have the flexibility required to help with the purchase of their next property. The correct loan structure can not only make loan restructuring easier, but can also help protect your assets and increase the tax effectiveness of the loan.

The first step in choosing a loan is to decide on your investment objectives. Are you planning to hold on to the property over the long term or are you planning to renovate and sell? Are you looking to build a portfolio of investment properties quickly or focus on investments that will generate income in retirement?

It's these kinds of questions that will determine the loan structure. Different scenarios suit different loan structures, and your mortgage broker will help find the best way to match one to the other.

### **'Principle and Interest' or 'Interest Only'**

Interest-only loans may work well for investors who only want to pay what is tax-deductible and use any excess cash flow to buy more properties rather than paying down the capital.

If you are more interested in building equity and eventually repaying the loan fully, a 'principle and interest' loan would be more appropriate.

### **Tax deductions**

If you're a high income earner and you borrow the full purchase price of the investment property, the cost of owning and maintaining the property may outweigh the rental income you receive. The difference is a loss that can be claimed as a tax deduction (negative gearing), which reduces the tax payable on other types of income like your salary.

Maximising your borrowings will increase the rental shortfall each month that must be funded from your own pocket so you must be financially comfortable with this added expense.

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## **Flexibility to buy and sell when needed**

Your loan structure needs to be flexible enough to allow you to move quickly and easily when you decide to buy your next property or sell your existing one.

## **Fee structure that allows for adding on new properties**

You don't want to have to pay set-up costs each time you add a new property so take care to compare the entry and exit penalties of different loans.

## **Line of credit and redraw**

In deciding whether commonly offered loan features like redraw or line of credit will benefit your investment loan you need to ask yourself whether you would actually use the facility, what fees are involved and whether you have the financial discipline to make it work.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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