Property Portfolio *Accelerator* eBook Series

12 WAYS TO SUPER-CHARGE YOUR BORROWING POWER

without necessarily increasing your work income

This eBook is an extract from the New Book 'AUSTRALIAN PROPERTY FINANCE MADE SIMPLE' By Konrad Bobilak

HOW TO BUILD, STRUCTURE, AND AUTOMATE, A MULTI-MILLION DOLLAR PROPERTY PORTFOLIO FROM SCRATCH...

KONRAD BOBILAK

Investors Prime Real Estate | www.InvestorsPrime.com.au

DISCLAIMER

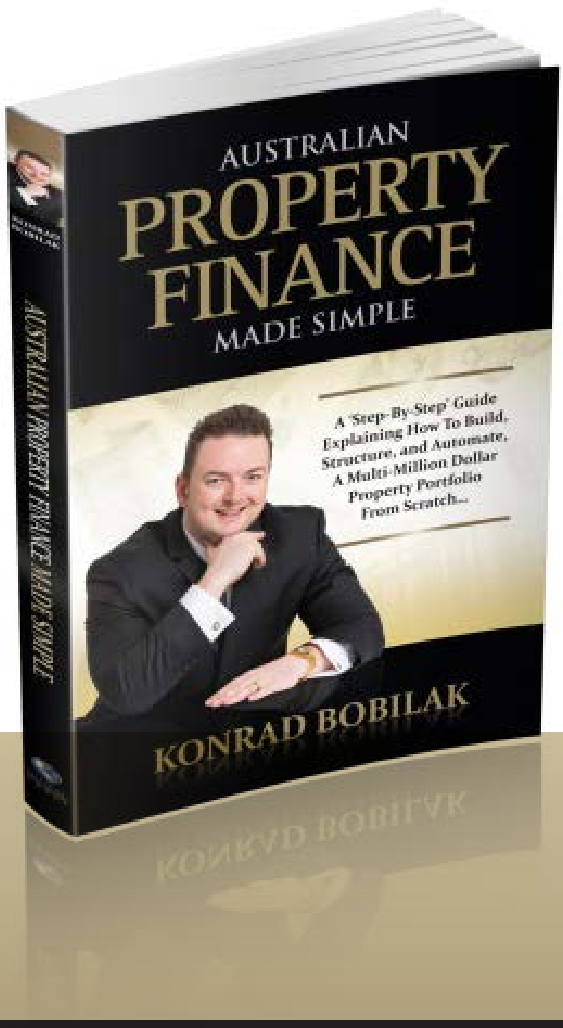
Any information presented in this document is given purely as illustrations and should not be construed as specific investment recommendations; It is general in nature and does not take into account your objectives, financial situation or needs. The laws relating to investment, taxation, benefits, and the handling of money are constantly changing and are often subject to changes in government policy.

Whilst reasonable care has been taken in preparation of this information, subsequent changes in circumstances (including legislative changes) may occur at any time and may impact on the accuracy of this information. Investors Prime Real Estate Pty Ltd including its directors, officers or associated and related entities, including the author, take no responsibility for any omissions or inaccuracies in this information and will not be held liable for any losses or damages that may result in the use of this information.

Without limiting the generality of the foregoing, no person, persons or organisations should invest monies or take other action on reliance of the material contained herein but instead should satisfy themselves independently (by seeking expert advice or otherwise) of the appropriateness of any such action. All investing carries some risk and you should seek professional financial advice prior to investing.

ABOUT THIS eBOOK

Please note that this eBook is based on an extract of Chapter 11 from the book 'Australian Property Finance Made Simple' by **Konrad Bobilak**



CHAPTER 11

12 Ways to 'Super-Charge' your borrowing power

"To become financially independent, you must turn part of your income into capital; turn capital into enterprise; turn enterprise into profit; turn profit into investment; and turn investment into financially independent."

- Jim Rohn

Chapter 11
12 Ways to 'Super-Charge' your borrowing power

Assuming that your end game is to end up owning or controlling as many investment properties as possible, here are 12 key ways you can boost your borrowing power based on the above discussed DSR (Debt Service Ratios) when applying for your next loan. The points below are based on the principle of either boosting what's considered your assessable income part of the equation or by reducing your total loan repayment commitments but both of these vary from lender to lender.

1. **Understand that income types are treated differently by different lenders**, at the extreme of the spectrum, some income types may be excluded altogether by some lenders and included by others. Income types can include casual income, commission income, bonus income, property rental income, childcare maintenance income, Centerlink income, tax free income, motor vehicle allowances, company car income, salary packaging income, income from dividends, annuity income and the list goes on. The key point to consider here is to identify the source of your income and align yourself with a lender who would ideally include all your income sources in their serviceability calculations or a lender who would consider the greatest percentage of your income type towards your serviceability.

2. **Consolidate your short term debts into your long term debts**, thus reducing your monthly and annual repayments and decreasing your total annual loan commitments in terms of lowering your actual monthly and annual loan repayments. Transfer all your short-term debts such as store cards, personal loans, car loans and credit cards into your mortgages. As unsecured personal loans can cost anywhere from 11% to 30% for some credit cards and most have a short term repayment horizon of 1 to 5 years, transferring these balances to a 30 year mortgage secured by property allows you to drastically diminish your monthly loan repayments, not to mention takes advantage of considerably lower interest rates. Here is a simplified example of the substantial difference that can be achieved by refinancing credit card and car finance short-term debt into a 30 year interest only mortgage. Pay special attention to the drastic reduction in monthly repayments.

Type of Loan	Total Loan Amount	Typical Interest Rate P.A.	Monthly Repayments
Credit Card	$30,000	20%	$795.00
Car Loan	$50,000	10%	$1,064.00

Now watch these monthly repayments drop when refinancing them via a principle and interest 30 year mortgage;

Type of Loan	Total Loan Amount	Refinance On Mortgage P & I	Monthly Repayments
Credit Card	$30,000	5%	$161.00
Car Loan	$50,000	5%	$268.00

Let's do the same on a 30 year interest only mortgage;

Type of Loan	Total Loan Amount	Refinance On Mortgage Interest Only	Monthly Repayments
Credit Card	$30,000	5%	$125.00
Car Loan	$50,000	5%	$208.33

As you can see, the $30,000 credit card, that typically has a 20% per annum interest rate, was costing the borrower $795.00 per month in minimum repayments, compared to only $161.00 per month when refinancing to a principle and interest mortgage at 5% per annum and a staggering $125.00 per month when refinancing to an interest only mortgage at 5% per annum.

If we look at a typical car loan of $50,000 where the average borrower is up for 10% per annum, the monthly repayments over a 5 year period are $1,064.00 per month. Contrast this with a low of $268.00 per month in repayments on a principle and interest mortgage at 5% per annum and a minimal amount of only $208.33 per month when refinancing to an interest only mortgage at 5% per annum.

You can see from the above figures, in reference to a lender's calculations of DSR (Debt Service Ratio) or NS (Net Surplus) how consumer credit can instantly destroy your ability to borrow funds for investment properties. It is, without doubt, the second worst killer of loans, after credit impairments.

For a good website where you can access a list of online calculators for credit cards, car loans, personal loans and home loans go to www.konradbobilak.com.au and see the Free Resource section, under **LOANS AND LOAN CALCULATORS (TOP 10) tab.**

Interestingly enough, I cannot tell you how many times, whilst working in lending, I recommended the strategy to my property investment clients that they consolidate their consumer short-term debts into their mortgages and their accountant or financial planner would say something along the lines of…

> *"…but if my client put his $50,000 car into a 30 year home loan he will end up paying $96,624 of principal and interest over 30 years for a $50,000 car, that's crazy…"* (Or something similar)

To which I would always answer;

> "The crazy part is that if your client doesn't get rid of his major 'bad debts' such as his car loan, which is an asset that is diminishing in value every day, he will never be able to buy an investment property. The crazy part is that a typical investment property purchased for $500,000, in an area that has had historical capital growth of 10% per annum on average over almost 20 years, would mean that the client's property would be worth, say $2,000,000 in 20 years, assuming 10% per annum capital growth or $1,500,000 in equity! That's absolutely crazy, isn't it? That a $50,000 Holden Commodore could stop someone making $1,500,000 in 20 years! Not to mention the ability to buy multiple properties over that period of time…or something along those lines.

You get the picture…

And today, after years in the lending and real estate industry, my advice is still the same. So here are some options if you are reading this book and have fallen into the seductive world of consumerism and the 'gotta have it NOW!' syndrome. And don't feel bad, we have all been there. The important thing is what you are going to do about it from now on, since you have been empowered with this information.

The first option is to pay for cars with cash and always avoid excessive spending on credit cards. Easier said than done. The second option, and this is in the event that you will be living in 'absolute misery' unless you buy a $50,000 or $100,000 motor vehicle, boat or any other 'bad debt,' at the very least, buy a number of investment properties first, work out a budget and then apply for a car loan; the main reason being that it's much easier to get a car loan than a residential property investment loan.

At the end of the day it will ultimately come down to priorities and what's more important to you. There are plenty of YUPPIES (Young Urban Professionals) out there driving BMWs and Porsches, earning high salaries of six figure incomes, but living from paycheque to paycheque. Literally being 2 to 3 months away from bankruptcy and living on the streets as they have virtually no savings but multiple relationships with credit cards.

Enough of preaching here, I am done, let's move on to point 3.

3. **Reduce your credit card limits to their 'bare essential limit' based on your spending requirements.** Having multiple credit cards with high limits can severely restrict your borrowing capacity. It has been estimated that for roughly every $1,000 on your credit card, it can reduce your borrowing capacity by $10,000. Not only that, but lenders always calculate your credit card debt based on the credit card's limit, not on actual balance or drawdown, irrespective of whether you pay off your entire credit card balance on time or not. Remember that lenders always take the most conservative, worst case scenario when assessing loan applications. So, if you have a credit card limit worth $50,000 with an amount of $10,000 drawn down and a history of consistent repayments, the lenders will calculate your debt repayments based on the entire $50,000 towards your DSR ratios.

4. **In the case of couples, where appropriate, apply for loans in individual names rather than in joint names**. This strategy can allow the individuals within the relationship/couple/marriage to borrow more combined, than by taking on the most common approach and applying for loans in joint names. The idea is that your expenses, especially where dependants are concerned, are split with your partner on the application. Going hand-in-hand with income splitting (which is beyond the scope of this book) and some carefully planned scenarios, it can result in a much greater combined borrowing power of a couple than in having joint name applications.

5. **Utilise multiple lenders when building your property portfolio**. One of the biggest mistakes that novice property investors make is to manifest, over time, some kind of loyalty to the bank they have their current home loan with, or the bank or financial institution that they bank the most with. This action is not only misguided but more importantly, it actually restricts and reduces the amount of money that can be accessed by that individual or couple.

   You might have noticed that in the previous paragraph I stated that the notion of feeling some kind of loyalty to a bank in Australia is misguided; permit me now to clarify my point. The primary objective of any bank, or financial institution for that matter, is to maximise profits, whilst minimising risk, and maximise dividend payments to its shareholders. Historically speaking, banks have been be willing to do anything to achieve those objectives, including screwing their customers, as long as they feel that they can get away with it. There is a massive amount of evidence supporting this, just Google any of the top banks followed by the word lawsuit.

   Perhaps the biggest evidence supporting this attitude perpetuated by the Australian banks is the emergence of one of the biggest public class actions in Australian history, consisting of 160,000 consumers suing 12 of the major banks for the estimated sum of $5 billion dollars in unlawful account charges by the banks on their customers accounts for late payment, dishonour fees and late payment fees on credit cards. In September 2010, Maurice Blackburn issued proceedings in the Federal Court of Australia against the ANZ bank in the first of a series of bank fee class actions. This claim would be used as a template for other future actions against the remaining banks. On Monday the 5th of December, 2011, the Federal Court of Australia found in favour of ANZ account holders.

   > "On the 16th of December, 2011, proceedings were issued against Citibank, Commonwealth Bank, NAB and Westpac.
   >
   > On the 1st of February, 2012, proceedings were issued in respect of claims against St George and BankSA.
   >
   > On the 18th of April, 2012, proceedings were issued against Bankwest.
   >
   > The four other banks against which proceedings are proposed to be issued are Bank of Queensland, Bendigo Bank, HSBC and Suncorp."
   >
   > (source:www.mauriceblackburn.com.au/areas-of-practice/class-actions/)

   You get the point here…

The only person looking after your interests is you, not the banks, which brings me to the second part of my point; why it is imperative that you use multiple lenders when structuring your property investment portfolio, rather than to sticking with one lender. It's a simple case of how banks work out your maximum borrowing capacity for internal and external lending.

When you are applying for multiple loans with the same lender, as previously discussed, for the purposes of serviceability, the bank uses their benchmark rate to calculate your borrowing capacity. That is, they convert an interest only loan into principle and interest and add 2% on top of the actual rate.

This is contrasted when applying with two separate lenders; the new lender will take the actual loan repayments of the loan with the other lender to work out your maximum borrowing capacity and not the higher assessment benchmark rate, and this could mean hundreds of thousands in additional potential lending that you could tap into but that would otherwise not be available to you via just the one lender.

Let's have a look at an example of this in action.

Assume that a loan applicant wants to apply for a $500,000 investment loan in order to secure their first investment property, and also assume that they already own a PPR (Primary Place of Residence) worth $600,000.

Here is the scenario when applying with the same bank that the person used to finance their PPR; let's call this bank A. The assumption with this example is that the current interest rate is 5% per annum.

Scenario 1: All loans structured via the same Bank A.

{Current PPR Loan of $600,000 (Bank A) + New Investment Loan of $500,000 (Bank A)} x Benchmark Interest Rate (Principle and Interest).

($600,000 + $500,000) x 7% = **$7,318** in monthly repayments as the repayments are calculated at 7% Principle and Interest.

Scenario 2: Loans are structured by two different banks, Bank A and Bank XYZ.

Current PPR Loan of $600,000 (Bank A) Bank XYZ takes actual repayments at 5% Interest Only + (New Investment Loan of $500,000 (Bank XYZ)} x Benchmark Interest Rate (Principle and Interest).

($600,000 x 5% Interest Only (actual repayments)) = $2,500 per month

+ ($500,000) x 7% = $3,534 in monthly repayments as the repayments are calculated at 7% Principle and Interest.

$2,500 + $3,534 = **$6,034** in monthly repayments which are calculated separately given that the borrower has applied for the investment loan via Bank XYZ.

As can be seen from the above two scenarios, in the first instance, scenario 1, where the borrower used the same bank (Bank A) for both of their loans, the minimum monthly repayments based on the bank's benchmark assessment rate equated to monthly repayments of $7,318. When compared to scenario 2, in which instance the borrower had their PPR with Bank A, and subsequently applied for an investment loan via a separate lender, Bank XYZ, their minimum monthly repayments equated to $6,034 for both loans. The staggering difference between the two scenarios is a monthly difference of ($7,318 - $6,034) = $1,284 after tax per month. To put this figure into perspective, an interest only loan of $300,000 at 5% per annum equates to $1,250 per month in interest only repayments.

The bottom line is that you can borrow more money, and thus secure more property, faster, by utilising multiple lenders, rather than sticking with one lender. This in turn will help you fast-track your ability to achieve your financial goals.

6. **If you are a property investor who rents, then make sure that your name is not on the lease agreement.** Given that the current median prices around Australian major capital cities are somewhere in the vicinity of $500,000 to $600,000, many property investors have made the decision to permanently rent rather than own their primary place of residence.

Median house price rises*

Sydney	$775,000	▲ **15.2%**
Perth	$537,250	▲ **10.2%**
Melbourne	$625,000	▲ **8.5%**
Brisbane	$470,000	▲ **5.3%**
Darwin	$595,000	▲ **5.1%**
Canberra	$570,000	▲ **3.7%**
Adelaide	$405,000	▲ **3.0%**
Hobart	$350,000	▲ **2.9%**
* 2013		2013

By opting to rent rather than direct ownership, you automatically increase your borrowing capacity by reducing the total annual liability part of the DSR equation. The reason is simple, with interest only loans hovering around 5% per annum, your loan repayments for a typical median priced house in Melbourne would be 5% to 6% on $550,000 which equates to between $27,500 p.a. and $33,000 p.a. in annual repayments or between $2,291.67 and $2,750.00 in monthly repayments. The same property can be leased out for 3.5% of the property price, or between $19,250 and $1,604.16 per month. You are automatically better off by between $687.51 and $1,145.84.

Now, to take things to another level, and this may only be applicable to certain people, if your name is on the lease agreement, the bank assesses the entire (100%) monthly rental amount towards your liabilities when working out your borrowing capacity, irrespective of your actual contributions to the rent. If you are renting the property with a partner or a friend(s), and you are the property investor or borrower, by not having your name on the lease agreement and simply entering into a separate boarding agreement with your partner, friend(s), or person whose name appears on the lease agreement, you can reduce your contribution to the overall lease and hence this lower amount will be reflected in your liability column when being assessed by a bank for lending purposes. This of course will only work if the amount that you pay via your boarding agreement is lower than that of the lease agreement.

This strategy is especially applicable to people who are renting properties from friends, relatives or with a partner. You would be amazed at the difference it will make from a serviceability perspective when you replace a lease of $450 per week with $150 weekly boarding fee.

7. **Understand that family living expenses are treated differently by different lenders** and this is an especially important consideration for big families. Prior to 2012, the majority of Australian banks and lending institutions relied on the Henderson Poverty Index (HPI) for calculating a family's living expenses. Then, in early 2012, most lenders started to switch to the Household Expenditure Method (HEM), which offered a more realistic reflection of living expenses of the average Australian household. Interestingly enough, the new (HEM) index increased the borrowing capacity of single individuals whilst reducing the borrowing capacity of couples.

   Below are two comparison tables depicting the differences between the Henderson Poverty Index (HPI) and the Household Expenditure Method (HEM) for calculating living expenses for singles and couples.

   Table 1: Living expense comparison for single individuals

Household Segments	HPI	HEM
No Dependent	$1,250	$1,105
1 Dependent	$1,717	$1,430
2 Dependents	$2,159	$1,560
3 Dependents	$2,601	$1,889

   Table 2: Living expense comparison for couples.

Household Segments	HPI	HEM
No Dependent	$1,817	$2,032
1 Dependent	$2,284	$2,583
2 Dependents	$2,726	$2,704
3 Dependents	$3,168	$3,137

   Since the introduction of the NCCP (National Consumer Credit Code) in 2010, lenders are also obligated to ask borrowers to specify and itemise their monthly living expenses, which are then used as a comparison against the currently used Household Expenditure Method (HEM). This ensures that the borrower's living expenses are in line with the general population. The rule of thumb is that the lender will always take the 'higher of the two' when comparing the applicant's estimated living expenses schedule compared to the default amount contained in the above two tables, derived via the Household Expenditure Method (HEM).

The key here is to make sure that your monthly living budget does not exceed the one contained in the above table and if it does, then you might need to reassess your living expenses during the time of applying for the loan. Sometimes going without some luxuries can mean the difference between getting a loan across the line and buying your first investment property or being rejected by lenders and never getting started.

Finally, it's also worth noting that living expense estimations do tend to vary drastically across different lenders and increase proportionally with the addition of dependent children, which can add thousands to the bottom line. Some lenders however, have a maximum cap that they apply to big families that reaches a maximum amount and does not increase, irrespective of how many additional dependent children are added to the family unit.

8. **Fix your loans or extend the length of your variable loans up to 40 years.** Many property investors are not aware of the fact that they have the ability to fix their interest only loan rates for a maximum period of 15 years. By doing so, some lending institutions will lower their internal benchmark assessment rate that they load onto the standard interest rates, from 2% to 0.5%, given that there is an expectation that there will be very little movement in the rate on the loan. This can, in certain circumstances, allow borrowers to either borrow more money or get through the approval process compared to a scenario of leaving their interest rates variable.

   When it comes to principle and interest variable loans, the most common loan term in Australia is 25 or 30 years, but some lenders are now offering 40 year principle and interest loans. The obvious preference for shorter term loans such as 25 and 30 years is that the shorter the term of the loan, the less interest you pay over the life of the loan. However, in terms of monthly repayments on the actual loan, there can be a significant difference between premiums on a 30 year loan compared to that on a 40 year loan. See table below.

Term of Loan	Total Loan Amount	Interest Rate P.A.	Monthly Repayments
30 Years	$500,000	6%	$2,998.00
40 Years	$500,000	6%	$2,751.00

   The difference between the two loans above is $247 per month, based on a 30 to 40 year term of loan comparison, and while that might seem like a trivial amount, not to mention an additional 10 years added onto the term of the loan, always remember that you can miss out on a loan by just $1.00. In addition, you can make additional contributions and pay off the loan faster than the maximum designated time frame.

9. **Keep all your financial records up to date and lodge your tax returns on time.** Now I must admit that when I initially started out in property investing, getting my paperwork organised was a real challenge, and believe me, there is loads of paperwork, from insurance premium renewals, to bank and credit card statements, depreciation schedules…the list goes on and on.

   The best piece of advice that I received early in my property investing career is from my accountant who said, "If you treat your property investing like a hobby, then expect a hobby income, if you treat it like a business, then you will be paid like a professional." This triggered my decision to buy a filing cabinet and shelving immediately and administer a strict and detailed document filing system that has allowed me to complete my tax returns on time, year after year. I highly recommend you do the same.

   Effective record keeping and on time tax lodgement is imperative in your ability to provide evidence and substantiate your income to banks and financial institutions. This is especially relevant to employees who receive a low base salary but high commissions, bonuses or sales overrides as part of their remuneration package, such as sales people, real estate agents, car dealers, mortgage brokers etc. In a lot of cases, simply providing the lender with 2 of your most recent payslips might not be efficient enough to prove your income over the last two years. Most lenders do require two year tax returns in order to average out your commission, bonuses or sales overrides during that time and estimate your average income. In most instances they simply add up the two taxable incomes and then divide them by two in order to arrive at an estimated income, whilst some lenders take 80% of your commissions as long as you can prove to them that you have been earning them over the last two years. Always make sure that your annual group certificates or ATO notice of assessments are filed away and ready to be submitted when applying for loans.

10. ***"If you cannot save money, the seeds of greatness are not in you." (W. Clement Stone)*** Perhaps one of the most underrated wealth creation strategies is simply the ability to consistently save money over a long period of time. Whilst this may seem quite boring to a lot of investors, and not as sexy as trading

derivatives or property options, it does form the basis of building wealth in the long term and has a lot of bearing on how much money you will be able to borrow from banks. Apart from the obvious point that if you do manage to save a 10% or 20% deposit over a long period of time and demonstrate a long term savings history to a bank or financial institution, your loan is likely to be approved more easily and quickly, subject to credit scoring and DSR ratio of course. The ability to save money demonstrates one's discipline, restraint from blowing everything that you earn and ability to budget, all ingredients essentially found in the most successful investors in history. Here is a table depicting the minimum genuine savings that is required by lenders at the time of writing this book.

Genuine Savings Matrix

LVR %	Investment	Owner Occupied
95	Must be able to show 10% equity in another property	5% to be saved over a minimum 3 mth period (some lenders 6 mths)
90	Must be able to show 10% equity in another property	5% to be saved over a minimum 3 mth period – there are a few lender that will consider 90% Non Genuine savings
85	Most lenders – no evidence required (some ask to see 5% genuinely saved) – a combination of funds sources can be used, things like sale of shares or gifted funds.	Most lenders – no evidence required (some ask to see 5% genuinely saved) – a combination of funds sources can be used , things like sale of shares of gifted funds.
80	Not required	Not required

What makes up genuine savings?

1. Savings gradually being built up over a period of time
2. Lump sump (e.g. Term deposit) held over a period of time
3. Shares held over a period of time
4. Consistent & on time rental payments paid to a real estate agent 12 months
5. Accelerate payments on a personal loan or credit card

11. **Pay yourself first and pay yourself generously.** The infamous book on personal finance titled, 'The Richest Man in Babylon,' written by George S. Clason, lists and details the "seven cures for a lean purse." The first of the seven cures for a lean purse being;

    "Start thy purse to fattening."

    The book then clarifies the rule in the third chapter as;

    "For every ten coins thou placest within thy purse take out for use but nine. Thy purse will start to fatten at once and its increasing weight will feel good in thy hand and bring satisfaction to thy soul."

    The message here is simply to save and invest 10% of your income and essentially, in order to achieve this, you will need to discipline yourself to spend less and pay yourself first. The sad reality of today's culture of *consumerism* and obsession with *instant gratification* is that most people are spending 110% of what they earn, using their credit cards for the additional 10%!

    The book further goes on to say;

    "Now I will tell a strange truth, the reason for which I know not. When I ceased to pay out more than nine-tenths of my earnings, I managed to get along just as well. I was not shorter than before."

    The application in lending with regards to 'super-charging' your borrowing power is simply to increase your income derived from your job or the income that you pay yourself and declare in the case of a self-employed person or business owner.

    Historically, the 'money psychology' of most self-employed people and business owners, is to pay themselves a bare minimum wage or salary, or show the bare minimum business profits in order to avoid paying high tax. Whilst this strategy may have some merit in the short term, practiced over a long period of time this actually robs the business owner or self-employed individual by not allowing them to invest in property due to their inability to ever satisfy the minimum lending requirements of banks or financial institutions. Over time, these individuals become slaves to their business or trade, continuously trading time for money, and never truly attaining time and money freedom, which ironically is the reason most people start their business or trade.

There is a solution and it requires very little work and creativity. Rather than hiding money in the business, declaring the bare minimum profits in the business or paying the bare minimum wage, the better strategy is to increase your business declarable profits and wages, just enough to satisfy the minimum lending criteria for buying an investment property and then claim the maximum allowable deductions associated with the investment property.

The reality is that the Australian taxation system is so generous in terms of legally allowable deductions on buying new investment properties, that it's quite plausible to pay absolutely zero tax on incomes in excess of $100,000, by simply following the rules. When buying investment properties, the investor is able to claim back the entire cost of the interest of the loan, depreciation of the building at 2.5% over a 40 year period of time, depreciation of fixtures and fittings, insurance, upkeep and all associated costs of running and maintaining the property. This, of course, needs to be structured correctly via a knowledgeable accountant and with the use of a depreciation schedule, which needs to be prepared by a quantity surveyor.

For the year 2010 to 2011, out of 1,751,679 Australian property investors, approximately 75%, or 1,213,597, property investors claimed losses on their investment properties. The latest ATO (Australian Taxation Office) figures show that for the year 2010 to 2011 some $22.7 billion was claimed in total tax against deductible interest payments on investment loans, capital works deductions and other allowable deductions associated with holding investment properties. This is an increase from the $18.4 billion that was claimed in the 2009 to 2010 previous year.

Individuals' rental income and deductions, 2009-10 and 2010-11 income years

	2009-10[1]		2010-11[1]	
Rental income/deductions	**No.**	**$m**	**No.**	**$m**
Gross rental income	1,731,126	28,028	1,788,692	30,730
Less rental interest deductions	1,405,510	18,359	1,459,530	22,670
Capital works deductions	684,470	1,694	734,566	1,921
Other rental deductions	1,736,860	12,785	1,795,707	14,002
Net rental income[2]	1,751,679	-4,810	1,811,174	-7,862

1. Data for the 2009-10 and 2010-11 income years includes data processed up to 31 October 2011 and 31 October 2012 respectively.
2. Components do not add to the total number of tax payers claiming rental deductions , because taxpayers may claim more than one type of deduction. Totals may differ from the sum of the components, due to rounding.

Interestingly enough, there was a rental increase, from the year 2009 to 2010, of $28 billion to $30.7 billion in gross rental income derived from investment properties held by Australian property investors.

Individuals' net rental income, by taxable income, 2010-11 income year[1]

	Net rental income less than $0		Net rental income greater than or equal to $0		Total	
Taxable income	No.	$m	No.	$m	No.	$m
$6,000 or less	110,322	-1,437	42,085	182	152,407	-10255
$6,001-$37,000	281,785	-2,521	222,437	1,711	504,222	-810
$37,001-$80,000	485,587	-4,605	195,645	1,676	681,232	-2,929
$80,001-$180,000	276,611	-3,311	109,664	1,235	386,275	-2076
$180,001 or more	59,292	-1,412	27,746	620	87,038	-792
Total[2]	**1,213,597**	**-13,285**	**597,577**	**5,423**	**1,811,174**	**-7,862**

1. Data for the 2010-11 income years includes data processed up to 31 October 2012
2. Totals may differ from the sum of the components due to rounding.

The key lesson here is that business owners and self-employed people need to understand that they can end up in a situation where, legally, they are paying very little or virtually no tax, whilst increasing their salaries or declarable business profits, simultaneously building wealth by accumulating investment properties. All that needs to be done is to increase one's wages in line with minimum lending guidelines, just enough to buy an investment property, claim all legally allowable tax deductions associated with holding that property and then repeat the process.

The first step is to get together with a good mortgage broker that understands Low Doc or No Doc lending products, as well as an accountant, and work out a long term strategy around one's financial goals.

12. **Utilise other people's incomes or equity via Joint Ventures (JVs).** One simple way to instantly boost your borrowing capacity is through the use of joint ventures (JVs), which is simply joining forces with a business partner, friend or

family and pooling your resources together. The most common example of this is when first home buyers get their 'loving' parents to stand as guarantors on their home loan. Another example is property investors who partner up with other like-minded property investors and pool their resources in order to buy an investment property.

Although joint ventures (JVs) come in different shapes and sizes, when it comes to the world of property investing they tend to fall into one of the following two categories.

1. **Joint ventures (JVs) used to leverage other people's borrowing capacity, or**

2. **Joint Ventures (JVs) used to leverage other people's equity.**

From a banking perspective, the most common way of structuring this type of lending is by setting up either a fixed unit trust or a discretionary trust, with a corporate trustee, whereby all parties become directors and unit holders (in the case of a fixed unit trust), or beneficiaries (in the case of a discretionary trust), dependent on, of course, receiving personalised accounting and legal advice from a qualified professional.

By setting up the correct legal structures and agreeing on exit strategies, joint ventures (JVs) can truly become a property investor's best friend, as they can overcome the two main obstacles that stop property investors from quickly building large multi-million dollar property portfolios; namely serviceability (income) and equity (deposits).

Whilst on the surface the notion of JVs may seem quite appealing, it is important to understand that each and every applicant on the loan, or joint venture partner, is *jointly and severally liable* for the **total debt**. This means that every partner of the JV is 100% liable for 100% of the overall debt and their individual liability is not limited to their own share of the debt amount.

So what does this really mean?

It means that prior to jumping in into a joint venture with your best friend, or next door neighbour, you really need to do your homework and understand the implications of what will happen if this goes bad…

So what can go bad?

Well, here are a few scenarios to consider. In the event that your joint venture partner fails to keep up with making their portion of the monthly mortgage payments, you will be stuck with that liability. Another scenario is in the event that the venture fails to make a profit, the loss could severely impact your financial situation, even resulting in hits on your credit file, or bankruptcy. Finally, you need to consider what plan you will have in place if one of the joint venture partners needs to get out prematurely, prior to the completion of the joint venture.

Also, keep in mind that from a lending perspective, joint ventures will affect your future borrowing capacity. In the event that you apply for another loan whilst still in an existing joint venture, the lender, during the assessment process, attributes 100% of the liability (loan repayments) towards your personal assessment. So, structuring the joint venture correctly is key when weighing up this type of financial arrangement.

Before entering into a joint venture, proceed with caution. Here is a short and simple list of things to consider:

- Responsibilities of each party need to be clearly decided upon and documented.
- The exit strategy needs to be clearly agreed upon and documented.
- Plan B type scenarios need to be workshopped and agreed upon by all parties to the JV, i.e. internal disagreements, death, illness, divorce, etc.
- Financial buffers need to be put in place to make sure that the transaction has a good chance of succeeding, especially when things run over budget.
- Agreements of how profits and equity will be split up at the conclusion of the JV need to be clearly agreed upon and documented.
- An agreement of how to best deal with tax at the conclusion of the JV needs to be clearly agreed upon and documented.
- At the end of the day, the success of your joint venture will be determined by the following three aspects;

1. How well you choose the investment or the property that the joint venture will buy.
2. How well you select your advisers who will determine the best legal and account structure to set up for your joint venture, and
3. How well you choose your joint venture partners (painfully obvious, but critically important).

My advice is to make your choice wisely when it comes to the world of joint ventures (JVs).

About the Author

Konrad Bobilak - CEO and Founder of Investors Prime Real Estate
(www.investorsprime.com.au)

Konrad Bobilak, the CEO and founder of Investors Prime Real Estate, has spent his entire career in the Financial Services, Banking, and Real Estate industries in Melbourne. Konrad's formal education consists of a Bachelor of Business Management (B.Bus.Mgt), at Monash University, specialising in Organizational Change, later undertaking further studies in Financial Planning, Mortgage Broking and his ultimate passion, Real Estate. In addition, he has extensive experience in Managed Funds, Risk Insurance, Real Estate Sales, Commercial Lending, Residential Lending, and Asset Finance, as well as being a Financier for one of the four major banks. In his variety of roles, working predominantly with high net worth individuals, Konrad has literally had a wealth of exposure to the unique mindset and financial structures of truly successful people and investors. It is his experience and insight that renders him a most astute investor himself, having personally built a multi-million-dollar property portfolio in Melbourne and Queensland over the last decade; he truly practises what he preaches.

Konrad's unique insights into 'Wealth Psychology' combined with a highly specialised knowledge of the Finance and the Real Estate Industry in Australia, have made him a sought after Real Estate and Finance key note speaker. Having taught tens of thousands of people in Australia, New Zealand, and Fiji, Konrad has had the unique opportunity of sharing the stage with the likes of Sir Richard Branson, Tim Ferris, and Randi Zuckerberg in audiences of up to five thousand people. Konrad has also been a regular contributor of articles to some of Australia's leading published real estate investing media. With real,hands-on experience in building start-up companies to multi-national, Konrad's unique balance of practical, in-the-field sales experience, first-hand depth of experience in finance and real estate knowledge, as well as executive management experience, has resulted in Konrad been one of the most sought after consultants in his field as well as being recognized by many as the one of the most progressive thinkers in the Industry at present.

Investors Prime Real Estate

Investors Prime Real Estate is a boutique, specialist real estate company which sources premium properties located in Melbourne's Inner ring blue-chip suburbs.

As Investors Prime Real Estate was founded by property investors for property investors, we appreciate the importance of providing the very best performing residential property solutions to our clients, who are seeking properties that will deliver above market, high capital growth potential, over the medium to long term.

That's why at Investors Prime Real Estate we literally reject 95 per cent of properties in the market place, and predominantly target properties in established, affluent inner-ring blue chip suburbs around Melbourne city, specifically the Inner Eastern and Bayside areas. As the demographics of these areas are made up of predominantly high-income earners, historical data shows us that these areas have consistently outperformed all other areas in Melbourne.

It's no wonder that Investors Prime Real Estate has become the preferred method of accessing premium investment properties by time-poor, sophisticated property investors in Australia. In partnering with Investors Prime Real Estate you are aligning yourself with a company that is at the forefront of its industry, tapping into decades of combined experiences across all aspects of sourcing, that shortlist the very best residential property developments in Melbourne and Australia.

By leveraging Investors Prime Real Estate's unique network, our clients have been able to gain an unfair advantage over other property investors, by accessing residential property developments created by both Australian and International, multi-award-winning, iconic architects, builders, developers, and urban designers, located in some of the best performing suburbs in Melbourne.

Investors Prime Real Estate prides itself on finding and securing the latest brand name residential property investment opportunities located in areas that are primed to outperform the general property market, medium and long term. At Investors Prime Real Estate, we understand the importance of selecting and shortlisting properties for our clients based on superior geographic location, as well as specific property criteria and design that creates a winning combination of high capital growth and maximised rental yield for our buyers.

That's why Investors Prime Real Estate has been sought out by both novice and seasoned property investors alike.

LIVE 2 DAY INVESTING WORKSHOP: MELBOURNE

REAL ESTATE FAST TRACK

THE COMO HOTEL SOUTH YARRA 06/07 FEB 2016

"HOW TO BUILD & STRUCTURE A MULTI-MILLION DOLLAR PROPERTY PORTFOLIO FROM SCRATCH AND POTENTIALLY REPLACE YOUR INCOME"

GUEST PRESENTERS

Steven Molnar
Investment Property & Finance Strategist

Konrad Bobilak
CEO, Investors Prime

Cameron Fisher
Director, Changing Places

Stephen McClatchie
Director, Loans Australia

WWW.REALESTATEFASTTRACK.COM.AU

WORKSHOP OVERVIEW

DAY 1 ADVANCED FINANCE AND PORTFOLIO STRUCTURING: You will learn how to potentially pay off your current 30 year Principal and Interest Mortgage in 15 years or less, potentially saving yourself tens of thousands of unnecessary interest repayments and years off your mortgage. Plus…You will learn how to best structure your first investment property acquisition, whereby you maximize your tax deductions, and tap into the power of leverage.

DAY 2 PROPERTY DUE-DILIGENCE & RESEARCH FIELD TRIP (INCLUDES COMPLEMENTARY LUNCH): How to research the property market and understand the fundamentals of suburbs like a professional property investor and how to conduct Macro and Micro level property research and due-diligence on specific properties and understand the advantages and disadvantages between house and land packages, townhouses and apartments.

BOOK NOW | $97

(03) 9595 3814
RealEstateFastTrack.com.au
Tickets strictly limited!

Sponsored by:

investorsprime
REAL ESTATE

An Essential Resource Tool For Any Serious Property Investor Who Is Wanting To Stake Their Claim In The 6.3 Trillion Dollar Residential Property Market.

Finally, an ex-banker, mortgage broker, and property millionaire's 'tell all' step-by-step 'Blue Print', explaining how to Build, Structure, and Automate a Multi-Million Dollar Residential Investment Property Portfolio correctly that has the potential to replace your income for life! International Author, Speaker, Entrepreneur and Property Expert Konrad Bobilak, reveals all in this insightful and valuable book.

"Konrad Bobilak is one of Australia's leading Presenters on Finance and Property. I have had the privilege of attending some of his seminars and the depth of knowledge and the attention to detail is second to none. He not only imparts this knowledge but provides the tools that people need to actively transfer information to action."

Igor Loutkovsky, CEO Loutkovsky Insurances
Personal Insurance Specialists CPA, BCom (NSW), Dip. Fin. Serv. (Broking), QPIB