The Lending Landscape - what should Property Investors be considering in the close of 2021?

Interest Rates & Fixing

Rates are now increasing, and have done so rapidly over the last few months. Some terms are now double what they were 3 months ago. For portfolios with a larger amount of lending, it's a good idea to review your loans and in some cases even consider breaking existing terms and spreading risk across new fixed options if the numbers add up.

Some questions to ask yourself...

- ➔ When are your rates expiring and have considered splitting lending to spread risk?
- ➔ What is your split across your portfolio - do you have staggered rate expiries or are they all expiring at once?
- ➔ Are you looking to sell or make any big changes to your portfolio in the next 12 months? (this needs to be a consideration when fixing)
- ➔ What is your long term strategy? (Is it to buy and hold? Trade? Develop?)

Is it time to review your Portfolio and Bank?

We are seeing an increasing number of investors look to consolidate their portfolios and take some of the gains we've seen in the last few years, perhaps to reduce lending, or to switch an older property to one that is more suited to longer term cashflow.

For some investors, selling a property is triggering reassessment across a whole portfolio with sale proceeds required to keep LVR's in the required range. We can help you review this situation, and our service is free to all clients - we'll ensure you've got the best lending options in place.

Consider:

- ➔ Your bank may no longer be the best fit for you. Banks are also now reassessing for Interest only and it may be time for you to review where you're at
- ➔ Are you looking to sell a property?
- ➔ Are you predicting changes in income that may affect your ability to retain lending or move properties, if you sell?
- ➔ Is there the opportunity for you to split banks moving forward?

How are you currently adding value to your property portfolio?

With the recent tax changes this year, a lot of investors are now starting to put money into development of existing properties and considering whether they can add value to increase rent and overall yield. We're fielding a lot of queries around this and setting investors up to succeed, ensuring they can make the most of the new build rates on offer from several trading banks, as well as make the most of any cash reserves.

This might look like;

- ➔ Purchase of new rental or second property
- ➔ Raising deposit for next purchase
- ➔ Major renovation, add a room
- ➔ Subdividing
- ➔ Sell and buy a property that's a better fit for your portfolio

Are you looking to sell a property?

Many investors assume that if they sell a property, they'll be able to repay the loan they took out to buy it, and retain the remainder of their sale proceeds. Banks actually now reasses entire portfolios and serviceability on the sale of a property if you are not using all sale proceeds to repay debt. Therefore you might find yourself needing to repay more lending than you think. The key is to ensure that you include planning as part of any property sale and ask how it might affect your entire portfolio and not get a nasty surprise on settlement! This is where splitting banks can come in and we can help you find the options that suit you.

Thoughts to ponder here;

- ➔ Is your serviceability position the same as it was when you purchased the property? What income do you now have and is it solely rental income or a mix of personal wage/salary/business plus rental?
- ➔ All banks are now reassessing borrowers for retained lending, therefore if you sell a property and don't pay all existing lending your serviceability will be reassessed to ensure banks are still meeting their LVR requirements

- ➔ Can we unencumber a property for you? This would allow you to sell without having to repay sale proceeds. How does that fit into your portfolio goals? Do you need more cash for another project?

Serviceability

The new CCCFA legislation, coupled with rising interest rates and therefore banks taking a harder line approach to servicing (particularly the inclusion of consistent spending/expenses for each customer) means that for some people, their borrowing power will now have decreased. We are now working with clients to make sure their situation is presented in the best way possible to allow projects and new purchases to move forward, and across banks sometimes the differences in borrowing can be up to $100K.

Things to think about;

- ➔ Higher interest rates mean a higher “test” rate for serviceability therefore lower borrowing amounts
- ➔ Banks are now completing “accurate” serviceability calculations. All real expenses are accounted for and now split out separate categories
- ➔ Rates and Insurance for investment properties are “real” costs, where before they were included as a minimum expense for most borrowers
- ➔ Fit for purpose lending is being considered - this refers to the type of loan or credit card and whether it’s the right fit for the borrower
- ➔ Scaling of rental and boarder income (largely to allow for the increases in tax presented by the removal of interest deductibility)
- ➔ Debt to Income ratios - some banks have already put these in place, and RBNZ is expected to mandate this in the coming year

Opportunities

There is no doubt that we are entering a time of rising interest rates and it remains to be seen as to what effect this will have on the housing market, and by extension, on investors here in the Waikato.

- ➔ The common trait of savvy investors is planning - what could the next few years hold, and how can we minimise any possible impacts? Longer term planning around income (transitioning from personal waged or salary income to rental or a mix of the two) is also really important to consider when looking at lending and new purchases.
- ➔ Cheaper build lending is guiding all homeowners towards purchasing or developing new dwellings, however with headwinds in the building industry, there are likely to be delays in the coming year with supply shortages and also labour difficult to find. However the cost of building is still low so it’s a clear opportunity to add value to existing properties
- ➔ 2nd Tier finance is becoming more popular for Covid affected businesses, newer businesses, and low LVR lending which is supported by strong security. Rates are

now comparable to main bank and there are plenty of opportunities in this space which should be considered when the numbers stack up

➔ Make the most of personal income or a good year in business by planning projects which fit your income profile - with rental scaling and DTI's on the horizon across most banks, now is a good time to check out where you sit.
➔ A possibly cooling market with less FOMO in 2022 presents an opportunity to purchase properties that others may overlook potential or value - get approved finance early and be ready for any deals that may become more readily available across the next year.

The end of the year is a great time to review your lending and portfolio position and check you're on track to meet your goals for 2022.

At My Mortgage, we're here to help maximize your lending position and give advice on the best way to make it work for you as part of your overall Team.

We also have a bunch of resources for investors on our website, which you can find here

Reach out to us via our website or direct to our advisers, and we'll provide you with advice and support to get to where you want to be quicker.

From all of our Team at My Mortgage, have a safe and happy holiday and we look forward to working with you in 2022!

Adam, Claire, Greg, Amber and the My Mortgage Team