

The secrets that the investment finance industry does not want you to know...

Special Report

How to take charge of your finances and succeed in today's property market

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The sad truth is that many accountants and finance practitioners do not understand the detrimental effects some finance products have on the early retirement plans of property investors.

Hi, I'm Andrew Gardner, co-founder of Investors Edge Finance.

For too long I have watched property investors fall victim to poor finance structuring – a mishandling that has delayed the dreams of early retirement. I see investors struggling with cashflow and losing tax entitlements worth many thousands of dollars every year, while unwittingly putting their home and life savings on the line.

The reason: their advisors aren't spending the time necessary to carefully craft finance structures and strategies to extract every possible benefit. Typically, accountants claim tax deductions from funding arranged by a financier who, himself, often has limited understanding of tax principles.

Maximum tax benefits, profits, optimum cash-flow and security depend on an inclusive, personalised strategy.

Your advisor may have considered the merits of interest-only versus principle and interest repayments. They may have compared the benefits of loans with fixed and variable interest rates. They will no doubt have looked for the cheapest rate. This is the usual, simple "set and forget" approach many financiers adopt. Instead, they should be considering crucial issues such as:

'How can I maximise and preserve my client's tax benefits indefinitely?'

'How can I protect my client's family home and life savings?'

'How can I enhance my client's cashflow and lifestyle?'

'How can I boost my client's profit and passive income to fund an early retirement?'

It is all about the nuances of the finance structuring. Issues such as: When and how to use a line of credit? When to use redraw facility? Is an offset account appropriate and what type of offset account is called for?

Key points include what accounts to open, where to hold savings, where to deposit income and where to draw expenses from?

The consequences of these issues are infinitely more powerful... or devastating for the investors than thinking, 'which loan or bank, or who has the cheapest rate today'. It is true to say that after property selection, finance structuring and strategies are the most important factors in building a substantial portfolio producing strong passive income.

These are the questions and issues I address in this special report that I have filled with real life examples to help you understand the benefits so many of our clients enjoy.

I hope you enjoy reading it as much as I enjoyed writing it for you.

Sincerely

Andrew Gardner
Investors Edge Finance Co-founder

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Investors Edge Finance has been set up to serve the specific and peculiar needs of the property investor. Benefits achieved by our clients are numerous and substantial. Our finance system facilitates optimum returns and minimum risk.	
Disclaimer	

Negative Gearing Rescue Package – Investors Edge Finance

Prior to implementation of any strategies, concepts and ideas, you should consult with your investment advisor.

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Is your finance structure building your wealth with safety, or draining your profit and exposing you to excessive risk. Tick 'No' to any question and your profit or assets could be at risk.

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We have helped hundreds of clients improve the performance of their portfolios; here is a small selection of your comments and feedback.

"I was referred to Andrew and Investors Edge Finance by my lawyer two years ago after struggling with cash flows and a refusal from my bank of 20 years for any further finance. Andrew reviewed my portfolio, finance structure and investment strategies before developing a plan which has reduced the exposure to debt on my home from over \$1.4M to \$5,000. I now have great cashflow and borrowed a further \$900,000 to buy more properties, including a sub-division."

David & Andrea Barker

How Traditional Finance Robs Investors of Vital Cashflow

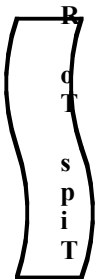
A client complained to me recently that after ten years of investing, and a high family income, their day to day cashflow has become a nightmare. They were constantly shuffling money from one account to another to make ends meet. “I love property investment,” she lamented, “but our lifestyle is terrible, we haven’t had a decent holiday in years, my home is mortgaged to the hilt, and now the banks won’t lend us any more money.”

This is a very familiar story. People accept poor cashflow because their financial strategy is fundamentally flawed. The problem stems from the mindset. People think like a home-loan borrower, not a serious property investor; they focus on the interest rate.

The most successful investors focus, not on rate, but on bottom-line profit. They carefully craft a sound financial strategy to minimise their “cost of interest”. They know that the wrong structure with a cheap rate can severely impact on their cashflow, destroy their bottom line profits and prevent further investment.

Had my client developed a sound financial strategy she could have saved over \$100,000 in interest... that’s another \$100,000 in her pocket.

The finance structure we have now crafted for her has given her immediate cashflow and has her on track to save more than \$120,000 over the next 14 years or so when her existing substantial portfolio will be debt-free as she progressively builds a new portfolio to add to her growing passive income.

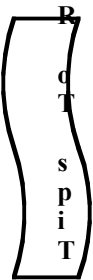


The most common mistake investors make with property investment is adopting a single dimension approach.

Here are seven common approaches and why they are not always in the best interests of an investor.

The most common mistake that investors make with property investment is adopting a single dimensional approach. Here are seven common approaches and why they are not always in the best interests of an investor.

1. **Target setting.** Buying one property per year for the next seven or ten years is very common.
2. **Empire Building.** Inspired by a seminar, they buy as many properties as they possibly can as quickly as they can, then compare with fellow investors.
3. **Growth.** The single dimension approach to buy as many high growth properties as possible.
4. **The Bargain.** They search widely for properties within a given price range, or which are considered cheap.
5. **Syndicates.** Syndicates open opportunities not otherwise available to some investors, but also bring their own set of problems and difficulties.
6. **The Scheme.** They take up 'clever' but often dangerous or illegal schemes to quickly build huge portfolios.
7. **Taxation Benefits.** Excited by the notion of eliminating tax forever, they buy properties with high tax deductions.



1. Target Setting

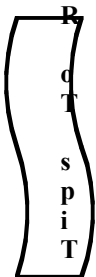
Over the 29 years I have been investing in property, I have seen the most bullish of markets, notably the roaring 80's, and the spectacular growth period since 1999. However, I have also seen the slump of the early to mid 90's.

It's trite to say almost anyone can win when the tide is surging in. The real test is when the tide has ebbed and is pulling backwards. That's when those who have not carefully planned their investment strategies crash on the rocks.

The notion of rigidly sticking to a 'plan' of buying "one property per year" can be dangerous. The danger is that it ignores the fundamental principle of investment cycles. The investor is psychologically pressured into feverishly searching for a property, almost any property, so they don't lag behind their peers or their self-imposed quota.

Experienced, successful investors live by a set of rules. A key rule in property investing is to only buy because that particular property will give you a return that will advance your overall investment interests. Never buy simply to make up the quota.

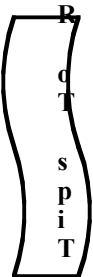
The key to avoiding the Target Setting trap is to re-assess your situation before the purchase of each new investment property to ensure that the property you are considering meets the criteria you need to achieve your immediate and long term goals at that point in time. Don't try to keep up with the Joneses, and you just might surpass them.



1. Target Setting – Case Study

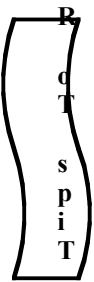
A property promoter promotes a ‘strategy’ of buying seven investment properties over seven years then retiring on the capital growth of the first in the eighth year, then the second in the ninth year and so on.

The downside of this approach is obvious. The ‘strategy’ ignores critical issues such as the property growth cycle and the tax implications such as the non-deductibility of the interest for the borrowings used for living. Other questions include the ever growing debt and how one can continue to meet lenders’ serviceability requirements to enable them to continue to borrow indefinitely.



2. Empire Building

Some investors lose their sense of reality. It's like they're playing monopoly. They forget they are putting up to four times, (80% Loan to Value Ratio - LVR), or nine times, (90% LVR) even up to 19 times, (95% LVR) of their equity at risk to build this "colossal" portfolio of investment properties.



"Having the right advisors has been critical to our success as full time investors. Our ability to increase our investment returns has increased dramatically since we started working with Andrew and his team at Investors Edge Finance".

"The traditional banks did not understand our investment strategies and would no longer service us". Andrew developed a strategy to release equity and got us started again. Today we are closer to our investment goals."

Claudio & Anna Grech

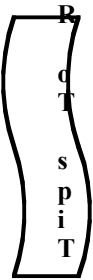
Empire Building - Case Study

I met a woman at an investors' group that I addressed a number of years ago. After the seminar she proudly told me all about her "very impressive" portfolio of four off-the-plan properties she had bought in just three months, (with deposit bonds). I learned that two of the three were in the same block while the third was just down the road, (all three were in the same suburb).

At her request I did an analysis on her yet to be arranged finance and discovered she could not qualify for finance. She shrugged her shoulders and said that's okay I'll "flip" them.

Concern turned to worry when her real estate agent advised her that the prospective buyer who had offered her a fantastic price had suddenly withdrawn his offer, (he was an Ansett pilot). Wider enquiries revealed a hidden danger - her suburb had become saturated with apartments and vacancies were very high. Worry turned to panic when her husband and sole bread-winner lost his \$120,000 pa job.

With her financial house of cards collapsing, she was suddenly in grave danger of losing her home and facing bankruptcy.



Experienced, successful investors typically build their wealth over a decade or two, not a year or two. **A key rule of the game is to protect the down side before evaluating the upside.**

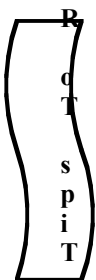
3. The Growth Strategy

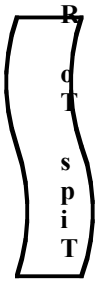
Some reputable property consultants promote high growth property as the key to successful property investment. While growth can be a critical component of a quality portfolio, it can, for some investors, at times, be counter-productive.

It is true; the biggest rewards come from capital growth, however, in today's market that reward comes at a cost. The cost is cashflow.

Today, high growth properties are returning as little as 3.5%. That means where an investor has, as is often the case, borrowed the full purchase price plus costs, the return can be down to a little over 3%.

Even with interest rates as low as 6%, this still leaves a substantial cashflow shortfall which must be made up with other income, eg salary. While this is off-set by negative gearing, because the highest growth properties are typically very old properties, there are usually less non-cash deductions, such as depreciation, to bolster tax credits.



	<p>The Growth Strategy – Case Study</p> <p><i>I have a client who earns over \$130,000pa living a miserable lifestyle because all available cash goes to subsidising the family's growth oriented properties. The access to finance has also been cut off because they can no longer meet a lender's serviceability requirements. To regain momentum, they have had to sell a property and pay substantial capital gains tax to reduce debt levels. Then, of course to replace that property they have to pay stamp duty, agent fees, marketing fees to mention a few. The cost is substantial.</i></p>
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The answer, of course, is balance. The question is not so much, "Growth or Yield", but, after careful examination, a combination of both.

To review the balance and effectiveness of your portfolio, give us a call on **1300 88 55 96**

"I have been investing in property for about 15 years but always found brokers and bankers didn't understand what I was trying to achieve. I was referred to Investors Edge Finance because of their understanding of property investment and investment finance."

"Andrew spent the time with me to fully understand me and my investment objectives. He then structured my finance to protect my personal assets, reduce the cost of interest and improve my cashflow. The new structure has given me the facilities to continue to grow my portfolio"

Phil Jacovelli

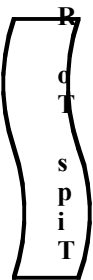
4. The Bargain

The Bargain approach is just that, an approach. It is no strategy at all. The only question considered is, is this property cheap.

When you're spending hundreds of thousands of dollars, the stakes are very high. You could go into the market place anytime and pick up a real bargain, but then not be able rent it or even re-sell it simply because there is no demand for that property class. A bargain in property investment can send you broke. Some investors thought AMP was a bargain at \$13, (down from \$22), but it has continued in its freefall to under \$5.

A bargain must be accompanied by a real, tangible reason for the purchase, that is, that it will give you the specific return you need to justify the risk associated with its acquisition.

A derivative of this approach is to buy a property just because you can afford it. The same principal applies. It must give you the specific return you need.



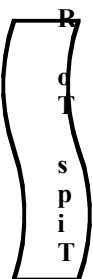
4. The Bargain – Case Study

I reviewed a client's portfolio recently and found it contained two small apartments in an outer eastern suburb, (in the same block), a 4 bedroom house on the outer suburban fringe and an old, dilapidated Californian bungalow in the mid, inner suburbs.

The yield for the apartments was 5.5% with a total growth of just 20% after four years ownership, (recorded growth for the suburb was 28%), the house yielded 4.5% and 12% growth after two years, (recorded growth 12%), and the bungalow yielded 4% and 25% growth, (recorded growth for the suburb was 30%), after three years.

“What was the motivation to buy these scattered properties”, I asked. “Oh, we could afford them and they seemed cheap”. Certainly, a sound strategy played little role in their property selection.

My clients asked me for a synopsis of the properties. Small one bedroom apartments are not in high demand for either renters or buyers in outer suburban fringe. The dominant property class are houses on large blocks of land, (which can be sub-divided). The rental market is not strong on the outer edge and growth is sluggish. The Californian bungalow was the jewel in the crown, except it wasn't for them. They struggled with the repayments and couldn't afford to renovate it. With their low income, it became a thorn in their side.



So, when you consider the purchase of the property, you must take more into account than the price. The return the property provides must be right for you and must enhance the performance of your portfolio.

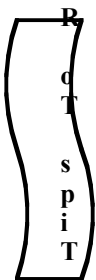
5. Syndicates

A property boom often creates a whole new market of entrepreneurial property promoters. One of the more popular is a means of building substantial equity, very quickly. To buy at wholesale prices, that is, become the developer within a syndicate.

Developments come with their own set of risks. Depending on how the syndicate is structured, it can have its own set of risks; one of them is the inability of any one of the participants to be able to settle on time. Another is that a problem with one of the dwellings can become everyone's problem. Another is finance. Unless you have available funds secured by another property, you may encounter difficulties in obtaining finance. Delays are a major problem because they add substantially to holding costs.

Often, the only participant assured of a financial win is the promoter who often is the project manager. Because so many participants in syndicates are first-time investors, (this tells you something), there are numerous examples where the promoter is getting much more than their project management fee. Too often the buy-in price is equivalent to market value.

There are other issues to be considered in what are often large, complex contracts. I have heard of examples where the investors cannot sell below a given price without having to compensate other stakeholders for impacting on their values.

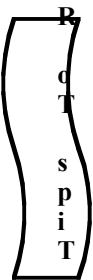


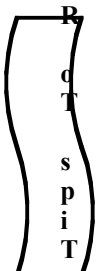
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6. The Scheme

Like the angle, many entrepreneurs have entered the market place. To attract the attention of the first time investor they have 'devised' extraordinary, but unproven, and sometimes illegal schemes. Of course, they fail to advise their clients that the scheme is unproven or of questionable legality.

Some of these schemes are dangerous, and carry criminal sanctions. There have been a number of such schemes reported in investor magazines, newspapers and TV programs. Unfortunately, it is the investor who faces the gravest consequences. Consequences which can include ruined credit rating, bankruptcy, even jail.



	<p>The Scheme – Case Study</p> <p><i>I met with two couples who had formed an informal partnership after attending an investment course. Inspired by what they had learned they went on a buying spree. Within months they had purchased seven investment properties, six were off-the-plan and one involved an illegal “double contract” scheme where they received a secret rebate from the promoter.</i></p> <p><i>The total cost of the acquisitions was \$1.75M. I discovered their maximum prime lending borrowing capacity was \$900,000 which meant a shortfall \$850,000.</i></p>
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After spending hundreds of hours working with them, we developed and implemented a strategy that saved them from not only bankruptcy and losing their home, but from criminal charges which could have arisen from the serious fraud involved with the “double contracting” arrangement.

Today, the two couples are no longer firm friends, but at least they are not in jail, and are well on the road to recovery and have held onto two investment properties. We are now working closely with them to build a solid portfolio capable of producing good, long term passive income.

Footnote: Double contracting deceives the lender into believing the purchase price is higher than the real price paid for the property. This is achieved by providing the lender with a contract of sale stating a certain price, but then having a second secret contract between the property promoter and buyer providing for a substantial rebate on the day of settlement. The object is to trick the lender into lending the full cost of the property plus costs.

7. Taxation Benefits

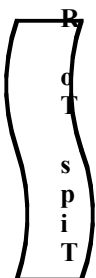
Most people entering property investment are, in part, attracted to the tax benefits associated with negative gearing. This is a legitimate and vital benefit for many investors.

However, for some investors it provides no value at all. For many investors it is only of limited value as eventually, their taxation liability is reduced to a degree where little further benefit can be achieved.

To gain the maximum tax benefit from negative gearing, the investor needs to be paying tax at the top marginal rate, that is, they have a taxable income in excess of \$62,000 pa where the tax rate is 48.5%.

The most tax effective properties are new properties with high value chattels, eg pools, spas, gyms, lifts, common areas etc. These amenities are usually associated with high rise developments. The reason these properties are so highly tax effective is because depreciation can be claimed on the building and the chattels. The cost of chattels in these buildings can be high, so the tax benefit is substantial.

To determine the depreciation amount, a quantity surveyor inspects the property and prepares a depreciation schedule which articulates the allowable deductions against rent and other income.

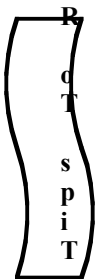


But of course, to take full advantage of the tax benefit, you must have a taxable income to claim against. It is not unusual to find people attracted to these properties for the tax benefits without realising they cannot benefit from it. This is because they have already used all available tax credits, that is they have already largely eliminated their tax liability or they don't pay tax in the first place.

Taxation Benefits – Case Study

I met a new client who had just purchased an off-the-plan high rise apartment with huge depreciation. It was due for completion in three years.

My enquiries revealed the client was retiring in two years. Given he would not have a taxable income when the property was settled he could not realise the tax benefits for many years, if at all, rendering the property inappropriate. This type of property is best suited to high income earners with significant tax credits available. The client withdrew from the purchase and saved himself from a potential cashflow drain in his retirement.



**The 15 most common
mistakes property
investors and finance
providers make with
investment finance
and how to avoid them**

1. Putting the Family Home at Risk

The one issue a lender always considers before approving a finance application is their ability to recover the loan funds.

The answer lays in cross-collateralising the family home with the investment properties.

Banks understand that people will go to great lengths to avoid losing the family home, so having it underpinning the total borrowings gives the lender greater comfort.

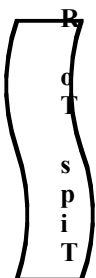
Because of the way cross collateralisation has been promoted in the industry as a means of “unlocking” untapped wealth, many property investors see it as the panacea of their problems. Nothing could be further from the truth.

In most cases **cross collateralisation is unnecessary, even dangerous** for the property investor.

While home loan brokers routinely cross collateralise properties because it is easier, quicker and simpler, most don't realise the danger to which they are exposing their customers.

Also, many brokers simply don't have the resources, expertise and the time to design a safe, effective structure capable of safeguarding the family home.

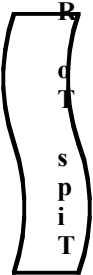
A bank, by definition, cannot structure finance without cross-collateralisation.



Putting the Family Home at Risk – Case Study

A current example is an investor who purchased a property in Queensland. He asked his local bank, (one of the big four), for finance. “Yes, no problem” his bank manager said. Several years later his bank foreclosed on his investment property and his home.

The bank cross collateralised the investment property with his home, but unbeknown to him the bank valuation on the investment property came in \$55,000 short, so the bank used more equity in the home to cover the short-fall. This cannot happen if the home is isolated from the investment property as we advocate.



The Solution

The first issue we consider when structuring investment finance is to remove the family home from the ready grasp of the lenders for the investment properties. Instead, we arrange for the safer and equally effective cash transfer rather than an equity transfer.

See Case study following, titled, “Then lender secret weapon”.

The Lender's Secret Weapon

Property investors Gordon and Sally Jones are about to lose everything, their home, their three investment properties, and potentially their marriage; if only they'd been advised on how to protect their home from the bank when they set their loan up.

You see, their bank, like all lenders, has an insidious secret weapon, it's called the **"All Monies Mortgage Clause" (AMMC)** embedded in their legal documents and it puts them in a commanding position.

So how did Gordon and Sally get themselves into this position?

Years ago Gordon got a loan from his local bank manager to buy his own home. About five years ago, after marrying Sally, they decided to buy some investment properties. So, like most property investors, they went back to their bank manager who happily arranged a loan for "106% of the purchase price" for each of the properties to cover costs and deposits.

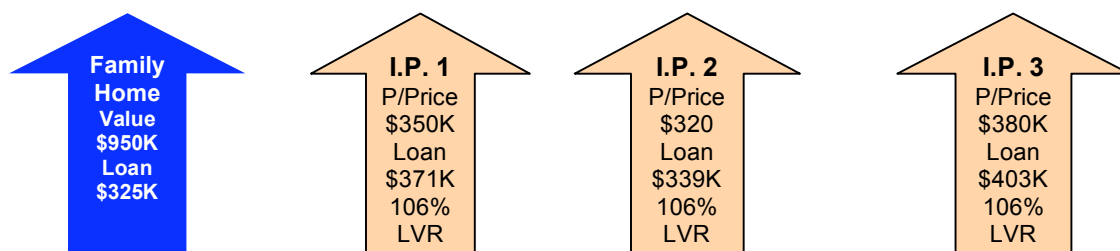
"Fantastic", they thought, "Just like we heard at all those seminars - build a property empire using none of your own money!"

After hearing about the dangers of cross collateralisation from a mate, Gordon insisted on each loan being "stand-alone" and his bank manager happily obliged.

What Gordon didn't know was that cross collateralisation was to be the least of his worries. It was the AMMC that was to be his downfall. His unawareness sowed the seed for today's catastrophe.

Let's look at how his bank manager explained the set up of his loans.

Typical Finance Structure



You might be thinking that this all looks fine - so where is the problem?

The AMMC threat is subtle and poses no immediate threat; and the menace can lay dormant for years, but it does give the bank the means to foreclose almost at will.

Real finance structuring tactics

The way in which their bank structured their loans is actually quite different from the structure illustrated in the first diagram above.

In reality, the bank, which already held the title to Gordon’s home, had simply thrown a net around his home and their investment properties to ‘jointly and severally’ secure the total debt. That’s right; the bank now has the right under the AMMC to foreclose on **any or all** of the properties to repay all loans.

The bank has actually ‘stripped’ equity from their family home and applied it to the purchase of their investment properties in what is known as an ‘**equity transfer**’.

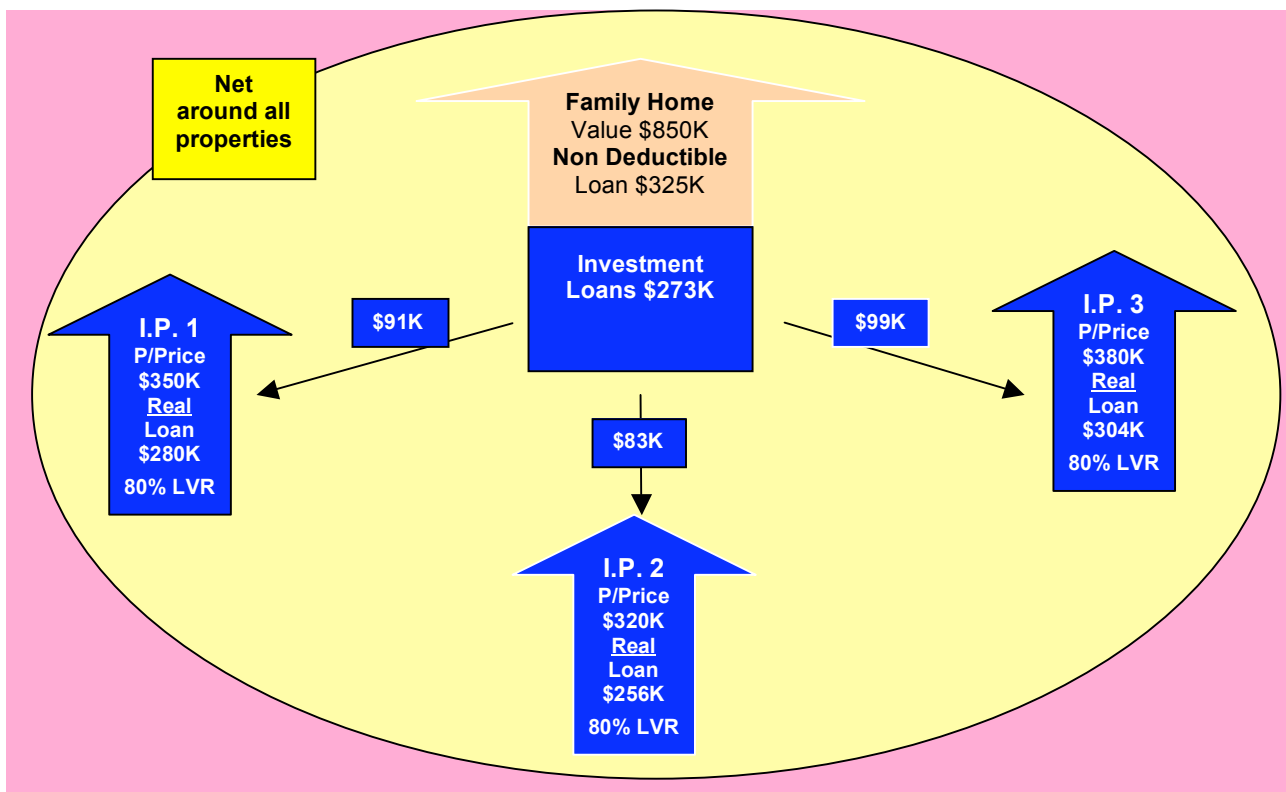
Equity transfers are standard banking practice and has enabled mum and dad investors across the country to build a property portfolio, but it has also exposed them to unnecessary dangers. More about that and how to avoid the traps later...

Banks won’t lend 106% of the purchase price against a property without a much higher interest rate and a huge mortgage insurance fee (which, by the way, only covers the lender... not you - you pay the premium for their peace of mind!)

As you can see in the diagram below, the bank has actually stripped a whopping \$273,000 from Gordon’s home to secure the loans used to fund the purchases of their investment properties.

Unbeknown to Gordon and Sally, the loans on their investment properties are actually limited to 80% of the value of each property, (80% LVR), a comfortable \$1.25 security for every \$1 borrowed.

To meet Gordon’s demand for stand-alone loans, the bank simply split the loans into deductible and non-deductible sub accounts.



Negative Gearing Rescue Package – Investors Edge Finance

Their bank stripped \$273,000 from the equity Gordon had in his home to cover his 20% 'hurt money' he and Sally were (unwittingly) required to contribute, plus purchase costs. They were totally mis-led into believing the bank was actually lending 106% against the investment properties.

But it gets worse for Gordon and Sally, much worse.

Under the AMMC, the family home's 'exposure to debt' (that is the debt their home is liable for), rocketed from \$325,000 to a massive \$1.438M, nearly 60% higher than the value of his home.

And Gordon had no awareness of what the bank had done, and neither do most investors who borrow money for investments with the same lender as they have for their home.

Suddenly their home is at the mercy of the bank. And, they had no idea as the bank manager had never explained the effect AMMC could have on their own home. Little wonder – a recent survey of bank managers found that less than 25% understood the implications of the AMMC.

What triggered Gordon and Sally's catastrophe?

Life had been pretty good for Gordon and Sally, so they decided he would take his long service leave so they could travel for three months.

Gordon arranged direct debits from their savings account to cover the repayment shortfall after rent.

It was while Gordon and Sally were overseas that disaster struck. One of their tenants lost his job and missed a rental payment creating a shortfall in the repayment of \$1170. The bank automatically issued a default notice demanding immediate payment.

Unaware of the events that were unfolding at home, Gordon and Sally were trekking towards "Base Camp" in the Himalayas.

Six weeks later they arrived home, exhausted, but exhilarated from their epic journey. The next day they started to wade through the mountain of mail that had accumulated over the two months they'd been away.

Upon tearing open the first of a number of letters from Gordon's bank, his blood ran cold as he scanned the headline "Notice of Default". He scrambled to rip open a second letter from his bank as beads of sweat appeared on his forehead. This time the headline in red screamed "Letter of Demand – immediate payment required."

By now their loan was two months in default and the third repayment was due in just 5 days.

Terror set in as Gordon scrambled to find the statement for their savings account. He found it was overdrawn by \$2,751.28. He then fumbled for to find their credit card statement, it was just shy of its limit.

Including default interest, they were now nearly \$4,500 behind in his payments. Their savings account was overdrawn and their credit card was nearly 'maxed out'. They needed over \$7000 immediately. Where were they going to find that sort of money?

Their loans were now in default. If all requirements of the order were not met within 28 days, the provisions of the All Monies Mortgage Clause provided that **ALL** loans would be 'deemed' to be in default and would be called up or action taken to sell any or all of

Negative Gearing Rescue Package – Investors Edge Finance

the securities, (properties), including their home to recover any outstanding loans. Remember, the bank is exposed to a single client for in excess of \$1.4M, so alarm bells were ringing... and loudly.

Gordon and Sally's predicament was now dire. It proved impossible to liquidate these investment properties within 28 days and equally impossible to secure new finance while in default.

One tenant losing his job had cost Gordon and Sally their \$1.9M portfolio, including the family home in just a few short months.

The worst was to come... their relationship was at breaking point as they faced their financial ruin.

Gordon and Sally's Grave Mistakes

None of this had to happen.

This whole tragic scenario could have been avoided if only Gordon and Sally had sat down with a financier who was skilled in correctly structuring finance for property investors.

They had made many financing errors, but it was three key mistakes that led to this disaster:

1. They gave the bank financing their investments access to their home as joint security – albeit, they had no idea they had done so.
2. They had not allowed for a safety net for this instance, to cover an interruption of income.
3. Their exposure to a single lender was way too high leading to fast action by their bank to recover the debt, An "A" class client can very quickly plummet to "D" class.

A skilled "Financial Architect" would have structured his finance to ensure maximum asset protection, particularly for the family home.

Structuring for Protection

A Financial Architect would have structured Gordon and Sally's finance to achieve four key objectives:

1. Provide maximum protection for the family home and key assets
2. Protect and maximise cashflow to prevent a repayment default
3. Preserve and protect tax benefits for the future
4. Maximise returns leading to passive income

Now let's have a look at how a Financial Architect would have structured Gordon and Sally's finance.

Protecting the Home

First and foremost, the home would have been protected. This is achieved by isolating it from the banks providing the investment loans, virtually negating the dreaded All Monies Mortgage provisions.

This is done by using a separate lender. The Financial Architect then arranges a “cash transfer” to fund the “hurt money” and costs. This would have reduced the home’s exposure to debt by about 76% or \$840,000.

Under a “cash transfer” the home would be exposed to just \$598,000 instead of \$1.438M.

Guarding against Default

Secondly, Gordon and Sally would have been provided with a safety net to negate the effect of the rental default which caused them to default on their loans, putting their home in jeopardy.

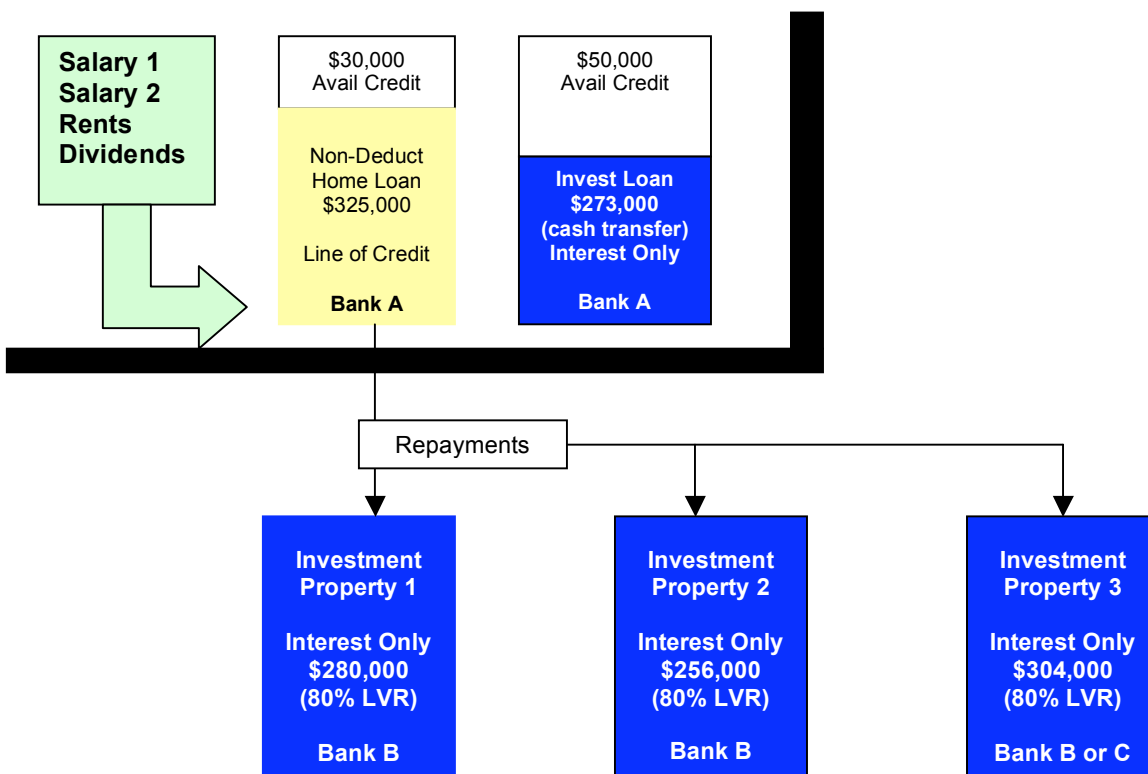
If the rent doesn’t come in or there is some other interruption to your income (or you over-spend on your holidays), you can ride it out until things return to normal. We recommend your buffer covers you at least 6 months.

Optimising your Returns

Thirdly, there’s only one reason to invest in property,- to make money. Everything you do should revolve around maximising your position, because while you making money you can’t go broke.

“Washing” all appropriate income through your non-deductible home loan can eliminate your home loan very quickly, slashing the cost of your interest and boosting returns.

Let’s have a look at how this structure would look.



Why Gordon and Sally’s finance wasn’t structured correctly

1. A lender will always optimise its position, by obtaining and retaining all available properties to secure the loan. The lender is in a powerful position, while Gordon and Sally are in a weak position.
2. A bank cannot achieve the best possible position for the borrower, because it requires a second lender to counter the AMMC.
3. Bank Managers don’t understand the AMMC and the danger it exposes the investor to.
4. A mortgage broker typically won’t structure the finance to give you the safest position there is a lot more work for the broker (not you) to deal with two banks and, like most bank managers, most mortgage brokers do not understand the AMMC and the risk it poses to borrowers.

How do you know if you are at risk?

For some, you will have experienced an uneasy twitch as you read through the scenario. For others, you will simply know you are at risk. A simple question to ask yourself:

Are any of your investment loans with the same lender as your home loan?

If you so, you could face the same risks Gordon and Sally encountered

What course of action should you take?

- a) Make arrangements to review your finance structure with a financier specialising in structuring investment finance for property investors.
 - b) Go to www.investorsedgefinance.com.au and complete the “Self Audit” questionnaire and study the three reports which will be emailed to you.
 - c) Contact us at Investors Edge Finance and a Senior Financial Architect will conduct a wide ranging review of all aspects of your property investing structures, strategies, portfolio, goals and objectives. There is no charge for this consultation. Call us on 03 9509 8911 to arrange an appointment.
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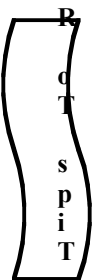
2. Mixing Multiple Loans and Multiple Properties

Many bank managers and home loan brokers consider finance for investment properties simply as an extension of the home loan. The result is often a maze of tacked-on loans, secured by a web of properties. We see the resulting problems almost daily.

When the investor sells a property they can encounter huge problems and considerable expense for multiple partial discharges.

Engineering the structure of these loans requires a finance specialist with great deal of expertise, experience, co-ordination and resources. The re-structure of these loans can be extremely complex and time-consuming, particularly where properties are owned by a number of entities.

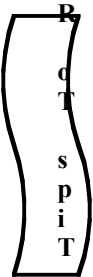
Investors Edge Finance has invested in the expertise and the resources required to re-engineer the most complex of mixed loans.



Case Study

A recent example involved a couple who owned ten properties financed by multiple banks and multiple loan products and involved five entities including personal, companies, businesses and family trusts. To complicate matters, their lawyers had failed to register a change of name for a trust and a lender lost some of the titles.

The task of crafting and implementing an effective financial structure required over 100 man hours over a period of five months, liaising with lenders, lawyers and accountants.



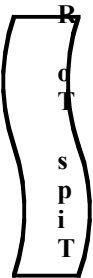
The Solution

The result was a crisp, clean structure where each property class secured its own loan. The direct debt of some \$360,000 and exposure to indirect debt of \$962,000 on family home was reduced to just \$45,000.

3. Allowing the Bank Excessive Security

Unbeknown to investors, lenders often hold securities far in excess of their own minimum requirements. Once a lender holds a security they usually keep it until its surrender is demanded.

It is not uncommon for us to hand titles back to grateful clients unaware of their right to reclaim them.



The Solution

The solution is to have a safety net in place before it's needed. Providing for ample reserve funds when it is not needed means it is available when it is needed. It's when you need the cash the most that banks are least inclined to lend it to you.

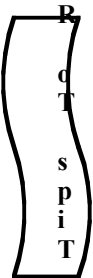
1. Failure to Take Full Control of Your Finance

Banks hate to relinquish control of the use of their funds. Few bank managers willingly give that control to the investor.

The most successful investors seize control of their finances so they are free to make their own investment decisions “knowing” that they can complete the deal.

Less experienced/successful investors leave that control with the banks and have to buy subject to approval and lose a critical negotiating edge.

The solution, become your own bank. Ensure you have maximum available credit at all times.



"When I met Andrew a couple of years ago, I had built up a portfolio of under performing properties. What I didn't realise was that my family home was exposed to a lot of risk and the structure, or lack of it, adversely affected my returns."

"Andrew conducted an intensive review of my portfolio, objectives, strategies and finance structure. He also agreed to mentor me for all future property acquisitions. He has now totally restructured my finance to safeguard my home and improve my cashflow and investment returns. Andrew's mentoring has assisted me in the expansion of my portfolio into a strong, well balanced portfolio and putting me on track to building a strong passive income. I wouldn't buy an investment property without checking with him."

Dr Mark Ariens

2. Failure to Protect Your Cashflow

Many bankers and brokers only provide sufficient finance to meet the borrower's immediate needs.

The consequences can be dire for the investor.

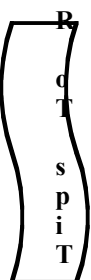
Property investors need to maintain a buffer of available credit so that they can cover three to (ideally) six months of loan repayments in case of an unforeseen income/cashflow interruption.

If a borrower misses a payment it could be deemed a default under some mortgage contracts which must be remedied within a prescribed period, sometimes as little as 14 days.

If not remedied within the period, a default can trigger the general default clause where all loans can be 'called up'.

If the loans cannot be refinanced, or may not be possible at the time and within the prescribed period, foreclosure can follow resulting in properties being sold to recover the debt.

The solution is to maintain the buffer and to seek advice on relevant insurances such as income protection, life, disability and critical illness.



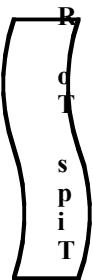
6. Lack of Effective Finance Structures

Investment finance is distinctly different from a home loan. Unfortunately, most bank managers and home loan brokers do not understand the distinction and take the easy way; they simply ‘tack’ another loan onto the home loan.

Designing an effective, long term structure requires an in-depth, first hand understanding of property investment and the implications of property investment.

Too often, the finance-provider simply considers the investor’s immediate need; to fund the purchase of another property, or maybe to re-finance to take advantage of cheaper interest rates.

For serious investors, rates are less important than effective structuring. Investment finance requires careful consideration of a range of critical issues that impact on investment returns and risk management. These issues include: tax effectiveness, cashflow, ‘raw’ cost, ‘compounding’ cost of interest, and asset protection.



7. Tax Ineffective Structures

Unless your bank manager or home loan broker has an understanding of taxation issues, depreciation etc, they can, and frequently do, structure investment finance with no regard to tax effectiveness. The cost to investors can be substantial.

This happens because the financier has focussed on his need to fit a loan product instead of the investor's need to optimise their returns.

Case Study

An investor had \$300,000 in personal debt and \$600,000 of deductible debt within an account. The investor had a substantial capacity to reduce debt. Instead of eliminating the personal debt and preserving the deductible debt the structure forced all debt to be reduced in proportion. End result, the deductible debt was eliminated at double the rate of the non-deductible debt, and the cost was around \$28K pa.

Worse, the investors intended upgrading their home. This structure, that caused the rapid reduction in deductible debt, would also force the investors to redraw the funds for their new home as a non-deductible loan.

Appropriate structuring would see the elimination of the non-deductible debt, the preservation of the deductible debt and a growing pool of cash to buy their new home. This would reduce the amount of future non-deductible debt while reducing interest costs on the current deductible debt providing higher profits from the investment property.

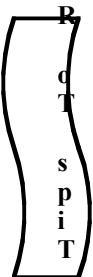
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8. 'Reverse' Tax Inefficiencies

Reverse tax inefficiency occurs where deductible debt is carried when cash is available to reduce the debt and the interest that debt produces.

It is amazing how many investors keep significant cash in an account under the false assumption it will optimise tax credits. The fact is the taxman only credits back a maximum of 48.5 cents in every dollar. The remaining 51.5 cents in the dollar is wasted. And, of course, any interest earned is taxed at that same marginal rate.

There is no question; every available dollar should be used to reduce debt immediately.



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9. Failure to Distinguish “Core” Debt From Fluctuating Debt

Many financiers do not understand the distinction between “fluctuating debt” and “core debt”. If they did, they would not recommend long term interest-only fixed rates for fluctuating debt. Core debt is that component of debt the investor cannot reduce during the fixed period.

So, what often happens is that investors have cash sitting in a savings account accruing tiny interest while they are forced to pay interest on a loan at a rate many times that of the savings account rate.

The cost can be massive. I have seen many examples where investors have literally paid many hundreds of thousands of dollars in interest unnecessarily.

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10. Splintered Application of Income

Splintered income is where income from each source sits idly for part of every month in its own savings or cheque account. For example, salary one may go to one savings account while the second salary is deposited into another account. Rents go to their own account while dividends sit in yet another account.

Not only do these accounts incur bank fees but they usually accrue very little interest to off-set the interest being paid in the loan account. All income should be directed to one debit account then direct debited to secondary accounts.

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11. Only Considering Immediate Needs

The average life of a loan today is as short as four years. The reason is because too many bank managers and home loan brokers only consider the investor's immediate needs.

Too often the benefits are short term such as interest rates; the bank with the cheapest rates today may not have the cheapest rates tomorrow. Investment finance should take into account many issues including tax effectiveness, asset protection and cashflow.

Investors Edge Finance considers your short, medium and long term needs resulting in long term effectiveness of the structure.

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12. Why Investors Have to Refinance Every Few Years

The Cause

Because the average upfront commission paid by the banks nets the home loan broker only a fraction of a percentage on the loan value, usually around one half of one percent, the broker cannot spend a great deal of time on any one loan.

This situation results in many brokers focussing on moving a loan through the system as quickly as possible. The first meeting is often spent establishing the investor's borrowing capacity and the cheapest rate.

The Effect

This too often results in an ill-conceived loan structure, or worse, no structure at all, exposing the investor to all the dangers mentioned in this report.

To engineer a carefully crafted financial structure for an investor, particularly an investor with a multiple property portfolio, can take a great deal of time.

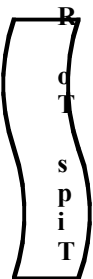
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Case Study

We recently refinanced an investor with seven investment properties. Some of the properties were owned by himself, others by his wife and others by their family trust. Multiple lenders were involved with an array of loan products and rate types.

After delving deeply into the loans and the way they were set up, it was evident there was no strategic approach to structuring at all. There was no integration of the various loans, loan products or rate types, but the 'cost of interest' to the investor was huge.

After meeting with the investor to discover his short, medium and long term objectives, we followed up with further discussions with his accountant, then spent many hours re-engineering the combination of loans into a new fully-integrated structure.



The Outcome

The new structure protected his core asset. It streamlined account operations saving the investor many hours per month in managing his affairs, while reducing his cost of interest in excess of \$2M over the life of the loans.

A structure engineered for another client with just two investment properties improved his personal day-to-day cashflow by \$732 per month, reduced the exposure to debt on his home from \$652,000 to \$166,000, a reduction of 74%. This result is not unusual.

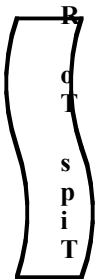
In both cases, the flexibility built into the new structures makes them capable of serving the client's needs for many years into the future. Now they only need to be tweaked, not fully re-constructed.

13. Failure to Get Competent Advice

This is not a finance issue, but a critical issue. Property investment is a complex business. Many investors encounter problems, sometimes serious problems as illustrated in this report, because they do not obtain professional advice from a suitably licensed and experienced advisor.

It cannot be overstated how important it is to work closely with your accountant, lawyer, and investment advisors.

Your financial and personal circumstances are peculiar to you. Any advice you receive, including this publication, should be discussed with your advisors prior to implementation ensuring the idea, strategy or concept will work for you in your circumstances.

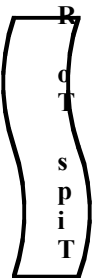


14. Depreciation Benefits Missed

Many investors are attracted to property investment to take advantage of the many taxation benefits available to them. One of the most important contributors to an investor's tax credits is depreciation, and yet it is the most misunderstood, under utilised component of investment.

Rule Number One: Ensure you obtain a depreciation schedule from a suitably qualified, experienced quantity surveyor. Investors Edge Finance clients can receive a substantial discount for a report.

After failing to get a report, the next biggest mistake investors make is that they are unwilling to pay for a quantity survey, to provide a comprehensive report, instead they rely on their accountant's schedule which can result in significant missed deductions.



15. Waiting For The Tax Refund

While this is not a finance issue it impacts on finance because it does deny the investor the benefits of immediate cashflow to service and reduce debt levels.

Again, with so many investors attracted to property investment for the tax benefits, most wait until the end of the year, and sometimes up to an additional 9 months, before receiving their tax refund.

Substantial reductions in the cost of interest can be achieved by asking your accountant to lodge a 1515 Tax Variation application. This reduces the weekly tax you have deducted from your pay packet. The additional funds can be used for day-to-day cashflow and to pay down your loan.

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How to avoid the finance “Brick Wall”

How to Avoid the Finance Brick Wall

Most active investors invariably hit the finance “Brick Wall” because they follow the industry’s own rules which are in place to limit the lenders’ and eventually the industry’s exposure to risk.

By following an alternative set of rules, you can continue to push that “Brick Wall” further and further out, enabling you to access ongoing, long term finance.

Case Study

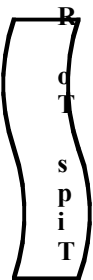
Damien and Angela were referred to me after being ‘absolutely’ refused another penny from their bank of 20 years. Their problem was becoming a crisis as their stifled cash flow forced them to constantly move funds around to pay bills. This was despite “Jack” earning a significant salary as a senior executive of an international company.

The Problem

An in-depth analysis of their finance structure and their extensive portfolio which they have been building for over 10 years, exposed fundamental flaws in the make up of their portfolio and structuring of their loans.

More finance, More Purchases, More Cash

After determining their “Investment Profile” we developed a comprehensive plan to re-shape their portfolio and re-structure their finances. Within weeks Jack and Jill had reduced the exposure to debt on their home from \$1.4M to \$11,000!, AND, we arranged further borrowings of over \$1M enabling them to purchase three further investment properties and freeing up their cashflow.



How to improve your borrowing capacity

What Banks Want

Banks really are self-centred organisations.

The old adage that ‘banks only lend money when you don’t need it’ isn’t too far from the truth.

Banks chase customers who ‘want’ lots of money, but ‘need’ very little. They want customers who pose little or no perceived risk because they can easily service the loan and if anything went wrong they could get their money back by selling the security property or collateral securities.

And once a bank gets a security they will rarely release it until the loan is formally discharged. Borrowers, usually investors, often leave more securities with their lender than required. This, of course, is not desirable.

So, what do banks want?

The ideal client has a stable income comfortably higher than their commitments along with property assets valued comfortably higher than their loans.

How Banks assess finance applications

The banks apply the three “C” test: Character, Capacity & Collateral.

Character:

1. Credit History

Assessors look at CRAA reports for past history. They also examine loan and credit card statements for defaults, late payments, dishonours, and excessive credit enquiries. Explanations are required and carefully considered before approval. Most banks will usually decline applicants with judgements (court orders) or bankruptcies; however some “non-conforming” lenders may consider these applications.

2. Stability of employment and residence

Assessors get nervous if an applicant has changed jobs and/or addresses too often without good reasons.

3. Asset classes built up over the years compared to age and income

Assessors like to see applicants who are building equity in assets, particularly appreciating investment assets such as property and shares.

If you’re a 50 year old lawyer earning \$200,000 pa and can’t raise a decent deposit on a home, the assessor is going to be looking pretty hard at why you can’t. But maybe you’ve just been through a divorce, then you may have a chance with a ‘prime lender’ (see ‘3 Classes of Finance’), if not a non-conforming lender would look at the application.

4. Consumer debt levels

If you’ve got a couple of car leases, 3 personal loans, 5 credit cards ‘max’d’ out and looking to increase your loan up to 90% of the value of your property, the bank might suggest you apply to another lender.

5. Loan to security value ratio (LVR)

Banks usually 'insure' any loan exceeding 80% of the value of the security; in this case the application is looked at more carefully by the insurer.

But, depending your income and on the size of your loans, (and if you're an investor, the size of your loans with that lender), you might start to find it harder to get more finance once you've reached \$700,000 to \$1M.

6. Background and industry knowledge for business owners

If you own a business, the lender will usually be looking for you to have had at least two years successful operation. If you have had a reduction in profit in the past two years, they will get nervous, however, if you have had fantastic growth, they generally won't believe you and only allow you about 20% growth in case it was an 'aberration.' Yes, they can be that cynical!

7. The 'smell test'

The assessor applies the 'smell' test. They will be constantly asking themselves, does this application 'smell' okay? Is it too good to be true? What have I missed?

Even if you pass all the tests, one day when you come back to borrow some more money, they can just say, 'No, sorry, our exposure with you is too high', because they consider you might fail the next most important test, the Capacity test.

But by no means does that mean you are finished as a borrower at premium rates. Read on, (see Capacity, Capacity Vs commitments).

Capacity

1. Income Vs commitments

Every bank has developed its own calculator to test your capacity to repay a loan. The difference between lenders is staggering. We have, not infrequently, accessed additional finance for clients who have been refused further funds by their own lender. We secured an additional \$1M for one client after their lender of many years refused them further funding. We have access to a large range of lenders, all with differing serviceability and policy criteria.

2. Credit card limits

Many people don't realise the impact their credit card 'limits' have on borrowing capacity. Banks being banks worry that the borrower may take their cards up to the limit, leave them there and just pay the monthly minimum.

So, to maximise your borrowing capacity, cancel unused/unneeded cards and reduce excessive limits.

3. Facility limits

Like credit cards, assessors assume all loans are fully drawn when they apply their serviceability test. So, if you have a loan on your home with a balance of \$50,000 but the limit of your facility, (loan), is \$150,000, then they will apply their test to the \$150,000.

4. Personal guarantees

If you have personally guaranteed a loan for another person, (eg your son/daughter), or you have given a personal guarantee to creditors, the assessors may apply the debt to your serviceability test.

5. Loan types: interest only, principle and interest, fixed, variable

As mentioned above, lenders have their own serviceability tests. Many lenders deem all loans to be principle and interest loans, (P & I) thus a higher repayment commitment, however some lenders apply the actual repayment, so an applicant with an interest only loan can borrow more than a P & I loan.

6. Commitments: loan repayments, child support, HEC's rent etc

All commitments will be considered in assessing serviceability including repayments on other mortgages, personal loans, rent, child support, HEC's etc. The more commitments you have the less you will be able to borrow, so keep that consumer debt low, or better still, eliminate it.

Collateral

1. Available assets

After ensuring you can afford to repay your loan, assessors look at the property you are seeking to finance. Generally, lenders will finance a property up to 80%. If you need to exceed 80%, lenders will insure your loan with a mortgage insurer at cost to the borrower.

If you default on your loan and cannot bring it back into order within the prescribed period, usually about 60 - 90 days, the lender may seek to commence foreclosure proceedings on the loan by applying to put your property up for sale.

It is important to know that the lender potentially has access to all securities it holds, that's why it is vital to retrieve all securities held by the lender in excess of its minimum requirements.

2. Locality of securities

Not all properties are acceptable securities. Many lenders will not lend against apartments in the CBD, or in the Southbank, Docklands or St Kilda Road precincts of Melbourne. There will be other exclusion zones in other capital cities, particularly the CBD's. Restrictions are sometimes placed on some rural areas.

3. Asset type, multiple dwellings on single title

The type of dwelling is also considered by the lender. Many lenders will not lend against Serviced Apartments, their long leases, (up to 10 years), means they are limited to selling to other investors which can make a sale more difficult in the event of a default. Having more than two buildings on one title is also a concern for most lenders.

So, beware if you are considering buying a property with multiple properties on a single title, you may find it difficult to get finance, especially in remote locations.

4. Condition of property

The condition of a property is also of concern to the lenders. If the property is in poor condition, the lender may limit the loan to about 80% of the value of the land or in some cases may withhold some of the funds until the property is brought up to standard. These issues will be noted on the valuation report. Remember, sworn valuations from reports are to satisfy the lender, not to give the borrower the best price.

5. Entity of ownership

Assessors are also concerned about the entity which owns the property. So if you are buying in a trust, particularly unusual trusts check with your lender to ensure they will finance that entity.

6. Superannuation

If you have worked for an organisation for a long period of time and have built up a substantial super payout, the lender may be more comfortable lending to applicants with big super payouts.

However, just because an applicant has a poor character, limited collateral and/or limited capacity, it doesn't mean they can't secure finance. While the banks generally won't lend to applicants with a perceived poor character, they are a number of non-banks willing to extend finance.

Three Classes of Finance

There are three classes of finance, they are:

1. Prime residential lending

Most mortgages fit this lending class. Prime lending is typically available to applicants who can afford the repayments, have no black credit marks and can offer a standard property to secure the debt.

Depending on the size of the loan and/or the applicant's income, a discount of up to .7% may apply.

2. Sub-prime or non-conforming lending

This class of lending is perceived by the lender to have a higher degree of risk and has a premium of up to 2% - 3% above the standard variable rate, (SVR). This could be caused by an impaired credit history or absence of financials to prove income, particularly for business owners.

There are many "low doc's" available today (unable to prove income). A new low doc loan is now available at prime residential rates, including discounts; this is a real break-through in lending policy.

3. Commercial lending

Commercial finance is available for non-residential property. This includes not only commercial properties but otherwise unacceptable securities such as serviced apartments. Rates are risk rated and can vary between around the standard variable rate and up to about 2% above the SVR.

How to secure the best finance

Securing finance at the best rate is dependent upon the information presented to the lenders. With proper planning and preparation, most applicants can present a positive image and secure the best rates available.

To create the most positive image it is important to work co-operatively with your financier. Gather EVERY requested document and present them in an orderly fashion. The most common problem is missing or incomplete documentation. A missing statement page is the most common. A quick check can save a week or more in the process.

So, let's have a look at each of the three "C's"

Character

The question an assessor will always ask themselves is:

"Would I lend my own money to this applicant?"

While issues such as bankruptcy, defaults, judgements and excessive credit enquiries can take years to remedy, with careful planning, most other issues can often be overcome.

Most lenders require "clean" loan statements for at least six months leading up to an application. Ensure you have no late payments, dishonours etc on any loan or credit card statements.

Negative Gearing Rescue Package – Investors Edge Finance

Ensure you have no arrears on your council rates notices. Keep credit card balances under control, if possible pay out the balance every month.

Close all un-used or under utilised credit cards and keep limits as low as possible. Payout all unsecured loans, personal loans. Depending on your circumstances, it may be wise to avoid “interest free” finance offered by retailers as this may create the wrong impression with an assessor.

Instead, create a perception that you live well within your means. If you have had any credit problems but you have good explanations, prepare a detailed explanation and gather supporting evidence. For example if there is a default or late payment on your statement which was caused by your current bank’s error, get a letter of explanation or apology immediately.

Capacity

A PAYG employee will need to provide at least two recent and consecutive pay slips and the last 2 years’ PAYG summary, (group certificate). Alternatively, provide the last two years tax returns and tax assessment notices and letter of employment.

Business owners are required to provide at least the last two years’ financials, tax returns and tax assessment notices. If you are borrowing in the name of a Trust there are a number of other documents required including the business registration certificate, constitution and Trust Deed. Check with your financier.

Collateral

The security valuation is critical to your loan. To get the best valuation, start by presenting your property in the best possible light. Clean it up. Do the gardening, tidy and un-clutter the house, complete any improvements or at least have the plans available and provide evidence that work is proceeding and a completion date.

Most applicants who qualify for a loan at 80% of the value of the security property will generally qualify for a loan of up to 90% although it will be more closely scrutinised, in such a case carefully prepare your case for your lender and work more closely with your financier.

Summary

1. Work closely with your financier, in particular, **gather and sort ALL documents requested.**
 2. Obtain a copy of your credit report from Baycorp and look for any issues of potential concern, eg: judgements/court orders, defaults and excessive credit enquiries. Excessive enquiries will be considered in the context of your circumstances, the number of properties you own etc.

If you have any adverse entries, prepare detailed explanations.
 3. Cancel unnecessary credit cards.
 4. Paydown or payout remaining credit cards and reduce limits.
 5. Plan to eliminate all consumer debt, budget to pay down and pay out all personal loans, interest free store finance etc.
 6. Carefully consider the implications to guaranteeing any other loans or providing personal guarantees.
 7. Prepare the property securing your loan as if you were presenting it for sale.
 8. If you have more than one property, consider a second lender. Two lenders can often result in higher borrowing capacity than one lender, and make each lender more competitive.
 9. Limit your registered changes of address.
 10. Without stifling your career, consider carefully the number of job changes you have had. If you have had a number of employment changes but those changes have advanced your career, prepare an explanation. The bank is looking for stability, but not necessarily at the expense of impeding your career, a move to another company to take on a higher position in the same industry can be viewed as a positive move.
 11. Plan to build equity or appreciating assets, be careful of excessive discretionary expenditure.
 12. Consider converting P & I investment loans to interest only loans, it will improve your borrowing capacity with some lenders. Other important benefits can also be achieved.
 13. Carefully consider the localities you plan to buy properties in as some may be unacceptable to lenders.
 14. Consider the properties you plan to buy; some properties may be unacceptable securities.
-

The New Rules

1. 'Replace' existing debt with new debt, demonstrating a propensity to constantly reduce old debt using the IEF Finance System.

My Action Plan

2. Set realistic, comfortable acquisition targets, remember the lender needs to be comfortable too.

My Action Plan

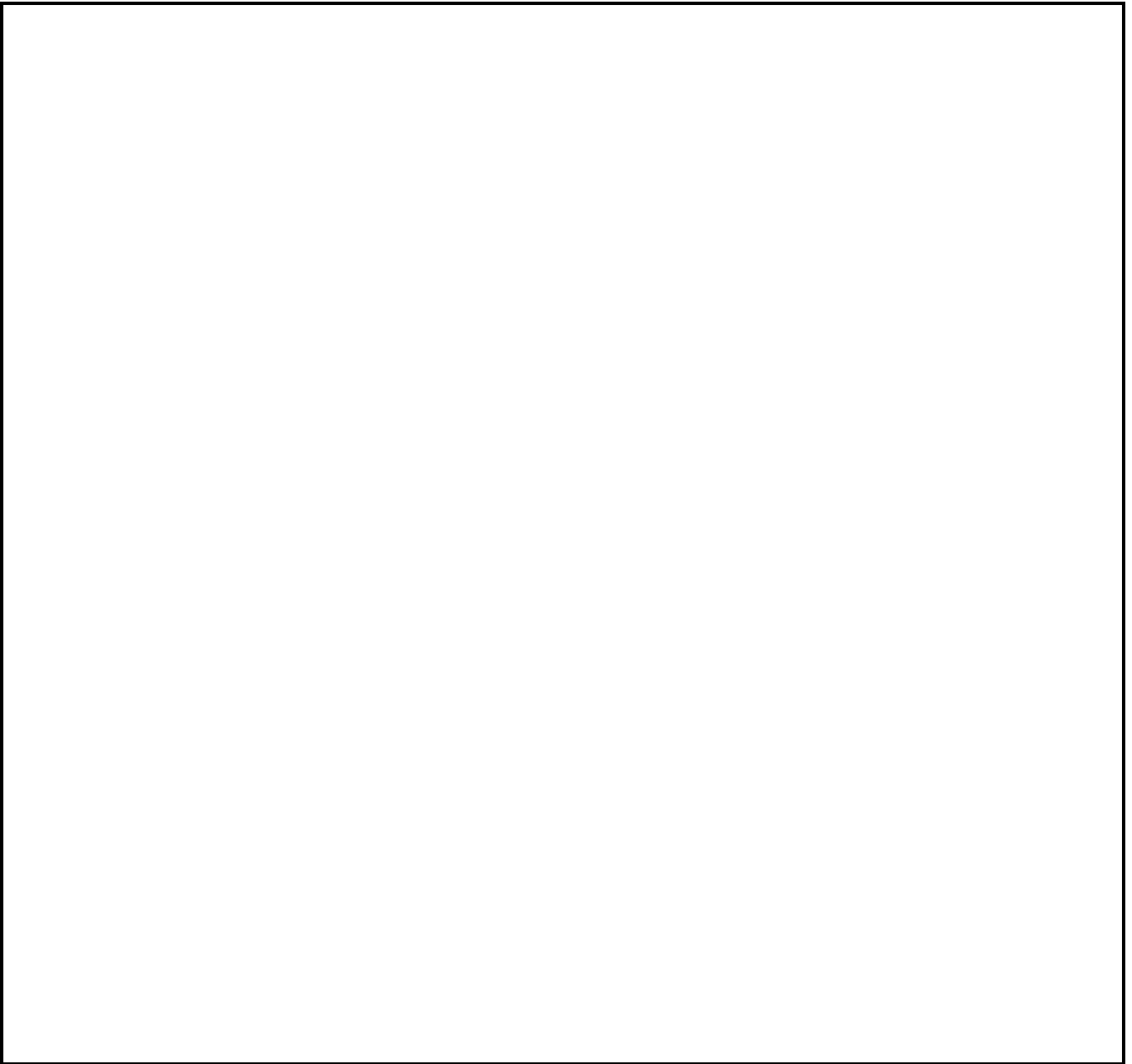
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3. Get specialist, professional advice before and during your investment acquisition process. Learn and understand the advice you are receiving.

My Action Plan

4. Learn and understand lending policies, preferences and requirements of your lenders, for example, depending on your income, plan to reduce your LVR to an optimum 70% for debt levels above about \$1M.

My Action Plan



5. If possible, concentrate security on to the fewest properties so you can put a property up for a “Low Doc” or “No Doc” loan when serviceability is tight.

My Action Plan



6. Review the performance of each property in your portfolio annually.

My Action Plan

7. Re-value each property annually to determine if a property can be released as a security.

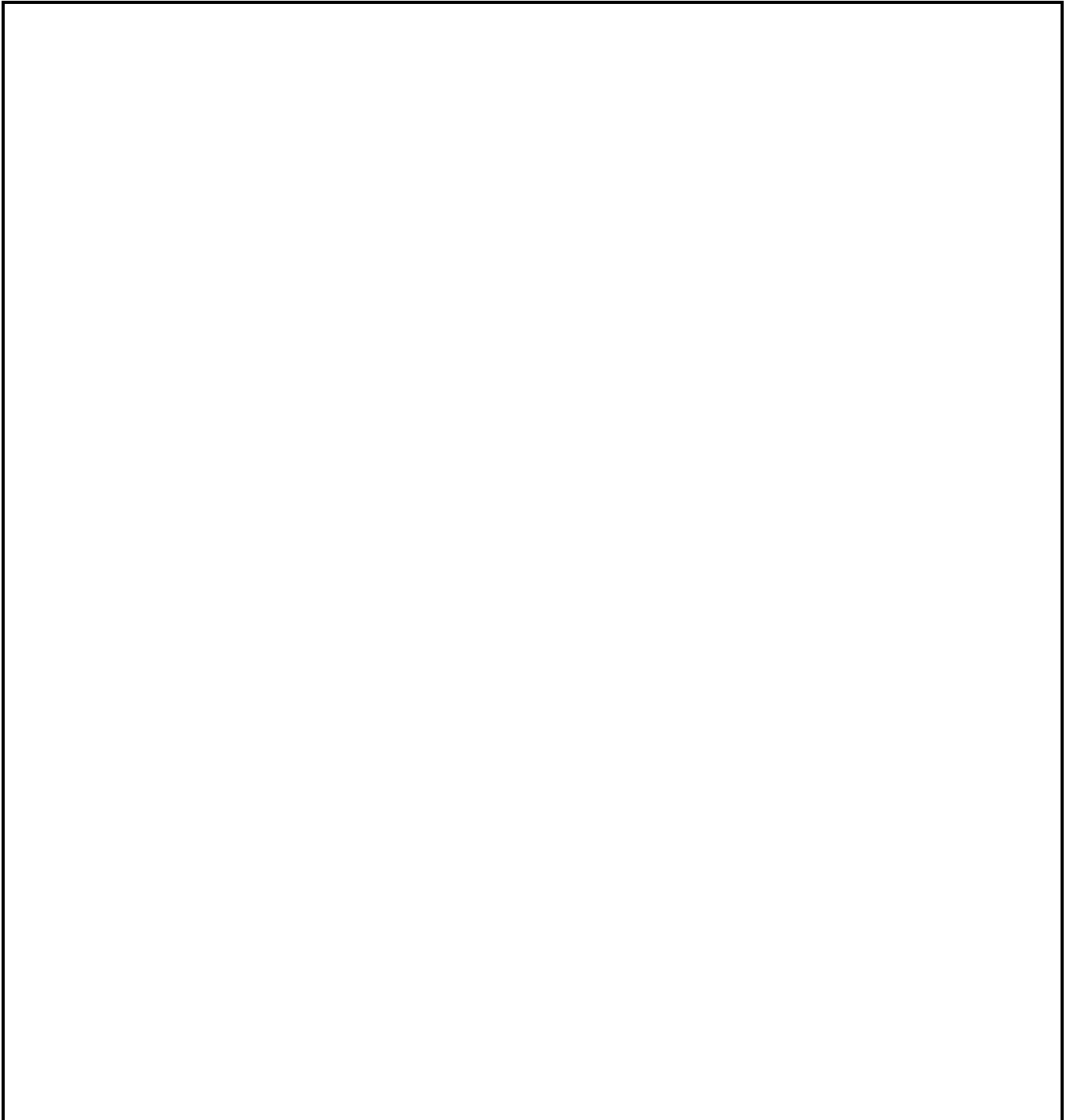
My Action Plan

8. Review your debt management strategy regularly.

My Action Plan

9. Accumulate property and debt over time.

My Action Plan

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10. Improve serviceability with a mix of high yield with high growth properties.

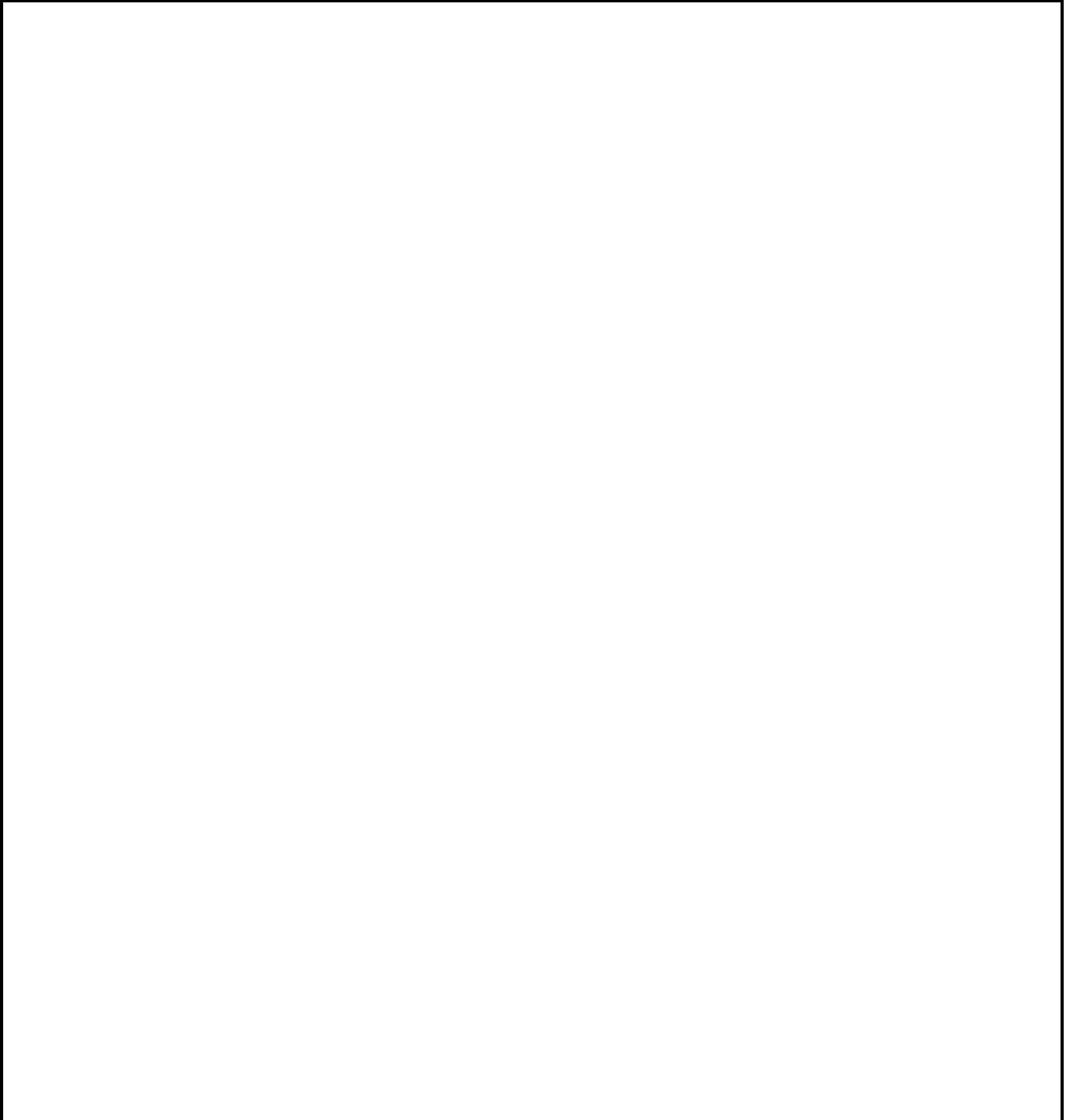
My Action Plan

11. Don't "cheat" on your tax returns – you need to be able to prove significant profits.

My Action Plan

12. Work closely with your financier to build a working partnership and act on their advice.

My Action Plan

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13. Recognize that finance is the critical resource you need to build your portfolio.

My Action Plan

“The education provided by Andrew and his network has empowered us to make informed investment decisions resulting in a significant improvement in our investment situation. We are well on the way to achieving economic independence.”

Gaye Doueal

What is a Discretionary Trust?

The vast majority of trusts in Australia are “Discretionary Trusts”. Discretionary trusts are most commonly used for families and are often referred to as “Family Trusts”. In very basic terms, a discretionary trust is established by the settlement of a sum of money for the benefit of a group of beneficiaries.

For instance Joe and Mary Bloggs may be named as primary beneficiaries and other beneficiaries may be defined as their children, parents, brothers, sisters and a broad range of other relatives. They may also include companies and other trusts in which any of these beneficiaries has an interest.

The terms of the trust and the beneficiaries are documented in a trust deed that details how the trustee is to administer the trust for the benefit of the beneficiaries. It’s important to keep in mind that **a trust, unlike a company, is not a legal entity**. A trust is **simply a relationship between the person paying the settled sum (the settler) and the beneficiaries**.

The trustee of the discretionary trust generally **has complete discretion in the distribution of the trust’s income and capital** to the beneficiaries. Distributions may be made to only one beneficiary or shared between a number of beneficiaries, and this may vary from year to year.

Ultimate control of a discretionary trust **is held by the “appointor”**, who has the power to remove the existing trustee and appoint a new one.

It’s quite a simple exercise to obtain a trust deed. However, trust deeds vary in their terms, complexity and cost. Also the definition of “beneficiary” may differ.

Because trusts are not legal entities, the **activities of the trust are conducted in the name of the trustee**.

Where the trustee is an individual, that person carries unlimited personal liability for the activities of the trust. Therefore where any liabilities or other risks could arise through the operation of the trust, a company should be the trustee.

The cost of setting up a discretionary trust varies widely, from about \$200 to \$1000 for a tailored deed.

Make sure you discuss what your requirements are before you order a deed. There’s no point in buying a cheap deed if it doesn’t provide for the range of beneficiaries and terms that you require.

Stamp duty may be payable on the trust deed. In Victoria and NSW, for example this is \$200.

In addition, there will be the cost of establishing the trustee company (if this is required), which will be about \$1000.

How Trusts Cut Tax – But Be Careful

The popularity of family trusts as a vehicle for income splitting means they have the perennial attention of the ATO and sometimes the political parties, with occasional threats of crackdowns.

But the fact is that for anyone earning a business income, a family trust – most often a discretionary trust – is a logical, legitimate way to lower their tax rate. There are about half a million of them in Australia and in recent years they have grown strongly.

The discretionary trust of today could be viewed as the result of changes going back to the 1960s, when the ATO decided to take a tougher stance on business partnerships as far as income splitting was concerned.

Negative Gearing Rescue Package – Investors Edge Finance

Typically, according to veteran Brisbane chartered accountant Des Knight, these partnerships were “dad, mum and the kids”. When the ATO tinkered with the rules with the effect of excluding children from this arrangement, family trusts became the next favored vehicle of choice for income splitting.

Here, too, the ATO soon moved to stem the loss of revenue by changing the rules in relation to minors – children under 18 years old – receiving income as beneficiaries. As it stands now, a minor is hit with a penalty tax rate of 66 per cent on any income above \$416 a year.

The first rule of thumb about who can use a trust in order to lower their tax rate is that the income earner’s main income must be from business or investment and not through “personal exertion” – that is, wages.

A freelance operative of some kind who only has a few sources of income may struggle to meet ATO approval.

In March 2003, the tax commissioner Michael Carmody laid out the official view on trusts: “A business can be conducted through a company, trust or partnership; and the income from that business can be distributed to family members, for example as a dividend, trust distribution of allocation of partnership income.”

A discretionary trust is one where a specified person – the trustee- is given discretion as to who receives the benefits of income of the trust and how much. Says Knight: “It’s all about tax brackets”

He recommends that the trustee be a company, since the trustee is liable for the debts of the trust (provided the debts are properly incurred).

Dad, mum and other beneficiaries will pay tax – including tax on capital gains – capped at the company rate of 30 per cent. When they reach the top of the 30 per cent tax bracket, surplus income can be diverted to a family company.

Professional partnerships – lawyers, accountants and the like – often use a unit trust structure which will run the business of the office (paying employees, rent and so on) and charge the family trust an administration fee. The fee is usually higher than the income to the family trust and the difference allows a worthwhile tax benefit.

One of the critical factors in using trusts is that if you have genuine income from business or property or shares, it’s important to set up the trust structure early.

Trying to do it later can trigger stamp duty and capital gains tax from the resettlement into the trust and it can all get very expensive.

And then there is the possibility of unforeseen consequences. Typically, says Peter McDonald, CEO of Taxpayers Australia, in a family trust used by a small business, the business owner is the discretionary trustee and their spouse and the children are the other beneficiaries.

The ATO regards these individuals as having paid tax on this income, although they may never actually see any money.

It’s often the case that although a putative distribution of income has been made by the trustee/business owner, much of the money has gone back into the business.

Where difficulties can arise, McDonald says, is when there is a split in the family ranks and the beneficiaries demand access to the money that, officially, they have paid tax on. It’s their money. “When this happens it can wreck business” says McDonald.

In all there are five main entities within which you can acquire assets. Each entity is explained within the matrix below. You should read this and discuss with your advisor before deciding which entity is most appropriate for you in your specific circumstances.

Matrix - most common entities

Issue	Individual	Discretionary Trust	Unit Trust	Hybrid Trust	Company
Tax Effectiveness	No flexibility: fixed at marginal rate	Fully flexible: ability to distribute to any beneficiary, note: most lenders require all beneficiaries to be loan applicants	No flexibility: distributions in proportion to unit holdings	Fully flexible: ability distribute specific beneficiary(s) and fix distribution to others	Ltd flexibility: taxed at 30% or distributed to shareholders in proportion of shareholdings. Flexible salary options
Negative Gearing	Full benefit	Not available, losses cannot be distributed	Yes, interest costs less trust profit distribution offsets interest deductions	Yes, interest costs less trust profit distribution offsets interest deductions	No applicable
Capital Gains Tax	50% discount	50% discount	50% discount	50% discount	No discount
Protection – Predator	Exposed to claims against assets of the individual	Limited to assets of trust	Exposed to claims on trust assets. If unit holder owns units in own name and is sued, trust assets at risk	Limited to assets of the trust	Assets of the company exposed, assets of the directors potentially at risk, (eg shareholding in businesses etc)
Protection – Lender	Nil protection	Nil protection	Nil protection	Nil protection	Nil protection
Loan Ownership	Individual, hence personal deduction with full negative gearing benefits	Trustee on behalf of the trust, no personal deduction entitlement	Individual can borrow allowing personal deduction with full negative gearing benefits	Individual, hence personal deduction with full negative gearing benefits	Company, no personal deduction entitlement
Lender Acceptability	All lenders	Most lenders	Many lenders	Some lenders	Most lenders
Most common vehicle of ownership	Home, simple purchases where no tax or significant risk of suits are expected	Investment vehicle to optimise tax position and minimise risk to assets from predators	Consortiums to fix ownership of assets at prescribed proportions	Property investors of negatively geared property to access tax losses	Developments and business operations

The Investors Edge Finance Approach

The Investors Edge Finance System

Engineering a highly effective finance structure does require a great deal of time and planning. Once the plan has been developed, much time needs to be devoted to dismantling the existing structure, reshaping it and then re-assembling it in its new form. This is where specialist knowledge is required.

What you can expect from your experience with Investors Edge Finance

An overview

Investors Edge Finance (IEF) was established specifically to provide a range of ongoing and unique services for our property investing clients.

While sourcing and securing finance is our core business, it is the range of services we provide that sets us apart from the banks and brokers. Let me walk you through those services.

For many of our clients, the first contact with us is at one of the property investment briefings that we run throughout the year. These seminars and briefings are a part of our commitment to the ongoing education of our clients.

A follow up meeting introduces you to our Strategist, who will spend time listening to you to gain an understanding of your current investment circumstances and importantly, how your current financing supports them. This includes the make up of your portfolio, when and how you acquired it, your investment objectives, your progress and, critically, how your current finance has been structured.

Our Strategist will analyse the data through our unique software program and provide detailed feedback to you. This feedback includes any issues or concerns he/she may have about your circumstances. The finance related issues are then dealt with by us at IEF in a careful re-engineering of the structure of your finance to advance your key objectives.

For the non-finance related issues you are referred back to your own specialist professional, (accountant, lawyer etc). If you don't have access to the required specialist, we can refer you to one from our panel.

Well structured finance can:

- ❖ provide a layer of protection for the home,
- ❖ protect and improve cashflow,
- ❖ preserve long term tax deductions,
- ❖ cut the cost of interest and
- ❖ build passive income faster

These are some of the issues we consider in conjunction with our panel of industry professionals.

Implementing the sophisticated structures required to achieve these key outcomes can be complex, time consuming and resource intensive for us as financiers. Once in place, it usually only requires annual fine-tuning over the years ahead.

Implementation requires a great deal of expertise on many levels to project manage the required outcome. For this we charge a project management fee to cover our base costs. Let me explain the level of resources, time and expertise that is required.

So, how does Investors Edge Finance achieve such good results for its clients?

Stage One: Discovery

The Problem Discovery and Solution Development phase requires a great deal of expertise, experience and training. Investors Edge Finance has drawn on its extensive experience in property investment finance and R & D to develop the software analysis program that is used to create sophisticated financial structures. This is often done in the initial meeting.

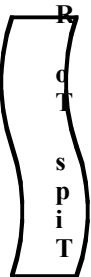
Stage Two – Education

We believe it is important to build your skills base to enable you to become a more successful property investor. We also believe that our business growth should be firmly planted in your growth, that is, we grow as a consequence of helping you grow a strong, balanced portfolio.

You will have gained general information from the initial seminar, but it's when we actually start working together, one on one, that you really start to pick up some new skills and knowledge.

At the first meeting we will teach you more advanced skills, followed up with ongoing education as our relationship grows into the future. Our intention is firmly rooted in building a long term investment partnership with you. Along with our panel of industry experts, we will give you the skills to move more quickly to another level of investing that you may never have considered possible.

<p><u>Professional Support Team</u></p>	<p>Upon acceptance the re-engineering process commences. The consultant assisting our strategist prepares the applications and assists the client with documentation preparation as required by relevant lenders.</p>
<p><u>Stage Three - Implementation</u></p>	<p>So, now you will have come to understand the problems identified and the solutions we have developed in conjunction with your professional advisors to eliminate identified problems. You have agreed that you want, and need to take action.</p> <p>We now commence implementation of the solution. That solution is typically underpinned by a comprehensive restructure of your finances. Implementation is undertaken by a finance consultant who has sat through the discovery phase. The consultant is part of the project management team to manage your file from the first meeting through to final approval.</p> <p>Your consultant will prepare your applications for you and help you gather the required documentation. Once all this is in place, the team at IEF may spend many hours behind the scenes crunching numbers, reviewing documents, liaising with lenders and refining the solution to ensure this not only produces the optimum result, but at competitive rates for the finance products with the required functionality.</p> <p>Once we have found the right lenders and the right mix of financial products and with your full understanding and approval, your consultant commences implementation. In certain circumstances, to optimise your portfolio structure we use multiple lenders. Multiple lenders are not often used within the industry because of the time, resources and expertise required to coordinate the applications through the system.</p>



Negative Gearing Rescue Package – Investors Edge Finance

<p><u>Stage Four – Protecting your credit rating</u></p>	<p>Protecting your credit rating is very important to us. As another layer of service to you, your file and the proposed structure is thoroughly reviewed before it leaves the office. We maintain an approval rate in excess of 90%.</p>
<p><u>Stage Five – Unravelling the Old Structure</u></p>	<p>Once we have full approval, we will oversee the settlement process. In some cases Investors Edge Finance will instruct a conveyancer to coordinate the settlement of your loans.</p> <p>You may wish to with meet with us again to sign the formal documents.</p> <p>Once settled, your new finance package resultant from the work by Investors Edge Finance and our network of professionals, is aimed at providing you with a crisp, streamlined structure designed to add a layer of protection for your key assets while optimising your cashflow, preserving your tax deductions and laying the foundations required to build a passive income.</p>
<p><u>Stage Six – Looking after you over the years ahead</u></p>	<p>Settlement of your loans is not the end of our relationship, it is only the beginning. We provide you with multiple levels of support over the years ahead. Firstly, we appoint a Relationship Manager to assist you in making a smooth transition to your new structure and look after you over the years ahead.</p> <p>While your consultant will continue assisting you with your finance needs, more importantly your Strategist will also work with you over the years ahead to help you build a solid portfolio.</p> <p>To complete the service, we provide a forum where you can get support, ideas, and knowledge from your peers at our investment briefings and seminars.</p>

**The new structure is designed to serve the
investment and banking needs
for many years into the future.**

***If you would like to arrange for a comprehensive
analysis of your finance structure and its effect on
your exposure to risk, investment returns and
efficiencies, call us on 1300 88 55 96***

**At Investors Edge Finance we build a long term
relationship with our clients.**

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The 19 Deadly Sins of Property Investment

1. Beginning without the end in mind
2. Failure to determine the purpose for each acquisition
3. Failure to develop a strategy
4. Poor selection – wrong property class (failure to ID Investment Profile)
5. Impaired performance - ineffective research, evaluation, selection
6. No tax/strategic planning - poor professional advice
7. Failure to review performance of each asset annually
8. Wrong finance structure - home loan extended to include investment property
9. Mixing property classes – particularly commercial with residential properties
10. Failure to protect core asset, (family home) – No risk management plan
11. Inadequate cash reserves
12. Short settlements – penalties incurred unless funds immediately available
13. Failure to review finance structure annually
14. Failure to obtain finance pre-approval
15. Failure to understand finance approval criteria/requirements
16. Failure to recognize warning signals
17. Unco-operative with lender
18. Wasted resources – inefficient application of “all available” funds
19. Failure to accept personal responsibility

How to determine the right property class for your portfolio

Profile	High Growth	Supp Inc	Tax Effect	T/D/Imp	Typical
Capital Growth	10	5	3 – 7	10 - ?	7
Supp. Income	2.5	10	3 – 4	10 - ?	3
Tax Benefits	6.5	3	10	10 - ?	7
Cashflow	4	8	3 - 4	8 – 10	4
Trade/Dev/Improve	N/A	N/A	N/A	10	Opp
Lifestyle	N/A	N/A	N/A	N/A	N/A

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How to determine your investment profile

Profile	Rating - Home	IP 1	IP 2	IP 3	IP 4
Capital Growth					
Supp. Income					
Tax Benefits					
Cashflow					
Trade/Dev/Improve					
Lifestyle					

For assistance in completing your profile, contact Investors Edge Finance on 1300 88 55 96.

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Maximum New Loan Calculator

Step	Action	Multiple	Your Case	Example
1	Value of Primary Security			\$500,000
2	Calculate intended LVR			\$400,000
3	Deduct current borrowings			\$165,000
4	This is your Leverage-able Available Equity			\$235,000
5	Calculate hypothetical purchase price			\$1.175M
6	Calculate costs and reserves			\$60,000
7	Deduct from L.A.E. (Deposit)			\$175,000
8	Calculate max. new loan (Ltd by equity)			\$700,000
9	Calc max. new purchase price (add dep.)			\$760,000
10	Calc. Approx. costs of acquisition (est'd)			\$38,000
11	Calc Reserves, (deduct from costs/reserve)			\$25,000

Multiples

- To calculate hypothetical purchase price @ 80%, the multiple is 5
- To calculate hypothetical purchase price @ 90%, the multiple is 10
- To calculate max new loan @ 80%, the multiple is 4

To calculate max new loan @ 90%, the multiple is 9

If you would like to arrange for a comprehensive analysis of your finance structure and its effect on your exposure to risk, investment returns and efficiencies, call us on 1300 88 55 96

At Investors Edge Finance we build a long term relationship with our clients.

Negative Gearing Rescue Package – Investors Edge Finance

Finance Health Check up		
If you answer “No” to any question, your profits or assets could be at risk:		
1. Is the loan on your family home “isolated” with its own independent lender <i>Note: If No, your home could be exposed to the total debt of all loans provided by that lender.</i>	Yes	No
2. Do you have enough available credit or savings to meet approx six months repayments for all loans <i>Note: A default could trigger ‘general default clause’ result: all loans could be called up.</i>	Yes	No
3. Do you have professional pack discounts in place, min \$150K loan, discount up to .4%. <i>Note: Many investors have not been offered the best interest rates & products.</i>	Yes	No
4. Have all savings been used to reduce/eliminate personal debt	Yes	No
5. Has any remaining savings been deposited into an offset account	Yes	No
6. Does your home loan require you to make only interest payments <i>Note: Some investors benefit from interest only products.</i>	Yes	No
7. Do your investment loans require you to make only interest payments	Yes	No
8. Are all salaries deposited directly into a debit account	Yes	No
9. Is all appropriate business/personal income deposited directly into a debit account	Yes	No
10. Are depreciation schedules in place for all appropriate investment properties	Yes	No
11. Is a 1515 (tax variation) in place	Yes	No
12. Do you have a balance between growth and yielding properties	Yes	No
13. Are you ‘investment ready’	Yes	No
14. Has all available credit been concentrated to one or two facilities <i>Note: Convenience of withdrawing funds from a single account.</i>	Yes	No
15. Are funds available, in addition to buffer, to fund deposit & costs for your next investment property	Yes	No
16. Do you have a pre-approval in place	Yes	No
17. Has a separate facility been established for deductible and non-deductible debt	Yes	No
18. Are all salaries and appropriate rents deposited in your personal debt facility	Yes	No

Quotes from our Clients

I was referred to Andrew and Investors Edge Finance by my lawyer 2 years ago after struggling with cash flows and a refusal from my bank of 20 years for any further finance.

Andrew reviewed my portfolio, finance structure and investment strategies before developing a plan which has reduced the exposure to debt on my home from over \$1.4M to \$5,000. I now have great cashflow and borrowed a further \$900,000 to buy more properties, including a sub-division.

David & Andrea Barker

“Having the right advisors has been critical to our success as full time investors. Our ability to increase our investment returns has increased dramatically since we started working with Andrew and his team at Investors Edge Finance”.

“The traditional banks did not understand our investment strategies and would no longer service us”. Andrew developed a strategy to release equity and got us started again. Today we are closer to our investment goals.”

Claudio & Anna Grech

"I have been investing in property for about 15 years but always found brokers and bankers didn't understand what I was trying to achieve. I was referred to Investors Edge Finance because of their understanding of property investment and investment finance."

"Andrew spent the time with me to fully understand me and my investment objectives. He then structured my finance to protect my personal assets, reduce the cost of interest and improve my cashflow. The new structure has given me the facilities to continue to grow my portfolio"

Phil Jacovelli

"When I met Andrew a couple of years ago, I had built up a portfolio of under performing properties. What I didn't realise was that my family home was exposed to a lot of risk and the structure, or lack of it, adversely affected my returns."

"Andrew conducted an intensive review of my portfolio, objectives, strategies and finance structure. He also agreed to mentor me for all future property acquisitions. He has now totally restructured my finance to safeguard my home and improve my cashflow and investment returns. Andrew's mentoring has assisted me in the expansion and building of a strong, well balanced portfolio and putting me on track to building strong passive income. I wouldn't buy an investment property without checking with him."

Dr Mark Ariens

The education provided by Andrew and his network has empowered us to make informed investment decisions resulting in a significant improvement in our investment situation. We are well on the way to achieving economic independence.

Gaye Doueal

Andrew Gardner and his team at Investors Edge Finance, represent the type of Mortgage Manager that will help lift the image of the industry to new levels of professionalism.

Andrew's philosophy is to always provide the best possible solution for his clients and in the process, provide them with outstanding service from the first meeting through to loan settlement and ongoing support thereafter.

Ray Hair
General Manager
Plan Australia