Why you should fight for an interest-only loan

Over the past year the lending landscape has changed drastically for investors. Interest-only loans have become increasingly difficult to secure – but they are worth fighting for in order to maximise the return on your money

OVER the past 24 months, the banks have implemented a number of policies to put the handbrake on investors' seemingly insatiable appetite for real estate.

Most recently, they began limiting investors' access to interest-only loans, with requirements ranging from a larger (mostly) 20% deposit – up from 5% – to more expensive interest rates for interest-only products.

These restrictions have all been introduced to cool down investor demand, particularly for properties in Sydney and Melbourne.

Of course it's impacting investors across the country, who are now finding it difficult to refinance or obtain a loan with a competitive interest-only rate.

Though it may be hard in this climate to get an interest-only loan, they are worth fighting for, as they can save you a fortune in the long run – and ensure your money is working in your best interests.

Home loans vs investment loans

Broadly, there are two categories of people: people who have a mortgage on their home, and people who don't (as their own home is paid off, or they are renting).

OUR EXPERT

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If you have a mortgage on your home, then, from a financial point of view, there is no way that you want to repay your investment loans in any way, shape or form until you've fully repaid your home loan.

The reason for this is simple: it's because every dollar of interest you pay to the bank on your own home costs you $1. However, every dollar you repay on an investment loan only costs between 53c and 65.5c for most investors – depending on your income tax bracket.

To put it another way, you need to prioritise paying the most expensive debt first:

1 Credit cards (highest-interest non-deductible debt, 20% plus)
2 Personal loans and car loans (high interest, 10–17%)
3 Home loan (non-deductible loan, 3.5–4.5% interest)
4 Investment loans last (tax-deductible debts, 4.3%–5.2% interest + tax refund)

Optimising your money

The above repayment priority suggestion allows investors to optimise every dollar, making it the ideal strategy for most investors, until their own home loan is fully repaid.

Planning ahead and factoring in various scenarios is all part of risk mitigation, which forms a big part of our service. When we sit down with a new client, we look at their financial situation so we can create a plan that allows them to maximise their money and structure their cash flow in the smartest way. Interest-only loans can be crucial to this process.

The banks and regulators are making it difficult for borrowers looking to secure 80%-plus LVR interest-only loans. In the current mortgage marketplace, having an experienced investment-focused mortgage broker in your corner is essential when making your next move. It's all about cleverly blending together what the banks have on offer (and it changes daily!), your personal situation and your investment strategy.

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Of course, for those with no non-tax-deductible home loans – either because they have paid off their home mortgage or they are renting – there are a lot more options, but that is another story altogether! YIP