BRUCE BRAMMALL

MORTGAGES MADE EASY

8 STEPS to Smart Borrowing for Homes and Investment Properties

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Genevieve, Edward and Amelia (aka Mrs DebtMan, DebtBoy and DebtGirl)—with you in my life, even the scariest deadlines are of little consequence.

Contents

Assumptions and disclaimers

This book has not relied upon any individual's circumstances.

Bruce Brammall is a licensed financial adviser and mortgage broker with Bruce Brammall Financial and Bruce Brammall Lending respectively. However nothing in this book should be taken as individual financial advice and readers should always seek specific financial advice relevant to their own situation before making any decisions or entering into any transactions.

Tax and accounting

The author does not represent himself to be a tax accountant and information in this book should not be relied upon for taxation advice for your individual circumstances.

Information in this book, including tax rates, tax law and stamp duty, are subject to change by governments without notice. You should consult with your accountant to understand how individual strategies would impact on your personal taxation circumstances.

Assumptions

For the most part in this book, where examples have been used, we have used property price growth (or appreciation) of 5 per cent and rental yields of 4 per cent. This gives a total return from property of 9 per cent. In its paper titled 'Is Housing Overvalued?' in July 2014, the Reserve Bank found that rents had maintained a relatively constant rate of 4.2 per cent over the last 60 years. While yields are usually fairly stable, property prices can fluctuate considerably.

We have generally used interest rates that are higher than at the time of writing, when the Reserve Bank of Australia had an official interest rate of 2.5 per cent and the standard variable rates of the major banks were about 5.9 per cent.

The marginal tax rates used in this book are generally going to be those for the 2014–15 financial year. Those marginal tax rates will generally include 2 per cent for the Medicare levy (including the 0.5 per cent for the National Disability Insurance Scheme) and the 2 per cent deficit levy for those earning more than $180 000.

In regards to superannuation, the assumptions used relate to the 2014–15 financial year, including for tax and conditions of release. Governments have speculated that the age at which Australians might be able to access their superannuation could rise in future years.

Regarding chapter 6, on self-managed super funds and gearing property investing: The information on SMSFs and gearing was current at the time of writing. Governments have a habit of fiddling with superannuation rules and it's recommended that readers check current laws before taking action to invest in this space.

About the author

But for a *Sliding Doors* moment — a beach, a bonfire and a passionate moment that I was surprised *not* to be a participant in — me and a mortgage might have become acquainted much earlier in life.

I was to remain a debt virgin for a few years yet. I just know that first near-debt experience would have been very clumsy and awkward. I'm pretty sure I'd have gone against, without knowing, most of the advice contained in this book.

They say maturity makes for a better lover. (Get your minds out of the gutter. I'm still referring to debt.) In 1999, when I was about 28, I quite literally had a book thrown at me. 'Here, want to read this?' It was a book about property investment. A book about property investment is, by default, a book about mortgages. I fell in love instantly. Then I became besotted. That turned into obsession. And I bought my first investment property. It was followed by many more properties, some of which were homes. Hey, turns out obsession isn't always a bad thing.

At the time, I was a journalist at Melbourne's *Herald Sun*. Journalists have free rein to ask whatever questions they've got the gumption to pose of whomever they can get their mugs in front of. (As a bonus, they get to muck around a lot and get invited to places where the beers are normally free.) And if you've got a keen interest in all things financial, the business section of a major metro is the place to be. So I accepted an invitation. When I wasn't writing about Australia's banks, fund managers and insurance companies, I'd be challenging people to extend my knowledge on mortgages and property.

In 2003, I became the deputy business editor of the paper. A few years later, there was another sliding door—witnessing events occurring to colleagues, rather than being a participant—and I chose to walk through it. I started studying to become a financial adviser. As soon as that study project finished, I co-wrote my first property investment book, *The Power of Property* (Wrightbooks, 2006). I left the *Herald Sun* at the end of 2006, after 15 years, for the world of financial advice.

In my first year as an adviser, I authored *Investing in Real Estate For Dummies* (John Wiley & Sons, 2008). The second edition of this book, *Property Investing For Dummies* (2013) also had the spin-off *Getting Started in Property Investing For Dummies* (2013).

The first *For Dummies* title was immediately followed by the book that had been banging around in my head for a few years, *Debt Man Walking: A 10-Step Investment and Gearing Guide for Generation X* (Wrightbooks, 2008) (www.debtman.com.au).

The reaction to *Debt Man Walking* was overwhelming. It forced, in February 2009, the launch of what has since become Bruce Brammall Financial (originally Castellan Financial Consulting). In mid 2012, to assist clients with their property mortgage needs, I launched Bruce Brammall Lending (which was Castellan Lending until September 2014).

The writing bug is a pretty persistent and hungry critter. Actually, it's more like a tapeworm. Thankfully, News Limited (where I'm the Generation X columnist in *Your Money*), *Eureka Report* (where I'm superannuation editor) and *The West Australian* (where I have possibly too much freedom as the *Debt Man* columnist) allow me to feed that voracious beast.

In between the career change, writing columns and books, and launching a few businesses, comes the fun part. Sometimes, not often enough, I get to play husband to Genevieve (the irrepressible Mrs DebtMan) and dad to Edward and Amelia (the gorgeous little DebtKids).

In essence, I get my buzz from educating and informing and, for those who like my writing style, entertaining. I'm a teacher. My classroom is a newspaper, a website, a boardroom or a hall full of people. What I'm hoping is that this book is your *Sliding Doors* moment. That it changes your life, even just a little bit. If the mortgage (and property) advice in *Mortgages Made Easy* helps you into your first home, or your first investment property, then pass it on.

Bruce Brammall

Bruce Brammall Financial Pty Ltd
Debt Man™
BA (Communications), Adv. Dip. (Financial Planning), Cert. IV (Mortgage Broking)
Email: bruce@brucebrammallfinancial.com.au
Twitter: @brucebrammall

Acknowledgements

There is a price to be paid for a book. And hopefully with it comes a reward.

For you, the reader, it's about 30 bucks (depending on whether it's a physical book or e-book) and about 10 to 20 hours of your time. With most books, I think you get your money's worth in enjoyment from the words on the page. But there's an added bonus with finance titles—you can often literally make thousands of dollars out of the ideas in them! Awesome! Many books have done that for me, and I hope *Mortgages Made Easy* does the same for you.

Authors pay a price: blood, sweat and tears. More accurately, writer's angst (blood), deadline panic (sweat) and estrangement from family (tears). All of which happened in the writing of this book. The upside for me? Well, you reading this bit. And moving on to enjoy the rest of this book. Ultimately, I hope that you profit from reading this book. To complete the karmic cycle, contact me to let me know if something from this book made a difference to your life. Authors love it. Hit me with an email: bruce@brucebrammallfinancial.com.au. Or visit the website (www.brucebrammallfinancial.com.au) to sign up for our newsletters or find out some more about the process.

While one person bashes out the words, that's only a part of the story of a book. This book, for instance, wouldn't have happened without the following people's involvement.

My wife, Genevieve. Mrs DebtMan has said 'no' to every book I've ever considered after the first one. But she comes around. Because she's tops. (And because a husband barricaded in his office writing a book is a husband who's not fighting for control of the remote.)

In order of appearance, Edward (DebtBoy) and Amelia (DebtGirl). You might think you love me more than I love you, but that's simply not possible. This fact won't become obvious to either of you for a while. But one day, in about 25 to 30 years, you'll understand.

This book is, in essence, a follow up to *Debt Man Walking*, published in 2008. A lot of unexpected stuff followed *DMW*'s publication. There was the unexpected reaction to the book, which unexpectedly launched a few businesses (Castellan Financial Consulting and Castellan Lending, which morphed into Bruce Brammall Financial in September 2014), which meant that I have met a whole bunch of wonderful people, both clients and friends of the businesses, that I would not have otherwise met.

So, to the fantastic clients of Bruce Brammall Financial, many sincere thank-yous. This book wouldn't have occurred without your incredible support. It's the clients who are attracted to our business' core values — education, protection, simplicity, independence, fairness, leadership and wisdom — who spread the word via referrals, who humble me and my staff every day with their support for our business.

Thanks to Helen Savage, my office manager and first employee, the other woman in charge of managing my time. My life would be an even more hectic and disorganised mess without your continued professional assistance.

Over shorter periods, but for similar reasons, go thanks to Bruce Brammall Financial's other staff, including Gautam 'Gordon' Seth and Ian Wood, without whom the business simply wouldn't be what it is.

I'm only allowed to continue writing books because people were kind enough to pay for and read the previous ones. Thank you to all those who have, as well as those who read my weekly columns in some of Australia's great media publications, including *The West Australian*, *Eureka Report* and News Limited's *Your Money* personal finance section.

With those publications, I've worked with some great editors. Not only have they given me latitude to write with a bit of flair and occasionally let me have a rant, but they are extra special because they approve invoice payments. Honourable mentions there go to James Kirby (*Eureka Report*), Sean Smith and Neale Prior (*The West Australian*) and Anthony Keane (News Limited's *Your Money*).

There was a point in time when I needed a retreat, a writer's log cabin, or else this book wouldn't have happened. The SOS flare went out and to the rescue came Maurn and Anne and way more than a log cabin. Eternal gratitude.

There are places in life that you avoid. They're uncomfortable and irksome. They make you feel jittery and nauseous. For reasons I still can't always fathom, every week I allow my business coach Geoff McDonnell to lead me to these haunted houses. But with a 'creepy places tour guide' like Geoff, they all turn out to be manageable.

And to marketing guru Toby Ralph, for quickly and succinctly ending five years of branding confusion.

Speaking of great mentors, special thanks to two truly fine mortgage brokers, John Frame and Tanya du Preez of Loan Clinic, who are brilliantly knowledgeable and generous with their time.

Kristen Hammond, executive commissioning editor at publisher Wiley, hopefully knows that I think she's awesome for her help with this book and previously with *Debt Man Walking*. Just in case she doesn't, here I go: 'Kristen, you're awesome'.

And for *Mortgages Made Easy*'s editor, Allison Hiew, who literally added wisdom from half a world away, a final special thanks for the many improvements you made to this book.

Introduction

Debt is a four-letter word. And it's going to get a fair run in this book, so if the word offends you, you should gently put this book down now and calmly back away. No one needs to get hurt here.

As a word or concept, debt has got a reputation that rivals some of the other four-letter words that get bleeped on radio and television and that I try really, really hard not to use in front of my children. Honestly.

Most financial commentators and the media seem to have a near pathological fear of debt, without ever actually explaining why it's evil. 'It's bad because, you know, it's, um, not good.' It just seems to be a universally accepted truth that it's evil, like the devil, spam email, mosquitos and Justin Bieber. In post–Global Financial Crisis years, even politicians have been sticking the boot in, demonising government debt and trying to unceremoniously kick it to death.

Debt doesn't deserve its reputation. It's just a tool whose intentions are good. Oh lord, why does it seem so misunderstood? (With apologies to the song made a classic by The Animals in 1965.)

And, no, it's not even fair to think of debt as a 'necessary evil'.

If you want to buy property, debt is simply a necessity. You can't buy real estate without it. Well, most of us can't. And the 1 per cent who can do it without borrowing know how financially smart debt can be, so they usually buy with debt anyway.

Hating it or fearing it won't change the fact that you *need* it to buy property. Given that, if you and debt are going to be hanging together for a while, you might as well learn to get along.

Let's take that one step further. If you take the time to start getting along as buddies … hey, you might just find out that there's a whole other likeable side to debt. And that side is the role it can play in wealth creation.

Debt makes the word go around. Sure, I know The Beatles reckon it was love. So did KISS, Madonna and, as I've seen more recently, the *Powerpuff Girls*. But they're wrong.

If debt really was evil—like alcohol, cigarettes and petrol—wouldn't it be taxed? Debt actually gets the opposite of that. It's not only not taxed, it will often get you a *tax deduction*. Not all debt, but great debt gets a tax break (and there will be plenty of information on that kind of debt in this book).

Debt is not thine enemy. Debt be thy friend. Or at least a largely obedient pet.

If you want to buy property, you really have to get that. You may be inexperienced with debt, but know that you need to get chummy with it. Or you may already be familiar, but want to get more intimate.

Mortgages Made Easy will teach you what you need to know about debt as it relates to property mortgages, both to own a home and purchase investment property, and even to build a property portfolio.

Regarding mortgages, we'll start off with an education on the role of debt in property, how debt helps you to create wealth with property, and then I'll show you how to get financially fit for your first mortgage.

Then we'll go through the key decision-making process that can lead you to getting a mortgage that will best suit your property purchasing ambitions and, more importantly, probably allow you to get rid of that mortgage sooner. There are plenty of banking products that you can harness for good to do exactly that.

Most importantly, we'll disassemble debt for purchasing property. Too many people think a mortgage is about getting the lowest interest rate you can. A low interest rate is fine, but there are a number of far more important boxes that need to be ticked before worrying about interest rates (which largely gets sorted out by competition).

You also need to know *how to structure your mortgage*. It's critical. And while there are tips throughout the book, there's a whole chapter on making sure you get the structures of both the ownership and your mortgage right.

Just because I'm that sort of guy—and because I've written five books on property investment—I'll also give you dozens of tips on buying property as well.

All property knowledge starts with the understanding that there are only two reasons to buy property. You're either buying a home, or you're buying an investment. The former is about creating financial security for your family. The latter is about making money, pure and simple. How you achieve either of those goals depends on a series of choices about what you're trying to achieve and what route you're going to take to get there.

And I'll even take you through buying property in a self-managed superannuation fund (SMSF), which has only become possible in recent years. It's an exciting (relatively) new development for property investors and, while not suitable for everyone, presents a significant opportunity to improve your retirement savings, for those who understand property already (if the government doesn't change the rules).

While this book is designed to be a guide to allow you to do it yourself, understand that the knowledge that you will gain from this book will only kick-start your process of specific research for getting the right loan for your circumstances.

You might find that you don't have the time to do enough research. If that's the case, give Bruce Brammall Financial a call and we'll save you plenty of time and hassle.

Try www.brucebrammallfinancial.com.au, or call 03 9020 2905.

So, let's get started.

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Debt—the grease that oils the property wheel

Okay Mouseketeers, this book is talking about money and property, so I want you to start by having a quick look in that place where you stash your cash. So take a second to grab your wallet or purse.

How much is in there? Probably somewhere between $0 and $300. A quick survey of some Facebook friends suggests the average is probably $50. (But a startling number of my mates had less than ten bucks!)

What will chump change of $50 get you? It will fill roughly half of your car's petrol tank, which might get you 300 kilometres out of Dodge. It might get you a new tie, if it's on sale. It might also get you drunk (once). But it won't do much more than that. And it definitely won't do all three. Unless you drive a Vespa, buy your ties at an op shop and are a really cheap drunk.

Clearly, it won't buy you a house.

If you bought this book because you intend to buy property, and you are staring down $50 in your wallet, then your best bet might be to play Monopoly—and fantasise about global domination and making millions.

Or you could track down 13 000 of your closest mates, con them into giving you the $50 in their wallets, and then you could purchase the average Australian house. Got that many mates? You'd have to hold a house-warming with more beer than the fraternity in *National Lampoon's Animal House* to pay them all back.

True, our wallets aren't where we keep most of our cash these days. We're not yet the cashless society predicted a few decades ago, but most of our money sits in bank accounts, where it enters and departs largely electronically. Depressingly, many people have more money in their wallets than they do in their bank accounts.

Since you're reading this book, one thing is certain: you don't intend to let a little problem like a current lack of savings stop you from achieving the 'Great Australian Dream'. No chance.

So you want to buy a property. Is it a home or an investment property you've got your eye on?

Well, I hope this news isn't going to be too disappointing for you, but you can't buy property with cash. Not with your cash, anyway. Not what's in your wallet. Not what's in your bank account. Not even if you were to max out a cash withdrawal from your credit card.

Short of winning the lotto, or having a childless aunty die and leave you her millions, you will never have enough cash in your wallet, or the bank, to be able to buy a home or an investment property.

You can't save your way to a home

I've seen friends try to save their way to buying a home. Well, that's what they seemed to be doing. They saved and saved, for year after year. The more money they saved, the higher house prices went and the bigger the place they wanted as their first home.

They ended up with the biggest deposit I've ever personally known — about a quarter of a million dollars — which had taken them about ten years to save. But over that decade, what they wanted as a home had grown from around \$300 000 to about a million bucks.

Yep, had they bought the same home when they had a deposit of \$50 000 or \$100 000, they probably would have had a mortgage of \$270 000 (with a \$50 000 deposit), instead of about \$800 000 (with a \$250 000 deposit).