Investment Ready Playbook

Catalyst
FINANCIAL

The Playbook

Many Kiwis want to invest in property. They get excited. Find a property they think will make a good investment. Then they apply to the bank for the money. And just as it seems like they're on the path to financial freedom, the bank says no.

Heartbreak.

What should these NZers do? They still want to get ahead financially and think investing in property is the way to do it for them. But they can't get a loan to invest. At least, not yet.

Now, over time the amount they can borrow from the bank will increase. Their equity will improve as their house increases in value. And their incomes will rise through inflation and advancing their career at work. So, if you can't get a mortgage for an investment property today, perhaps you'll be ready in 6 years.

But that's still a long time away. Couldn't you shortcut the process? Could there be a way to get it down to 1 or even 2 years? That's what this playbook can teach you. It gives you real strategies that you can use to get investment ready faster.

This playbook takes all the options a mortgage adviser should talk to you about and puts them down on paper. It then breaks the process of getting investment ready into 8 simple steps that you can follow.

That doesn't mean that you shouldn't use a mortgage adviser or won't need one anymore. In fact, this 8 step process has been designed to be used in conjunction with a mortgage adviser.

At our company, Catalyst Financial, we use this exact pdf (the one you're reading right now) as part of our *Investment Ready* service.

Investors then put these 8-steps into practice with the help of a mortgage adviser who is trained and experienced at helping investors walk through these steps.

STEP

1

Work with a Mortgage Adviser

You might think – "you're about to give me all of your tactics and plays; why would I use a mortgage adviser if I can just take your content and go to the bank myself?"

That's a fair question, and one many investors have asked before.

Some people think they'll get a cheaper interest rate if they use a mortgage adviser. In their minds, the purpose of a mortgage adviser is to beat the bank down and get the lowest rate.

That used to be the case, but it's not anymore. In fact, you'll likely get the same – or a very similar – interest rate whether you use a mortgage adviser or go direct.

The question isn't so much "bank vs mortgage adviser;" instead, it's "mortgage adviser vs you." Who's got the knowledge and experience to give your mortgage application its best shot?

After reading this guide, you'll have more knowledge about mortgages than most New Zealanders. But knowledge and experience are two very different things.

A mortgage adviser will look at your application. They'll then tell you what to do to improve the chance of your mortgage application being approved. They can also tell you what similar investors in your situation have done and what worked for those investors.

A good mortgage adviser will take the mortgage plays you'll learn about and tell you which ones apply to you. In addition, they'll recommend the right lender for you.

Compare that to if you go to a bank directly. A Westpac worker won't tell you to use a non-bank lender, even if that might be the right next move for you.

So, this combination of:

A) Working with you to get your mortgage application approved and

B) Recommending the best lender to help ...

That's the value of a mortgage adviser, rather than trying to DIY and go to a bank directly.

But that doesn't mean that everyone should skip the banks and use an adviser. Sometimes if you are a business owner or a high-income earner, you will have a personal banker.

This is someone at the bank that you can call who already knows your personal circumstances and can talk to you about your situation.

So, if you are a very high-income earner ($300,000+) and already have a personal banker, going direct could be a good idea. But, if you earn less than this, or don't have a personal banker, then a mortgage adviser is the way to go.

STEP

2

Choose Your Strategy

To invest in property, you need to know how much money you'll need. And that is determined by the strategy you choose. In New Zealand, there are two strategies that most property investors tend to use – The Passive Buy and Hold and the BRRRR.

Passive Buy and Hold Strategy

The Passive Buy and Hold strategy is arguably the most popular route. It's the one that most Kiwi property investors use.

It involves buying a property that you can hold on to for the long-term with minimal hassles. You then wait for the market to appreciate.

Primarily investing in	**New Builds**
Make money through	• **The market increasing in value,** • **Over the long term, rental income**
Pros	**Cons**
• Very passive – investing in new builds to reduce the time needed • Requires less money to get started because of government and bank incentives to invest in new builds, e.g. LVR restrictions and expected Debt to Income ratio exemptions. • Tax incentives when investing in new builds, e.g. interest deductibility and shorter bright-line test.	• Not actively improving the property's value (see BRRRR strategy). • Often negatively geared if purchasing with 100% lending

Best for - This strategy tends to be best for busy working professionals who have a full-on home life. These investors don't want to spend time actively working on their portfolios. They want a passive, low-hassle investment.

The commitment

What do I need to use this strategy?

As a ballpark, here is an example of what an investor starting out with the Passive Buy and Hold strategy would need if borrowing 100% of the money to invest from the bank:

- $120,000 of useable equity
- Enough income to service a $600,000 mortgage

That would allow the investor to purchase a $600,000 townhouse in Christchurch.

The BRRRR Strategy

The BRRRR strategy stands for – Buy, Renovate, Rent, Refinance and Repeat. It is an active approach to property investment and is used by investors who want a hands-on approach.

It involves buying an existing property that has the potential to be renovated. The investor then renovates the property to increase its value and rental income. You then hold the property for the long term.

Primarily investing in	**Existing properties**
Make money through	• **Increase in value of the property from the renovation.** • **The market increasing in value.** • **Rental income.**
Pros	**Cons**
• Actively improving and increasing the property's value through the renovation. • Properties are often positively geared, even if borrowing at 100%. • Can sometimes grow your portfolio faster through increased equity and rental income.	• Active strategy. Takes more of your time. It also takes time and money to get the knowledge. • Requires more money/equity to get started due to LVR restrictions and potential Debt to Income ratios • You pay more tax through interest deductibility and potentially the bright-line test.

Best for - This strategy tends to be best for people who have the time and inclination to be actively involved in managing a renovation. That doesn't mean you have to do the manual labour yourself. But, you must be willing to play an active role.

The commitment

What do I need to use this strategy?

As a ballpark, here is an example of what an investor starting out with the BRRRR strategy would need if borrowing 100% of the money to invest from the bank:

- $250,000 of useable equity
- Enough income to service a $550,000 mortgage

That would allow the investor to afford a $500,000 standalone house in New Plymouth or Whangarei and a $50,000 renovation.

STEP

3

Crunch Your Numbers – See When You'll Be Able to Invest

Now that you have chosen your strategy, the next step is to see how far away you are from being able to invest.

There are two things you need to know:

- How many years away you are from being able to invest
- What is holding your mortgage application back – equity or servicing

As a reminder of what equity and servicing means –

- Equity is the deposit side of your mortgage application. You often borrow money against the properties you own to purchase your next investment
- Servicing is the income side of your mortgage application. The bank needs to see that you can afford the new debt they'll lend you.

To answer those first two questions, you need to do some number crunching. To do this, we have created a spreadsheet.

This spreadsheet replicates many of the ways a bank assesses your mortgage. But the critical difference is that it makes a 15-year projection of what you could potentially borrow.

So instead of saying, "can you afford this property today?" Yes or no, like most of the bank's spreadsheets do. It asks, "could you do it today?" "What about next year?" "What about the year after that?" And keeps going for a total of 15 years.

This tells you the path you are currently on, e.g. "if you continue doing what you are doing now, you will be able to invest in X years."

When you work with a mortgage adviser as part of our Investment Ready programme, this is the exact spreadsheet you will use.

Projections are projections. They're not gospel

It's important to remember that while these projections are robust ... life doesn't always work out as planned. Things happen. So just because the forecasts say "you can invest in 6 years" doesn't guarantee that you can start the stopwatch and turn up in 6 years, ready to go.

You may be able to invest before those 6 years are up. Similarly, it might take more depending on what happens in real life.

Be honest

A word of warning. This spreadsheet can only give you an indication of your borrowing potential if you are honest.

If you forget to tell the spreadsheet about your $120,000 personal loan, your results will not be accurate.

This is surprisingly common. Sometimes borrowers will forget to tell their mortgage adviser or bank about a loan or credit card they have. Then, when the mortgage application is processed, the bank will run a credit check.

If your credit check shows that you missed something out on your application, the bank will start to ask some questions. This will hurt your chances of getting a mortgage approved.

So be honest with the spreadsheet. It's in your best interest.

STEP

4

Choose Your Mortgage Plays

Your ability to invest in property will increase naturally over time. But, the following mortgage plays (the plays that make up the playbook) aim to speed that process up. That means you can buy your first or next investment property more quickly.

To choose the right plays for you, you need to know what's holding you back – equity, income (servicing), or both.

You should have an answer for this from the previous step.

Once you know what's holding you back, you can choose from the following mortgage plays.

Just bear in mind that not every play will work for your situation. That's why you should talk these through with your mortgage adviser to see which ones apply.

Strategies To Build Equity	Strategies To Improve Servicing
MORTGAGE BUSTER	
Split Banking **Reno to Hero**	**Commitment Issues** **Debt Destroyer** **Earn, Baby, Earn**

The Mortgage Buster

Improves your Equity and Servicing

The Mortgage Buster is by far the most popular and helpful strategy.

In simple terms, you pay off your mortgage more aggressively. This:

A) Increases the equity you have to invest, and

B) Decreases the expenses the bank thinks you have (since your mortgage is smaller).

Both will increase the amount you can invest.

But, there is a bit more to it than just making extra repayments. It needs to be set up in the right way.

1. The problem it solves – increases your equity and improves your servicing.

2. The commitment

What do I need to use this strategy?

- Your current home loan should be less than 75% of your property's value (as a ballpark)
- You need some amount of extra cash per pay-cycle to put towards your mortgage.

3. Exactly how it works

You set up two mortgage accounts. One is a standard home loan with a fixed interest rate. That's the home loan you'll already have.

The other is a revolving credit or offset account. This is where a small part of your mortgage acts like an overdraft. If you pay money into this account, you reduce the interest you're charged.

But, like an overdraft, you can also take that money out at any time.

The strategy is to make minimum repayments against the standard home loan. You then put any spare money into the smaller revolving credit.

At the end of a year, if you've stuck to the plan, you'll have paid off the revolving credit, and there's money available in the account.

You use that money to make a lump sum payment off your mortgage.

With your revolving credit empty, you start again, paying off that revolving credit for the next 12 months.

This keeps going until you've paid off your mortgage.

Setting up your mortgage in this way has two main benefits:

1 The revolving credit acts as a goal. If you set your revolving credit to $10,000, that's how much extra you need to save over the next year.

2 If you have unexpected expenses or accidentally save more than you can afford, you can take the money back out and spend it.

You can't do that with a standard mortgage. If you make an extra repayment against your regular mortgage, you need a whole new mortgage application to borrow that money again.

4. Steps required

- Calculate how much extra you can pay off your mortgage per year.
  That's the size of your revolving credit, e.g. $10,000.
- Break a portion of your primary mortgage and set it up as a revolving credit, e.g. if your mortgage is currently $500,000, break $10,000 off as a revolving credit.
- Set up an automatic transfer from your main bank account, so your extra repayments automatically go into the revolving credit.

Insider tips

If you have additional savings, e.g. for a holiday or emergency fund, you can use these to pay less interest. In this case, make your revolving credit larger, or talk to your mortgage adviser about using an offset.

Split Banking

Improves your Equity

The Split Banking strategy is one that we have promoted frequently on the Property Academy Podcast. It involves using multiple banks to get your lending, rather than just using one.

This will increase the equity you can access to expand your property portfolio ***in some situations.*** It will also protect you from banks forcing you to pay down debt if you don't think that's the right decision.

1. The problem it solves –In some cases, it can increase your equity, allowing you to borrow more.

2. The commitment

What do I need to use this strategy?

- You need two properties or more (or to be about to buy your second property). *You can't split one mortgage across two banks.*
- You need enough income to meet more than one bank's servicing criteria. Each bank's tests are different, so you must pass both banks' income standards.

3. Exactly how it works

Split banking is simple to set up when adding a property to your portfolio. You set up a new loan with your existing bank. That loan will be the deposit for the property you're about to buy.

For instance, if you're buying a new build, you'll set up a loan that is 20% of the property's value.

You then go to another bank and apply to get the rest of the lending. For a new build, that's 80%.

If you already have multiple properties with one bank, you can still use split banking. First, you need to get a loan from a new bank. You'll then use that loan to pay back the money you owe to your current bank.

How does this increase my available equity to invest?

If you invest in new builds, you can sometimes borrow more if you use split banking. That's because there is an anomaly with new builds.

You require 20% equity to purchase them. But the day you pay for the house, you need 40% equity before you can borrow more against that property. So there can be issues if you:

- Use your own home as the deposit for your investments, and
- You have your own home and investment properties with the same bank

That's because once these new build investments settle, they require more equity, which comes from your own home. So using one bank can leave you with less equity available to purchase your next investment.

This can get a bit mathy, so check out the episodes from the Property Academy Podcast below, or ask your mortgage adviser to draw a diagram about how this works for your situation.

4. Steps required

- Talk to your mortgage adviser about whether this strategy will work for you. There is a bit of number crunching involved.
- Calculate whether your current bank will charge you any fees if you move to another bank. Sometimes there are break fees.
- If there are break fees, it may be best to wait until after your fixed interest rate rolls over.
- Apply for a new loan at another bank. Your mortgage adviser will give you a recommendation about which bank to use.
- Use the loan from your new bank to pay off the loan you have with your existing bank.
- Work with your solicitor to handle the legal side. The old loan must be de-registered from your title (the legal description of your property), and the new loan must be registered.

There will be legal fees involved in changing banks. This is typically between $1,000 – 2,000. However, you will often get a cashback from your new bank. You can use this to pay for your legal fees.

Reno To Hero

Improves your Equity

The Reno to Hero strategy involves renovating a property you already own – whether your own home or an investment.

If done correctly, this will increase your equity and enable you to borrow more.

1. The problem it solves –

Increases your equity.

2. The commitment

What do I need to use this strategy?

- You need to already own a property that can be cost-effectively renovated to increase its value
- You need to have enough useable equity in your portfolio to borrow the money to renovate, e.g.

$20,000 – $50,000. Or you need to have this money in cash.

3. Exactly how it works

You renovate your property, which increases its value. Because the property is more valuable, you borrow against it. You then use that extra money as the deposit for your next investment property.

The minimum return you should aim for is $2 for every $1 you spend. So, if you spend $25,000 on a renovation, you need to make sure the property increases in value by a minimum of $50,000.

But, not every renovation project will cost-effectively increase the value. That is why investors should focus on the 6 Cashflow Hacking steps –

- Add an extra bedroom,
- Make it a multi-income property,
- Renovate bathrooms and kitchen,
- Replace fixtures and fittings,
- Paint the internal walls, and
- Clean or replace the carpet.

From our experience, these are the steps that most cost-effectively improve the value of your property. These steps are also targeted to improve the rental return.

So renovating an investment property that you already own will often strengthen your servicing.

4. Steps required

- If you are renovating an investment property, you already own, give your tenants notice to vacate the property. This means you can renovate the property quickly and achieve the market rent afterwards.
- Set up a revolving credit against one of your properties if you intend to borrow the renovation costs. This means you only pay interest when you spend the money.
- Work through the 6 Cashflow Hacking steps to see which ones you can apply to your property.
- Get quotes from appropriate companies, depending on which of the Cashflow Hacking steps you use.
- Get a registered valuation through your mortgage adviser once the renovations are finished. This will establish the new value that you can borrow against. The bank will only accept the new valuation if you directly organise it through your mortgage adviser or the bank.

Handy Tip

You can use Opes Accelerate to help you know which renovations to do for your property. This means that an experienced renovations-focussed property investor will work with you to determine what opportunities exist in your portfolio.

Commitment Issues

Improves your Servicing

This strategy is one of the most potent ways to increase your serviceability (the income side of your mortgage application). It involves finding ways to decrease your bank recognised expenses.

When the bank assesses your mortgage, it runs your loans, credit cards and hire purchases through many calculations.

These calculations look at what would happen in the worst-case scenario. Like if interest rates increase substantially.

This makes the minimum repayments you are committed to look more costly to the bank than they seem to you. So, in this strategy, you restructure your financial obligations so that the minimum repayment you'd need to make in the worst-case scenario is lower than it would be now.

1. The problem it solves – Improves your servicing by reducing the minimum repayments you have to make against your debts

2. The commitment

What do I need to use this strategy?

- You need to have a financial product that can be restructured.
  These are things like:
  - » A mortgage,
  - » An unused credit card, or unused store card (e.g. Farmers card),
  - » A personal loan,
  - » A hire purchase,
  - » An overdraft, or something along these lines.less than 75% of your property's value (as a ballpark).

These are the kinds of things that look like they require high repayments when the bank runs its calculations.

3. Exactly how it works

To illustrate how this works, let's use the example of an unused credit card with a $10,000 limit.

Because you're not using this, you might think, "I don't spend any money on it; why would it impact my ability to get a mortgage?"

But, when one of the main banks in NZ runs their calculations, they would say this credit card costs you $400 a month. They're considering what would happen if you maxed out the card.

So if you cancelled that credit card, you could borrow an extra $101,195, based on our calculations.

So in this mortgage play, you restructure your financial obligations by doing things like:

- Cancelling any large credit cards
- Extending the documented term of your existing mortgage, for instance, from 16 years to 30 years.
- Consolidating your personal loans, hire purchases and overdrafts into your mortgage, to extend the documented term.

While you will increase the documented term of your home loan under this strategy, you can still pay off your debt in the same time frame.

We're not suggesting you need to pay off your mortgage in 30 years, rather than 16. It is just how it will be documented.

You then use the Mortgage Buster strategy to pay off your debt over the same time frame.

4. Steps required

- Ask your mortgage adviser which of the tactics apply to you.
  Not every tactic can be used in every situation.
- Once you've identified the steps that will work for you, you'll need to cancel credit cards or apply to extend the terms of your loans.
- Remember, you can set up a revolving credit or offset account (like in the Mortgage Buster) to continue smashing down your debt.

Handy Tip

This strategy takes some serious number crunching and knowledge of bank policies. So, be sure to ask your mortgage adviser about which ones will work for you.

Debt Destroyer

Improves your Servicing

The Debt Destroyer is often used for people trying to get their first property or who are earlier in their investment journey. Typically, these borrowers are younger and have several small debts.

These can be credit cards, overdrafts, hire purchases, car loans, personal loans, GEM Visas. Young people use these to buy what they need when they don't have a high enough income to spend the money. E.g. a student might use one of these to buy a new laptop.

However, what happens when you have many small debts? There is a risk of missing some of the repayments because there are so many. That can stop you from borrowing as the bank doesn't think you can manage your money (what's called poor account conduct).

That's where the debt destroyer comes in.

1. The problem it solves –Improves account conduct. Shows the bank that you can manage your money while reducing your financial stress.

2. The commitment

What do I need to use this strategy?

- You need to have 3 or more debts (of those listed above) that require regular repayments
- You will benefit from this strategy even more if you struggle to juggle all your payments.

3. Exactly how it works

The Debt Destroyer calls for you to merge your small debts into a single loan. This will give you one payment per month to manage, so you know when it needs to be paid, and you can plan for it.

This is often referred to as debt consolidation. It is where you apply for a loan, which is large enough to pay off all your other smaller debts.

You get the money, pay off the debts, and cancel all your now paid-off credit cards, overdrafts and other liabilities. Then you are left with a single loan.

This last step is crucial. You don't want to take on a new loan; use it to pay off your old credit card and then rack up more debt on that same credit card.

4. Steps Required

- If you already own your own home, apply to increase the size of your mortgage.
- Once the money is approved, use the money to pay off your debts
- Then cancel your credit cards and overdrafts.
- If you don't have a home yet, or don't have enough equity to increase your mortgage, apply for a personal or debt consolidation loan.

  Then follow the steps above.

Earn, Baby Earn

Improves your Servicing

Named after a line from the catchiest song of the '70s ("burn, baby burn" from Disco Inferno), Earn, Baby Earn is the strategy that focuses on increasing your income.

This allows you to borrow more.

1. The problem it solves – Increases your income so you can borrow more, because you now have more disposable income to service the higher lending amount.

2. The commitment

What do I need to use this strategy?

- You either need one of the partners in your household to increase the hours they work,
- You need to be able to negotiate for an increase in salary, a higher paid job, or to restructure your remuneration package.
- Develop a third income stream that the bank counts as provable income

This strategy won't work for everyone, but you should still consider whether it could apply. It is often used by investors and has enormous potential.

3. Exactly how it works

If one of the income-earners in your household increased their income from $80,000 to $90,000, that $10k pay rise would allow you to borrow between $88,000 – $141,000 more for an investment property.

There are 5 ways investors typically increase their incomes:

- If one partner has taken time off to raise children, they can decide to start working again. This takes them from a 1 income to a double income household.
- If one partner is currently working part-time, consider increasing their hours to generate more income when applying for a mortgage.
- One partner (or both) could have a conversation with their employer about increasing their pay. Applying for a mortgage can often act as the trigger to start these conversations.
- Another option is to seek out higher-income employment. Large leaps in income often happen when switching jobs.

"Burn, Baby Burn"

- One option for those earning bonuses or commission is to negotiate a change in salary structure.

» Since your commission and bonuses are variable, the bank will sometimes include as little as 50% of this income when assessing your mortgage application.

» Sometimes it is worth accepting less money overall for more of it to be guaranteed. If you can lower your commission and increase your base salary, you can sometimes borrow more.

4. Steps required

- Decide which of the above you can use. Then have a conversation with your employer about the pay you earn or the hours you work.
- Then, you need evidence that you can show the bank. This could be payslips, an amendment made to your employment agreement, or a letter from your employer.

STEP

5

Re-Run Your Numbers Using Your Mortgage Plays

Now that you have chosen the mortgage plays you'll use, it's time to re-run your numbers to see how these will change your ability to borrow.

This will also show when you will be able to invest once the plays have been put into practice. This means going back to the spreadsheet to plug in your new numbers.

This may show that instead of investing in 6 years, you might now be able to invest in 1 or 2 years.

Once you've completed this step, all the thinking and planning is done. And it's time for the rubber to hit the road and make your plan happen.

STEP

6 Put the plays in place

All the thinking you've done up to this point will be useless ... Unless you actually put your plan into practice.

That often means a combination of:

- Restructuring your mortgage,
- Applying to move your mortgage to another bank
- Applying for a debt consolidation loan
- Cancelling your credit cards
- Increasing the term of your loans, or
- Asking your boss for a pay rise

Or any other plays you've committed to with your mortgage adviser.

Putting these plans in place may sound scary.

Don't worry; your mortgage adviser will do most of the grunt work and be there to support you.

Once they have your financial information, they will apply for the mortgage on your behalf and have conversations with the bank.

If you are using a strategy where you will increase your repayments – the Mortgage Buster or the Debt Destroyer – then you should also break down your goals into small 90 day targets.

That's because aiming to save $10,000 in a year can seem like a big goal. But, breaking it down into saving $2,500 every 90 days seems more achievable and is easier to track.

It's also important because you will be at peak motivation after you first walk through these steps. You'll be excited that you're going to be able to invest more quickly.

But, over time, your motivation may start to lag, and you may stop sticking to your plan. That's normal. Your 90-day goals and step #7 are designed to keep you on track.

STEP

7

Regular Reviews

Of all the steps in this guide, step #7 is the most important.
Every 3 months, you need to meet with your mortgage adviser to ensure you're on track for your goals, that you've done what you needed to over the last 90 days, and then set new 90 day goals.

This is important because knowing that you'll sit down with a mortgage adviser every 3 months will motivate you.

If you think, "I'm seeing Peter soon, I need to make sure I've been saving my $100 a week, you're more inclined to do it and stick to your plan.

These 90-day check-ins are a significant part of our Investment Ready service at Catalyst Financial.

At these check-ins, you should pull up your bank accounts to say, "yes, we've done what we said we were going to do; we've stuck to the plan."

You then need to set new 90 days goals. Breaking down your larger goal, e.g. "buy an investment property in 2 years", into smaller goals means that you're more likely to achieve it.

STEP

8

Buy The investment Property

Because you've been checking in with your mortgage adviser every 90 days, you'll regularly be talking about whether you are in the position to invest. It's like repeatedly saying, "are we there yet."

As you get closer, eventually, your mortgage adviser will say, "I think you are ready."

You get your mortgage application to the bank, get the "yes," and start to invest in property.

You've achieved your goal and are on the path to financial freedom.

That's the point where you can work with either Opes Partners or Opes Accelerate to help find suitable properties to invest in.

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