



NEXT HOME BUYER MANUAL

SEVEN STRATEGIES FOR BUYING
YOUR NEXT HOME IN NSW

Strategy 5. Bridging finance with no
end debt

John Ruddick's seven strategies for buying your next home in NSW.

Strategy 5. Bridging finance with no end debt

PREFACE

If you need to borrow money to buy a residential property in New South Wales, I want to be your mortgage broker.

This manual is written for those of you who are 'next home buyers' in NSW. That is, you currently own a property, and want to buy your next owner-occupied property.

You may be selling your existing home, or retaining it as an investment property. But in either case, this manual assumes you need to borrow money for that 'next home' purchase.

There are countless reasons why you might want to move home. Your family may be growing—or shrinking. Your financial circumstances may have changed. You may want to live closer to a school or workplace. Or you might simply want a change of scenery or new neighbours.

Next home buying is the most common property transaction. But the process does have some complexity, and without a clear strategy it can become a frustrating experience.

This manual spells out the process, along with the advantages and disadvantages of seven different strategies to buying your next home. Adopting the right strategy helps eliminate risk and increases your chances of buying the right property at a good price—and with less stress.

Every individual and every mortgage application is unique. Since 2001 my passion has been to help borrowers properly structure their mortgage debt and, just as importantly, help them understand the strategy behind the structure.

A good way to start is to contact my office and make an appointment to discuss your circumstances. Even if you think you won't be buying for a year or more, it's still worth having a general discussion now.

The first step is to map out a plan, and then get pre-approval for finance around that plan. Once the finance is in place, you can begin the journey from your current home to your new home.

To apply for pre-approval, you can either contact a lender directly or speak to a mortgage broker. In recent years, more than half of all Australian mortgages have been taken out with the help of mortgage brokers.

Being a broker means I'm a mortgage specialist who can introduce you to products from many lenders, including all the major banks. And, like most mortgage brokers, I typically won't charge you any fees.

Feel free to get in touch with me:

- by phone: (02) 9955 1176 or 0412 129512
- by email: john@jrhl.com
- at my office: 10/50 Margaret Street Sydney NSW 2000.

Sound preparation

Over the years I've worked closely with several hundred next home buyers. And in that time I've learned that following these guidelines will put you in a much stronger position.

- Wear out some shoe leather looking at properties in the suburbs you're thinking of buying in. The more you look, the sharper your eye will be, and the better you can gauge a fair value for a property.
- Make sure you haven't been late for any mortgage repayments in the past year. If you have, it will make lenders more hesitant in approving your next mortgage.
- If you need to sell your existing property, it's important to get the best possible sale price. It may be worth getting quotes on what improvements you can make to increase its value, and what they will cost. Putting in a new bathroom, a new kitchen or even some new carpet or paint may increase your home's sale price by more than what you spend. And if you're planning to convert your existing home into an investment property, these improvements will probably increase your rental return.
- Think about the timing of your sale. The property market is typically busier in spring and summer than in winter. But that is not always the case—the winter of 2015 was as busy as any spring.
- If you're selling and buying, be selective about the conveyancer/lawyer you engage. The transaction will be more complicated than when you bought your first home, and so will require more sound legal advice.
- When you bought your first home, you probably dealt with the vendor's real estate agent. But if you're going to sell your current property you need to choose your own real estate agent. It's worthwhile inviting three or four agents around so you can discuss your plans and see which one is best suited to sell your property. While experience is usually a positive attribute, agents with less experience can sometimes bring more enthusiasm to the sales process and deliver a better result.

Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.

Theodore Roosevelt

STRATEGY 5

Bridging finance with no end debt

This strategy is suitable for people who are downsizing, and is quite popular with retirees.

Let's say Benny has a property worth \$1,000,000, and owes the XYZ Bank \$250,000. Now that Benny has retired, he wants to sell his current home, repay the \$250,000 and buy a home for \$500,000 so he can live debt-free.

Benny has two options.

Option one

He can put his current home on the market, and make an offer on another property as soon as he exchanges contracts. He won't need to worry about applying for a new mortgage for his new purchase because his sale proceeds will easily cover the payment for his next home. But he does need to ensure the settlement for the sale occurs either before or simultaneously with the purchase settlement.

Option two

He can exchange contracts to buy the \$500,000 home *before* he exchanges on the sale of his current property. To do that he'll need his finance approved for around \$522,000 so he can pay for the purchase, stamp duty and other costs. Once he sells his former home he can use the proceeds to pay out the short-term bridging finance.

As of 2016, one major lender offers a product for this very situation. The fees and interest rates are higher than usual, but it doesn't really matter because it's a short-term loan and so the lender won't make much of a profit from the transaction.

Upsides

- Because you don't need to provide any evidence of income it's a simple mortgage transaction.
- You can buy a property whenever a suitable one comes along.
- There's no urgency to sell. (You'll have around six months before being charged higher than usual interest.)
- You only have to pack and move once.

Downsides

- You may have to pay higher than usual fees and slightly higher interest rates.



Home purchases that are very highly leveraged or unaffordable subject the borrower and lender to a great deal of risk. Moreover, even in a strong economy, unforeseen life events and risks in local real estate markets make highly leveraged borrowers vulnerable.

Ben Bernanke



The logo for JR Mortgages is located in the bottom right corner. It features the letters 'JR' in a large, blue, serif font. Below the 'JR' is the text 'JR MORTGAGES' in a smaller, blue, sans-serif font. The background of the entire image is a light blue gradient with a subtle grid pattern and several overlapping, wavy, light blue lines that create a sense of depth and movement.

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