tony mounce

mortgages & insurance

# NZPIF Property Conference 2018

# Tony Mounce Mortgages & Insurance

About Tony Mounce Mortgages & Insurance

- Established in 2009 after 34 years at the BNZ
- Currently a team of 25 advisers, lending managers and support staff
- Winner of numerous industry awards, including NZFSG South Island Broker of the Year for eight consecutive years
- Principal sponsor for the Canterbury Property Investors Association, Otago Property Investors Association and the New Zealand Property Investors Federation 2018 Conference.

# Meet the representatives who are here in Dunedin

From left to right:

**Stephanie Bruns**
Lending Manager

**Karen Baker**
Lending Manager

**Craig Collins**
Insurance Adviser

**Tony Mounce**
Managing Director

**Chrissy Richardson**
BDM / Adviser

**Samantha Ellis**
Marketing & Administration Coordinator

**Mark Thompson**
General Manager

**Graeme Magorian**
Mortgage Adviser Dunedin Based

# Disclaimer

The views and opinions expressed in this presentation are:

- not intended to be a personalised service for an individual retail client; and
- general in nature, and may not be relevant to an individual's circumstances, and constitute class advice only

Nothing contained in this presentation is endorsed by the Financial Markets Authority

Before making any investment, insurance or other financial decisions, you should consult a professional financial adviser

A Disclosure Statement of Tony Mounce is available on request and is free of charge

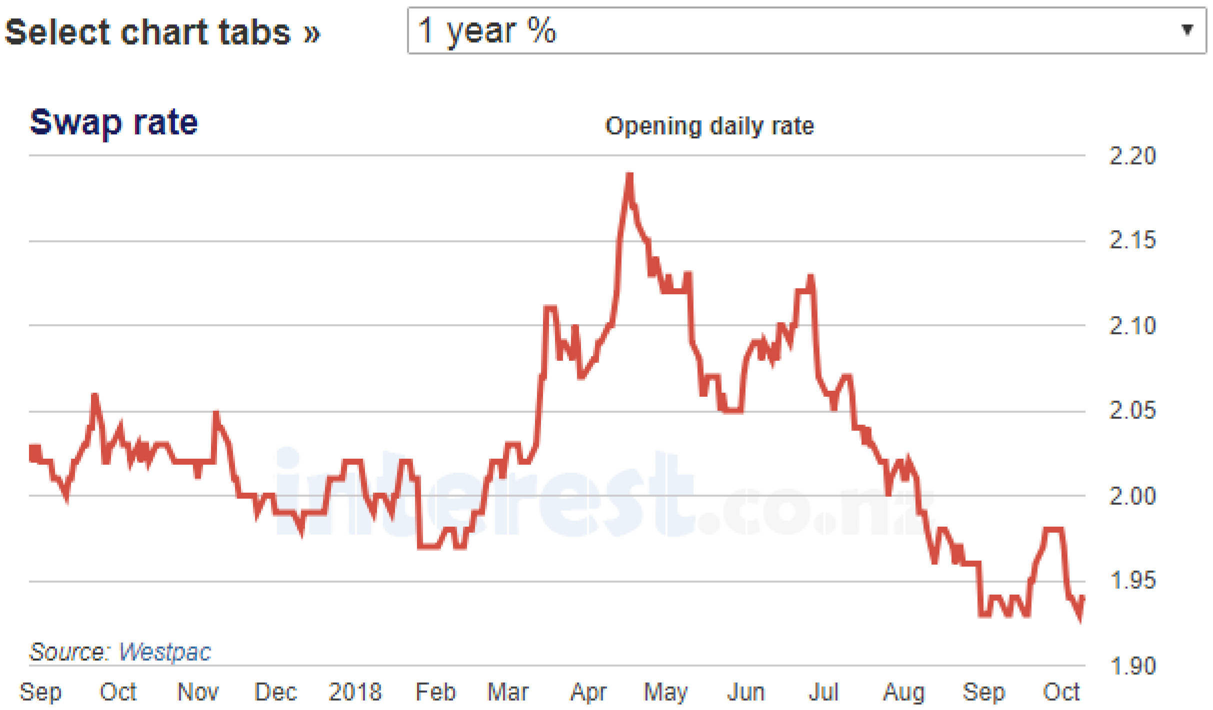
# A Big Problem

- Within the next 12 months,  there are approximately $13b interest-only loans maturing which need to be repositioned either to a new bank or onto Principle and Interest (P&I).
- The test: Are all non-tax deductible mortgages repaid?
- Typical ANZ mortgage: 10 year interest only period reduces P&I to 20 years
  - $500k interest only @ 4.09%   = $393 p/w
  - $500k P&I over 20 years   = $704 p/w
- Massive ramifications for cash flow and it may make your loan unaffordable. It is prudent to review your mortgage frequently and talk to an adviser about like-for-like transfers.
- Banks are no longer easily rolling over interest-only periods. Like-for-like transfers become very pertinent and interest-only can commence again.
- At the same time,  if there is the equity due to good growth in New Zealand, there is the opportunity to release security (i.e. hand back titles)

# Swap Rates

New Zealand swap rates as at market open on Wednesday 10th October 2018

source: interest.co.nz




- An interest rate swap is where two people or counterparties agree to exchange two different types of interest rate for a specified period of time.
- Bank deposit rates are up slightly but the OCR and Swap rates are flat.

# OCR Comparison

Source: interest.co.nz

Rates correct as of Wednesday 10th October 2018

**US Federal Funds Rate = 2.25%**

**New Zealand OCR = 1.75%**

For the first time since 2000, the NZ OCR is lower than the US Federal Funds rate.

New Zealand interest rates are expected to remain low for the next 18 months while the US is expected to increase.

| | Variable | 6 month fixed | 1 year fixed | 18 month fixed | 2 year fixed | 3 year fixed | 4 year fixed | 5 year fixed | 7 year fixed | 15 year fixed | 30 year fixed |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Bank of America | - | - | - | - | - | - | - | 3.875% | 4.250% | 4.125% | 4.750% |
| *vs.* | | | | | | | | | | | |
| BNZ | 5.95% | 4.99% | 4.19% | 4.79% | 4.29% | 4.49% | 5.19% | 5.39% | 5.95% | - | - |

# Interest Rates

My preferred option is still 1-year fixed rate rollovers as this allows you to keep your eye on the ball and manage your mortgage effectively. However, the current 3-year offer at 4.39% has merit in considering. It all comes back to the sleep test.

- Interest rate specials market leading at 4.09% for 1-year fixed period.

Source: goodreturns.co.nz

Rates correct as at Wednesday 10th October 2018

| | Year 1 | Year 2 | Year 3 | Average Rate |
|---|---|---|---|---|
| 4.39% fixed for 3 years | 4.39% | 4.39% | 4.39% | 4.39% |
| | | Vs | | |
| Annual Refixes | 4.09% | 4.59% | 5.09% | 4.59% |

- Break fees may not be as much of a handbrake towards the goal of saving money due to banks only charging a penalty if interest rates reduce, which is unlikely even given the OCR may go up or down. Hence, break fees at the moment are negligible. If interest rates do commence on an upward trajectory, the cost of getting out would also be negligible as banks can only charge on a reduction.

# Bank Servicing

The reason why it is difficult in some instances to get bank funding, even for residential investment loans, is due to bank servicing. Historically, servicing was easy to calculate roughly worked out at 1/3 tax, 1/3 for servicing and 1/3 for living expenses. Now, we have to be exact and show the expenses broken down as per the calculator below.

## Servicing Calculator

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Customer Name: Jim & Josie Smith (JJ Smith Investments Limited)

| Income Details | Gross | Kiwisaver | Net | Monthly Net | |
|---|---|---|---|---|---|
| Applicant 1: | $100,000 | $3,000 | $76,080 | $6,340 | |
| Applicant 2: | $60,000 | $1,800 | $48,980 | $4,082 | |
| Rental Income (per week): | $3,750 | | | $12,188 | Scaled at 75% |
| Boarder Income (per week): | $0 | | | $0 | Scaled at 75% |
| Net Interest (annual): | | | $0 | $0 | |
| Net Dividends (annual): | | | $0 | $0 | |
| Other Income (annual after tax): | | | $0 | $0 | |
| Source: | | | | | |
| Total Monthly Income | | | | $22,609 | |

## Outgoings (Monthly)

| | | | |
|---|---|---|---|
| Existing loan payments: | | $16,558 | $16,558 |
| Rent: | | $0 | $0 |
| Board: | | $0 | $0 |
| Hire Purchase: | | $644 | $644 |
| Overdraft Limit(s): | | $0 | $0 |
| Credit Card Limit(s): | | $15,000 | $450 |
| Store Card Limit(s): | | $0 | $0 |
| Student Loan Balance | Applicant 1: | $0 | $0 |
| | Applicant 2: | $0 | $0 |

| | |
|---|---|
| Fixed Financial Commitments | $17,652 |

## Living Expenses (Monthly)

| | | |
|---|---|---|
| Number of Adults: | 2 | $1,200 |
| Number of Children: | 1 | $290 |
| Power/Insurance/Rates: | | $520 |
| Bank Total: | | $2,010 |

| | | | |
|---|---|---|---|
| Childcare | (Childcare/Support) | $0 | $0 |
| Education Costs | (School Fees) | $0 | $0 |
| Transportation | (Fuel/Train/Bus Fares) | $500 | $500 |
| Other Expenses | (Entertainment/Holidays) | $450 | $450 |
| Utilities | (Electricity/Rates/Gas/Phone/Internet) | $920 | $920 |
| Clothing | | $0 | $0 |
| Food | (Groceries/Meat/Fruit/Vegetables) | $1,200 | $1,200 |
| Healthcare | (Medical Insurance/ Health Expenses) | $150 | $150 |

| | |
|---|---|
| Fixed Financial Commitments | $17,652 |
| Living Expenses | $3,220 |
| Total Monthly Outgoings | $20,872 |

Using the 8% test rate over 30 years on P&I more than doubles the true repayment figure.

**Loan Details**

| | | | |
|---|---|---|---|
| Purchase Price / Property Value: | $4,340,000 | Test Rate: | 8.00% |
| Deposit/Equity: | $3,990,000 | Loan Term: | 30 |
| Total New Lending: | $350,000 | | |
| Indicative monthly mortgage payments: | | | $2,568 |
| Uncommitted Income | -$831 | | |

**Loan Details**

| | | | |
|---|---|---|---|
| Purchase Price / Property Value: | $4,340,000 | Test Rate: | 4.09% |
| Deposit/Equity: | $3,990,000 | Loan Term: | 30 |
| Total New Lending: | $350,000 | | |
| Indicative monthly mortgage payments: | | | $1,193 |
| Uncommitted Income | $544 | | |

# Non-Bank Lenders

- 1st and 2nd time investors are able to utilise RESIMAC's offer of 80% LVR for up to 3 properties
- NZCU are also offering 80% LVR to modest investors
- Investors can also use Liberty's LVR of 75% for up to 4 properties
- Also,  non-bank lender rates have been down as of late. Non-bank mortgages are in vogue and are a large part of the Tony Mounce Mortgages & Insurance business, becoming third in our income stream in August 2018, eclipsing two major banks.
- The reason is simple, non-banks are awash with funds. FMT,  Avanti and Basecorp can now all offer rates for certain qualifying customer in the 6's! An outstanding offer for people who want to continue their investment journey but can't meet the high thresholds required for bank funding due to the Reserve Bank restrictions.

## “Non-banks lent $2.6 billion in the year to August, according to figures from the central bank.” - goodreturns.co.nz

- This is almost 1% of the total housing lending for this year to August 2018

# Investment New Build Property Case Study

New builds are great options for investment properties as they are exempt under the LVR rules

(i.e. needing 35% deposit for an investment property)

Here is an example:

Mr & Mrs Jones are your typical New Zealand couple who own their owner-occupied property but want to purchase an investment property.

Joint income = $120,000

Home = $500,000 (valuation)

Existing mortgage = $200,000

If Mr & Mrs Jones want to buy a rental property that is an existing dwelling, the numbers would look something like this…

$500,000 @ 80% = $400,000

Less existing mortgage of $200,000

Gives a deposit of $200,000 to go towards a rental property (loanable value)

Lets say the rental property is $450,000

35% deposit needed would be $157,500

Therefore, Mr & Mrs Jones can buy **one** rental property

With a new build, Mr & Mrs Jones could borrow 80% against the $200,000 loanable value they have in the family home (they could even potentially borrow more under the LVR exemption) and the numbers would look something like this…

$500,000 @ 80% = $400,000

Less existing mortgage of $200,000 = $200,000 loanable value

2x new builds @ $450,000 = $900,000

20% of $900,000 = $180,000

Therefore, due to the Central Government, Local Government and Reserve Bank all encouraging new builds, and these being exempt from the LVR rules, Mr & Mrs Jones can buy **two** rental properties

(subject to bank servicing criteria being met)

In this example,  lets say the rental income was $450 per week for each property…

$450 x2 = $900 per week

Add this to the $120,000 personal income and it does meet all banks servicing criteria

# Commercial Property

We are finding more and more property investors around New Zealand are looking to diversify into commercial property ownership.

Here is an example of a commercial client from before last Christmas to give you an idea how to structure:

| | |
|---|---|
| Applicant: | Joe & Jane Bloggs<br><br>**Bloggs Family Trust** (family home)<br>**Bloggs Investments Ltd** (residential investments)<br>**Company 1 Ltd** (commercial purchase)<br>**Company 2 Ltd** (business) |
| Customer Background: | Joe and Jane are married with no dependents.<br>They own their home valued at $1,250,000 and three rental properties.<br>Two rentals are unencumbered. The other is mortgaged with lending of $851,080.<br><br>Joe and Jane have owned Company 2 Ltd since 1990. |
| Purpose: | Clients have entered a contract to purchase a commercial property for $2,275,000.<br><br>Clients wish to borrow $2,048,000 to assist with this purchase, using their undrawn flexi limit of $228,000 as their deposit.<br><br>They will provide new mortgages over their own home, their two unencumbered rentals and the new commercial property. Overall LVR being 50%. |

| | |
|---|---|
| Security: | **New** – Mortgage over residential owner occupied property:<br>Registered Valuation $1,250,000<br>Loanable value @ 80% = $1,000,000<br>**Owner: Bloggs Family Trust** |
| | **New** – Mortgage over residential investment property:<br>Registered Valuation $300,000<br>Loanable value @ 60% = $180,000<br>**Owner: Bloggs Investments Ltd** |
| | **New** – Mortgage over residential investment property:<br>Govnt Valuation $415,000<br>Loanable value @ 60% = $249,000<br>**Owner: Bloggs Investments Ltd** |
| | **New** – Mortgage over commercial property:<br>Purchase Price $2,275,000<br>Loanable value @ 65% = $1,478,750<br>**Owner: Company 1 Ltd** |
| | **New** - linking unlimited guarantees |
| Security Values: | **Total Security Value $4,240,000 Loanable Value $2,907,750 LVR 50%** |

| | | |
|---|---|---|
| Structure and Entities: | Borrower: | Bloggs Family Trust |
| | Terms: | Housing rates as against residential properties |
| | Amount: | $1,000,000 |
| | Amount | $398,000 – to be Interest Only |
| | Borrower: | Company 1 Ltd |
| | Terms: | Commercial rates, as against commercial property |
| | Amount: | $662,000 |

Because the clients brought a significant residential component to the proposition, we were able to leverage 80% on the owner-occupied and 60% on the rental properties, as the overall LVR was 50% - well within the 60% rules and also had a yield of 7.25%.

*(LVR rules have since changed to 65%)*

Thus providing them $1.4m lending at the residential rate of 4.29% over 30 years, with five years interest-only and only had to borrow $662,000 at the higher commercial rate of 5.78%.

Due to strong outside cash flow, the clients were certain they could repay the commercial lending within five years which matched the term of the interest-only.

# Commercial Property

**Key factors**

Commercial property

- 15 years P&I, interest rates around 1% higher than residential - loan term is five years and will need to be renegotiated and a new registered valuation obtained
- Must be 67% of National Building Standard (NBS) and to deduce that is it preferable to have a Detailed Engineering Evaluation (DEE)
- 65% LVR as standard, but there are some variations to that
- Easier to finance owner-occupied commercial property than straight outside tenancy
- Yield - a great thing with commercial property is the expenses on the property are generally covered by the tenant, including in some cases the maintenance as with motel leaseholds

# Commercial Property

**Key determinants**

- Client expertise
- Experience
- Portfolio exposure
- Collateral security
- Terms of tenancy

**NBS rating**

- Degree of movement away from marginal acceptability of 34-67% rating for funding
- Some exceptions if borrowing with intent to improve NBS rating
- Property and client dependent, (i.e. location, street presence and terms as above)

**Hotels / Motels**

- More success with non-bank specialist lenders, although reflected by risk in rate

# Commercial Yield

Yield calculations are worked out by diving the annual rental income on a property by how much it cost to buy.

For example:

**Gross Yield** = <u>Annual rental income</u> *(Weekly x52)*
property value x 100

**Net yield** = <u>Annual rental income - expenses</u> *(ongoing costs + cost of vacancy)*
property value x 100

A capitalisation rate or cap rate is a quick way to estimate the potential return on investment on a commercial property.

**Cap Rate** = Net Operating Income / Current Market Value

In general, the lower the cap rate, the higher the property's value, and the higher the cap rate, the lower the value. In other words, a property with a lower cap rate compared to a property with a higher cap rate will return less income to the investor.

# Insurance - What protection do you have in place?

- You have built up your property portfolio / assets
- Default position? Selling your property if anything goes wrong
- Risk protection can be used to protect your retirement fund
- You may have significant assets but still require the day job to support your habit.
- Suddenly disaster strikes. Having at least some cash allows time for partners/beneficiaries to make informed decisions.
- Sickness benefits are tiny and not having protection is foolhardy. Doesn't mean you have to cover the full debt which could be millions. Just means, if you have say two/three years cash flow for living available to buy time and avoid fire sale situations.
- Talk to Craig Collins on our stand this weekend!

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# Thank you for listening!

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