

100%+ finance deals leave investors exposed

Some property investors are borrowing from 100% to 110% of the price of investment properties in pursuit of capital growth on interest-only loans.

Russell Benshaw of Key2, a property investment company, says so keen are some people without ready cash to invest to get on to the investment property ladder, they are not only going for 100% financing, but are capitalising their set-up costs, which in some cases amount to 5-10% of the cost of the property.

That, he said, left people in negative equity from the very start, and at risk of wobbles in the property market.

Benshaw said: "We see deals being done by rivals where investors are borrowing over 100% of the price of the property, well over, in some of those deals as much as 105-110%. It's getting into dramatic negative equity, especially in this environment."

Eighty per cent of the loan might be secured against the investment property, with the remaining 20-30% secured against equity in the family home.

While that's risky in itself, Benshaw says he's seen deals where property spruikers are gouging out \$45,000 in fees for selling apartments priced at around \$250,000 in rural towns to city folk. That means not only are some people voluntarily going into negative equity with the promise of future capital growth, but that they are unwittingly exacerbating the situation by paying too much. Many could ride out their negative equity eventually, but could struggle to stay in the market.

Property author Peter Aranyi warns that naive investors do not realise how precarious their finances are. Many have interest-only mortgages, as the rents they receive make it impossible to fund a traditional table mortgage, and they think, or have been led to believe, that they have the right to continue that kind of loan indefinitely.

The reality is, banks can require interest-only loans to be converted to traditional table home loans at any time, and at the very least, such loans are reviewed every three years.

If an investor's bank gets nervous, or head office decides it's time to reduce exposure to investment properties, that will be exactly what happens, and investors could suddenly find themselves unable to make mortgage payments and be forced into fire sales, or if they can't manage a quick flick, a mortgagee sale.

"Too few investors have been through a downturn or seen the steely look in a banker's eye when they say no more, after getting that memo from Sydney," says Aranyi. He recalls 1995, when some banks got nervous and required investors to reduce the loan to value ratios on their loans. They gave investors 30 days to do so, says Aranyi. "Lenders are your best friends until the bubble bursts, and then they will play hard ball with you," he says.

Kieran Trass of the Hybrid Group warns investors to spread loans over more than one lender in case one suddenly turns nasty.>

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