

# WHICH PROFESSIONAL PACKAGES ARE BEST FOR INVESTORS?

Professional packages are often recommended as appropriate lending solutions for investors with multiple loans. Stuart Wemyss investigates what's on offer and what to look out for.

About ten years ago professional packages were limited to professionals such as doctors, lawyers and accountants. However, today they are available to most borrowers regardless of profession. Generally, eligibility is measured by total borrowings and no longer by profession. Most packages become available for borrowers with lending in excess of \$150,000 (some are lower). But you need to consider the overall cost and features of the packages to ensure they are appropriate for your circumstances.

## WHAT'S ON OFFER?

Very few lenders advertise the interest rate discounts that may be offered under their professional packages. In fact, a larger number of lenders don't even advertise that they offer a professional package.

In our experience, lenders will not voluntarily inform you about the potential benefits of a package unless you specifically ask for it or you threaten to leave the bank. Therefore, it pays to be informed about what your bank has to offer – and more importantly, what other banks have to offer – to ensure you are getting the best deal possible. [See table on page 66.]

## HOW DO THEY RATE?

I rated the professional packages below in terms of my opinion of their appropriateness for property investors. This assessment was conducted focusing on three important criteria:

1. **Cost** – this includes interest rate discounts and all fees.
2. **Flexibility** – this includes the ability for investors to restructure their loan portfolio and the cost of doing so.
3. **Products** – this is an assessment of the products included in the professional package in terms of features and flexibility.

Each package was assigned a rating from one to five (one being the lowest rating) on each of the three criteria.

I would remind readers that these ratings are subjective and are the opinion of the author only.

Interested borrowers need to complete their own assessment of these packages. Therefore, I rated Westpac's Premier Advantage and ANZ BreakFree packages as the best with St George and Commonwealth Bank equal second, and the National Australia Bank in third place.

## KEY DIFFERENCE

Most professional packages have the following key differences:

- How interest rate discounts are measured and how long the discounts will apply. Most lenders measure discounts based on the total approved lending with the bank. For example, a borrower could apply for a line of credit for \$250,000 and only ever use \$30,000. In this case most lenders will apply a discount based on the \$250,000 loan limit rather than the lower balance. In the main, interest rate discounts will remain for the life of the loan (as they are normally measured and set at the time of establishing the loan). However, some discounts will only exist as long as the loan balance is over a certain limit (say

\$150,000). This may work in the customer's favour though because it's generally not worth paying for an annual package fee of \$300 to obtain an interest rate discount of 0.5 per cent if your loan balance falls below \$60,000.

► The type of borrowers that can take advantage of professional packages differs. This is of particular importance to investors who invest in property through a trust or company structure. In this regard lenders generally fall into three categories:

a) They will lend to companies/trusts at no extra cost as part of the package.

b) They will lend to companies/trusts but extra fees will apply. These fees may be in relation to preparing director/trustee guarantees, review of trust deeds, extra documentation fees, etc. This is important to check because these fees can accumulate to a significant amount.

c) They will not lend to companies or trusts at all (or possibly the lender might but not within the professional package).

Interest rate discounts may not apply to all products on an equal basis. For example, lines of credit are usually more expensive (either by offering a lower discount or the standard line of credit rate may be higher). The Commonwealth Bank is the only lender that offers discounts off fixed rates. Normally, introductory rates are excluded from professional packages, therefore you can't have a low honeymoon rate for the first year and then revert to the discounted standard variable rate for subsequent years. BankWest and the Commonwealth Bank are the only exceptions to this rule.

► Consider the lenders' revaluation policies. I've had comments from some clients suggesting that their existing lender will not allow them to revalue their property often enough (e.g. in one example the lender said that they cannot revalue more than once in 12 months). If your property has increased in value, you may want to have the flexibility to revalue your property to access this additional equity. Lenders do not want to move with the market too closely because if values fall then this may expose the lender. There are many lenders that do not have restrictive policies in this regard. If accessing new equity is part of your strategy, then perhaps it's worthwhile considering each lender's policy in this regard.

► Consider the ongoing banking support that is offered by the lender. What arrangements are there to provide you

with ongoing banking support? Is this important to you? Some lenders encourage customers to use Internet banking, others provide a branch network, some assign you with a personal banker and some shift this responsibility onto the broker, if the client was introduced by a mortgage broker. Just make sure the ongoing service meets your preferences.

**BORROWING CAPACITY**

It's a commonly accepted fact that borrowing capacities between lenders can vary dramatically. As such, there is no point picking one package (lender) with the intention of using them to finance your next three or four purchases without knowing that they will lend you the required amount (i.e. they have a favourable borrowing capacity).

The way lenders assess borrowing capacity varies significantly. There is not one single factor that I can focus on that will solely determine borrowing capacity. For example, I have heard some people suggest using a lender that takes into account a higher proportion of rental income (i.e. lenders who take into account 80 per cent of gross rental income, but there are some that accept 90 per cent to 100 per cent). This would be true if all lenders assessed loans in the same way but they don't. Therefore, just focusing on rental income is not going to provide you with an accurate indication of borrowing capacity.

Instead, perhaps consider doing a bit of forward planning. Think about what your income will be made up of when you have completed the purchase of your next three or four properties (in terms of a mix between rental, salary and other income). Then ask your mortgage broker or banker to run some numbers to see which lender will allow you to build your portfolio. Choosing a lender is pretty important if you are looking to purchase multiple properties, so the more work you can do upfront, the better.

**STRUCTURING AND MULTIPLE LENDERS**

Consider how a lender's products or packages can affect your borrowing capacity. For example, there are some loan products that appear very flexible and allow you to create separate sub-accounts, etc. but end up cross-securitising all your properties (refer Structuring for the future article in Feb/March 2004 issue of API).

I've also received comments from investors where some

lenders have insisted on cross-securitising. Do not allow lenders to bully you into a loan structure that you're not comfortable with. Better yet, seek advice from a professional broker and let them design the best loan structure for you.

Recognise that, depending on the quantum of lending you aim to accumulate, you may have to use more than one lender. Firstly, it's good not to put all your eggs in one basket. Secondly, you can extend your

<b>PROFESSIONAL PACKAGES</b>				
	Cost	Flexibility	Products	Total
ANZ – BreakFree	4	4	4	12
Westpac	3	4	5	12
St George	5	2	4	11
CBA	4	4	3	11
NAB	3	4	3	10
ANZ – Prof Benefits	3	2	4	9
BankWest	3	2	4	9

## What's On Offer?

Lender/ Package Name	Variable Interest Rate Discounts	Best Products to Use	Fees	Other Benefits	Pros	Cons
<b>ANZ/ BreakFree</b>	<ul style="list-style-type: none"> <li>· \$150,000-\$249,999 = 0.50%</li> <li>· &gt; \$250,000 = 0.60%</li> </ul> (Based on individual product loan balances)	<ul style="list-style-type: none"> <li>· Equity Manager (LOC)</li> <li>· Standard Variable with ANZ One (Offset)</li> </ul>	<ul style="list-style-type: none"> <li>· \$295 p.a.</li> <li>· No application fees on up to 5 loans</li> <li>· No ongoing fees for most home loans</li> </ul>	<ul style="list-style-type: none"> <li>· No fees on transaction account</li> <li>· No annual fee on gold credit card</li> <li>· Insurance discounts</li> <li>· One free annual renegotiation</li> </ul>	<ul style="list-style-type: none"> <li>· Best discount for loan of \$250k</li> </ul>	<ul style="list-style-type: none"> <li>· Discounts measured by individual loan amounts</li> <li>· Do not lend to companies (including trusts with corporate trustees)</li> </ul>
<b>ANZ/ Professional Benefits</b>	<ul style="list-style-type: none"> <li>· \$50,000-\$125,000 = 0.25%</li> <li>· \$125,000-\$250,000 = 0.50%</li> <li>· &gt; \$250,000 = 0.60%</li> </ul> (Based on individual product loan balances)	<ul style="list-style-type: none"> <li>· Equity Manager (LOC)</li> <li>· Standard Variable with ANZ One (Offset)</li> </ul>	<ul style="list-style-type: none"> <li>· Standard application fees and ongoing fees apply</li> </ul>	<ul style="list-style-type: none"> <li>· Nil</li> </ul>	<ul style="list-style-type: none"> <li>· Discounts for lower loan values</li> </ul>	<ul style="list-style-type: none"> <li>· Not economical for multiple loans</li> <li>· Must meet minimum income/profession requirements</li> </ul>
<b>Westpac/ Premier Advantage</b>	<ul style="list-style-type: none"> <li>· \$150,000-\$249,999 = 0.40%</li> <li>· \$250,000-\$499,999 = 0.50%</li> <li>· &gt; \$500,000 = 0.60%</li> </ul> (Based on total borrowings with the bank)	<ul style="list-style-type: none"> <li>· Variable Investment Property Loan (standard variable)</li> <li>· Rocket Equity Manager (LOC)</li> </ul>	<ul style="list-style-type: none"> <li>· \$300p.a.</li> <li>· No application fees or ongoing fees on unlimited loans (for limited products)</li> </ul>	<ul style="list-style-type: none"> <li>· No fees on transaction account</li> <li>· No annual fee on gold credit card</li> <li>· Insurance discounts</li> </ul>	<ul style="list-style-type: none"> <li>· Very flexible and user friendly products</li> </ul>	<ul style="list-style-type: none"> <li>· Do not lend to companies (including trusts with corporate trustees)</li> <li>· Investment interest rates 0.10% higher than standard variable.</li> </ul>
<b>CBA/Wealth Package</b>	<ul style="list-style-type: none"> <li>· 0.50% off Standard Variable Rate</li> <li>· 0.25% off Viridian (LOC) for limits of \$50,000 or more</li> <li>· For loans over \$250,000</li> </ul> (Based on total borrowings with the bank)	<ul style="list-style-type: none"> <li>· Standard Variable rate</li> <li>· Viridian (LOC)</li> <li>· Fixed rate</li> </ul>	<ul style="list-style-type: none"> <li>· \$300p.a.</li> <li>· No application fees or ongoing fees on unlimited loans (for limited products)</li> </ul>	<ul style="list-style-type: none"> <li>· No fees on transaction account</li> <li>· No annual fee on gold credit card</li> <li>· Insurance discounts</li> </ul>	<ul style="list-style-type: none"> <li>· Allows unlimited loans</li> <li>· Lends to companies and trusts.</li> <li>· Discounts off fixed rates (0.15%).</li> <li>· Can use intro rate products</li> </ul>	<ul style="list-style-type: none"> <li>· Inflexible offset product.</li> <li>· Low discount off LOC (which makes it uncompetitive)</li> </ul>
<b>CBA/Wealth Package Plus</b>	<ul style="list-style-type: none"> <li>· \$150,000-\$249,999 = 0.40%</li> <li>· \$250,000-\$499,999 = 0.50%</li> <li>· \$500,000-\$999,999 = 0.60%</li> <li>· \$1 mil + = 0.70%</li> <li>· (0.60% off LOC)</li> </ul> (Based on total borrowings with the bank)	<ul style="list-style-type: none"> <li>· Standard Variable rate</li> <li>· Viridian (LOC)</li> <li>· Fixed rate</li> <li>· Portfolio loan</li> </ul>	<ul style="list-style-type: none"> <li>· \$495 p.a.</li> <li>· No application fees or ongoing fees on unlimited loans (for limited products)</li> </ul>	<ul style="list-style-type: none"> <li>· Choice of Platinum or Gold Credit Cards with no annual fee</li> <li>· Includes Portfolio loan</li> <li>· No fees on transaction account</li> <li>· Insurance discounts</li> <li>· Appointed relationship manager</li> </ul>	<ul style="list-style-type: none"> <li>· Good discounts for lower value loans and extra discounts for high value loans</li> <li>· Lends to companies and trusts</li> <li>· Discounts off fixed rates (0.15%)</li> <li>· Can use intro rate products</li> </ul>	<ul style="list-style-type: none"> <li>· Inflexible offset product.</li> <li>· LOC is only really competitive if total lending is over \$500,000</li> </ul>
<b>St George/ Professional Benefits</b>	<ul style="list-style-type: none"> <li>· \$100,000-\$149,999 = 0.25% (NSW/ACT - Nil)</li> <li>· \$150,000-\$249,999 = 0.40% (NSW/ACT = 0.25%)</li> <li>· \$250,000-\$499,999 = 0.70% (NSW/ACT = 0.50%)</li> <li>· &gt; \$500,000 = 0.70% (NSW/ACT = 0.70%)</li> </ul> (Based on total borrowings with the bank)	<ul style="list-style-type: none"> <li>· Portfolio (LOC)</li> <li>· Standard Variable</li> </ul>	<ul style="list-style-type: none"> <li>· \$300 discount off application fee</li> </ul>	<ul style="list-style-type: none"> <li>· No annual fee on credit card</li> <li>· Insurance discounts</li> </ul>	<ul style="list-style-type: none"> <li>· Very good interest rate discounts</li> <li>· Portfolio product is user-friendly</li> </ul>	<ul style="list-style-type: none"> <li>· Early repayment fees exist for 3 years</li> <li>· Must pay application and ongoing fees with each new loan</li> </ul>
<b>NAB/Choice Package</b>	<ul style="list-style-type: none"> <li>· 0.5% off standard variable rates</li> <li>· 0.15% off line of credit (for total borrowings of at least \$150,000)</li> </ul>	<ul style="list-style-type: none"> <li>· FlexiPlus (LOC)</li> <li>· 100% offset (principal &amp; interest only)</li> </ul>	<ul style="list-style-type: none"> <li>· \$375p.a.</li> <li>· No application fees or ongoing fees on unlimited loans (for limited products)</li> </ul>	<ul style="list-style-type: none"> <li>· No fees on loans, credit cards and transaction accounts</li> <li>· Insurance discounts</li> </ul>	<ul style="list-style-type: none"> <li>· Unlimited loans, transaction accounts and credit cards</li> <li>· Lends to companies and trusts</li> </ul>	<ul style="list-style-type: none"> <li>· Maximum discount of only 0.50%</li> <li>· Little discount off LOC</li> </ul>
<b>BankWest/ Gold Home Loan</b>	<ul style="list-style-type: none"> <li>· \$100,000-\$249,999 = 0.30%</li> <li>· &gt; \$250,000=0.50%</li> </ul> (offset only) (discounts extrapolated from difference in product rates)	<ul style="list-style-type: none"> <li>· Gold Intro Variable</li> <li>· Gold Equity Release</li> </ul>	<ul style="list-style-type: none"> <li>· \$300 p.a. if customer has a line of credit</li> <li>· If so, no other application/ongoing fees for multiple loans apply</li> </ul>	<ul style="list-style-type: none"> <li>· No annual fee on gold credit card</li> </ul>	<ul style="list-style-type: none"> <li>· Can choose 12 month intro rate which reverts to discounted standard rate</li> </ul>	<ul style="list-style-type: none"> <li>· Minimum discount off line of credit</li> <li>· Break fees exist with some loans</li> </ul>

**Questions to Ask About Professional Packages**

- How are interest rate discounts measured and do they increase with increased lending?
- What products are included in the package or not included?
- Do any early repayment fees exist?
- What costs, if any, are there to restructure individual loan balances?
- Has the lender got an advantageous borrowing capacity?
- Are companies/trusts acceptable applicants (if applicable)?
- Do they have any restrictive policies that will affect you accessing equity (e.g. can you only revalue every 12 months)?
- What ongoing support is available (e.g. are you assigned a personal banker, can you use a branch network, and do you have to go back to your broker)?

borrowing capacity by using multiple lenders. Once again it comes down to how lenders assess “external debt” – that is, debt that is external to the lender you are dealing with. Some lenders will use the actual external debt repayment amount in their assessment. Alternatively, some lenders will recalculate the external debt loan repayments on a principal and interest basis using a higher interest rate. This can make a huge impact.

**THE FINAL WORD**

As you can see, there’s a lot to consider when choosing a professional package and they certainly are not all the same. However, by asking a few important questions, you should be able to narrow down the best lender for you.

That said, watch this space... because it can (and probably will) all change tomorrow. Lenders regularly change credit policies, products and packages. There’s nothing to say that the package you signed up for today will be the same tomorrow. Therefore, probably the most important lesson to take away with you is... maintain your flexibility. Make sure you can change loan structure, balances and lenders without incurring any significant costs. Best of all, build a strong and trusting relationship with your lender or mortgage broker and learn as much as possible from them.

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