TRILOGY
INVESTMENT PROPERTY FUNDING

Deposit Under Lien

'Deposit Under Lien A powerful loan structuring strategy for freeing up security and keeping more in your hands'

A Deposit Under Lien is a useful structure when you don't want to give the bank any more secuirty than they need. It can also be used to unravel crossed loan structures where crossed structures present an actual or potential barrier to your wealth creation goals.

WHAT IS A DEPOST UNDER LIEN?

A lien is a "right to retain possesion of another's property pending discharge of a debt".

We can have a lien over real estate or any kind of property that has value to the holder. A term deposit could have a lien over it pending the discharge of another debt. This is called a "Deposit Under Lien".

In case this seems a bit confusing, lets look at a simple example.

About the Author

ED NIXON

Ed Nixon is the CEO of Trilogy Funding, a boutique mortgage broking firm that specialises in helping property investors arrange and structure the right loans for long term stability and flexibility.

He has been involved in the finance industry since 1991, with 13 years experience in commercial finance. In early 2003, he changed his focus to specialist mortgage broking.

Ed's area of expertise is 'structuring multiple loans for continued investing'. He runs seminars on this subject for property investors and industry groups.

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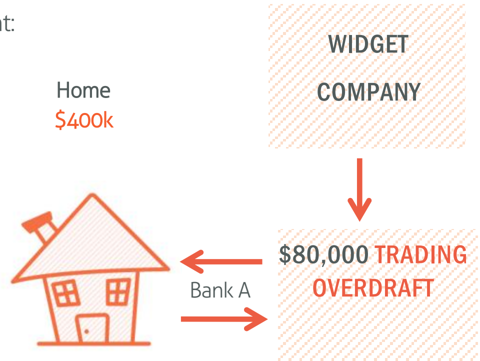
A simple example:

Mary owns a company and needs to establish an overdraft. She approaches her bank and they say, "Fine, give us your house as security". Her home is worth $400,000 yet she only requires an $80,000 overdraft. If anything happened to her company, her home would be on the line.

Fairly standard arrangement:

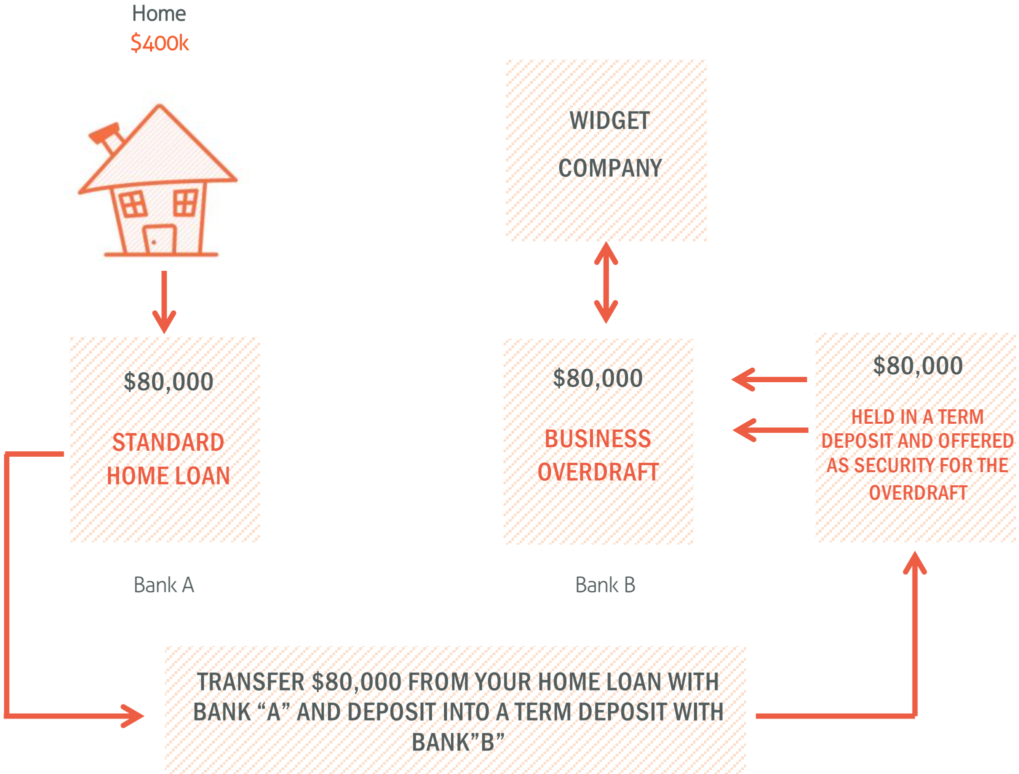


By using a Deposit Under Lien, Mary can obtain the money her company needs and protect her home at the same time.

She would go to her business bank, Bank B and offer them a term deposit of equal amount, which would be under lien to her company overdraft. Then she goes to a different bank, Bank A, and borrows $80,000 using her house as security, giving funds to Bank B. These funds will sit in an account with Bank B and be under lien to her company overdraft with them.

Now Mary has 2 banks and she is in total control of her securities. If her Widget company gets into trouble, her house shouldn't be on the line.

For example:



A slightly more complex example from our files:

In this example, restructuring allows our client to move from a position of no serviceabilty to one of serviceabilty.

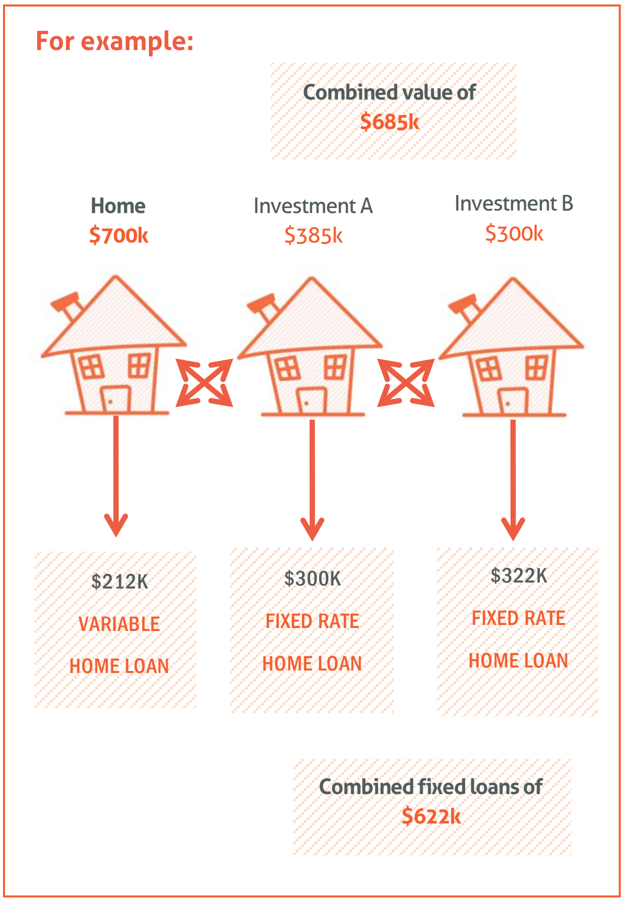
A Deposit Under Lien can also be used to discharge an existing mortage over an investment property. In this example the client's portfolio had grown substantially in value but they had no serviceabilty left with their existing lender. However, they did suit the serviceability requirements of another bank.

Here's an outline of their portfolio:

Home: Worth $700,000, debt of $212,000 on a variable rate.

Two investment properties: Combined value of $685,000, combined debt of $622,000 with fixed rate loans. Exit fee's if broken

> $15,000.



In total, the bank was holding $1,385,000 worth of security against $834,000 worth of debt, or a loan to value ratio (LVR) of 60%.

Despite the fact that in general, banks will allow an LVR as high as 80%, the bank refused to allow this client to take out the remaining 20% equity. Some restructuring was required to release the equity.

Firstly, they refinanced their home to another bank. Now their original bank that holds their investment properties has a debt of $622,000 against $685,000 of security, or a 90.80% LVR.

Small problem: Banks usually have to insure loans over 80% LVR so the bank said as part of their credit lending policy that they would require $74,000 to drop the LVR to 80%.

Bare in mind that this bank had already said that they were not prepared to lend any more money. However, they were prepared to accept a Term Deposit Under Lien of $74,000.

SIDE NOTE: We couldn't reduce the fixed rate loans by $74,000 otherwise we'd have triggered a break cost.

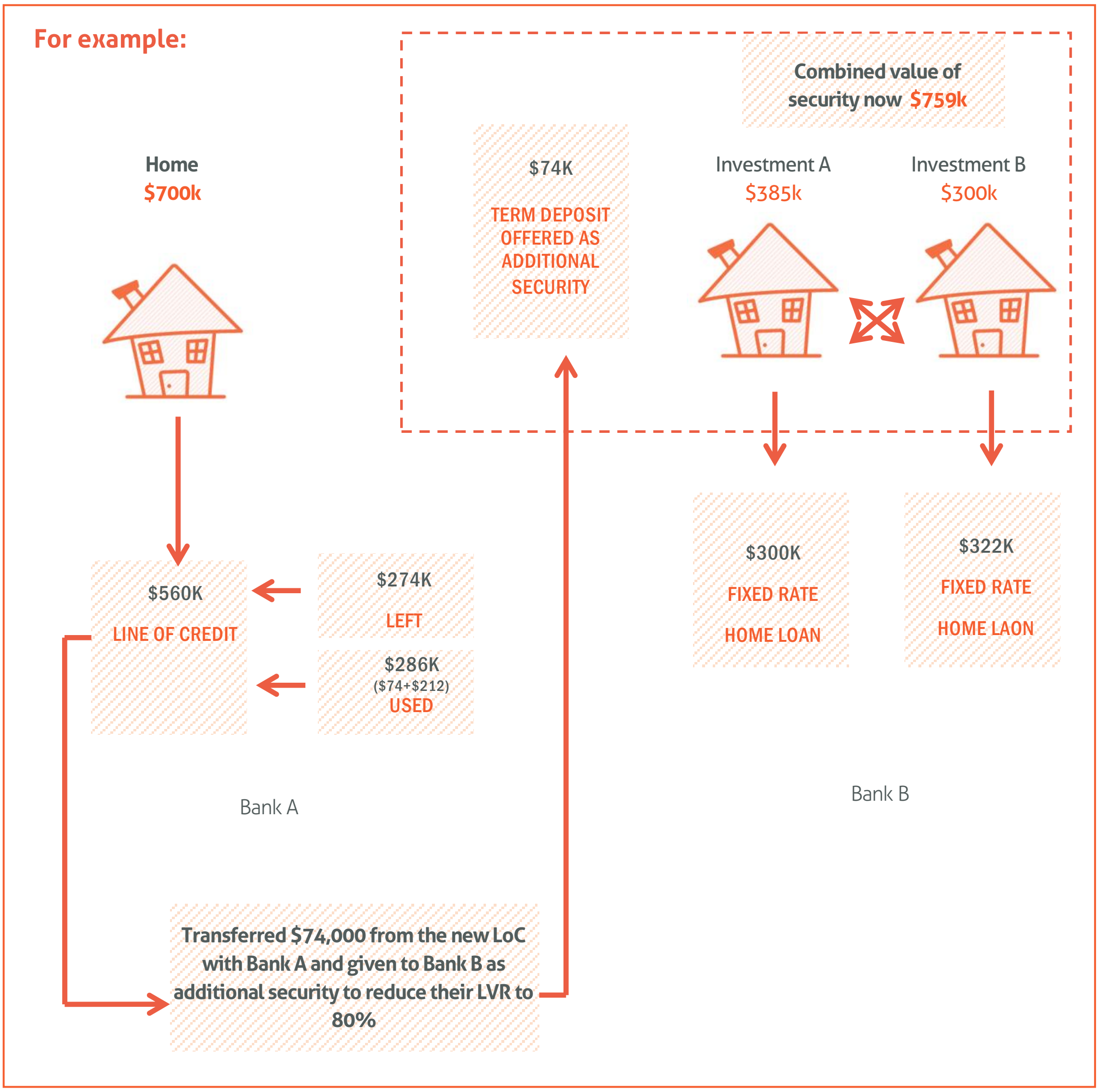
Getting the $74,000

The client took the $700,000 home and refinanced it with another bank, structuring the loan to 80% LVR.

The client then borrowed $560,000, which included $212,000 for their existing mortgage and the $74,000 for the Despoit Under Lien with the other bank.

This left them with a surplus of $274,000. This freed up equity and gave them the chance to find other investment opportunities.

Here's how it all looks in a diagram:



SIDE NOTE: If you have a fixed rate loan and are looking to sell but the exit fees are onerous, then this is a way to avoid them. If it all sounds too complicated then give us a call and we'll see if we can help.

WHAT ABOUT GETTING THE $74,000 BACK?

When the two investment properties rise in value, it is possible the security property could be re valued. If these properties rise in value by $92,500 ($92,500 x 80% = $74,000), the bank could give them back their $74,000 Term Deposit, which the bank is holding as part of a lien.

Bonus: they also receive interest on the cash in the term deposit.

The value of correct loan structuring

In the above example, through restructuring their loan portfolio, our clients were able to access equity that was previously unobtainable and move on with their investing journey.

My hope is that this Report has provided you with some useful knowledge and strategies that will help you become a more successful investor.

But you also have to keep in mind that every situation is different, and that your ability to obtain finance or structure your loans will largely depend on your specific circumstances and the lending criteria of different lenders.

That's why I'd like to extend to you a free, no-obligation consultation with one of our professional mortgage brokers..

To arrange your free phone consultation, pick up the phone and call Trilogy Funding on **1300 657 132** (business hours).

We can be found at Building 1, Level 1, 70 Kent Street, Deakin, or drop us a line at PO Box 60, Deakin West, ACT, 2600