



Your shot of  
property management  
news from



## Understanding your bank's lending formulas

What is the maximum they will be prepared to lend you? How do they calculate these amounts?

Although every banking relationship is different, Australia's largest five banks (NAB, CBA, ANZ, Westpac and St George) use the following two formulas as their main guide in assessing loans to you.

### Loan to Value Ratio (LVR)

The LVR is probably the number one factor in assessing how much the bank is prepared to lend you against the value of your property.

LVR's vary according to market conditions and your individual relationship but in broad terms you should look at **80%** as a common number (with mortgage insurance you can go up as high as 95%).

For example:

mortgage total  
 $\$765,000 / \$975,000 = 0.7846$   
 bank valuation of your property

As far as the bank is concerned there is an **LVR of 78.46%**.

If the bank has an LVR policy of 80% you are within their limits.

In theory you may be able to borrow a further \$15,000 as this takes your LVR up to 80%.

### Debt Servicing Ratio (DSR)

The second main issue in lending lies in whether or not the bank thinks you can afford the payments based on your income or cashflow.

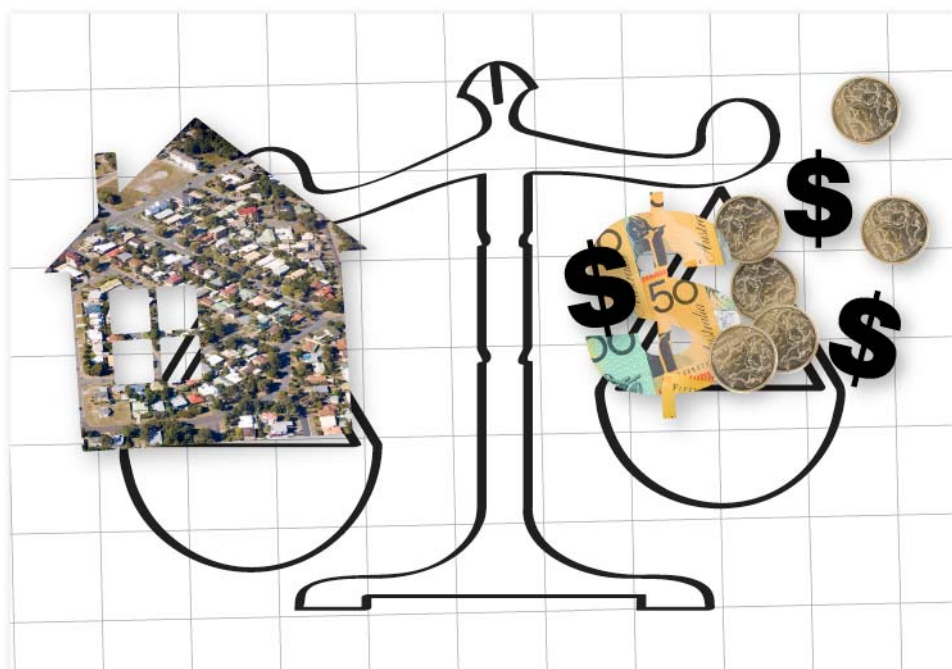
As a general rule the bank will only allow you to borrow an amount that will cost you around **30 - 35%** of your annual gross taxable income.

This figure is calculated as follows:

Total loan payment commitments /  
 gross taxable income = **DSR**

For example: 12 months x \$3,650 = \$43,800 / annual total income of \$185,000 = a **DSR of 23.67%**.

A little knowledge goes a long way when dealing with banks so it's handy to have an understanding of these formulas both to save time and to ensure your investment strategy remains focused.





Landlords, the world of energy efficient appliances and strategies is heading your way. It's no longer okay to use the spare shower head you removed when you moved into your new house in your investment property.

The world is becoming more energy conscious and as a consequence most people want to live a lifestyle which uses less power, less water and at a reduced cost. Technology is also working to improve our comfort and lifestyle, hence the move to **digital TV nationally** (a topic we will cover in detail in the next issue of Espresso).

As was discussed in a previous Espresso, the Government is currently offering **two rebates for homeowners and landlords**, the Solar Hot Water Rebate and the Home Insulation Program. If you haven't already taken advantage of these offers, now is the time! Details on eligibility can be found at [www.environment.gov.au/rebates](http://www.environment.gov.au/rebates).

Here are some other ideas to budget into the last five months of the financial year that will also help maintain a long and happy tenancy:

- ✓ **Recommend a green power supplier. Most major energy companies have green energy options and this information could be included with the welcome pack when tenants sign a lease.**
- ✓ **At the next change of tenancy, change all of the light globes in the property to energy efficient ones.**
- ✓ **In some states it's law but it's also good practice to change water-using items such as shower heads, taps and toilets to water efficient models. As they require maintenance, check with your property manager on conditions for their replacement.**

Queensland already has the "Sustainability Declaration" for vendors. Start making changes now to maintain the long term value of your property without being hit with the costs all at once.

## Cairns Front Door Realty

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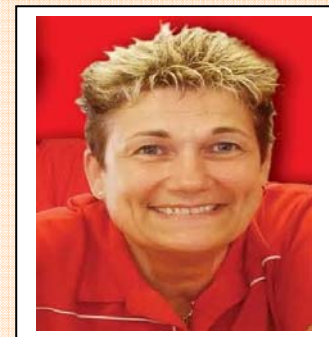


## Did you know...

Each of the suits on a deck of cards represents the four major pillars of the economy in the middle ages: Hearts represented the Church, Spades represented the military, Clubs represented agriculture, and Diamonds represented the merchant class.



**Eco tip**  
Food (producing, transporting and consuming) accounts for a massive **42%** of our personal carbon footprint. Look into buying from local suppliers and check for eco friendly labels.



## Juliette says.....

- My ideal tenant** One who knows the meaning of *reasonably clean*
- My favourite restaurant for breakfast** Perotta's on Shield St. "The best in Cairns"
- What I love about (Cairns)** The friendliness of the people around you. Everyone is happy to be here .
- What I do in my spare time** Relaxing and enjoying the outdoors
- My favourite pet** - Dogs, Because they love unconditionally .