DELPHI & CO

BEGINNING OF SOMETHING NEW

FREE REPORT · GENERAL INFORMATION ONLY

THE USABLE EQUITY REPORT

How homeowners use their equity to buy their next property

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YOUR EQUITY. YOUR NEXT PROPERTY.

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01

BEFORE YOU READ: THE NUMBER THAT DECIDES WHAT HAPPENS NEXT

You've paid your mortgage for years. Your home has gone up in value. Friends talk about their second property, and somewhere in the back of your mind is a question nobody has answered properly: how much of my home's equity could I actually use?

Many homeowners never get a straight answer. So they do one of two things. They guess low and wait, year after year, for a deposit they could already have. Or they guess high, fall for a property, and find out at the lender's desk that the numbers don't hold.

Both cost you. Waiting costs time. Guessing high costs money, stress and sometimes the next purchase as well.

This report is the straight answer, in plain English. In the next few pages you'll learn:

- what usable equity is, and why it's smaller than the equity you've built;
- the three mistakes that hold homeowners back, and how to avoid them;
- the rules every buyer meets: stamp duty, land tax, lenders mortgage insurance, the lender's buffer and cooling-off;
- how to plan your first investment purchase so it sets up the next one;
- a short checklist to see where you stand today.

It's general information, not advice about your own situation. Read it with a cup of tea, then take the Position Check to put your own rough numbers to it.

02

USABLE EQUITY, EXPLAINED

Equity is the simple part: what your home is worth, less what you still owe on it.

Usable equity is the part that matters when you want to buy again. It's the part of your home's value a lender will let you borrow against, less what you still owe. Lenders commonly go up to 80 per cent of your home's value without lenders mortgage insurance. So the number a lender starts from isn't your home's full value. It's 80 per cent of it.

That's why usable equity is always smaller than your equity. And it's the number that can pay the deposit and the purchase costs on an investment property, without selling your home and without years of saving.

A worked example (example only)

These figures are a made-up example to show the working. They aren't anyone's real figures, and they aren't a forecast.

STEP	WORKING	EXAMPLE ONLY
What the home is worth	A valuation	$900,000
What a lender will lend against	80 per cent of $900,000	$720,000
Less what's still owed	The home loan balance	$400,000
Usable equity	**$720,000 less $400,000**	**$320,000**

In this example, the equity is $500,000 ($900,000 less $400,000). The usable equity is $320,000. Plan around the bigger number and the plan falls over before it starts.

Two things to keep in mind

Usable equity is borrowed against your home, so it's still a loan. Your income has to support the repayments on it, and on the loan for the new property as well. That's your borrowing capacity, and a lender assesses it separately.

Your usable equity also changes. A new valuation, the repayments you've made and changes to your loan all move it. So it's worth checking again before every purchase, not only the first.

03

THE THREE MISTAKES THAT HOLD HOMEOWNERS BACK

Many people who want to invest with their equity don't fail for lack of effort. They fail because they make one of these three mistakes, usually without knowing it.

Mistake 1: planning around equity, not usable equity

Your home's value less your loan feels like the number. It isn't. The lender's number is smaller, and your borrowing capacity has to support the new loan as well. Start with the wrong number and every decision after it is built on sand: the price range, the area, the timing.

The fix: work out your usable equity and your borrowing capacity first, with a broker confirming the real figures, before you look at a single property.

Mistake 2: finding the property first and the plan later

It feels like progress. You find a place you like, then work out how to pay for it. But the first purchase decides what's left for the next one. Buy the wrong first property, in the wrong place or with the wrong loan set-up, and it can tie up your equity and your borrowing for years. That's how a portfolio stalls at one.

The fix: plan the sequence first. Know what the first purchase needs to leave behind so the second one is possible, then find the property that fits the plan.

Mistake 3: leaving costs out of the numbers

Stamp duty, land tax, lenders mortgage insurance, building and pest inspections, conveyancing and loan costs all land before the first rent does. Leave one out and a property that looked right doesn't add up. Other debts catch people too: lenders usually count a credit card's full limit, even when it's paid off every month, and car and personal loans reduce what's left for a new loan.

The fix: put every cost and every debt into each property's numbers before you decide, not after.

04

THE RULES EVERY BUYER MEETS

Australian property has rules, and they change from state to state. You don't need to become an expert in them. You do need to know they're there, so none of them surprises you halfway through a purchase. Here are the five that matter most when you buy with your equity.

Stamp duty

Stamp duty is a one-off tax on buying property, set by each state and territory. The rules for investors are different from the rules for people buying a home to live in, and first home buyer concessions generally don't apply to an investment property. The state you buy in changes the upfront cost, so it belongs in the numbers from day one.

Land tax

Land tax is a yearly cost on investment property. Each state sets its own thresholds, rates and rules, and it's charged on the land value, not the purchase price. Two properties at the same price in two different states can land very differently. It's an ongoing cost, so it belongs in every property's numbers, every year.

Lenders mortgage insurance

Lenders mortgage insurance protects the lender, not you. It usually applies when you borrow more than 80 per cent of a property's value. A larger deposit, including one that comes from your usable equity, can mean it doesn't apply. Your lender or broker confirms it for your loan.

The lender's buffer

When you apply for a loan, a lender checks you could still make the repayments if interest rates were higher than the rate you'll actually pay. That test is called the serviceability buffer, and it's part of every assessment. It's one of the main reasons people can borrow less than they expect. Knowing it early stops you planning around a number a lender won't approve.

Cooling-off

In most states, a residential contract comes with a cooling-off period: a short window after signing when you can step back from the purchase, usually for a small cost. How long it lasts, what it costs and whether it applies (it often doesn't at auction) all differ by state. Your conveyancer explains the rules for yours, along with the finance clause and the building and pest clause that protect you.

05

PLAN THE FIRST PURCHASE WITH THE NEXT ONE IN MIND

One investment property is a property. A portfolio is a sequence of purchases bought in the right order, each one planned with the next in mind.

The order matters because every purchase changes your usable equity and your borrowing capacity. Here's how the planning works, step by step.

1. **Start with your numbers.** Your usable equity, your borrowing capacity and every cost, confirmed by a broker before you search.
2. **Decide what the first purchase has to leave behind.** Enough usable equity and borrowing room for the next step, not only enough to buy this one.
3. **Choose where to buy with the rules in mind.** Stamp duty and land tax differ by state, and land tax thresholds are counted per state, so where you buy shapes what comes next.
4. **Set up the loan for the plan.** How the loan against your home and the loan on the new property are structured shapes what you can do later. That's a conversation for your broker and your accountant.
5. **Review after settlement.** Six months after settlement, look at your usable equity and borrowing again, across your home and the new property. That's where the next purchase gets planned.

None of this needs a crystal ball. It needs the right order, and someone who has done it many times walking you through it.

06

A SHORT CHECKLIST: WHERE DO YOU STAND TODAY?

Tick off what you know for sure. Every box you can't tick is a question worth answering before you buy.

- [ ] I know roughly what my home is worth today.
- [ ] I know what I still owe on my home loan.
- [ ] I know my usable equity: 80 per cent of my home's value, less what I owe.
- [ ] I know roughly what a lender would let me borrow, including the buffer.
- [ ] I know the stamp duty and land tax rules in the state I'd buy in.
- [ ] I've counted every purchase cost, and every debt, including credit card limits.
- [ ] I know what my first purchase needs to leave behind for the next one.
- [ ] I know which questions to ask my broker and my accountant before I buy.

If you ticked fewer than half, you're not behind. You were never taught. The next step takes about a minute.

07

WHERE YOU STAND: TAKE THE POSITION CHECK

Reading about usable equity is one thing. Knowing your own figure is another, and it's the one that decides what you can do next.

The Position Check is a short set of questions about your home, your work, your income and your goals. In about a minute it gives you a rough read of your own usable equity, worked out the same way as the example in this report. A rough answer is fine for every question.

It's free, there's nothing to buy, and you see your result straight away.

Take the Position Check: delphiandco.com/delphi-scorecard

Delphi works with homeowners who work full time, have a household income of $100,000 or more and have about $100,000 or more in usable equity. If your answers show that, you can pick a time for a free Coaching Call at the end of the Position Check. If not yet, we'll send you useful information as

things change, and you can check again any time.

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THE FREE COACHING CALL

The Coaching Call is a video call with a Delphi specialist. It's where we show you how Delphi works, and it starts with your numbers.

You leave the call with three things:

- your usable equity worked out;
- the rules that apply where you'd buy;
- a plan for your first purchase and the one after it.

There's no cost and no obligation, and you keep your numbers whatever you decide.

Delphi & Co is a licensed buyer's agent. We have always helped homeowners build portfolios using the equity in their home, and it's now the focus of everything we do. Lending is arranged by independent licensed mortgage brokers we coordinate, and tax questions belong with your accountant.

Book a Coaching Call: it starts with the Position Check at delphiandco.com/delphi-scorecard

09

A NOTE ON THE FIGURES

These are rough figures to guide the conversation. Nothing is 100% until you speak to our broker.

This report is general information only. It doesn't take into account your objectives, financial situation or needs, and it isn't personal financial, credit, tax or legal advice. The example figures are made up to show the working; they aren't a forecast, and no outcome is promised. Talk to a licensed professional about your own situation before you make a decision. Delphi & Co Pty Ltd, 1800 577 526, info@delphiandco.com.