

Have an interesting deal?

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A BIG DEAL

Daniel O'Brien, director of PFS Financial Services, saved his client thousands of dollars on interest repayments by delivering what the banks couldn't

THE FACTS



Loan size
\$1.25m



Loan term
30 years



Client
Male in his 50s



Goal
To reduce interest rate



Location
Sydney's Eastern Suburbs

THE SCENARIO

A new client who was recently referred to me had a \$1.25m commercial loan against his commercial property. The client was incurring an interest rate of 6.75% and \$60 a month in ongoing fees. Being a commercial loan, the term was over 15 years and the client had principal and interest repayments. Apart from wanting to get a cheaper interest rate, the client was keen to improve his cash flow and have more repayment flexibility. He wanted a lower contracted repayment and to be able to pay more when he wanted to.

Our plan was to restructure the loan to a much cheaper residential loan by altering the security arrangements (on remaining debts) at his current bank and going forward at a new bank for this loan.

Initially the client was sceptical that his rates could be reduced by more than 2%. He was also heavily intertwined with his current bank due to numerous business banking facilities, an overdraft, credit cards, personal guarantees and fixed and floating charges over his company.

We also had to get involved with the client's accountant to confirm that the financial restructuring would not have any negative tax implications. Once the accountant confirmed that our structure was suitable and it wouldn't result in any negative impacts, the client couldn't wait to sign up. The potential savings were very significant.

The wrinkle in this deal was the business banker at the client's current bank. We

wanted to leave all other non-loan facilities with his current bank, but to take away one of the securities – the client's personal home. As security, the bank had both the client's home and his commercial property. There

Our role, in a nutshell, is to use our knowledge and experience to make getting a loan quicker, easier and less stressful for the client

was plenty of equity in the commercial property to support what was left, but the business banker was reluctant to let anything go. Seeing as we were taking away a \$1.25m loan, the banker wasn't happy. But at the end of the day, he couldn't get anywhere close to matching what we could do.

THE SOLUTION

Once we were able to remove the client's residential property from his current banking arrangements, we were able to restructure the commercial loan as a residential home loan against his residential property. He had substantial equity in this residential property, so we essentially just swapped security properties for this particular loan. We were able to get the client's rate down from 6.75% to 3.88% with

no ongoing fees. This is saving him over \$30,000 per annum in interest!

Our client really appreciated the fact that we thought outside the box in his case. It was clearly a commercial loan for a commercial purpose. The particular bank we went to was okay to refinance commercial or business purpose loans as long as the security was residential. The client had owned the property for eight years and had previously just had to 'grin and bear' the traditional loan for that asset, which was a much more expensive commercial loan.

Some of the bankers at the big banks can get a little institutionalised. They get sloppy, lazy and forget what they are there to do: look after the best interests of their clients. Instead they often look after the bank's best interests as it's easier and quicker. It definitely takes more time and effort to be creative and think outside the box to achieve a better client outcome. I guess this is why the broker market share grows every year. We work for the client, not the bank!

THE TAKEAWAY

I feel that this deal is a good example of the value of using a mortgage broker as opposed to going directly to the banks. As a broker, we have numerous banks to choose from. Often this advantage is marketed on a price basis, ie brokers can find you the best deal. But to me, the real value of a broker and having access to multiple banks is that we have more



Daniel O'Brien
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