Explore options when re-financing

A LEADING Gold Coast mortgage planner is encouraging small business owners to research broader finance options before making decisions that could put their home in jeopardy following Australia's 11th successive interest rate rise.

According to Mark Edwards, many SMEs are not aware of some of the options available to help them when managing cash flow and expanding business.

"The majority of people who go into business are people who are good at something with which they earn their living, but their experience with finance is typically domestic," he says.

Edwards advises those feeling the pinch of the last interest rate hike to talk to a mortgage planner or financial advisor about other types of loans that might assist smoothing out cash flow issues.

> Shared equity loans are relatively new to the Australian market and not a lot of people are fully up to speed on what they are

"If you're looking to purchase a property, perhaps premises for your business, or for investment, an interest only loan requires you to make the interest payments. When you decide to sell you won't have paid any of the capital but with the right the property, you may have made a return based on market increases," he says.

"Cash flow loans allow people to adjust their cash flow by capitalising a portion of their interest expense. The overall pricing is these types of loans are slightly higher but they allow you to direct funds elsewhere such as into the business or to make an investment. They're great for cash flow in business as certain times of year are predictably slow such as around Christmas for non-retail businesses.

"As an example, a couple have a home loan and investment loan with the rental property requiring them to contribute an extra $100 per week towards the loan repayments. The wife fell pregnant and she was to cease work for a period of time that meant they could not support the shortfall.

Mortgage planner Mark Edwards

"We refinanced into the cash flow loan and this then created a positive cash flow of $100 per week from the rental income and allowed them to retain the property for future capital growth."

Edwards says many small business owners also opt for line of credit loans, using equity in their homes.

"Lines of credit can provide the additional cash required to cover cash flow shortfalls or to invest. They can be very useful but don't forget that it is a loan that you are making to your company and you should have processes in place to pay it back," he says.

He also points to share equity loans as an option for business owners who are looking for solid returns by investing in commercial property.

"Shared equity loans are relatively new to the Australian market and not a lot of people are fully up to speed on what they are," he says.

"What it means is (that) the lender becomes a partner with you in the asset. For instance, you may be looking at a commercial premises on the market for $400,000 but can only support a loan to the value of $300,000. In a shared equity arrangement, a third party lender will put up the extra $100,000 for a stake in the property. When the property is sold that lender will receive a quarter of the profits from the sale."

In a parting shot, Edwards says the most important aspect for business owners to consider when re-financing is establishing realistic growth and cash flow targets.

"Doing that will put you miles in front and give you a realistic view of how you can ensure your business remains profitable," he says.