

# What is Cross Securitisation?

Cross securitisation or cross collateralisation is the event whereby a lender holds the mortgage against more than one property as security for the lending they are providing you.

For Example:

Owner Occupied - Home 1 Happy Street, Suburbia – Value \$500,000 Current Loan \$200,000 Bank A  
New Investment Purchase – 1 Wealth Street, Suburbia – Value \$350,000 New Loan \$367,500 Bank A

In this example the reason why the lender has agreed to issue the new loan for greater than the actual security value of the new investment property is because they will be taking the mortgage against both properties. This reduces the lenders overall risk, because they are staking an interest on both properties now as a first mortgage. This gives them first priority to recoup any potential losses against those properties in the event you fail to meet your obligations regarding the loan.

## The Disadvantages and Risks associated with Cross Securitisation of your Property Portfolio

1. Potential Lost Opportunities – As an investor looking to build or expand your property portfolio, the use of equity (the realised gain in the value of your property against the debt) is very important. Let's assume you have two properties and you are thinking about buying your third. If your properties are cross securitised they will have to both be valued by the lender. However, what happens if one property has actually dropped in value and the other property has actually grown in value? The lender will not allow you to release any further equity because your overall equity position in their eyes has not improved.  
Let's assume you opted to have your properties uncrossed – You would not get the first property valued because your research is telling you there has been no growth in the value of the property, yet the second property has grown by \$40,000 in value. If the property was the only security offered against the mortgage, you would be able to apply to the lender to release all or a portion of this money, which could potentially be enough to pay a deposit on your next purchase.
2. Having all of your properties under the one umbrella will result in additional valuation costs, as every property that is cross securitised will need to be valued every time you decide to make a material change to your lending. Very costly and very time consuming indeed – Not forgetting the inconvenience it causes your tenants.
3. When you sell a property that is cross securitised, the lender, under the terms of the mortgage, has the potential power to seize any profits from the sale has generated, to strengthen their overall position against your loan position with them. (They don't need your permission, post settlement, because it was within their lending contracts you signed when you took out the

loan, or it was noted in the contract that the lender has legal rights to change any conditions of the contract as they see fit).

4. When you sell a property that is cross securitised it will result in new mortgage amendment, which comes with extra costs and additional paperwork to review and complete
5. Buying investment properties across some state borders, where Mortgage Duty still exists, will incur thousands of dollars in unnecessary costs. This is because the state government will tax Mortgage Duty on not only the new lending against the new property, they will also charge this duty on any lending associated with any other 'crossed' properties involved in the transaction.

Branch lending is notorious for this, as their goal is to obtain the strongest lending position for the bank. In the majority of cases these fees could have been completely zero, if it hadn't been for the lack of knowledge and understanding of the person organising and structuring the loan. (Branches and Direct channel lenders are not specialist lenders, when it comes to correct and strategic investment loan structuring needed for smart investors). I hope you weren't the victim of such poor advice, as it may have cost you thousands, not to mention the extra interest you would have paid on this additional money borrowed!)

6. If your lender becomes uncompetitive or you no longer believe they are offering you good service, it is very costly and time consuming to switch lenders.
7. Superior wealth creation requires good cash flow management and sufficient provisioning for future cash needs. Any slip up with your lender could put your whole portfolio at risk if it is crossed securitised. Having them separated will alleviate a portion of this risk. A further way to alleviate risk is to potentially have your portfolio (more than 3 properties usually) spread across a couple of lenders, instead of them all in the one basket. This also allows you some flexibility and opportunity to potentially negotiate with either party to win any new business from you, through competition for your lending
8. The lender/bank holding your 'crossed' properties may adjust their lending criteria or your particular lending may have conservative lending practises, resulting in your inability to obtain further borrowing capacity to continue with your wealth building program. Uncrossed properties are usually easier to refinance (and less costly).
9. Your lender's lending policy may also be restrictive from a 'capacity' sense, whereby once you build a multiple property portfolio, they may decline your future request based on things such as, being too reliant on rental income or an overweighted position in residential property security as a couple of examples
10. The ability to substitute securities on a mortgage can be extremely complex, time consuming and potentially costly, if the bank is looking to add this new security against the other mortgages

within a cross securitised portfolio. Substitution of a security is an extremely effective way to avoid penalty or break fees on any lender you have. Empower Wealth has saved several clients tens of thousands of dollars in break fees using this strategy, and it may be an easier outcome to achieve if we are dealing with one for one security instead of a combined set of securities.

Cross securitised lending is the standard practice, in the market today. Branch and direct lending staff will try it on every time. Furthermore, inexperienced or general brokers may not even realise the loans they are putting up to the lenders for investment are also being treated this way by the lender by being 'crossed'.

Empower Wealth's Mortgage broking staff are, experienced specialist Mortgage Strategists, who are also active property investors themselves. Cross securitisation is an example of one trap that unsuspecting investors can get sold into, which is putting them and their investment at a disadvantage and risk. What even more concerning is this is only one of many other potential dangers for ill informed investors, who are making mistakes with money and investments.

You owe it to yourself to work with a trusted team of people who are committed to helping you achieve financial freedom with your investments. Loan structuring and strategy is a critical part of that process you don't want to get wrong and we are here to help you get it right

Contact us today!