TRILOGY
INVESTMENT PROPERTY FUNDING

How to tell the difference between a Term Loan and a Reviewable Loan and why it's important to know the difference.

To be successful in property investing, it is important to understand the fundamentals of loan structure and financing.

Let's take a look at the difference between the two most common loan types:

- **Term Loans**
- **Reviewable Loans**

These loans are very different. We advise our clients to be especially cautious when it comes to Reviewable Loans. We'll explain why in a minute. But first, let's define the loans.

TERM LOAN

A TERM LOAN has a **set term**—often 30 years; the first 5 or 10 years might be 'interest only' and then the remainder of the term will be principal and interest. The conditions of the loan remain constant.

REVIEWABLE LOAN

A REVIEWABLE LOAN is a loan the lender can review—and change—**at any time** and **for any reason.**

About the Author

ED NIXON

Ed Nixon is the CEO of Trilogy Funding, a boutique mortgage broking firm that specialises in helping property investors arrange and structure the right loans for long term stability and flexibility.

He has been involved in the finance industry since 1991, with 12 years experience in commercial finance. In early 2003, he changed his focus to specialist mortgage broking.

Ed's area of expertise is 'structuring multiple loans for continued investing'. He runs seminars on this subject for property investor and industry groups.

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KEY POINTS YOU NEED TO KNOW

• With a Reviewable Loan, the lender can change not only the interest rate, but the terms—and even call in the loan meaning you'll have to pay out the loan.

• When you make the repayments successfully on a Term Loan, the bank gives you what's called 'Silent Enjoyment' of the security. This means the bank will pretty much leave you alone—provided you're punctual with the repayments.

• Banks typically write Term Loans for consumer and commercial lending. Term Loans are often used for equipment finance, personal loans, and residential loans.

• Even if you're making payments on time, a bank can call in a Reviewable Loan—and not have to provide a reason.

• You'll find Reviewable Loans more so in the commercial sector for business overdrafts, commercial finance for buildings, and business finance. In the residential sector, banks use them for lines of credit.

• While a Reviewable Loan is rare in property investing, they do exist. And it's important to avoid the reviewable loan. Imagine having your loan called in or the terms altered totally out of the blue. It happens.

• Take a look at each loan to see whether you have a Reviewable Loan or a Term Loan. If you're not sure, call us at 1300 657 132 and we'll look at the loan for no charge.

• Before you sign on the dotted line make sure you know which type of loan you have.

• If you discover you have a Reviewable Loan, it's not the end of the world. There's no need to lose any sleep—provided you've been making the payments on time.

• The good news: you can often turn a Reviewable Loan into a Term Loan. Yes, the bank sometimes wants to have the flexibility a Reviewable Loan gives them. But if you tell the lender you're going to a different bank because they're giving you a Term Loan, your original lender may be 'amazingly helpful' and transfer you into a Term Loan.

Thankfully, the banking sector has made numerous changes in the last five years and these changes have made it easier for property investors and other borrowers to avoid a Reviewable Loan. Two notable changes…

1. Many experienced property investors use Interest Capitalisation—a powerful tool, it's now available with Term Loans.

2. It is now possible to get long-term 'Interest Only' loans, that means there is now no real need to take a line of credit (Reviewable Loan).

If you have any additional questions about the difference between Term Loans and Reviewable Loans, call us at 1300 657 132.