The Borrowers Guide to owning your First Home

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Buying your first home can be exciting and overwhelming at the same time. We have provided this guide to assist you in preparing for the home buying journey and we will be here with you, every step of the way.

Talk to your Mortgage Broker!

The lending process is complex, so it is important to engage your broker early in the piece. There is the deposit to think about, your borrowing capacity, the type of security and even the type of loan. Even if you are not quite ready to buy, we are here to get you prepared for the process so you can get into your new home sooner.

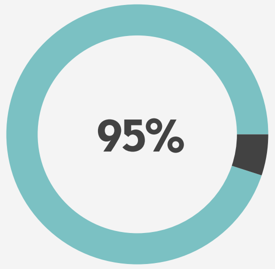
Your Deposit

Most lenders will want to see evidence of consistent savings over a period of 3-6 months. This is to show you have the funds to complete the transaction AND you have the discipline and commitment to pay your ongoing mortgage repayments once you settle your loan.

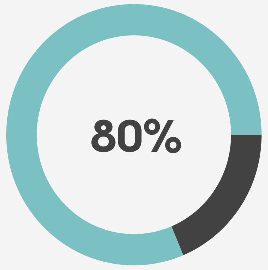
The amount of the deposit can be varied, some lenders will allow you to borrow up to 95% of the value of the property requiring you to only have 5% of the value of the property saved. This will require you to pay Lenders Mortgage Insurance (LMI).

LMI is a cost which you the borrower pay at settlement of your loan that protects the bank in case you default on the loan and they must sell the property at a loss. It is important to understand that LMI does not protect you if you get sick or lose your job. To avoid paying LMI you generally need to borrow less than 80% of the value of the property.

POSSIBLE TO BORROW UP TO:



AVOID LMI:



There are other options available to you too if you do not have the full 5% of the deposit saved, let us explore a couple of those now →

Family Guarantee:

A Family Guarantee allows your family, generally your parents, to provide their property as additional security to guarantee part of your home loan. This would allow you to borrow a high percentage of the property value (even up to 100%) without having to pay LMI.

It is important to understand the risks as well as the benefits. Assisting your children into their first home is a wonderful thing to do and a Family Guarantee can help them do it faster. However, it is important to understand that if the borrower defaults on their loan and the bank has to sell the property and there is a shortfall to clear the loan, the bank will then look to the guarantor to provide the shortfall up to the value of their guarantee. Given this, most banks do require the guarantors to receive independent legal and/or financial advice.

Rent In Lieu of Genuine Savings:

Some lenders recognise that it is hard to save your full 5% deposit while you are also paying rent. In some instances, lenders will allow you to use your rental ledger from your real estate agent to demonstrate capacity and commitment to meet the repayment obligations in the future. This then allows you to get a cash gift, generally from a family member, to make up the deposit.

Grants and Incentives:

There are several grants and incentives available to First Home Buyers at both the state and national level. Your Mortgage Broker can help you navigate which ones are right for you and links to the relevant state and national based schemes are in Appendix B.

Costs of buying your first home:

In addition to your deposit, it is important to factor in the other costs associated with buying your first home to ensure you have all the funds necessary to complete the transaction. These can include things such as:

Bank Fees
Including application and valuation charges.

Stamp Duty
Please note you may be eligible for a waiver of the stamp duty depending on the state you are borrowing in and your circumstances. Your Mortgage Broker or conveyancer can assist you.

Government Fees
These include things such as mortgage registration and transfer fees and title searches.

Legal Costs
This is for your solicitor or conveyancer.

Property Checks
Building and Pest inspections or maybe a Strata Report.

OTHER THINGS YOU SHOULD FACTOR IN:

Removalist Costs
Will you do this yourself or hire a company?

Utilities
Set up of utilities which may include a connection fee and up to 2 months of charges as they may charge in advance.

Appliances
Do you need to buy a fridge or a washing machine?

Furniture
Are you moving straight out of your parent's house? Do you have the furniture you need to furnish your new home?

Tips for Saving:

Understand where you are spending your money. Your Mortgage Broker can help you with this.

Review discretionary spending to see where you can cut back to save more. Be realistic though to ensure you can still enjoy your lifestyle.

Work with your Mortgage Broker to understand how much you will need to save.

Set small goals and save to a different, interest earning account than your everyday transaction account so the funds are separate. You will be surprised how quickly it can add up.

Save your tax refund instead of spending it.

Review things like subscription TV, mobile plans and other subscriptions or memberships. Cutting down on some of these things can add up quickly.

How Much Can You Borrow?

The amount you can borrow will depend on several factors and is another reason why it is important to engage your Mortgage Broker in the process BEFORE you are wanting to buy a house. Your borrowing capacity will depend on several factors including:

Your income

This includes your fixed remuneration and any bonuses or allowances you receive. It is important when discussing your income with your Mortgage Broker that you disclose the types of income as some lenders may assess different types of income at different rates. As an example, your overtime might only be assessed at 80% of your income, but if you were in essential services it may be assessed at 100%.

Your Financial Liabilities

This includes things such as credit cards, personal or car loan and HECS debt. It also includes After Pay and Zip Pay and any interest free loans you may have. Credit cards with no debt owing but still active also need to be disclosed.

Your Living Expenses

Mortgage Brokers and lenders have an obligation to ensure they are not putting you into a loan that would cause you undue hardship. A key factor in assessing this is reviewing your living expenses. This is normally done by assessing your last 3-6 months transaction and credit card statements to assess how and where you spend your money.

One of the key benefits of working with your Mortgage Broker before you are ready to buy a property is that they can help you identify any changes in your spending habits that you could make to provide a more favourable view to the lender.

Please note, whilst it is good to review your living expenses and reduce discretionary costs, it is also important that you balance that with your lifestyle. You want to ensure that this is a budget you can stick to long term and not feel like you are sacrificing too much for the sake of buying a house.

How Much Should You Borrow?

Once you have worked through your income, liabilities and living expenses with your Mortgage Broker, they will provide you with your maximum borrowing capacity. A note on this, just because you can borrow an amount does not mean you should. A mortgage is a long term commitment and you need to take into consideration things like if you are planning on starting a family in a few years or if you have family overseas and you like to return regularly to visit them. You do not have to borrow the maximum amount and your Mortgage Broker can work through this and guide you to a comfortable solution.

Choosing the Right Home Loan for You

This is where working with a Mortgage Broker really pays off. Unlike the banks, who can only recommend their own products, your Mortgage Broker literally has 100's of loan products to choose from and can help you pick the right choice for you.

Your Mortgage Broker will discuss with you whether a variable rate loan or a fixed rate loan is right for you as well as the features that you will need in your loan product. Some of the things they will consider are:

Variable Rate, Fixed Rate, or a combination of both?

Principle and Interest or Interest Only?

Do you need an Offset Account or will Redraw be more appropriate?

A Basic Product or a Packaged Product?

All of these are described in detail in the Glossary of Terms in Appendix C.

Pre-Approval or Conditional Approval

Now that you have worked out the amount of your deposit, your borrowing capacity, and the type of product that best suits you, it is time to consider getting your Pre-Approval. Often called an Approval in Principle, this is a crucial first step in your loan process. Essentially it is confirmation from the bank that, based on the evidence provided to them, they would consider approving your loan. To do this they assess your income, your liabilities, your expenses, and your credit history to determine if they would consider approving your loan, subject to you finding an appropriate property.

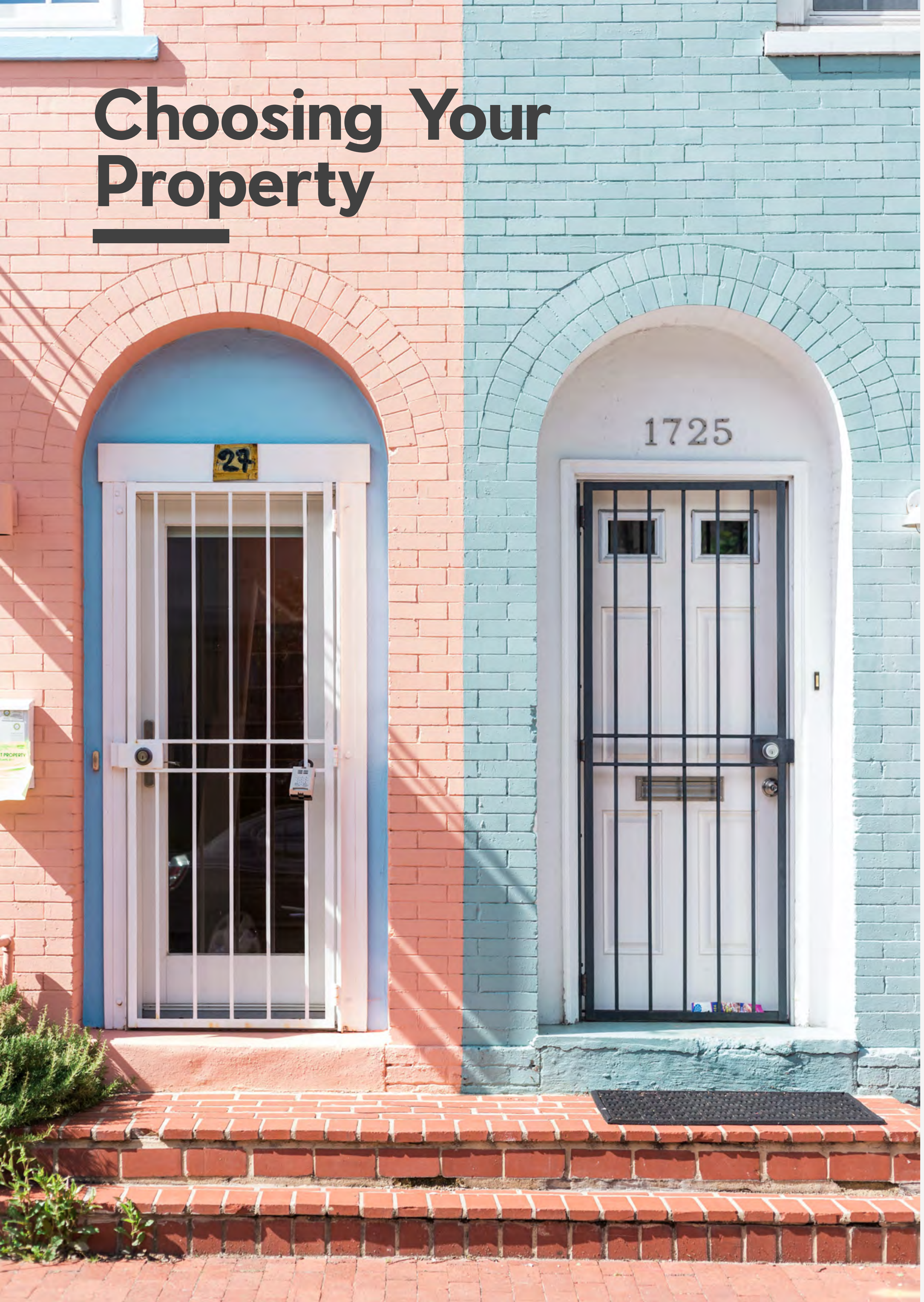
Important Things to Note:

A Pre-Approval is not an unconditional approval. There are still many factors that will need to be considered, please do not sign a contract to purchase a home without speaking to your Mortgage Broker first! Do not make any big life changes without speaking to your Mortgage Broker. This includes getting additional credit cards or a car loan. It also includes any changes to your employment or income.

Engaging a Conveyancer or Solicitor

The other key person to assist you on your home buying journey is your solicitor or conveyancer. They play a key role in that they are your legal representation in this process and do things such as property searches, read through contracts, calculate government charges, and coordinate settlement. If you are unsure of who to use you can ask friends and family for recommendations or speak to your Mortgage Broker, they will be able to recommend someone.

Choosing Your Property



Once you have your pre-approval in place, it is time to go shopping! Picking your first home can seem like an overwhelming task so here are some tips:

Stick to your budget

You already have your pre-approval in place so make sure you are looking at properties that fit within your price range.

Have a plan on the type of property you want

Do you want a house or a unit? 3 bedrooms or 4? A garage? Close to public transport or schools? Have an idea of what is on your “Must Have” list and what would be “Nice to Have”. This can assist you to narrow down your search criteria.

Start online

Property websites are a great place to start and you can even sign up for alerts that will advise you when new properties come on the market in your chosen area that meet your criteria.

Real Estate Agents

Visit your local real estate agents and start the conversation about what it is you are looking for. They are always very eager to help you find the right property to suit your needs.

Negotiate the price

Once you have found a property that you like, it is okay to negotiate on the price. If you are uncomfortable doing this, ask a family member or a friend to assist.

Do your checks

Once you have made an offer and it has been accepted, make sure you consider getting a building and pest report. A fresh coat of paint can hide a lot of problems so it is important to ensure there are no structural or pest issues that could become a problem down the track.

Buying at Auction

Buying at auction can seem like a daunting task but it is a common way that properties are sold, and it does not need to be scary if you follow a few tips:

Ensure you know what your budget is and stick to it!

Research the property ahead of time and get your pest and building inspections done ahead of time.

Have your conveyancer or solicitor review the contract prior to the auction.

Ensure you have your pre-approval in place.

Organise your deposit. If you are successful at auction, you are expected to sign the contract on the day and pay your deposit. Speak to your Mortgage Broker to discuss how they can assist you with a deposit bond if you do not have the cash for the deposit.

Unconditional Loan Approval

Once you have found your property and made an offer, your Mortgage Broker will again liaise with the bank to get your unconditional approval. This generally includes a valuation being done on the property and a review of everything provided in the Pre-Approval. The bank may ask for additional information at this stage, it is important that you provide the information requested in full and in a timely manner so there is no delaying in getting your unconditional approval. We have provided a helpful Home Loan Application Checklist in Appendix A to assist you with gathering the type of documents you might need.

A Note on Lenders Mortgage Insurance (LMI)

During the unconditional approval process, the lender may need to get approval from the Lenders Mortgage Insurer. LMI is there to insure the bank in the unlikely event that you default on your loan and they must sell the property for a loss. It is not there to protect you in the event of illness or loss of job. Your Mortgage Broker will discuss with you what you should consider insuring yourself.

Signing Contracts

Once your loan has been approved unconditionally, it is time to sign contracts. There are two sets of contracts, one for the purchase of the property which your conveyancer or solicitor will assist with and one set of loan contracts from the lender.
Your Mortgage Broker will review the contracts with you highlighting things like the product type, interest rate, fees and charges and any special conditions. It is important to remember that your Mortgage Broker is not a lawyer and cannot therefore give legal advice. It is recommended if you have questions about the contract to discuss these with your conveyancer or solicitor.

Preparing for Settlement

Now that you have signed all your contracts it is time to get ready for the big day! It is generally somewhere between 4-8 weeks between signing the contract to purchase and settlement depending on location but there are things you need to do prior to settlement:

Building Insurance

The lender will require a copy of your building insurance policy so it important to organise this early, so it does not delay settlement. Your Mortgage Broker can assist you with this.

Giving Notice if you are Renting

If you are currently renting, you will need to give notice to your real estate agent. Also do not forget to cancel your utilities at your old address and forward your mail.

Utility Connections

You will need to organise to have the electricity, gas, internet, and phone connected so everything is ready to go on move in day. Your Mortgage Broker may be able to assist you with this.

Removalists

Please ensure you book your removalists with plenty of notice, so they are available on your chosen day.

Funds for Settlement

Your conveyancer or solicitor will advise you of any shortfall of funds required for settlement day. Please ensure these are in your nominated bank account at least two full days before settlement to ensure there is no delay.

Final Inspection of the Property

Generally speaking, you should organise your final inspection of the property a day or two before settlement to ensure that there have been no changes or anything of concern.

Settlement Day

On settlement day your conveyancer or solicitor will coordinate with the vendors solicitor and the bank to attend settlement. They will complete the transaction and you will be advised to pick up the keys to your new home!

A helpful checklist is available in Appendix D.

What happens next?

Tips for navigating the first year of your home loan:

- Ensure you know how much your first payment is and when it is due.
- Set up all your direct debits to your new account for all your utilities and insurances. Do not forget things like mobile phones or Netflix.
- Stick to your budget. It is tempting to go out and buy all new furniture and appliances for your new home, however it important in that first year to not stretch yourself too thin.
- If you can make extra repayments right from the start it can make a massive difference in the time it takes you to pay off your loan and save you a lot of interest as well.
- Reach out to your Mortgage Broker with any questions you may have.

Appendixes

A.

Home Loan Application Checklist:

Proof of Identity
Generally two pieces of ID

PAYG
Two Most Recent Pay slips

Evidence for Bonuses, Commissions, Overtime or Allowance
This could be an employment contract, letter from the employer or tax returns

Self Employed
Last Two Years Full Financials and Tax Returns

Centrelink Income
most recent statement less than 30 days old

Child Support
evidence from the Child Support Agency or Court Agreement

Savings Statements
Last 3-6 months to evidence savings

Transaction Statements
Last 3-6 months

Credit Cards and Personal Loans
Last statement

Breakdown of Your Living Expenses
Including fixed commitments and discretionary spending.

Contract of Sale for Property Being Purchased

Building Contract and Plans for Construction

B.

Information on Grants Available to First Home Buyers by State:

C. Glossary of Terms

Basic or 'No Frills' Loans:
Basic loans are discount home loans with a lower variable interest rate than the standard variable rate loan. The trade-off is that these discount loans generally have less flexibility and fewer features, e.g. no extra repayments can be made, the repayment level cannot be varied and/or no redraw is available.

Break Costs (also known as an Exit Fee):
This is a fee which comes into effect should a borrower pay off their fixed rate loan in part or in full before the expiry of the fixed rate period.

Conditional Approval:
An initial approval by a lender which is typically always subject to a property valuation and may also be subject to other factors such as mortgage insurance or the submission of further documentation. In many cases a lender will issue conditional approval which is valid for a 3-month period.

Fixed Interest Rate:
An interest rate that is locked in for a specified period of time. You can generally pay a specific extra amount off during the fixed term depending on the lender but paying too much extra or paying off the entire loan, may incur a break cost.

Government Charges:
State and government charges which may include transfer of land stamp duty, mortgage stamp duty, and transfer and mortgage registration fees.

Interest Only:
The borrower only pays the actual interest on the loan for a specific time (usually between one and five years). This form of repayment is often used by property investors to maximise cash flow and tax benefits. During the term of the interest only period, the size of the loan is not reduced.

'Low Doc' Loan:
When taking out a mortgage, a buyer is required to show evidence of income and to prove their ability to service a loan. Low doc loans are suitable for self-employed buyers or those who cannot provide or do not wish to provide evidence of payslips, etc. The buyer basically just makes a statement that they can afford to take out the loan. With the acceptance of such a loan, the lender takes on more of a risk, and consequently interest rates are generally higher for these kinds of loans than for conventional loans.

LVR (Loan to Value Ratio):
The percentage which relates to the borrower's own monetary contribution to the overall price of a property in relation to the amount being supplied by the lender. For example, if the sale price of a property is $500,000 and buyer is borrowing $400,00 towards the property, then the LVR is 80%. For many residential properties, an LVR of 80% is common, although some lenders may lend as much as 105% of the purchase price. In Australia, loans above 80% LVR require the buyer to take out Lenders Mortgage Insurance.

Lenders Mortgage Insurance:
A buyer is required to pay a lender for mortgage insurance when taking out a loan in which the LVR is more than 80%. The insurance covers the lender, should the buyer default on payments. Mortgage insurance therefore covers the lender and not the buyer, although it is the buyer who must pay for it. Mortgage insurance is a one-off payment; there are not yearly or ongoing costs.

Mortgage Stamp Duty:
This is a State Government tax, applicable to new mortgages as well as refinanced loans. The amount varies from state to state, with some states offering concessions for first home buyers. Mortgage stamp duty is calculated as a percentage of the purchase price. Mortgage stamp duty is separate from standard stamp duty, as it involves the registration of the mortgage itself, and not the property or land being purchased.

Offset Account:
A savings account which is linked to a mortgage in such a way that the interest earned on this savings account is applied to reduce the interest on the mortgage. Offset accounts can help reduce a tax liability.

Principal & Interest:
A loan in which both the principal and the interest are repaid together on a regular basis.

Redraw Facility:
This facility allows someone to make additional payments into their loan (thereby temporarily reducing the amount upon which interest is charged), and to withdraw this money again for their own personal use, at a later time.

Stamp Duty:
A government tax on the purchase of land or property, payable by the buyer. Stamp duty varies from state to state, and first homeowners may be eligible for concessions in some states.

Unconditional Approval:
Unconditional approval is given when the loan has been approved by both the mortgage insurer and the lender. In order for unconditional approval to be granted, the buyer needs to have made a formal written offer on a property or piece of land, which has thereafter been valued by the lender.

Variable Interest Rate:
An interest rate that varies during the term of the loan, in accordance with the rates in the marketplace. A variable interest rate can fluctuate over the term of the loan and is not locked in for a specified period.

D.

Preparing for Settlement Checklist:

- Funds to complete are in nominated account at least 2 days prior to settlement
- Forward mail
- Utilities have been organised for settlement day at the new property
- Organise removalists
- Building Insurance is organised and has been provided to Mortgage Broker
- Set up all direct debits for new account including things like Netflix and mobile phones
- Give notice to real estate if renting and organise disconnection of utilities at old address

Notes

Notes

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This is general information only and is subject to change at any given time.

Your complete financial situation will need to be assessed before acceptance of any proposal or product.