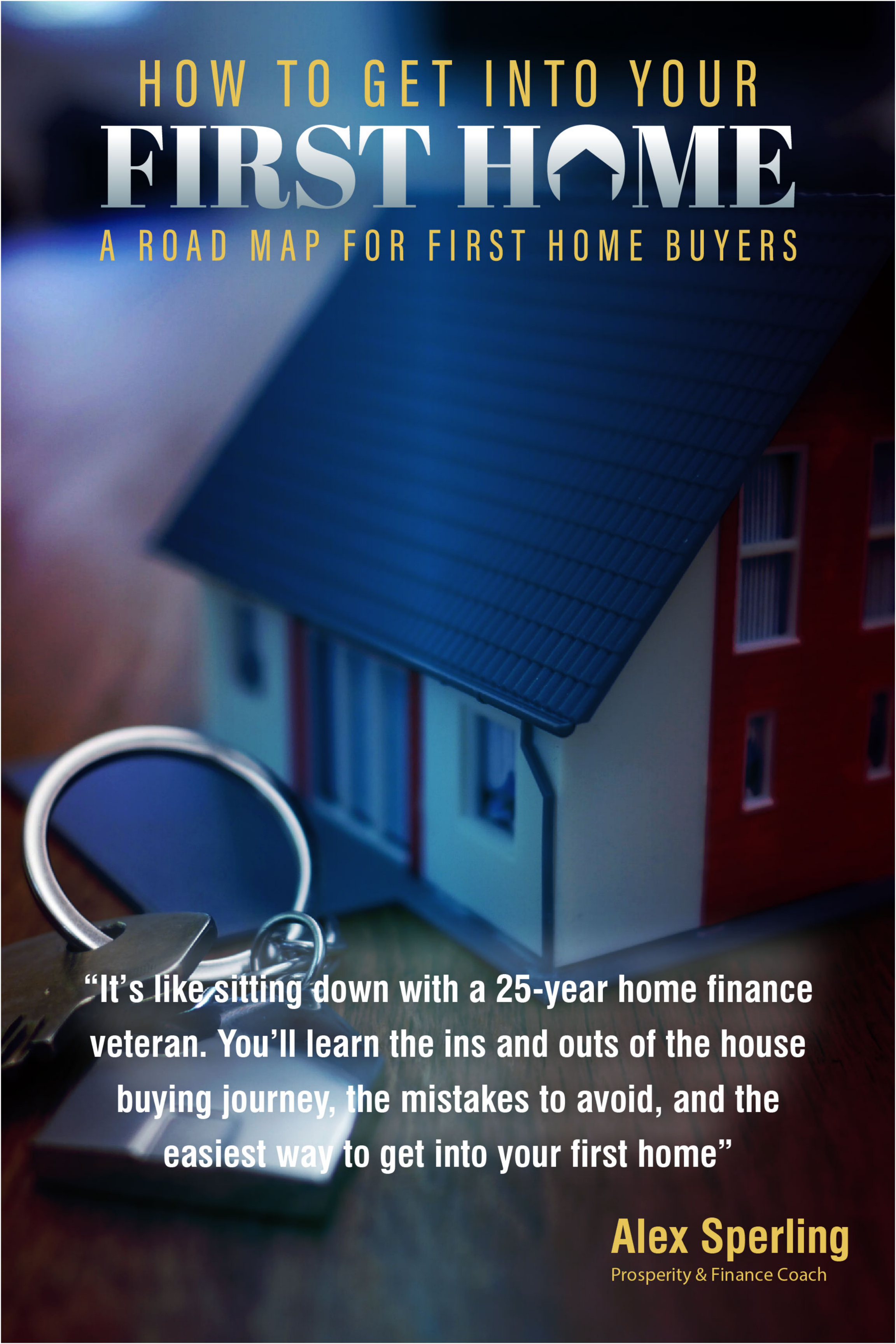
HOW TO GET INTO YOUR FIRST HOME

A ROAD MAP FOR FIRST HOME BUYERS



"It's like sitting down with a 25-year home finance veteran. You'll learn the ins and outs of the house buying journey, the mistakes to avoid, and the easiest way to get into your first home"

Alex Sperling
Prosperity & Finance Coach

HOW TO GET INTO YOUR FIRST *Home*

A Road Map For First Home Buyers

ALEX SPERLING
PROSPERITY & FINANCE COACH

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How To Get Into Your First Home

ISBN:

Dedication

This book is dedicated to... Georgia & Harry Sperling, my daughter and son who will be first home buyers one day.

This is what I hold to be true: belief dictates your life as surely as magnetism directs a compass needle. If you deem yourself unworthy, you'll prove it to be so. If you think you're unfit, you'll find a way to manifest that. I cannot overemphasize both the potential power in our beliefs and the necessity of choosing them wisely.

Taylor, Eldon. I Believe (p. 14). Hay House. Kindle Edition.

CONTENTS

1

TAKING STOCK OF YOUR CURRENT SITUATION

First Home Buyers in Australia

According to the Australian Bureau of Statistics, around 66% of Australians either own their own home outright or are paying a home off with a mortgage.

The other 32% of us are renting, and the remaining 2% fall into some other arrangement.

Every year, thousands of young Australians enter the property market for the first time, and thus the journey to homeownership begins for them.

Any Australian that owns real estate was a first home buyer at one point or another in their lives.

First home buyers are people just like you and me. Even though buying your first home can be daunting at first, which is understandable since it's your first time, there is nothing mysterious or complicated about the process.

My book will offer you a plan with simple rules to follow, which I refer to as your property road map. This property road map is something that can be learned and implemented to get you into your first home sooner. I hope to simplify the homeownership process through the pages of this book because there is nothing mysterious or complicated about the process.

To create your road map, we will need to:

- **Understand your present situation**: Where are you right now in your current home buying journey? What is your current life status?
- **Know what you want**: This refers to your desires (i.e., your desired situation), which may seem simple, but could take some time to figure out. First, consider seeking professional guidance or doing research to become educated in making informed decisions. Then, prepare a plan; put it into action and follow through.
- **Have a plan**: Create a plan that steps out the process that you have to follow to get from A to B. Part of this is having the right mindset or mental operating system to put your plan into action and be persistent.

Going from a non-homeowner to a first-time buyer has several steps and hurdles. I am sure some questions come to mind: Where do you start? What are the steps you need to take? Who can guide you through the process?

Let's begin your journey.

Your home buying journey starts with you

So, you want to buy your first home, where do you start?

If you haven't worked it out already, the short answer is that it all starts with you.

My aim in this book is to introduce the main steps so you can create a road map to get into your own home. These steps are divided into eight stages, and you can treat this as your blueprint to follow along with your broker.

Following my guide will make your journey to homeownership as simple and straightforward as possible.

Depending on your level of knowledge, the whole process from wanting to buy a house to moving into it can be very confusing and stressful. If you are not careful, you can find it misleading, become frustrated, and be bitterly disappointed.

If you don't get the right advice and guidance at the get-go, you could be setting yourself up for failure, and no one wants that.

There is no shortage of information about the home buying journey, so what's the issue? The issue is, what do you do with all this information?

Despite the abundance of information, consider the following questions:

- How does it all fit together?
- What is the correct order or sequence of events?
- What is the best structure to follow so that it's comprehensible?
- What is a usable blueprint or roadmap that you can use to implement your goals and objectives of getting into your first home?

We will take a closer look at these questions and more as we move forward in this book.

You're unique; there is no one like you

As a first home buyer, what works for one person may not work for you.

Every one of us is an individual person, and so every one of us will have unique needs and objectives.

I am sure you would agree with this statement, and even though you may share similar traits with other family members, there will be things that are unique about you.

Simply put, you are you. There is no one else like you, nor can anyone else be you or live your life for you.

Keep this in mind as you read through this book. You are unique, and therefore you will have your own needs and objectives. So, you may wonder why this is important? What does uniqueness have to do with buying your first home?

I am glad you asked! It actually plays a big part, and you will learn more about this as we progress on the home buying journey.

Let's have a look at a few reasons below.

Since you are unique and your situation is unique, there is no one-size-fits-all solution. Your road map to homeownership will be unique to your situation. It may have similar features to other people's road maps, but yours will be unique.

The importance of your unique road map will become more apparent as we move forward through this book. For now, I want you to remember that regardless of how similar your situation is to someone else's, there is always one different ingredient, and that is you.

If we were all the same, we would even have the same job. Perhaps getting a home loan would be easier because we would only have one policy to fit to get approved. But that's just not how life works.

If that were the case, you would simply buy a home and get a mortgage without needing to worry about what lender to use or what product to get. You would not have to worry about different lender policies, whether they will accept your type of income and lend you the money, regardless of what type of property you wanted to buy.

- What is your 'why'?
- What makes you get up in the morning and do what you do?
- What gives you meaning, and what is important to you?
- What motivates you to get up in the morning and face the world?

There is no right or wrong answer here.

For some people, it's family; for others, it's their faith. In actuality, your answer does not matter so much, as long as you have something that gives you meaning.

Does your why include having a family?

Do you see yourself having a certain number of children in the future?

When thinking about buying your first home, look a few years into your future and ask yourself if you are planning to start a family, even if it's not for a few years.

If this is the case, you need to consider how you will manage your loan repayments, factoring in that there will be another mouth to feed.

If you're a couple, it's quite possible that one of you will either stop working altogether to look after the children or you may find that one of you only works part-time. So, the level of income that you have become accustomed to currently may reduce.

What are some things you can do to mitigate the impact of starting a family?

You could make additional repayments into your home loan to build up a buffer, which can be placed in an offset account or in redraw to be accessed at a later date if required. Another option is to seek alternative employment that pays more or simply try to get a pay rise with your current employer.

If you can do overtime before the children are on the scene, you may consider placing the surplus money that you normally wouldn't earn from the overtime into either an offset account or redraw facility.

And use those funds for the time that one of you or both of you are on leave, i.e., maternity leave or paternity leave.

Regardless of what you do or what your plans are, it's important to consider these types of life changes when you plan to become a homeowner.

What do you really want?

Now that you have a good idea of your why, it's time to work out what you want before taking action.

If you know what you want and have a clear vision of it, you can skip this chapter or read it to get a refresher/overview.

Before running out and looking at property, take some time to do a bit of self-reflection.

It's important to do a bit of self-reflection to work out what you truly want as you may end up living in the property for the next 20 or 30 years. However, sometimes your first property is only a steppingstone to your ultimate dream home or forever home, as some like to call it.

Give yourself time to think this through, because it's important to get this right. You might live in the home for several years, and unlike renting, it's not as easy to get up and move, figuratively speaking.

Get out a piece of paper and start brainstorming. If you have a partner, do this together to collect both of your thoughts.

Here are some questions you may want to ask yourself:

- Where do you want to live (location)?
- What kind of property do you want? Unit? House?
- What essential attributes do you require in a home?
- Do you want to buy or build?
- What is important to you?
- What do you really want?
- What will make you happy?
- What is your timeline to achieve your goals?

Perhaps you are like many people. You may want to live near schools, shops, hospitals, places of worship, and be near family and friends.

Also, a location with good infrastructure might be up there on your importance list.

For example, if you rely on public transport to get to and from work, how far are you willing to travel?

There comes a point (at least at the present moment) where the distance becomes too far, but this is not a one size fits all situation.

If you travel to work, how far away is it? How long will it take to get to your place of employment?

If you travel by public transport, such as by train, do you have to drive to the train station and park your car? Is there sufficient parking available? Do you have to pay for parking?

Some clients are happy to travel two hours by train to Sydney each way to work and then in the afternoon back home again.

They love to read and get a lot of reading done while on the commute.

For some of you, anything over 40 minutes of travel may already be too far of a journey.

If you are fortunate and can work from home, then the distance is of a lesser issue.

These are just some questions you may wish to consider when figuring out what you really want and where you would like to live, this will give you an idea of areas that you would consider, and from here, you can get an idea of property prices in these areas.

It's important to remember that there is no right or wrong. It's a matter of personal choice. What works for someone else may not work for you.

Another consideration is to work out what features do you want in your home?

Below are some examples. Can you think of others? I am sure you can.

- Swimming pool

- Garage
- Big/small backyard
- One bath, two or more
- Size of the kitchen
- Built-ins
- Gas/electric
- Air conditioning
- Single story/double story
- Buy established or build
- Carpet/tiles/floorboards
- Land size
- Unit/house
- Internet connection
- Light fittings
- Double brick
- Brick veneer

It’s a good idea to think with the end in mind, which is why it's important to work out what you really want. You may not know what you really want right now or only have a basic idea, and that’s OK. My aim here is to get your thought process into gear.

Also, to help you realize that it's impossible to cover every scenario because we each have our own unique aims and objectives.

Now that you have thought about your aims and objectives, it's important to take stock of your mental operating system.

Having the correct mindset is like having the right computer software. You don't want to run harmful programs on your computer, so you also don't want to have harmful mental programs in your life.

Your mindset will play a part in your success or failure in all aspects of life.

Having the right mindset is important. Your mental outlook has a greater impact on your successes or failures more than you may realize. Thus, you must adopt the right mental attitude, or you may end up self-sabotaging yourself with negative self-talk.

Studies have shown us that about 95% of our actions result from our unconscious programming. These mental programs are the aggregate experience we have undergone since childhood. Often, these programs are not even our own. They result from our life experiences, from childhood to the present.

A complete, in-depth look at this topic is outside the scope of this book. However, I wanted to touch on it to give you something to think about. If this interests you, then you can research it further. (Dr Eldon Taylor and Dr Bruce Lipton are a good place to start)

In conclusion, before diving into the property market as a First Home Buyer, ask yourself these three important questions:

- What is my why?
- Do I have the right mindset to enter the property market?
- Am I willing to create a plan and implement it?

Why purchase or build a home?

Regardless of whether you plan to buy an established home or build a new home, it's important to answer the question why you should do so as opposed to continuing to rent.

Ultimately, the answer to this question is, of course, entirely up to you.

If you can't think of any right now, that's okay. However, here are a few good reasons you might want to consider getting the ball rolling.

- Pay off your own mortgage; you will at least own the property.
- No one can tell you that you have to move.
- Create your own space, renovate the property to your own unique preference.

Simply put, the most common options you have are:

- Rent a property to live in and not enter the property market as an owner.
- Buy a property to live in and enter the property market as an owner.
- Rent but buy an investment property to get your foot on the property ladder, which I refer to as rent-invest.

Which is better? Neither. It really depends on your personal situation, goals and objectives, and your preference.

Are there other options? There are always exceptions, such as inheriting a property, being gifted property, and living at home with your parents.

However, for most Australians, we either:

- Purchase a property to live in,
- Purchase a property to rent out,
- Rent a property to live in,

All these options have associated costs.

Are there any other options than buying or renting? Well, technically, yes. You could continue to live at home with your parents, but depending on your situation, this may be okay for a while, however eventually, you will most likely want a place of your own.

If you are really brave, you could opt to live on a park bench, but I don't believe this is what most people aspire to, and I am guessing it's not very comfortable.

Now that we got that out of the way, and all jokes aside, let's look at these main options in more detail.

- As a homeowner, you can fix up a second-rate property, add architectural details (or build new, of course), tear out walls, re-fashion kitchens into cooking showcases, plant vegetable gardens or fruit trees, add a pool, hang feeders for birds, add more rooms by building out or up, and indulge in a hundred other pastimes often not available to renters.
- Your mortgage repayments are a way of saving money. As you pay down your loan, you are building up equity in your property which you own. You could use this equity to start building an investment portfolio.
- Security for you and your family. It's your place, so you won't have to answer to a landlord anymore. Having to move because the landlord wants to move into the property can be expensive. You get to call the shots, so what price can you put on that?

Buying vs. renting

If you are still not sure if you should buy a property or not, let's look at a few considerations for why you should.

Should you buy or should you rent?

Buying property is a good way to get your foot on the property ladder and build up some wealth for financial security.

It's usually a good idea to buy property, even if you don't live in the property to begin with, or you never intend to live in the property.

Sometimes renting is cheaper, at least this may be the case in the short term. Even though the thought of having a mortgage is daunting and could potentially run for 30 years, it's important to think long-term. This is exactly why having the right mindset is a must.

Whether you buy or rent, there is a cost. Let's consider the idea that you rent for the next 30 years rather than buying a property either to live in or rent out.

Let's say your rent is $550 per week. In this scenario, let's keep rent consistent to simplify the calculation. So, for the next 30 years, the rent NEVER goes up, meaning that you would have paid the total sum of $858,000 in rent and still not own the property. Therefore, you would have nothing to show for this outlay.

Now, of course, if you had purchased a property with a mortgage, you may have ended up paying more, but over this time, your mortgage would reduce. Thus, after you paid off the loan, you own the property. So, your expenses would be much less because you no longer have mortgage repayments.

Also, if you are smart about it, you will buy other properties as investments, and over time, not only will you own your own home, but you will have built up a decent property portfolio.

Now that's something to think about!

What if you can't afford to buy where you want to live?

If you can't afford to buy where you want to live you could;

- Continue to rent in a suburb where you want to live.
- Purchase an investment property as your first step in the property market, sometimes referred to as Rent-Invest.
- Continue to rent and take no action.

It's not uncommon to start your first home buying journey by buying a property as an investment first, then continue to rent where you want to live. At the same time, buying a property where you can afford it and rent it out. At least this way, you will still get yourself a footing in the property market.

Most people like a permanent roof over their heads—a place where they can come home to every day and feel comfortable and safe in. And if that means living in a unit, a townhouse, or a house on a small block of land, then getting into your own home is the way to go.

The life of a renter is accompanied with the freedom from responsibility, and that may be fine for the young, un-established, or the forever free. Plus, there are no large home deposits to scrimp and save for. But as you continue to rent, you are vulnerable to rent hikes, and relentlessly so.

Yet, if you choose to buy a unit or home, your monthly interest payments will decrease over time. Eventually, the loan will be paid off, and a major cost of living wiped out. Forever.

In the long-term, owning a property is perhaps the best and readiest pathway available for most people to build wealth through "equity"—that is, through a combination of the home prices going up and debt reduction. Equity is the market value of your home minus the outstanding mortgage.

And while you build equity, you do have that roof over your head by owning property. That equity in the home can be a cushion in time of need and so worthwhile for the financial and emotional security it provides.

Moreover, the equity in a home can serve as a springboard into the ownership of multiple properties, an option worth pondering when planning retirement or setting up children for their run at life.

Of course, a house can be more than a structure. It can also be a home where you and your family can exercise your creativity and feel the pride of ownership.

As a mortgage broker, I have helped many buy a home on the best financial terms possible. But, after having helped hundreds, I can rarely say that home buyers have any regrets when it comes to buying their own home.

Something I cannot say for those who have chosen to be lifelong renters.

So, buy a home!

This book aims to take readers, including real-estate novices, to a much higher comfort level and understanding of how to buy a property and obtain the necessary funds to make it happen.

Having a good mortgage broker working with you will make an enormous difference in how you go about things.

Our job is to stay up-to-date with the hundreds of finance options, lender policies, and government regulations to ensure that our clients get impartial and sound advice to purchase the family home, build a property portfolio, and gain long-term wealth.

2

CHALLENGES AND RESEARCH — HOW TO GET WHERE YOU WANT TO BE

A plan to get into your first home

It's one thing to dream about buying your first home, and it's another thing to know how to go about it to make it a reality.

You may wonder, where do you even begin? Who do you talk to? What are the steps involved?

Without getting the right advice and guidance, you could set yourself up for failure.

There is not a shortage of information on home buying or getting a loan. There are a lot of websites on these topics. Even if you were patient enough to go through them all, do you really want to spend that much time doing research? I am sure you have better things you could be doing.

You need to have a plan that shows you how to get from where you are to where you want to be. Without a plan, you are just coasting along, hoping for the best.

When you are thinking of buying your first home, the question that most likely comes to mind is, where do you start? What is the first step you have to take?

It might tempt you to get advice from your friends and family, and although they mean well, it may not be the best way forward, even if they have purchased property before.

The reason is that their situation is bound to differ from yours, and the lending landscape changes frequently.

Too much info!

If you type the phrase "First Home Buyer" into Google and hit enter, you will get a totally overwhelming response of over 1,000 million hits, all within a few seconds. In other words, there is no shortage of information about buying your first home.

The usefulness of that information though is debatable. The lousier the information is, the higher the likelihood a disaster could occur if you follow and act on poor advice.

Even if some of the information is sound, you must ask yourself, what do you do with all this information?

The world does not need more information, but it needs sound information put into a workable format, like a sequence of steps, to get you into your first home.

As a first home buyer, you probably wonder how you go from your current situation to being a proud homeowner. How do we achieve our homeownership goals?

The challenge is trying to get into your first home by doing it yourself. Without guidance and support, it can be stressful, daunting, and even somewhat risky. Here's why.

Do you know where to start? Are you familiar with all the lender's policies? What kind of property will they lend against? What areas they are eager to lend in?

Do you know who you need to speak to? Do you talk with a real estate agent first, go to a bank, or ask friends and family for advice?

What about finding your dream home and putting in an offer?

What steps do you take?

When should you start the loan approval process? Remember that you risk losing your deposit if you can't get finance arranged or can't get it in time.

Listening to well-meaning friends and family for advice may not be the best way forward. Remember, no one can live your life except you. So, what is right for someone else may not be suitable for you. In fact, following others completely could be a disaster in the making.

What's your BS?

What is your belief system?

Are self-limiting beliefs holding you back from your dream of homeownership?

The belief system you hold will influence the worldview you have. You must choose your thoughts wisely. There is a saying that goes something like this:

If you think you can't, you can't, and if you think you can, you can; both are correct. Your mind map or belief system that you hold firmly to will be the reality you create.

When it comes to getting your first home, what beliefs will you adopt? The one that will help you move forward or the one that will hold you back? You may not be aware, but the choice is yours. Keep in mind that no matter which you choose, you also must accept the consequences.

Not happy with the outcome? Then change the input.

Will you adopt the belief that you will achieve homeownership, or do you think it's out of your reach? That is the issue.

Therefore, you should get some advice from a finance coach because you may think you are not in a position to get into your first home, but in fact, this may not actually be the case.

At Our Mortgage Options, our motto is to coach and educate you first, rather than just discussing loans and offering you a product.

Discussing lenders and products first is putting the cart before the horse, as the saying goes.

Too often, many finance brokers get ahead of themselves and forget to do the coaching and guidance role first. They typically want to jump right in and discuss what loan or lender is right for you. But it's pointless discussing home loans until you know where you are currently on your home buying journey.

Be careful about what you think. You may just end up getting what you focus on. That is the programming you are feeding into the subconscious mind, which cannot question the information sent to it from the conscious mind.

Therefore, if you focus on negatives, you will find more negatives in your life. That’s not to say that thinking positively will eliminate challenges in life; far from it. Having a positive outlook does not mean you won’t face challenges. To think that is just dreaming and is not based on reality. However, having a positive mental outlook will put you in a better frame of mind to better deal with challenges. Without challenges, we don’t grow. As painful as they can be, it’s only via feedback that we can learn from our past.

I firmly believe that there are no failures, only feedback. I didn’t always believe this, but things in my life improved once I changed my mindset. Thus, I’m not saying that life does not have challenges, but you will be in a better mental place to deal with challenges when they show up in your life.

When you were born, you didn’t know how to walk. Now, you most likely don’t even think about it. That’s because it’s part of your subconscious programming. After many repeated trials as a baby, you finally learned to walk, and now you do it every day without giving it much conscious thought.

Don't let self-limiting beliefs hold you back from your home buying goals and objectives.

Do you have the right mindset to get into the property market?

You may not even be aware, but your mental operating system could sabotage your ability to buy your first home.

You may think that psychology has no place in a book about buying your first home. Isn't buying your first home just about how much income you earn and how much you can borrow.

While these things are essential, as you will discover as you progress through your home buying journey, having the right mental state of mind or mental operating system is equally important.

The way you think, and therefore act, is primarily because of your programming, which results from every experience you have ever had up to the present moment. The good, the bad, and in-between.

Some studies suggest up to 90% of our programming is negative or self-limiting beliefs.

These mental programs then flow onto how you act, which affects your actions and the outcomes.

Having these limiting programs could cause you to self-sabotage your home buying goals and objectives. However, it also affects all areas of your life.

Therefore, first home buyers need to have the right mindset or mental operating system.

Psychology studies have shown that the conscious mind thinks that it's making all the decisions, but actually the subconscious mind is the one calling all the shots.

Studies have shown that by the time the conscious mind has realized a decision, the subconscious mind has already processed it; sometimes up to 10 seconds before.

And the issue is that the subconscious mind may have bad programming. This programming results from all your life experiences—the good, bad, and otherwise.

Being more mindful and having more awareness creates choice.

What you think matters?

Do you have self-imposed limiting beliefs?

For example, have you ever had any of these thoughts?

- **Limiting belief 1**: It's not the right time to buy.
- **Limiting belief 2**: I fear that I won't get approved for a home loan.
- **Limiting belief 3**: I need at least a 20% deposit saved.

All these limiting beliefs can hold you back from your dream of owning your own home.

Psychology studies tell us that 90% or more of our actions are unconscious based on our life experience, such as upbringing, cultural influences, religious and political belief.

We gain it through parents, peers, and the culture we were born into.

It's important to have the right mindset and empowering beliefs. You must focus on what you want and not what you don't want. Remember that what you focus on is more likely to become your reality, so do your best to concentrate on what you want rather than what you don't want.

To demonstrate this point further, let's try this experiment.

I want you to NOT think of a pink elephant. Now laugh as you may, but the moment you say "don't think about it," you have to think about it to try to not think about it. So from this, we learn that what we think about is where our focus is. Thus, having the right mindset is to keep in mind the positive outcome you are after.

You are where you are because of what you think and the thoughts you hold, both positive and negative, which are directly a result from your current situation. The good news is that if you are not happy with your current situation, you can change it.

You always have the choice, and one path is not always better than the other. It depends on your unique situation.

So, keep this in mind as you read through this book. Some ideas that I present may contradict other ideas. Not that one is better than the other, but that one is better for a particular person's situation.

It's better to think about how I can buy my first home rather than I can't.

When should you speak to a finance broker?

I would recommend talking to a broker the moment you're thinking about buying a property.

Start speaking with a broker even if you will not purchase for some time. It may not be for six months or even a year.

Sometimes, it could be even longer.

Speak to a finance broker to get some advice regarding your current circumstances and find out where you stand regarding making your property purchase a reality.

It's not something you want to rush into without a good understanding of the process and a well-thought-out plan. Buying a property is a major purchase and a major life-changing event, especially if you have never done it before.

Your borrowing power

Your finance broker can help you with how much you can borrow, how much of a deposit you will need, and what the repayments will probably be.

These are just a few things that they will cover. Speaking with them will help you get a better idea of what direction you need to take to get into your first home.

Most professional brokers understand that when they are talking to a first home buyer. They know that you will often not be ready to proceed for some time. Therefore, you will need guidance and education to move forward.

There are many moving parts with obtaining finance for a big purchase, such as buying your first home.

Including: obtaining your information, collecting your documentation, learning about what kind of property you wish to purchase, where the property is located, and your time left in the workplace before retirement.

These are some factors that will play a part in whether you get approved.

It's simply not a case of just filling in a form and sending that off to the bank to get a home loan approved.

The two fundamental things that you will need to establish upfront are: how much can I borrow and how much deposit I need?

How much you can borrow?

This refers to your capacity to repay, or serviceability; it is a test to determine how much you can afford to borrow towards your property purchase.

Each lender has their own criteria for how much you can borrow. Some lenders will lend you more and others less; there is also a whole other bunch of factors to consider, but more on this later.

So before jumping into any decision on which property to purchase or what area you want to live in, your borrowing capacity would be one of the first things you need to establish. This way, you have a starting point on what might be possible based on your current situation, or what you might need to do as far as increasing income if your goals are set higher.

Without knowing your borrowing capacity, it would be pointless to look at a property outside of your budget. For example, say your total budget is $850,000. It might not be a good idea to look at properties over and above this range unless you can negotiate a lower purchase price. You will otherwise just feel disappointed and deflated.

Your finance broker will not only help you with your maximum borrowing capacity, but they will also ensure that you are comfortable with the loan amount you require. Borrowing the maximum may not always be in your best interest. You need to sleep at night knowing you can meet your repayment obligations.

Ultimately, it is your responsibility. You will repay the loan potentially over 25 to 30 years in most cases, unless you can pay the loan off earlier, in which case consider starting an investment portfolio.

How much deposit do I need?

The other thing equally important to your borrowing capacity is your funds to complete, which is industry jargon for how much deposit you have.

Although there are cases when you don't need a deposit, such as when you're using the help of a guarantor in a family pledge scenario.

For most situations, a deposit is required along with establishing your borrowing capacity. Otherwise, you are effectively stumbling around in the dark.

In summary, even if you're not quite ready to proceed yet, it's always a good idea to have a chat with your finance broker to get the lay of the land and some guidance on the best way forward. Your finance broker will look to form a relationship with you for the long term, and they will coach you through the process of getting into your first home.

Buying your first home is not something you do on the spur of the moment. It's definitely not an impulse buy. There is a lot of learning, planning, and implementing, which can sometimes take a fair amount of time.

Where to from here?

If you have decided that you want to enter the property market, and you're a first home buyer seeking help, we would recommend speaking to a finance broker first, which, of course, sounds like we're blowing our own trumpet. Still, the purpose of that is to establish your goals and objectives, your borrowing capacity, what your repayments are likely to be, and the steps you need to follow to get into your first home.

How much can you borrow? It's not just what the lender will allow you to borrow, but what are you comfortable borrowing?

Without that information, you could run around looking at properties that are way above your borrowing capacity and, therefore, out of reach.

Unfortunately, that's just a fact of life. So, as much as we might want something, it might be something you need to work towards.

You might need to be a bit more realistic. Plus, you need to consider future things, such as if you're planning to start a family, and changes in interest rates because we are at historically low rates at the moment.

Just to give you a bit of a perspective, when I bought my first home with my then partner in 1998, I was working for one of the major banks in Australia, and my staff-rate loan was 9.89%, which at the time I thought was fantastic.

Of course, that was more than 20 years ago. Property prices were a lot less back than they are now. I assure you at the time, property prices didn't appear to be cheap. It is only now, in hindsight, 20 years later, they appear to be cheap.

As mentioned, the first thing you need to do is speak to your finance broker, establish your borrowing capacity, and establish what you're comfortable borrowing.

Then, from there, we will prepare what's called a client needs analysis or fact find. We're going to ask you a bunch of questions, which we capture via a secure online questionnaire. These questions are not just about your employment history and savings history, but also about the way you've lived over several years, what's your future goals and objectives, and any foreseeable changes to your circumstances in the future.

From there, we will prepare the fact find and be able to, based on your criteria, give you some idea of what lenders might be suitable. We can then discuss the pros and cons of fixed rates, variable, or a combination.

If you're buying at auction, we'll definitely be talking to you about preapproval, which is a fully assessed preapproval so that you can confidently buy at auction. If you're not buying at auction, we'd still recommend a preapproval. The simple reason is you know where you stand, so when you find the property, you can move forward relatively quickly.

We will ask for a bunch of documentation and bank statements for your savings history, bank statements for your salary credits, any credit cards, debit cards, store cards, personal loans, car loans, and any other liabilities you may have.

For example, do you have HECS debt, and do you owe money to family, etc.? If you're renting, we'll probably investigate your rental history. From there, we'll recommend or advise you that you need to engage a solicitor and/or a conveyancer. It's up to you which one you prefer to use.

Also, we will also guide you on the process of how you go about finding a property. Note that we do not sell the property to you or make any recommendation because that's all outside our area of expertise. Still, we can guide you as far as what you need to look for or how you go about it, and who you need to speak to.

In the meantime, we would have prepared your loan application and submitted it to obtain preapproval or conditional approval. They often seem alike, but sometimes, they're different. They're more similar than they are different, but we'll cover the differences later.

From there, it's up to you to find a suitable property as to where you're going to live or what kind of property you're going to buy.

If you're building a home, then the finance side of it is a little different. It's not completely different, but there are additional questions to consider: Are you buying the land and sourcing the build-out? Are you buying house and land package?

With buying the land and then building, we will look at whether you can afford to do both, even if you're only buying the land initially.

The reason we would do that is to establish that you can afford the complete package even if you're doing it in two stages. Otherwise, it's pretty disappointing if you get the land loan and buy the land, but then you can't afford the house. You've only achieved half of your goals and objectives.

That's not to say that we would never assist you in buying land even if you couldn't afford to build the house, providing you're fully aware of what you're doing. There's not any right or wrong. It's really a case of what you want to achieve.

From there, once we get conditional approval, the next stage then is you locate the property. You advise us, and we will obtain the contract of sale from you.

We would supply that to the lender, who will then order a property valuation if we haven't done it ourselves. It just depends. Some lenders allow us to order the valuation upfront ourselves, and others do it in-house.

Then, if that's the only condition, providing the property is suitable to the lender, and there are not many issues with it, then full approval will be obtained, which is great news. It calls for celebrations.

After full approval has been issued, the lender will instruct their solicitors to prepare loan documentation. Finally, the loan documentation will come out to you or us.

Usually, we'll set up another appointment with you to go over the loan documentation to explain anything that you're not sure about.

Providing you're happy, you sign those documents and accept them.

They then get sent back to the lenders' solicitor, who will then prepare the loan for settlement.

After settlement you get to move in, happy days!

3

YOUR PROSPERITY AND FINANCE COACH — PERSONAL GUIDANCE TO GET INTO YOUR FIRST HOME

What is a mortgage broker and why you need one?

Who uses a Mortgage Broker and What does a mortgage broker do?

Here is a short summary of what a mortgage broker will assist you with.

- Coaches and guides you to help you achieve your goals and objectives.
- Creates a plan and helps you implement it.
- Provides credit assistance.
- Deals with lenders on your behalf.
- Packages your loan application.
- Completes a fact find on your current situation.
- Seeks your feedback on what your short, medium, and long-term goals are.

The above are just some of the tasks that your broker will assist you with.

Let's have a look at why you might need one.

There are many reasons you will want to use a mortgage broker. Here are a few of the most common reasons for many Australians.

The short answer to this question is unless you are financially savvy and know the ins and outs of borrowing funds, engaging in the services of a professional finance broker would ensure you have every success of approval.

In the Australian mortgage market, just over 66% of all residential loans are written by the third-party channel, commonly called the broker channel.

The third-party channel is a term used within the finance industry that refers to a loan or loans introduced to various lenders by a third party, i.e., a finance broker or mortgage broker.

You may wonder what the difference is between a finance broker and a mortgage broker. This really depends on the terminology you want to use, but ultimately what really matters is that they can help you with your aim of buying your first home.

I prefer to use the term finance broker because it does not limit us to just doing residential home loans. We do all sorts of finance such as car finance, debtor finance for businesses, and commercial finance for small business owners.

The other option of getting your finance sorted is going via the direct channel, an alternative to using the third-party channel.

The direct channel is basically when you go direct to a lender to assist with your finance requirements. If you were to go to one of the main banks, walked into the branch, and wanted to speak to the loan officers, this would be an example of the direct channel.

According to the MFAA currently, in Australia, approximately 66% of Australians have chosen to use a finance broker or mortgage broker to assist with their finance needs.

This number is steadily increasing year on year. For a good reason, the level of expertise is usually much higher when dealing with a professional finance broker because they are most likely to be abreast of all the lender policies. This is because they will most likely have a lot more choices or options than you would have if you went directly to a bank, for example.

As a finance broker, we currently have approximately 49 residential lenders available to us, so depending on your scenario, there is a high probability that we will have a lender that will fit your situation.

Since over 66% of Australians have used a finance broker before, this indicates the high quality of advice that people are receiving. Ultimately, if they were not happy, they wouldn't continue to do so, and the number of people using a finance professional wouldn't be increasing year on year.

People vote with their feet, so this number is a testimony to the great work our industry is doing on behalf of Australians.

A good finance broker would have a relationship with many lenders so that they can workshop your scenario and potentially find you a solution to your goals and objectives. Thus, you may not be limited to one lender policy or product as it would be the case if you were to approach a lender directly.

Anecdotal evidence suggests that in other countries where mortgage brokers have been operating longer, the percentage of loans organized through the third-party channel counts for something like 70% to 90%.

Ultimately, only time will tell what occurs in the Australian marketplace. Still, as the mortgage broking industry matures, and more and more Australians choose to use a mortgage broker for their finance needs, we see this as a positive outcome for you.

When dealing with a finance broker, you have someone on your side who will go into bat for you, so to speak.

How does a mortgage broker get paid, and how much does it cost to use a broker?

In most cases, no fee for service will be charged by a mortgage broker for a residential home loan application.

For a commercial finance application, this is often somewhat different. We won't detail commercial loans, as this is out of scope for this book.

There are, of course, some brokers who will charge a fee, so again, there is no one-size-fits-all answer. Thus, it's always best to check upfront before engaging a mortgage broker so that you will know what to expect.

If a broker is to charge a fee for service, this must be agreed to upfront. Also, they must provide you with a written quote, which will need to be signed by you.

We don't charge a fee in most cases because the lender pays us a commission for a successful settlement. There would be some exceptions to this depending on the complexity of the scenario.

Regarding broker commission payments, these commissions are split into two components. Part of the commission will be paid upfront, which, if the loan is discharged, usually within two years, is refunded back to the lender. The other part of the commission is paid over the life of the loan; it's a small monthly payment called trial commission.

Historically, commissions were paid all upfront, and then later, it was changed to be partly paid upfront and the remainder deferred over the life of the loan.

It's crucial that we set the client up with the right loan and so that they're happy.

Commissions paid to mortgage brokers do not affect the interest rate that you pay.

The interest rate you pay is absolutely no different from a loan sent up for a client, via a broker, as opposed to going directly to the lender.

The benefit of using a broker is that you will have more options and not be restricted to one lender and their products. Also, mortgage brokers act in your best interest.

It's a legal requirement that the commissions paid to brokers are fully disclosed to the client in what's called a disclosure credit guide.

Does a mortgage broker need to be licensed?

Yes, they certainly do, and it's in your best interest to make sure you only deal with a qualified and licensed finance broker.

Mortgage brokers are responsible for educating you, for equipping you for a house-buying journey, so you can make informed decisions.

It's a legal requirement that a mortgage broker puts your best interest first. On 1 Jan 2021, new laws came into effect, called Best Interest Duty, or BID for short.

It might also be a good idea to check that they are licensed and have the appropriate qualifications and Australian experience.

Having the correct qualifications and Australian experience is a prerequisite for obtaining an Australian credit license and for an Australian credit license holder to appoint someone as an Australian Credit Representative of the license holder.

It is against the law to give credit advice without being suitably qualified and properly licensed in Australia.

Mortgage brokers come under the National consumer credit protection act that we will abbreviate as NCCP from now on.

As I touched on above, there are two ways a mortgage broker can operate legally in the mortgage broking industry.

They can either be licensed directly by applying for an Australian credit license from the Australian Securities and investment commission or ASIC as its abbreviated.

They can be appointed as an Australian credit Representative by someone who holds an Australian Credit License.

Someone appointed a credit representative comes under the license holder, and ultimately the Australian credit license holder bears responsibility for its credit representatives.

Regardless of how the broker is authorized, either with their own ACL or as a credit rep, compliance is compliance, and doing the right thing is doing the right thing.

So, regardless of whether they are an Australian credit license holder or an Australian credit Representative. There should be no difference when it comes to looking after your needs and objectives.

As I mentioned, Australia's governing body is the Australian Securities and investment commission, which regulates the licensing and regulatory framework for finance brokers and banks in Australia.

In summary, for a finance broker to operate in Australia legally within the finance industry, giving credit advice, they can either be licensed directly, i.e., holding their license as issued by ASIC, or they can be appointed a credit representative of a license holder.

Either way, ASIC maintains the register for both the Australian credit license holder and its appointees, i.e., its credit representatives.

How can you check if someone is licensed directly or is a credit representative?

The best way to check if someone is appropriately licensed is to go to the ASIC website and search their professional registers, which are publicly available.

For your safety, do not deal with anyone who is not appropriately licensed and fully qualified, but more importantly, only work with someone you can trust.

Using a licensed broker is the way to go when you consider that you will be supplying your finance broker with mountains of information regarding your financial situation, identity, and whatnot.

Is it better to deal with someone who is an Australian credit license holder or someone who is appointed as a credit representative?

The short answer is there shouldn't be any difference because both will operate within the guidelines and requirements of the NCCP and providing they can deliver the solution for you; ultimately, this is what matters.

As an Australian credit license holder, the only difference is that we have several direct relationships with some lenders outside of our standard panel of lenders as provided by our aggregator.

This simply gives us a little bit more choice and flexibility in providing solutions when providing credit advice. So, from a consumer point of view, as long as that person has the appropriate authority, it really doesn't make any difference. It simply means, does the broker have their own license, or has someone appointed them under their own license.

In the case of someone being appointed a credit representative, ultimately, the license holder is responsible for that person's behavior when providing credit advice to consumers.

What qualifications does a broker have to have?

Most brokers will, as a minimum, need to have certificate IV in finance broking. In our own business, we have insisted that all brokers hold the diploma of finance broking, which is effectively the next step up from certificate IV.

Industry bodies and professional development

Finance brokers in Australia, in the majority of cases, will belong to one or two of the main industry bodies that represent them in the Australian financial services industry.

The two main industry bodies are the mortgage Finance Association of Australia, abbreviated as MFAA, and there is the Finance Brokers Association of Australia, which is abbreviated FBAA.

It's required that finance brokers undertake ongoing professional development each year, usually by completing at least 30 hours of professional development. These events are hosted by various organizations, such as the MFAA and the FBAA, lender training events, and mortgage broker aggregation events.

What should I look for in a mortgage broker?

Well, ultimately, you need to feel comfortable with that person you have chosen to work with.

They should be approachable, knowledgeable, and trustworthy. Also, they should always treat you with respect.

A mortgage broker will need to be appropriately licensed either as an ACL holder or be appointed as a credit rep as an ACR.

Ask them if they undertake ongoing professional development, an industry requirement directed by the MFAA and FBAA; it’s also a legal requirement.

Ask them what do they do to maintain their level of expertise? Ask them what areas they specialize in. For example, some mortgage brokers deal only with First Home Buyers. Others deal with investment clients; even so, others only deal with self-employed clients.

All finance brokers, also, when they join the industry, need to get a police clearance. So, if you're really concerned about that, you could always ask to see one. We're happy to show you ours.

They should be approachable; you don't want to feel you can't ask questions.

They should be knowledgeable and be able to answer your questions so that you can understand, and you should be able to ask them as many questions as you need.

Even if it feels like you might ask the same thing repeatedly, as an ex-business coach for one of the major banks in Australia, I am use to people asking similar questions daily. Because let's face it, we do this every day; there's all this jargon that we must get our head around, and so, of course, how can you be expected to understand this? Just because someone explains something, or tells you something once, doesn't mean you'll remember it immediately.

I always tell our clients, "Look, you can't ask enough questions, so ask as many as you need." It's a big deal. You're buying a house, and you're taking on debt for, potentially, for 30 years, especially if you only pay the minimum.

It's an enormous commitment that you are taking on, so you should be comfortable asking questions and expecting answers.

The other thing your finance broker should do is discuss any insurance needs and, if appropriate, refer you to a qualified professional that can assist you with this.

You're taking on debt, so, in the unfortunate event that something happens, you should at least potentially cover yourself.

One of the many things that your finance broker will help you with is making sure that you have enough deposit to complete your first home purchase. Referred to as genuine savings, they will also look at your borrowing capacity, discuss any fees, and outline the process of obtaining the loan and how much stamp duty will be if this applies to your scenario.

On the note of stamp duty, you may be exempt from stamp duty, or you may be exempt from partial stamp duty. As each situation is different, it's impossible to say what will apply to you in this book. Always best to check your situation with your mortgage professional.

These are a lot of things that your broker will help you with. However, if you need the services of a conveyance or a solicitor, they may have someone they can refer you to.

Your broker will also look at your employment history, discuss your credit history with you, what kind of loan features you might require. They may explain the difference between a fixed-rate loan and a variable loan, offset accounts, and a redraw facility.

Do you need a line of credit? Do you want an offset account? Is redraw required? Your broker can outline the pros and the cons of each, and can simulate a comparison between several products. Then we will identify a loan or a lender or lenders that are “not unsuitable” (that’s the industry term because there could be more than one product that fits your criteria).

This is not an exhaustive commentary on what a finance broker will do and how they help you. Still, the broker will be there, from the initial conversation, answering questions, all the way from loan lodgment, keeping you updated on the progress, through to settlement, and then ongoing with annual reviews or when required.

It's entirely possible, later, that your circumstances change, so we will review the loan and see if it's still suitable. Maybe it's time to switch or change something, and just general questions, day to day, that we can answer.

Of course, we definitely can't do any transactions for you, and I'm sure you don't want us to do that, but we can generally answer questions if there are any. For example, you're switching from a variable rate loan to a fixed rate loan. We can definitely help with things like that. So definitely, engage the broker early up, so you can get some guidance.

In summary, we have looked at what a broker can help you with. They may need to do more research, depending on the complexity of your situation. Because look, a good broker will always assess your situation fully before submitting a loan, and one reason for that is that you don't want to have unnecessary hits or inquiries on your credit file.

Every time a loan application is lodged, there will be an inquiry on your credit file, and look, too many credit checks is not good. It can take you from being an A-class client to a C-class very quickly. A general rule of thumb would be no more than five in over two years.

So, keep that in mind. Don't go around putting in applications all over the place, getting pre-approvals, as these actions will ruin your credit rating.

A good broker will give you an indication of what is possible to achieve upfront before making anything official. Then, in some cases, if it's a complex scenario, they will do research and come back to you later.

Often, we will discuss the scenario with the bank's or lender's relationship manager and get some unofficial feedback. And then, usually, in those cases, we get the green light and say, "Look, it will be considered. So, therefore, it's okay to submit." So, definitely talk to your broker. Don't be afraid to ask as many questions as you need.

Time to set some goals

SMART Goals

Okay, so you've decided that investing for you and your family's future is something that you should seriously consider and that buying your first home might be the first step to a better financial future.

It's now time to act and set some goals.

Put to rest any negative thoughts about being forever being stuck in the rental cycle. If you put your mind to it, you will and can achieve homeownership. Remember, what you focus on is more likely to become your reality.

There may be some sacrifices and compromises along the way, and you may have to make some financial adjustments in your life.

Remember to have fun and be happy. Part of the fun is the journey, even though it can sometimes be challenging.

However, if you are really determined and want to get into a property ownership, you have to decide first. All things in life that have been built, such as a house, were first thought of in someone's mind as a concept.

The first step always starts with you, and that step is the thought of homeownership. All things that exist in the world started as a thought in someone's mind. However, the thought alone is not enough.

There are two other steps need to happen after the first step.

Second, planning and goal setting.

Third, action time. This is where you put the plan and goals into action. A useful tool to use in goal setting is what is known as **SMART** Goals.

Your goals should be **Specific**; they need to be clear - We don't want anything that is just fantasy, just thinking about something will not bring it about; thinking about a goal is important. Still, there are two other aspects to the process, and they are, as mentioned, planning and action.

Measurable. Your goals need to be measurable, and you should be able to track your progress. How else will you know if you are moving toward your goal of homeownership or away from it?

Attainable. What limits do you have? Can they be overcome, if so, how? Your goals need to be attainable; otherwise, you are setting yourself up for disappointment. Your current limits may be things like how much deposit you have and how much you can borrow. You may be able to overcome some limits but work with what you have at the moment.

Relevant. Make sure your goals for buying your first home are relevant to your life. For example, if you want to save a deposit for your first home but buy a car instead, this does not fit your overall goals.

Time-bound. You need to have a time frame that you plan to achieve your goal of homeownership. Otherwise, you may end up drifting along forever and not achieve anything.

Creating a plan

Part of the planning process to buy your first home is to ensure you have the funds to complete it.

This is industry jargon for whether you have a deposit to cover the gap between what the lender will loan you and the property costs, including government stamp duty and fees.

I'm sure you've heard the saying countless times if you don't have a plan, you plan to fail, and as much as this is the cliché and possibly overused, it is, however, a fundamentally sound concept.

Without a plan, you may end up at the desired destination, but it may take you a lot longer and with much more difficulty experienced along the way.

When creating a plan or roadmap, it's always a good idea to start with the end in mind. This is exactly why earlier in the book we discussed the importance of answering the question of what do you really want?

Once you know what you want and visualize the end goal, you can reverse engineer the steps required to attain your desired aim.

As a first home buyer, you might have an idea that you want a four-bedroom home with a double garage in a certain suburb which will cost you a certain amount of money.

If that is your aim, work out how much deposit you will need and how much income you will need to earn to secure the finance.

Also, consider the timeline to get your desired outcome.

You can then get to work on creating a savings plan. You might even consider potentially up-skilling to get a promotion to earn more money.

This is why I always say that the home buying journey starts with you. Anything and everything that has ever existed started with an idea in someone's mind.

First comes the concept, then through a detailed plan and a course of action was the concept brought into reality.

Buying your first home should be no different, first work out what you want, see the end goal in your mind.

Work out the detailed steps, get professional help where needed, and put your plan into action, one step at a time.

You may not achieve your aim overnight, but the odds are in your favor if you follow through.

Saving for a deposit

Now that you are committed to buying your first home, if you haven't already done so, it's time to create a budget to know where your money is going.

If you haven't already started a savings plan or saved the deposit, now is the time to take affirmative action and take steps to do so.

How much deposit do I need to save?

In a perfect world, you would aim to save a deposit of 20% or more, but for most first home buyers, this is not workable.

Most first home buyers don't achieve saving a deposit of 20%, so don't worry, and don't feel bad about it, save as much as you can and get into the property market as soon as you can afford it.

If you can achieve a deposit of 20% kudos to you, it's rare, so congratulations if that is you. For the rest of us, aim for a minimum of 5% deposit and as quickly as you can.

What to do if you don't have a 20% deposit?

Several lenders will accept a deposit as low as 5% for first-time buyers, but before you rush into buying a property with the savings you already have, consider these three points:

- Most lenders will require you to get approved for Lenders' Mortgage Insurance on deposits less than 20%.
- This can be quite expensive, so the more deposit you save, the better off you will be, but don't be discouraged if you must pay lenders' mortgage insurance.
- Lenders mortgage insurance is a one-time fee, and if it means getting into your dream home sooner, it might be worth paying

LMI, rather than risk the property price increasing more than what you would pay in lenders mortgage insurance.

Paying the lenders' mortgage insurance may be cheaper than the extra costs in the increased property price before you can save the extra funds.

Besides a deposit, some lenders will ask you to show proof of regular savings over a three to six-month period.

Showing that you have genuine savings is essential for several reasons. One of these reasons is to show that you can put aside savings, which shows the lender that you can regularly pay a home loan.

The more you save, the smaller your loan will be. A smaller loan means cheaper monthly mortgage repayments and fewer interest costs over the life of the loan.

Most first-time homebuyers are incredibly excited about the whole buying process and want to save their deposits as fast as possible. If you can, consider these saving strategies that could get you into your new property faster than expected.

Sticking to a budget

This one's fairly straightforward. Set a weekly/fortnightly/monthly budget – and stick to it.

My advice is to set up an automated transfer of a set amount out of your bank account where your regular pay is deposited.

Transfer it into a completely separate savings account that you never touch. That way, you won't be tempted to spend it on anything else.

Here are a couple of tips that will help you keep within your budget:

- Take your lunch to work every day instead of eating out. By doing this, you could save about $50 a week. In 48 weeks, you could add an extra $2400 to your savings account.
- Live at your parents' house for a little longer instead of paying rent.

- Switch to a prepaid phone. You could save over $30 a month just by opting out of a contracted phone plan.
- Make some extra money online. There' are a ton of opportunities online to earn some extra money. You could pick up some freelance work—doing social media, copywriting, video editing, etc. Or, try selling clothes, shoes, appliances, books, and other valuable household items that you don't want anymore. Then, put all the extra money straight into your savings account.
- Opt-out of subscription services that you don't use anymore. If you're subscribed to Netflix, Stan, Spotify, Apple Music, Audible, YouTube, and more, keep the ones you use every day and quit the rest. This could save you $50 a month or more.
- Open a savings account that pays interest.

To speed up the savings process, earn money on your money. Shop around and open a savings account that pays the interest you can access only through online banking. If you choose one that doesn't provide access through an ATM, then you'll leave it alone to grow.

Deal with your debt. Are personal loans, credit cards, and other forms of debt are making it hard for you to set money aside for your deposit? Consider **debt consolidation**.

With professional advice, debt consolidation can secure you lower interest rates and lower monthly repayments. This means you can pay back your debt faster and commit more money to save for a deposit to buy your first home.

How to save a deposit for your first home.

Don't overcomplicate saving a deposit; it's straightforward, don't be fooled into thinking that it is some magical way.

Spend less than you earn and save the rest; it's as simple as that. Regardless of how much you earn, a good rule of thumb is to save at least 10% of your income.

Put these savings into an account that pays some interest; even if it's not much, you may as well earn something.

Put it into an account that does not have a card attached. This way, you will be less likely to be tempted to withdraw funds via an ATM or EFTPOS.

As I mentioned above, what you need to do to save money for a deposit is as simple as spending less than you earn and sticking to a plan.

In other words, have something left over at the end of the month. Of course, you might need to create a budget to keep track of what you spend your money on but remember this simple saying that my brother once told me.

If you earn $1 and spend $2, you are headed for trouble. It's as simple as that!

What you need to know about the five C's of credit

They are five things you will need to establish early on in your home buying journey. These are referred to as the five C's of credit. All five of these criteria will impact you in one way or another.

Let's have a look at them now.

The five main ingredients are Character, Capacity, Capital, Collateral, Conditions.

Character: What is your credit history like? Have you had good repayment conduct in the past? Are there any issues that need to be addressed upfront?

Capacity: How much can you afford to borrow, your capacity to repay the loan, sometimes referred to as borrowing power.

Capital: How much deposit or savings you will need, referred to as capital, how much capital can you contribute to the purchase,

Collateral: What kind of property are you planning to purchase? This will impact what you can and can't do. Not all properties are acceptable to all lenders; there may be the loan to value ratio restrictions. For example, some properties are considered high density, so the amount of deposit you will need will be much higher.

Conditions: Then there are the conditions of the loan. Such as the purpose of the borrowing, how much is the loan amount and what is the interest rate?

There are five main ingredients when determining if you are ready to get approved for a loan to either purchase your first home, build your first home, or buy your first investment property.

Preliminary assessment and credit advice

Your broker will be able to give you credit advice once they have completed what we call a preliminary assessment.

This is done by collecting your information in a questionnaire or fact-find as well as discussing with you your needs and objectives.

This will allow your broker to review your current situation and prepare a preliminary assessment.

The preliminary assessment is like a pre-application check to determine what your possible options are available to you, after considering your current situation as well as what your goals and objectives are.

Since it's not an official loan application, there is no impact on your credit file, meaning that no footprint will be left on our credit file. Too many hits on your credit file can make it difficult to get finance approved as your credit rating and credit score will be impacted, and usually not in a positive way.

This is one of the reasons why it's important to get the right advice and guidance from a qualified mortgage broker who will act as a finance and prosperity coach for you.

Your finance coach will work with you to learn about your situation and help you work out what you want to achieve; then, they will help create a plan for you.

After this, your finance coach will help you implement your plan of getting you into your first home.

What information and what details are required for the preliminary assessment to be completed?

Some of the things that you will need to supply are:

- Details on your employment,
- All types of income,
- Your living expense,
- Details of your assets and liabilities,
- What kind of credit history you have?
- Your savings history
- If you have been renting your rental history,
- Any deposit you have saved or obtained some other way.

Part of the discussion will be around your short-, medium- and long-term goals.

Short-term goals are usually goals that you want to achieve in the next 12 months. Medium goals are those that you wish to achieve over the next three to five years. Long-term goals are goals that will be achieved over ten or more years.

Your broker must understand what your specific goals are. This way, they can help you the best way forward and assist you in implementing your goals.

One of the areas that lenders will look deeply into is your living expenses; these are your everyday expenses, such as fuel, food, clothing, etc. Don't confuse this with liabilities. Liabilities are what you owe. These are captured separately.

Your broker will guide you on what pitfalls to avoid, discuss ideas on minimizing risk, what costs are involved in buying or building a property.

There are always other costs associated with the purchase; some of these costs may include:

Stamp duty and Govt charges, stamp duty is a state government charge on the property's value, and each state has its own method for calculating what the amount is.

Although there may often be exemptions for first home buyers, it's important to get up-to-date information and advice as this is always changing.

If you borrow more than 80% of the property value, your broker will discuss Lenders Mortgage Insurance with you, which we refer to as LMI.

Your broker will advise you on how much you will have to pay, who the insurance covers. (It's the lender, not the borrower, in case you were not aware.)

So, you have found a house that you really like or found some land that you would like to build on. What you need to consider is what the real cost is? The real cost of the purchase once you factor in all the hidden costs.

Part of the preliminary assessment may include a funding worksheet, which we will detail later.

For the loan application itself, the broker will perform a VOI process.

VOI, part of the application process, is what is termed Verification of Identify, which is verifying your ID to make sure you are you. Now I know you know who you are. Still, part of the compliance process is to determine that you are who you say you are.

One reason for this is to assist with avoiding possible fraud and identity theft.

In summary, the Preliminary Assessment is a step that is done before lodging a loan application. The purpose is to determine what options you have and what lenders would likely fit your scenario.

Fact-Finding

As part of the loan application process, one of the first things we do is create a needs analysis, also known as a fact find.

We do that by sending you a secure link so you can complete a short questionnaire, which captures your current financial situation.

Other things captured will be the purpose of the loan, what amount you are after, what term, what features, and if known, what property will be used as security for the loan.

If the loan term exceeds retirement age, you will need to have an exit strategy that explains how the loan will be repaid once you retire.

We also ask questions on how long you expect to remain in the credit contract and what type of loan repayments you are considering. This includes, for example, interest-only, and principal and interest.

Interest-only is where the loan balance doesn't decrease, while principal and interest is when the loan balance decreases.

The questionnaire will cover things like credit history. Have you ever had any defaults, judgments, legal proceedings against you? What was the outcome of those? Then other questions would be concerning your residency status, from a lending point of view and a tax point of view.

We'll also look at the risk profile. For example, are you concerned about rising interest rates? How concerned are you with your job security and other matters like that? Then we'll cover off lender selection.

Are there any lenders that you particularly don't want to deal with?

You know, you've had an unpleasant experience in the past, or you just don't like them for whatever reason? Most people really have no preference, which is the best way to be, because it allows us to then offer up the most not unsuitable loan for your circumstances.

Then we'll look at loan and lender features. For example, are you looking for a fixed-rate loan? Are you looking for a loan with a redraw facility? Do you want to split the loan into two? If you're looking at a fixed-rate loan, then we'll talk about a rate lock. The rate lock is basically the ability to lock in the fixed rate because until the loan settles (which means the loan has been fully drawn down), the fixed-rate could change, so locking it in is a form of insurance.

You can take the risk, of course, and not lock it in, and there's a good chance that you may get that fixed rate that's been quoted, but if the lender changes the fixed rate before the loan has settled, or the property is settled, then that fixed rate may go up or down. Down obviously is in your favour, but it could go the other way, so a rate lock is simply insurance against that change. There's usually a fee associated with the rate lock.

We'll also look at any expected changes to your circumstances, so do you expect any changes to your income within the next six to twelve months? Are you planning to have a baby? Do you plan on changing your job? Unpaid leave? Is there anything that could have a potential impact on the future?

Then we'll ask you questions about insurance and asset protection. You're taking a large debt, and you need to think about if something unfortunate were to occur seriously, how will you pay this loan? Many people will insure their cars and their houses, but when it comes to themselves, they tend just to overlook that, which is unfortunate because if you're not able to work, that can have a severe negative financial impact on your life. So that is something you want to consider.

An equally important thing is the customer identified living expenses in the questionnaire. The questionnaire will ask you all about your living expenses. Don't gloss over this because it's a huge thing now with responsible lending, making sure that brokers are really digging down into their clients' living expenses.

We had done this long before it became mandatory, but it's mandatory now. So, for example, they'll ask you questions about childcare or childcare expenses, clothing, and personal care. Many people will put zero dollars for clothing expenses, and I'll think what, you don't buy any new clothes? I find that unusual. Usually, we have to go back to them and get more information or check their statements, which delays the process. So, when you're doing the living expenses, really take some time to work it out as best as possible.

This is because it's not just good enough to say my living expenses are $3,000 a month and leave it at that. We've got to have it broken down into various components: groceries, supermarket, meat, fruit, veggies, insurances, medical and health costs, cost of owning a property, rates, and levies.

Also, recreational and entertainment costs, going out for movies, gifts, membership fees, pet care, connections, phone, mobile phones, Internet fees, subscriptions, Netflix, and other similar expenses. Transport, whether it's public or car, and then rent or board. Now in the event of rent or board, even though you may be buying a house and not continuing with the rent, we still capture that, but we make note that it's not ongoing.

Types of lenders

Onward with our journey to homeownership, let's now look at the most common type of lenders you may encounter.

What lender is best for my circumstances? This all depends on several factors, such as but not limited to the amount of deposit you have, what your employment and credit history are like, and the amount of money you need to borrow. These are just some of the factors that will move you toward or away from a particular lender.

After completing a needs analysis, your broker will narrow down what lender to use. You may end up with a shortlist of three to six lenders that may be suitable for your situation.

Your finance coach or broker typically will be able to give you a few recommendations. However, in some cases, you may have only one option. Also, sometimes your options are limited, your broker will explain why.

Your broker will also explain why they have excluded certain lenders. This could be as simple as you don't fit their lending criteria, they may not lend for the type of property you are buying, or they are just not competitive at the present moment.

The most common type of lenders are banks.

Banks, such as the big 4 or 5, depending on who's including whom. These lenders are well known as they usually have an extensive branch network. However, this is really not that important in today's technology world, as most of us transact online via Internet banking.

Over the years, banks have been shutting down many branches due to them not being profitable. As a result, it's not uncommon to receive correspondence in the mail to advise a local branch is closing.

Building society which are lenders that their members own as a mutual organization. They are similar to Credit Unions and are usually operated as a not-for-profit.

Non-Bank Lenders, including white-label lenders and Mortgage Managers, are usually funded by wholesale funders.

All types of lenders will suit different people with different scenarios. Therefore, your broker will be able to provide you with a wide range of options for your consideration based on your unique situation and your needs and objectives.

All about loans and features

In the simplest terms, a loan is a debt, and debt is usually money that has been borrowed from one party to another and usually has a cost involved in the form of interest payments.

There are several different types of loans and loan features. For this book, we will be looking at home loans; loans are taken out and used to purchase real property.

These types of loans are known as secured loans. They are secured via a mortgage to the property you are purchasing or another property. However, mostly for a first home buyer, the loan will be secured to purchase the property.

When it comes to getting a home loan, there are several different types of features to consider, such as fixed-rate loans, variable rate loans, interest-only loans, principal and interest repayment loans, to name a few.

Let's look at some of the different types of loan products offered in the marketplace, along with features and terms.

The most common loan term for a home loan is usually over 25 to 30 years. Of course, some lenders will offer longer terms, such as 35 or even 40 years, but this is more of an exception to the norm.

Repayment types

P&I, which is an abbreviation for principal and interest, this repayment type means that the loan principal will reduce overtime. Therefore, overtime, your interest costs will reduce, allowing for additional repayments, either as a one-off extra repayment, regular extra repayments, or even a lump sum.

Fixed-Rate home loan, as the name implies, is where the repayments are fixed for a period. Fixed rates terms usually range between 1 to 5 years.

Since the interest rate is fixed, it can't go up, but at the same time, it won't go down during the fixed term. If you are on a budget and need to make sure your loan repayments don't change for a certain period, this may be a reason to choose a fixed-rate loan.

It's important to keep in mind that there is no right or wrong to choose a variable rate home loan or a fixed rate home loan.

You can always choose to split your loan and have part variable and part fixed. These arrangements are often referred to as a combo loan, as in a combination of fixed and variable portions.

Combo loans are a mix of fixed and variable, and they can be set up in several different arrangements. For example, you could have a mix of 50% fixed and 50% variable or 70/30 deepening on your requirements and what is on offer from the lender.

When it comes time to get your home loan, you will face many options to consider, and it's important to get the right fit. The last thing you want is to have a mortgage that is not right for you.

Some lenders have pricing tiers; a pricing tier is based on the total amount you wish to borrow. Pricing tiers usually mean that the more you borrow, the lower the interest rate will be.

The lender will have one rate for a larger loan amount and another for a lower loan amount. For example, the lender may have one interest rate for a $150,000 loan and another for a loan amount of $500,000.

The lower loan amount is often at a higher rate, and the higher loan amount is at a lower rate.

In most cases, when it comes time to apply for your home loan, you will be presented with many options to consider.

Other common loan features you will most likely come across are:

- Construction loans, which are used for when you are building a property and therefore require progress payments, are payments drawn down in stages to pay for each stage of the construction. See the section on construction loans for more details.

- Interest-Only loans allow the repayment of interest only, which means that you are not reducing the principal. Therefore, the principal remains the same as you are only paying interest. Often, you will see the letters I/O, which is an abbreviation of the term interest only. Since you are only paying interest, the principal does not reduce during the I/O term. These loans will revert to a principal and interest loan after a certain time, and therefore the loan is paid off over the remaining term. For example, if the loan term is 30 years and the I/O period is five years, the loan is amortized over the remaining 25 years.
- Offset Account and redraw are other account features you will come across. For more information, refer to the section Offset vs. redraw for a fuller explanation.

Your broker will discuss all the loan types and features and what they mean to your scenario.

Housekeeping

When applying for a home loan, having a history of keeping your accounts in order is important.

What do we mean when I say accounts in order?

It means that your accounts don't have any dishonored payments, missed payments, and overdrawn fees, just to name a few.

When applying for a home loan, the lender will want to see that you conduct your accounts as per the terms and conditions. In addition, they will want to make sure you are managing your financial affairs soundly.

Occasionally, we get scenarios where a client is applying for a loan. When we look at their transaction accounts and discover that there might be certain overdrawn amounts or late fees, this is a cause for concern.

Even if, in most times, they are very small payments or the account was only overdrawn by a small amount, it still could cause an issue.

The last thing you want to worry about is having to answer and give an explanation around these transactions. It will make your chances of getting approval that much harder.

These issues can have an adverse effect on getting a loan, especially with a loan with a very high loan-to-value ratio.

A high loan to value ratio is when you only have a small deposit, for example, if you borrow 95% of the property value.

If you've only got a 5% deposit, the scrutiny on your application is a lot more intense. There are more hurdles to jump over for a loan of that type.

For example, a client was applying for a loan with a 5% deposit. The client's bank statements showed they overdrew it four times and by two dollars only. The account got overdrawn because of a fee they didn't know about.

They were actually transferring their wages from their main account into a savings account, so it always went back to zero and then, of course, they realized that there was a two-dollar fee on this account because it wasn't explained to them properly.

And so, the fee would hit the account, and, of course, it would overdraw the account. In this case, it was only such a small amount, but the credit team of the lender that we went to definitely picked up on that. We had to go back and explain what happened, how it happened, and basically say that the client wasn't aware that there was a fee, and once they realized it, they obviously rectified it.

Such a little thing can sometimes work against you. In this case, we got the approval, but it delayed the approval process and added another hurdle and stress for the client.

If you've got too many of these small things, they add up to bigger things. You mightn't see it as a big deal, but when you're using a lender that credit scores, all these little things can work against you. So it's important, especially when you're borrowing with a small deposit, to be as squeaky clean as possible.

Comprehensive credit reporting and your credit score

You may have heard that everyone has a credit file. In Australia, we now have a system called comprehensive credit reporting. However, even if you don't have any defaults or bad credit history, many things can still affect your ability to get a loan approved.

For example, if you have too many inquiries on your credit file, commonly known as too many hits on your credit file, this can be detrimental to getting a home loan approved.

Shopping around and submitting home loan applications with various lenders is not a smart move.

A hit is an inquiry, usually the result of a credit application. This can be a home loan application, personal loan, credit card, phone plan to name a few.

All these inquiries will add up, and if there are too many hits, it will also lower your credit score.

What is too many? Usually, if the loan to value ratio is much higher, too many can be as many as five.

Your credit file is your financial footprint. If you have skeletons in the closet, these often show up.

Your credit history includes any credit inquiries such as applications for credit cards or loans, personal loans, home loans. You name it; any credit will appear on your credit history.

Other things reported on your credit file are adverse incidences such as defaults, credit infringements, court judgments, etc. Effectively anything that has a negative impact on your credit history.

Your credit score is important as many lenders will set a benchmark, and if your credit score is below this, you may be declined.

Who are the credit reporting bodies in Australia?

At the time of writing, the credit reporting bodies are Equifax, Illion and Experian, and for Tasmanian residents, the Tasmanian Collection Service.

Beware of websites that provide free credit scoring. These are not true credit reports and are usually designed as a site to capture your information for marketing purposes.

Too many hits on your credit file can have an adverse effect on your ability to obtain a home loan. You can quickly go from being an A client to a C client just by applying at three different banks on one street.

Of course, don't do this at home. You will make it much harder to get approved as your credit score will have gone down.

What kind of information will appear on your credit file?

The usual information includes your name, date of birth, gender, residential address history, employment history, and driver's license number.

Any applications you have submitted for credit will include information about the type and amount of credit applied for.

Dates that you opened and closed accounts.

Your credit limits.

Details of the terms and conditions about repayment of credit.

Names of all credit providers as well as the names of any credit providers who have requested copies of your credit report.

If you have applied for commercial credit, this will appear also.

If you have gone guarantee for someone, it will also have information about when the borrower under a guarantor loan has defaulted.

Any credit default information (i.e., information about payments of more than $150 that are at least 60 days overdue and for which the individual has been served at least two notices requesting payment).

It will include any information about any overdue debts that have been paid and court judgments made concerning credit provided to the individual or credit applied for.

Also, if you have any debt or insolvency agreements entered into as well as bankruptcy.

Your payment history information and information about any serious credit infringements.

Getting a copy of your credit file before applying for a home loan may be a wise move. Then, speak with your broker, who will be able to guide you. Depending on the health of your credit file, your broker will guide you as to the best way forward.

What are comparison rates?

A comparison rate will include the interest rate, along with all the known fees that relate to a loan. However, it does not include any government fees or fees relating to future use that you may or may not use, such as redraw fees, early repayment fees, etc.

You may see reference to comparison rates in various advertisements around finance products, such as home loans, personal loans, and credit cards.

The most common ads that you may see are for home loans, typically using an example of a loan for $150,000 over 25 years, which is not an accurate reflection of the average loan in Australia.

The purpose of the comparison rate is to assist you in comparing the true cost of one loan product with another.

Is it a useful way to know what the true cost of a home loan is?

Only if you get the comparison rate for your individual scenario, and not rely on the advertised rate, as they usually base this on a loan of $150,000 over 25 years.

For example, you might have a loan for $800,000 over 30 years, so your scenario's comparison rate will be different. Therefore, it pays to always compare like for like, and your broker will do this for you and provide a report that shows the true cost of the loan compared to another product.

The Consumer Credit Code regulates the comparison rate calculation, and all banks and lenders use the same formula.

When comparing like products, we need to ensure that we factor in all the other details such as loan products and features, the maximum loan to value ratio that is on offer, and any other fees associated with obtaining the loan and any fees associated with the use of the product.

For example, annual fees, monthly fees, redraw fees, etc. The bottom line is to compare the total cost of one product to the next as this is what is coming out of your pocket.

If you are over 45 years old, then you are an older borrower!

Some people buy their first home when they are older. Or, they may have already owned real estate in the past, but because of a life event, they are now re-entering the property market later in life.

For someone who has reached the age of 45 to 50, getting a home loan for 30 years may be more complicated than a borrower in their 30s.

The reason is that lenders will view that the official retirement age is usually around 67 to 70 years of age.

Therefore, the lender will want to know how you plan to pay the loan once you have reached retirement age.

So, if you're 45 to 50 years old, your plan most likely will be different to a 30-year-old person because you have potentially less time from the view of the lender at age 45 to 50 to put your financial freedom plans into action than say someone 30 years of age.

If you are an older borrower, which means anyone over 45 to 50 years of age, to get a loan approved for a 30-year term, you most likely will need to have an exit strategy.

A strategy to show that you will pay out the loan in retirement or still service the loan in retirement.

Each case is unique, but some examples of an exit strategy could be:

Using a lump sum from super to pay out the loan in retirement often could be a suitable strategy if you have sufficient funds to live comfortably in retirement.

It might not be a good idea if, after paying a lump sum to pay out your debt, you have nothing left to live on, however.

Downsizing, perhaps you plan to purchase a five-bedroom house because your children are young, but when it comes time to retire, you might plan to sell your current five-bedroom home and downsize to a two-bedroom home.

Another exit strategy could be to sell one or more investment properties, as long as you have sufficient equity to pay out the loan on the investment property and cover selling costs, capital gains tax, and other related expenses and use the remaining funds to extinguish the debt on your owner-occupied property.

Perhaps you have a share portfolio that you could sell or partially sell when you retire to pay out your home loan.

Alternately, you could have a combination of strategies. For example, you may downsize, sell some shares and or use a lump sum from super.

It’s important to remember that each lender’s policy is different and changes regularly, so it’s best to check with your broker to see what strategy might work for your situation.

Everyone wants the cheapest interest rate, but interest rates in isolation won’t give you the complete picture.

The interest rate is only part of the overall mix you should consider when applying for a home loan. In addition, of course, the cost is important but making sure the product meets your needs and objectives is essential.

Thinking of cost, it’s important to look at the total cost of each loan product. This is the bottom line of what you will end up paying once you factor in all the known fees.

Often, cheap rates are used to lure potential customers to a lender. I call it the good old bait and switch strategy!

You might see a great advertised rate, and you think, great, let’s go, and perhaps you get a loan approved with one of these lenders. But then, after the loan settles, sometimes within a few months or even weeks, the interest rate suddenly goes up, often the lender says something like there was an increase in the cost of funds or that they can’t maintain the margins or something like that.

The why is not so important, what is important is now you must pay more!

You have just been the victim of a bait and switch marketing campaign, and now it’s too late since you have refinanced to this lender, and you are there, maybe you could refinance to another lender, and sometimes, this may be the best option.

Now, of course, speak with a professional broker who will guide you and explain each lender's pros and cons that they have access to.

Your broker can compare like for like and give you the true cost of the loan, not just the advertised interest rate but all known fees that may apply.

Also, be careful of honeymoon rates, you know the ones, great for six months or some other short period, for example, I often hear a lender adverting their lowest rate ever, and then at the end of the ad, the small print or should I say the fast-talking disclaimer says that you must have a 30% deposit or equity in a property.

The interest rate may be good for six months, then reverts to a higher rate for the rest of the term.

This means you save some money for six months and pay dearly for it for 29 years or more after!

What impact do credit cards have on my ability to buy my first home?

Credit cards can be great if used wisely, but they have a negative effect on the amount of money you can borrow.

It's considered a liability when you have a credit card, even if you don't use it. For example, if you had a credit card with a limit of $20,000, that actually could affect your borrowing capacity by up to $100,000.

Just think about it, if you wanted to borrow money to buy a house and have credit card limits of $20,000, that potentially will reduce the amount you can borrow by $100,000.

The reason for this is that Banks and lenders, when they see that you have a credit card, whether you use it, they will factor in the full limit as a liability and as a result, this will reduce your borrowing capacity.

You could have a $0 balance and the credit card could be frozen in a block of ice in the freezer to prevent you from using it, but regardless, Banks and lenders will capture the full limit as a liability.

Let's look at what this means for you as a typical first home buyer. If you have a $20,000 credit card limit, most Banks and Lenders will use the following formula to work out your minimum monthly repayments on the credit card, they will take the limit of $20,000 and multiply this by 3.8%, giving a result of $760 per month, which works out to be $9,120 per annum even if you pay your credit card off in full each month.

So, a $20,000 credit card limit will affect your borrowing capacity because the lenders are going to look at it and say, well that's costing you, just to have that $20,000 credit card limit, $9,120 a year, which equates to $760 in repayments a month.

As you can see, this translates to an enormous impact. So, one of the suggestions that we can make, if you want to increase your borrowing capacity, is either to reduce the credit cards and get rid of them if you don't need them. It's not free money. Usually, the interest rates are quite excessive. So, if you must have one, have one with a small limit that you can pay off monthly. One that you can comfortably pay off monthly so that you know if you need to buy things, you've got the credit card there, but it's manageable. So that's the key; make sure it's manageable because it can affect your borrowing capacity quite severely.

What impact does a recent job change have on my ability to get a loan approved?

If you have recently changed jobs, this may impact your ability to get approved for a home loan.

Several reasons will come into play, such as is your current role in the same industry as before? Or have you completely changed industries?

Another thing is if you change jobs that will affect your ability to get a home loan, you're on probation in your new position.

So, for example, if you've just recently started a new job and you might be on a three-month or six-month or even longer probation, this can impact which lenders will consider your application.

Other aspects will affect your options, such as loan to value ratio, i.e., how much deposit do you have to contribute to the purchase?

What is your credit history like? Do you have any late payments on credit cards? Are there any dishonored payments in your accounts?

Some lenders are more suited to someone being on probation; other lenders are not. If you have finished your probation period, they may want to see a letter stating that there is no probation period or that it's finished.

On the other hand, other lenders will take probation and even a handful of lenders considering one-day employment. So, it's not something that is one size fits all. Plus, other factors lenders consider are the type of employment, length of employment, and if you're on probation. All these factors will affect your ability to get a loan.

Speak with your broker to get an idea of your unique situation.

LVR - Loan to Value Ratio

What is the Loan to Value Ratio, which is often abbreviated to the letters LVR?

How does this affect me, and why do I need to know about it?

As you may have already discovered, the finance and broking world is full of jargon, as it is the same for any industry.

Take tax accounting, for example. You may have heard things like ledger accounts, Profit and Loss reports, and balance sheets, just to name a few.

As it is for other industries, so too does the mortgage broking industry have its own set of jargon, and LVR is one of them.

As a first home buyer, no one really expects you to understand all this jargon, and that's why it's a good idea to get help from a professional mortgage broker.

At Our Mortgage Options, we act as your first home buyer coach. Therefore, we must explain to you some of the basic meaning behind some of the jargon you will hear.

A basic understanding of some terms is important. That way, you are going into buying your first home with your eyes open.

This is especially true if you are entering, or thinking of entering, the property market for the first time.

One of those things that you'll hear very often is LVR. LVR is just an acronym for Loan to Value Ratio.

What does LVR mean?

Let's break it down and work through it. Basically, in plain English, it is a term to describe how much the loan is compared to the value of the property you're buying.

For example, if you're buying a property for $700,000, that's what we call the value.

The loan amount will obviously depend on how much you contribute to the transaction, known as your deposit, or what industry refers to as "Funds to complete."

Once we know the loan amount, we can work out what the loan to value ratio is.

Continuing with our example:

Hypothetically, if your loan amount is $700,000 and the property's value to be purchased is $700,000, then the loan to value ratio would be 100%.

Because in this hypothetical scenario, you're borrowing 100%.

Now, unless you're using a guarantor, currently, there are no lenders that will let you borrow 100%.

Let’s look at this example again, but let's assume that you have a deposit of $70,000. Remember, funds to complete is the jargon used for your deposit.

This is how we're going to work out what is the LVR. For now, we are going to ignore stamp duty and any other costs for this example.

If your property value is $700,000, and you've got a $70,000 deposit, then you would take “$700,000 minus $70,000," because that's the funds you're bringing to the table. That means you would need a base loan of $630,000.

Remember, we are ignoring costs, for now, to keep it simple, but in real life, this won’t be the case.

Another cost we will ignore is any Lenders Mortgage Insurance you would incur as the loan to value ratio is over 80% of the property's value.

You most likely would incur mortgage insurance for any LVR that exceeds 80%. But for this example, we're just going to look at the LVR (Loan to Value Ratio) before adding mortgage insurance.

If you've got a calculator handy, or if you've got a smartphone, you should have a little calculator there, all you need to do is input the amount of $630,000, then divide it by $700,000, and press enter, and you should get 0.9, or basically 90%. So that's how you work out the Loan to Value Ratio.

The final LVR will affect the type of loan products you will have available, as some lender products are only available if you have a deposit of 30% or more, and still, others allow a deposit as little as 5%.

As there are so many moving parts to getting a home loan, you must get professional help.

What is the best interest rate I can get?

Without sounding smug, the best interest rate is the one you get approved for. As much as interest rate plays a part in deciding what lender to use, the actual issue is you may not qualify for a particular lender, so their interest rate becomes irrelevant.

As much as the lender's interest rate is a factor in the overall consideration when applying for a home loan, think of it as only one ingredient. Other things to consider are the fees that may be payable, such as monthly or annual fees. Also, keep in mind that there may be other fees such as setup fees, valuation fees, and settlement fees.

When comparing home loans, it's important to look at the total cost of the loan over the term of the loan, i.e., if it's a 30-year loan, you need to compare a like for like products over the same period.

The interest rate, which, although it plays a factor in everything, is not the only factor. For the best interest rate in the market, you may not qualify for many reasons. Also, even if you were to get that cheap interest rate, the fees may outweigh some of the savings.

You want to look at the big picture, especially when you're looking at the total cost of borrowing funds. You have to take into account not just the carded interest rate, but also any fees associated with getting into the loan and any ongoing fees.

Often, the cheap interest rates used in advertising are a ploy by lenders to get you in the door, and then, within a few months, they will often adjust it, often quoting some reason as to the cost of funds. So now, you are stuck with a higher interest rate, all because you were the victim of the good old bait and switch advertising.

So, the cheap interest rate today is average next week or next month, and there will always be someone who comes out cheaper with another competitive offer to try and get market share.

A few things to consider are that the rate is only one part of the equation or part of the ingredients of getting a home loan. So, to start with interest rate is the wrong way around, for the simple reason is firstly you need to establish what is it that you're trying to achieve, what's the purpose of borrowing the funds, so in the case of what this book is about, first time buyer.

Do you have a 20% deposit? Do you have a 10% deposit? Do you have a 5% deposit? Because all those factors will influence what rate you can actually get.

So, if you've got a 5% deposit and you're looking at some cheap interest rate that's only available to someone who has a 30% deposit, then it's pointless. The first thing to do is to establish what is your borrowing capacity, what lenders criteria do you match up with best, and then once you've established that maybe there are three or four lenders that will accommodate you, then you can compare who's got the best rates, fees, and charges. But to just start with the interest rate all by itself is probably a fool's gain.

Why the cheapest advertised rate may not be what it appears to be...

Be careful of advertised rates or ads that focus purely on the interest rate. Often the rates advertised won't apply to your circumstances, so it can be misleading, and dare I say, it could even be construed as deceptive.

Another one to watch out for is what is known as "honeymoon rates." Some of the worst honeymoon rates advertised are for only six months. Then after the initial six months of a cheaper loan, the rates revert to some outrageously higher rate, and of course, you won't know this upfront until you have gone with that lender. And to refinance later, although it may be cost-effective, it's also a lot of hassle.

Not to mention the discharge costs, government fees, and charges for the registration and discharge of the mortgage, as well as the time taken to refinance and the extra inquiries on your credit file.

It's always better to get the right product to match your circumstances upfront. But, of course, your broker will then try to get the best possible rate from lenders and products that match your needs and objectives.

It's human nature that we want the lowest possible price or cost, but as with anything in life, cheaper is not always better, especially if it's not going to do what you want or need.

And if you can't get approved for it.

Assessment rates or floor rates

All lenders are not equally created when assessing and approving buyers for how much money they will loan you.

For example, different lenders will have slightly different assessment rates. The assessment rate or floor rate is the interest rate that the lender uses to make sure you can afford the loan.

Think of it as a buffer; for example, if interest rates rise, you should still be able to afford the loan.

For example, let's say your home loan rate is 2.79%, which is the interest rate you will pay. The assessment rate might be 5.5%, which is the rate that the lender uses to base their decision to lend you money on.

There are, of course, other credit criteria that you will need to qualify for. We will discuss this in more detail in a later part of the book.

Back to assessment rates, not all lenders use the same assessment rate. For example, one lender will assess you at 4.95%, another lender may be at 5.10%, and still another at 6.10%.

At the time of writing this, assessment rates generally start at around 4.95% for an owner-occupied loan and can go to anything over 8%. It really depends on several factors.

As a general rule, the buffer amount is now around 3%.

To recap, the assessment rate usually ranges anywhere from 4.95% to 8% at the time of writing.

The assessment rate is what the lender uses as a benchmark to work out how much you can afford to borrow.

The lender will want to make sure you can afford the loan at the higher interest rate and not the actual interest rate you pay on the home loan.

Keep in mind that things change all the time, so it's essential to get up-to-date information when it comes time to buy your first home.

Let's look at a scenario; we will use a hypothetical couple, both earning $70,000 each—the borrowing capacity from one lender to the next ranges from $847,000 to $976,000.

That's a difference of about $129,000 from one lender to the next. Remember that this is a guide and subject to change; lending criteria can change quite a lot.

Depending on the nature of the income, for example, if you're relying on overtime or bonuses, this will change the amount you can borrow from one lender to the next.

The reason is that each lender will assess different types of income using their own criteria.

For example, with bonus income, the criteria could be anything from you have to have been receiving the bonus income for two years, and they'll average it over the two years.

Some lenders will take bonus income at 80%, some at 60%, and some even less. So, you've got to be careful about that. Sometimes, some lenders are more favorable to use than others if you're relying on overtime and bonus income.

There are many factors for getting a home loan approved, which is why you should always get expert help.

Loan Repayment Types

What type of repayment options do you have with regards to a home loan?

There are two types of main loan repayment types: principal and interest, and interest only.

Let’s have a look at each of them.

The most common type of loan repayments for an owner-occupied loan is principal and interest repayments.

With **principal and interest** repayments, you are making repayments towards the principal and paying the interest.

So over time, the principal amount will reduce, and therefore your interest costs will also reduce.

The reason is that as your principal amount reduces, the amount of interest you are charged will also reduce since its being calculated on a lower principal amount.

Another benefit of having a loan with principal and interest repayments is building up equity from the start.

You will also save more in interest over the loan term as the principal amount is reduced.

Often principal and interest loans have a lower interest rate, so this also will work towards reducing your interest costs.

The other common loan repayment type is **interest only**.

As the name implies, an interest-only loan means that you are only paying the interest and nothing off the principal loan balance.

As long as you have an interest-only loan, the loan amount, also called the principal amount, will not be reduced as you are only paying the interest component.

For example, let's say you take out an interest-only loan for $600,000, and the interest-only term is for five years. At the end of five years, the loan amount outstanding will still be $600,000 unless you “manually” make extra repayments towards the principal.

Now, if you had taken out a principal-and-interest loan, you would have paid down some principal as well as interest after five years, reducing the loan amount outstanding.

I often get asked, "**What is the difference** between 'interest-only property loan, compared to "principal-and-interest" property loan?"

The main difference is that with a principal and interest repayment, you will be paying your loan off over time, as each repayment will go towards the principal and interest.

So why do many clients desire an interest-only loan? Unfortunately, there are no hard and fast rules. One reason is not better than the other; it depends on your individual circumstances.

For example, a client who had an owner-occupied home loan and also had an investment property.

Now, under tax law, the interest repayments on an owner-occupied loan are not tax deductible, that's because the purpose of the loan is for personal purposes, such as buying a house to live in.

On the other hand, the interest on the investment property is tax-deductible as it's a cost of investing in producing income from residential property.

So having an interest-only loan for the investment means that as a result, any surplus funds that the client has should ideally be directed to the owner-occupied loan and reduce that first.

One reason is that the client is paying the owner-occupied loan with after-tax dollars.

But the client's investment property is—we hope—generating income in the form of rent. The investor has somebody helping make the mortgage payment. The interest portions of the loan are usually tax-deductible.

Always check with a qualified accountant for tax advice.

The other reason to have interest-only loans is to make acquiring a property portfolio easier.

If you are investing, and you pay interest only, it assists with cash flow. At least while you are acquiring properties, taking out interest-only loans assists with cash flow and could facilitate acquiring multiple properties.

In the long-term, the plan could be to acquire enough properties that, with capital growth, you can then sell down some of the properties to pay off the existing debt on the remaining properties entirely.

You then go forward, perhaps into retirement, with some income-producing properties free-and-clear of debt.

Obviously, they are tax consequences to such approaches, and you should consult with tax experts for your particular case.

There are mixed approaches, such as switching the property portfolio over to principal-and-interest loans in, say, the medium-term and to start paying down the debt, perhaps when rents have risen enough that this becomes doable.

The key is to develop a plan and work out your main goal when it comes to your property purchase.

Planning is an excellent habit to get into, and the earlier in life, the better.

4

YOUR PLAN AND ROADMAP

Your roadmap to your first home

Well, think about this: you have to live somewhere. Now, I don't know about you, but living in a tent or a caravan is not my idea of a great time. Well, maybe—and just maybe—for a very short time, like overnight camping, then "roughing it" can be fun, particularly when you know that a hot bath is waiting back home.

So most likely, you will want to have some creature comforts, so you have several options.

You may opt to stay with your parents for a while cause it's cheaper at home. And there's nothing wrong with that. But in the long run, the dream of having your own space and all the freedom that goes with that will become more and more appealing. (Not to mention giving your parents a break, so they can get their life back!)

You may decide to move out and share a place with friends for a while. This can be a great way to live fairly cheaply and have a load of fun along the way. But here's the thing.

There is one very important question you need to ask yourself and answer honestly.

Do you want to rent for the rest of your life, or do you want to own your own property?

If you rent, your expenses will likely be less in the short term, but over time they will increase as landlords raise the rents to keep up with rising costs, inflation, and the desire to increase returns on their investments.

Here is an option worth considering. **Do both**.

Rent a property to live in, and at the same time, buy an investment property. The best way is to rent in the area you really want to live in but can't afford to buy in, and then purchase a rental property in the more-affordable area.

This is one way you get your foot in the property market door. Then, as real estate values go up, you will be "building equity" or creating the nest egg you need later to enable you to buy a home in the area where you really want to live or alternatively buy more investment properties.

The cool thing about this option is that all you are paying for is your rent, and someone else is paying off your mortgage while the value of your property continues to rise and builds your equity and wealth.

Upgrading to your next home

When is it time to consider buying your next home?

Perhaps you are running out of space and need more room for you and the family, or you'd like a retreat area where you can enjoy some quiet time without telling the kids to "keep it down."

Maybe you'd like your kids to be in the catchment area for a good school or sports team, and it's time to shift location.

Or maybe you've seen a home for sale that you love, and you've decided it's time to move.

Whatever the reason—there's a few important things to consider:

The price difference between what you're paying now on your mortgage and what you would have to pay in the new place. Can you afford it?

The costs involved with selling your existing home, buying the new one, and moving. You will need to factor these costs into your funding position. Again, ask your broker for help here.

Whether they will approve you for a bigger mortgage—and what type of home loan will suit your needs the best. Again, speak with your broker, who will work with you to achieve your goals and objectives.

Should you consider changing your current home to a rental property instead of selling it? That way, you are starting to build a portfolio, and your next home becomes your Principal Place of Residence. But, again, it might be a good idea to discuss this with your broker and for tax purposes, speak with a qualified tax accountant.

There are many things to consider, and the finance options and mortgage types are essential to get right, so you don't end up paying more than you should.

How much can I borrow? Your borrowing capacity

When it comes time to buy your first home, you will need to establish how much you can borrow. That way, you will know what your purchasing power is and work this into your budget.

Each lender has a different way of working out what your borrowing capacity is. However, several common things will be considered to work out how much you can afford to borrow.

Your credit history

Your credit history will have a huge impact on your ability to get a home loan. But, unfortunately, your history to you might be just that history, something that you don't give too much thought to.

Your credit history may have had something that happened in the past. However, it's news to the lender of your choice, and some lenders have information about you that can go back many years.

Depending on your credit file, this news may not be good news. This all depends on your past credit behaviors.

A small telco default that you think won't have much impact can cause issues when trying to get a home loan. It may mean you have to use a non-conforming lender and miss out on prime interest rates.

The number of Credit Cards, Personal Loans, Store Cards, and any Interest-Free facilities will have an impact on the amount you can borrow. Even if your credit card has nothing owing on it, the limit will impact the amount you can borrow.

For example, say you have a credit limit of $10,000. You don't owe anything on it; this will reduce the amount you can borrow for the simple fact that you can use it, so if you don't need a credit card or don't need the limit, consider closing the account or lowering the limit.

Credit cards are not free money!

Also, watch out for the buy now and pay later arrangements. These will impact the amount you can borrow. Sometimes people forget they have these accounts, but it's important to be upfront with all the liabilities you have when it comes time for a loan application.

Regardless of the type of debt, all types of unsecured loans such as credit cards, store cards, personal loans, and secured car loans, and basically any outstanding liability will impact your borrowing capacity for the amount the bank/lender will loan you.

Therefore, one of the ways to increase your borrowing capacity is to limit or reduce the amount you have as debt. Better still, if you can live without them, then this may work better for you.

Do you have any dependents? How old are your dependents? The number of dependents will affect the amount you can borrow since as they are dependents, you are responsible for them, which has a financial burden on your household budget.

Maximum borrowing capacity and your personal maximum comfort

Regardless of your maximum borrowing capacity, that is, what the lender will tell you that you can afford, you should always ask yourself, "What am I comfortable with? What kind of payment can I handle month after month after month?"

After all, a home loan is usually for 25 or more years!

It's important to keep in mind that life's circumstances often do and will change, for example, the birth of children.

Other things that will impact the amount you can borrow are foreseeable Future Changes. For example, are you planning on starting a family where one of you will take time out from your job to look after children and perhaps return to work on a part-time basis?

Having children can be a wonderful time in your life (or stress!) but starting a family will add significantly more expenses to a possibly already-stretched budget.

Also, the cost of living will increase in line with CPI (consumer price index), and as many of you know, wages or trade income don't always keep up! (I hear you; a pay rise is due!)

You may be forgiven for thinking that interest rates rising is something you don't have to worry about right now. However, it's also entirely possible that they won't go up for some time, perhaps even for decades. Interestingly enough, rates went down in Japan and have stayed down since the 1990s.

However, we are in a historically low-interest-rate environment for Australia, a situation that I can honestly say that I have not seen in my lifetime. Beyond my experience, the records tell us rates have not been this low since the 1960s.

It's important to have a long-term view and factor in some "stress-testing," meaning that you should determine if you are comfortable repaying your home loan at 2% or even 3% more in annual interest than you are currently paying.

Let’s take an example, a 25-year $300,000 loan at 3.50%, which results in a monthly payment of $1,502.

But say there is a jolt in rates for reasons we do not anticipate now. So, your variable rate runs up to 5.50%, and that will result in a $1,842 monthly payment. That’s $4,080 a year, not perhaps a disaster for most, but one can see the vacation getting a deep trim.

To find out how well you will survive in a higher interest rate environment and still be able to maintain your repayments on your home loan without impacting your lifestyle, speak with your broker who will be able to assess your borrowing power and also provide you with some “what if scenarios: - what if the interest rate went up by 1% or even 2%? What does that look like and how comfortable are you in meeting your repayment obligations?

The type of income you earn may also affect the amount you can borrow. For example, do you receive regular overtime? If so, you may find that some lenders will take overtime at 80% or even at 60% of its value.

If you work in essential services like the police, nurses, etc., you may use 100% of overtime. However, as lenders' policy changes, it's best to speak with your broker to get the latest information on how it relates to your situation.

Another thing that may affect the amount you can borrow is your age. Are you nearing retirement age? You may have to show you can afford the loan over a shorter time frame, perhaps over 20 years or sometimes, depending on how old you are, 15 years. However, sometimes you can overcome this with an acceptable exit strategy, as this is a complex area where one size does not fit all its best to get feedback on your unique situation.

Living Expenses

Lenders will use your living expenses as part of their assessment of your ability to pay a loan; we will go into more details on living expenses in the know your budget section.

A useful tool to work out your living expenses can be found at the following web address.

https://moneysmart.gov.au/budgeting/budget-planner

Lenders will use a benchmark figure. If your living expenses are higher, they will use your figure; on the other hand, if your living expenses are lower, they will use the benchmark to determine how much you can borrow.

Lenders will want to make sure you can afford the loan repayments and still have surplus funds to meet your daily living expenses. It makes sense; it is pointless to buy the property but can't put food on the table.

Know Your Budget

You may have made a budget before; you may have used them for things such as your weekly groceries, entertainment, a new car, or perhaps an annual holiday.

This kind of budgeting is fairly straightforward. For example, if we have $200 a week set aside for groceries, we should only buy $200 worth of groceries.

Budgeting for a home is a little different because most people don't purchase a property outright.

Properties are not purchased outright.

For example, if you have $40,000 saved, this doesn't mean you can only afford a property that costs $40,000 or less (there aren't too many properties, if any, in all of Australia for that price).

In some cases, a $40,000 deposit may secure you a home priced at $400,000, as long as you can pay your monthly mortgage repayments for the loan's duration or until you sell the property.

This means that budgeting for a home isn't just about what you can afford right now but also what you will be able to afford in the future. Lenders will need to see proof of income stability, with many lenders wanting to see at least six months of PAYG employment.

There are exceptions, of course, to this, as some lenders will consider one-day employment.

In addition to your deposit and monthly mortgage repayments, you will need to account for upfront fees in your budget, including:

Legal fees. Depending on how complex the transaction is, you may have to pay up to $3,000 in legal fees.

Stamp duty. Stamp duty is the tax you pay on the property transaction, and it varies from state to state. For example, in New South Wales, first home buyers are sometimes exempt from stamp duty, or they may sometimes receive a discount.

Lenders' Mortgage Insurance. If your deposit is less than 20% of the property price, most lenders require you to take out Lenders Mortgage Insurance (LMI). This insurance protects lenders in the event you fail to make repayments. The cost will vary depending on the property's price and your deposit and could be anywhere between $5,000 and $25,000 or more is not uncommon.

Moving costs. This includes the costs of moving services (moving trucks, packing, boxes, etc.), professional cleaning, and rubbish removal.

Lastly, all first home buyers should research available government grants, which differ from state to state. For example, in New South Wales, the First Home Owner Grant (New Homes) scheme gives eligible buyers $10,000 toward the cost of a new home. A new home is defined as a property that has not been occupied previously, a home that has been substantially renovated, or a home built where an older home was demolished.

Navigating the complexity of budgeting for a home can be overwhelming, especially for those of you who haven't had any firsthand experience. However, an excellent way to come up with a budget is to work backward.

Determine how much you can realistically save for a deposit (add on any government grant you are eligible for). Then, consider how much you can afford to pay in monthly repayments right now and for the next five years. Finally, make sure you consider possible changes to your family and work-life that are likely to happen soon. For example, if you plan to start a family, will one parent need to leave their full-time employment?

Here's how that might look. Say you and your partner can save a $40,000 deposit and can afford to pay $1,800 per month in repayments. With these figures, you may be eligible for a loan of approximately $360,000. Now, add the government grant of $10,000, and set aside $15,000 for moving costs, stamp duty, legal fees, and other possible costs. In this hypothetical situation, you would have about $395,000 to spend on the property.

Of course, this is a simplified example. Your budget will depend on your employment situation, income, the lender you go with, the loan you opt for, interest rates, etc. Seeking professional advice at this stage of the process will ensure you set a realistic purchasing budget. Remember, a home loan is a long-term commitment, and overspending now means paying more for years to come.

As dull and unexciting as budgets may sound, creating and maintaining a budget is a smart way to handle your income and expenses. It will allow you to keep track and measure your income and know where your money is going.

Also, when it comes to getting a home loan, part of the compliance and loan application process is that the lender will want to know your living expenses, so this information will need to be captured. Therefore, you should get prepared and have a good knowledge of where your money is going.

Now I know that creating a budget can be as exciting as going to the dentist, but like going to the dentist regularly, maintaining a budget will do you well to get into the habit of doing.

Preparing a budget can help you keep track of where your money is going.

Remember, if you don't plan, you plan to fail, and creating a budget is part of your financial planning that you may want to adopt as a good habit from now on if you have not already done so.

I like to keep things simple, so my advice is this: spend less than you earn, i.e., if you earn $1 and spend $2, you are heading for trouble. Just add more 0's at the end of the $1 and $2, and I am sure you get the picture.

Why Create a budget

Why create a budget? A few reasons to create a budget are to know what your expenditure will be for any given period. That way you can set aside enough money to cover these costs. It is also a good way to help you avoid using debt such as credit cards or store cards or resorting to facilities such as zip money, etc.

For example, let's say you want to know how much your living expenses and other costs are each month. If you don't track or measure, you won't be able to manage your costs. You will then wonder where your money goes, which may be holding you back with your savings goals, especially if you want to save a deposit for a property purchase.

Another reason is that if you spend more than you earn, you are headed for trouble. Having a budget will help you know where you stand, financially speaking. It's your road map to getting on top of your expenses.

Here is a simple method for creating and maintaining a budget.

First, make a list of all your expenses using the following checklist.

Income	
Home & Utilities	
Insurance & Financial	
Groceries	
Personal & Medical	
Entertainment & Recreation	
Transport & Auto	
Children	
Other	

Alternatively, a useful tool is the Moneysmart budget planner, which can be found at the following URL:

https://moneysmart.gov.au/budgeting/budget-planner

The simple reason is that if you don't have a budget, you will not track where your money is going, and it will be harder to save a deposit for your first home.

Take it to step by step. That way, you will create a better habit, and this will become embedded in your routine. It’s a bit like driving a car. Once you learn, you are on autopilot.

Make sure you consider enough in your budget so that you can buy furniture if you don’t already own enough for your new home.

If you don’t already own enough furniture or have the necessary white goods, like fridge and freezer, washing machine, and dishwasher for your new home, do you have enough funds for this as well as enough funds for a deposit?

Starting a Family

As part of your goal setting, you need to consider any plans, such as starting a family.

If you plan to start a family and take out a home loan and require both partners to work, this may impact when one partner takes time off work to look after the children.

Also, take into account future costs such as daycare and after-school care. For many people, having children is a wonderful event in life, but it should come with no surprise then that the cost of having children will increase your household living expenses.

Extra expenses you might be up can be things like food bills, clothing, and medical costs, etc.

If starting a family is something you are thinking about, or you already have children and plan to have more, it makes sense to plan for these types of life-changing events.

Consider if you or your partner take time off work for when the kids are born?

Have you factored in the extra costs to the household budget?

What about holidays, will you need a bigger car for more children to move around?

Maternity Leave - Return to work

If you have had time off to have children and are looking to purchase your new home, some lenders have what is referred to as a return-to-work policy or extended leave.

There is no one size fits all, which you should be understanding by now, so if you are in this situation, it's best to speak with your broker to get the latest details related to your situation.

You might have to have sufficient savings to cover any shortfall in your ability to repay the loan while you are off work.

Choosing a Property

As a first-time home-buyer, you may be tempted to buy a property based on fairly superficial features, such as the new kitchen, the polished floorboards, or the huge bathtub. However, it's important to ignore these features initially and focus on the property's cost, location, and 'bones.'

Whether you're buying a home for yourself or as an investment property, consider your budget and location first.

Then, invest in a **property inspection**, which could help you avoid costly surprises down the track. For example, if you're looking at an older property, a builder or building inspector will inspect the house and inform you of any structural issues.

If you're looking at a house with any timber construction, hire a pest inspector to give you the all-clear.

For an investment property, it's essential to consider the demographic of your chosen location. For example, if the suburb is popular with young families, a one-bedroom apartment probably isn't a great buy. If the suburb is popular with seniors, properties with steep driveways and lots of stairs won't attract much interest.

What if I Can't Afford the House I Want?

If you have begun your property search, you probably know just how unaffordable housing is in most of Australia's capital cities and surrounding suburbs. In terms of global housing affordability, Sydney and Melbourne are often ranked among the least affordable cities.

Although it may seem like a hopeless situation for young people and other first-time buyers, don't be disheartened. Here is my advice if you can't afford the house you want.

Look in the outer suburbs

We touched on this earlier, but I believe it's one of the best options for young people looking to buy their first home. Plus, as property prices rise over time in up-and-coming suburbs, you can sell your property and use the profit you make to purchase a smaller inner-city property if that's where you really want to be.

Look in the suburbs with an oversupply

If an area has an oversupply of apartments, it might mean that first-time homebuyers might be able to snag a bargain before the oversupply is adsorbed by the ebb and flow of property markets.

Consider no deposit options

Depending on your personal circumstances, you may benefit from a no-deposit home loan. There are a few different kinds of no deposit home loans available to first time buyers:

- **The 105% guarantor loan**. This loan requires a family member to become the loan's guarantor using the equity in their existing property. In other words, say a mother and father own their property and have no debt, they could offer their home as security for their child to borrow 100% (sometimes more) of the property's value.
- **The no genuine savings loan**. While most lenders want to see evidence of long-term savings, others make exceptions. For example, some lenders will accept an inheritance, sale of an asset, a work bonus, and other sudden increases in funds as acceptable deposits to borrow as much as 95% of the property price.

Key Points for First Home Buyers

There's a lot of information to process, so let's break it down into the following key points.

- **Budget**

Budgeting for a property purchase is a crucial step that will impact every aspect of the buying process. Setting a realistic budget is the key to long-term purchasing success. When deciding on your budget, consider what you can afford now and what you will afford in the future. Take upfront costs into account, and research first-time homebuyers' government grants.

- **Saving for a deposit**

Try to save as much of a deposit as possible. That being said, most lenders will accept a deposit of 5% for first-time buyers. Speed up the saving process by sticking to a budget, opening a savings account that pays interest, and consolidating your debt.

- **Choosing a location**

If you are already set on a location that you can afford, that's fantastic. If not, consider outer suburbs or investing rather than buying a house to live in. Opt for a location with good amenities and good transport links to a major hub for investment properties.

- **Choosing a property**

Avoid making decisions based on superficial features. Instead, consider cost and location first. Do invest in a quality building and pest inspector. For investment properties, ensure the property is suited to the demographic of the location.

- **Other options**

If you can't afford the house you want, try exploring outer suburbs or suburbs with an oversupply of apartments. You could also consider no deposit loan options.

- **Professional advice**

Buying your first property is an exciting, challenging, and rewarding milestone. If you feel overwhelmed or unsure, seeking the advice of a professional is a fantastic way to get some peace of mind and avoid making costly mistakes.

Property Types

As a first home buyer, you will have several options to consider regarding what type of properties are available for your consideration.

As to what is the best property comes down to personal preference as well as your budget.

Depending on your personal preference and what kind of lifestyle you see yourself living, the following property types are some of the most common in Australia.

- House
- Townhouse
- Duplex
- Apartment or unit
- Vila

Which option is best for you will depend on your personal preference and budget, if you want a big back yard because you want to do a lot of gardening, then you might want to consider buying a house with enough land to do these things, referred to as a fully detached house in lender speak.

On the other hand, if you prefer not to have to worry about garden and lawn maintenance then perhaps you might want to consider a townhouse, or a unit where there are strata that takes care of these things. Of course, you will also have to consider strata fees as well as council rates.

Some units are considered high density, and so are these types of properties. Although some lenders have restrictions regarding funding high-density properties, there is no one size fits all policy across all lenders. Likewise, there is no one-size-fits-all with most of the other aspects of lender policies.

Of course, your budget is going to dictate what you can and can't afford to buy, but even if you can't afford your dream home as a first purchase, at least you will get into the market and start building up equity, you can always upgrade later when you can do so.

Buy a unit and later buy a house, or buy a cheaper property to enter the market

Often units are cheaper than a house within the same suburb, so if a unit is all you can afford, consider buying a strata unit, and later, when things change, you can upgrade to a house.

Buy what you can afford now and use this as a stepping stone down the track to get into something better.

Use it as a stepping stone, where you step from one property to another, and move up the property ladder.

At least you will get your foot into the property market and build up some equity rather than do nothing and possibly watch property prices continue to climb higher.

A client of ours used their heads instead of their hearts. They thought things through logically and did not let emotions get in their way.

This way of thinking allowed them to get into the property market sooner, build equity, and get used to paying a mortgage.

Of course, they wanted the dream home straight away, but they went about it the smart way and delayed their gratification using their heads.

They lived within their means and did not over-commit to unnecessary consumer debt. You know, the buy now, pay later kind.

And so, when he and his wife bought their first property, they did not shoot too high but instead stayed within a budget and bought a two-bedroom unit. A few years went by, and the property appreciated, and they paid down the mortgage somewhat.

Then two become three, and a baby shows up. So now, still operating within their budget, they carefully bought a three-bedroom property, enough room for an expanding family.

The key was they used profits from selling the two-bedroom unit to assemble a substantial deposit on the three-bedroom house.

They also kept the monthly mortgage payments in line, and a bonus is that they qualified for a loan that did not need mortgage insurance as the loan-to-value ratio was less than 80%.

In this case, the clients decided to take one step at a time. First, they made a profit on their first property, which helped them upgrade to a second, more-valuable property and build wealth in their lives.

If you can't afford your dream property from the get-go, don't despair. There might be another way to achieve your dream home.

Buying "Off the Plan" and building a house

This is the story of a young family with two young children, husband and wife, who bought a land parcel "off the plan."

Buying land "off the plan" generally means you enter into a legally binding contract to purchase a property before it reaches the stage of final development and registration, occupancy approval.

You are buying a promise that the seller will complete the development of the property following agreed terms. There are some risks in buying off the plan, and there are definitely delays. Thus, buying off the plan can be a great way to save money.

Buying off the plan is a great way to save money for the patient or far-sighted. For example, say you have no dire need to move into a new home within a year or two. So, you buy undeveloped land parcel "off the plan" at a reduced price and wait around the paperwork to complete, and all the homebuilding is done—not too bad if you are reasonably housed already.

So back to the young family: they purchased land "off the plan" in Western Sydney for $245,000. Although the young parents had signed a contract, the land wasn't registered until 12 months later.

The family needs larger quarters, but they were comfortable enough in a villa, although they were renting, and naturally wanted to stop renting and start owning a bigger place.

So, the young parent's put down a deposit "off the plan," but since the land was not registered, they could not obtain a loan at that time. Finally, the land was registered a year later, and the young couple went to the banks for a loan.

We were able to tell the young couple the land had appreciated nicely in one year and was now worth $280,000. So, we negotiated with lenders at the higher land value for a construction loan, which resulted in a lower loan-to-value (LVR) ratio.

The lower LVR meant we could avoid mortgage insurance, as the loan to value ratio was now under 80%. So, if you borrow less than 80% of a property's value from a bank, you can dispense with mortgage insurance, and that is a saving in the range of $7,000 to $8,000.

There was more good news when the house was built, and we went back to the banks for permanent financing or the regular home mortgage. But, again, the appraisers came back with a valuation of $350,000, resulting in an even lower loan-to-value ratio and a better mortgage rate.

Besides the better rate and nicer home, the young couple also gained about $105,000 in a year, and that particular home is still appreciating nicely. In addition, they have a nice chunk of equity in their home—that is, the home's value over and above the outstanding mortgage, which is a nice bit of financial security and can be used to buy additional property in the future.

Buying off the plan uniquely worked for this couple. It's important to keep in mind that this is not a common outcome but an example of what is possible in some circumstances.

Cautions buying off the plan

There is a risk with any "buy now, get the product later" transaction, and that is that you may not get what you thought you paid for. Disputed or unclear contract terms are a frequent factor in disputes arising from "off-the-plan" agreements. So, it is vital to have a comprehensive contract that sets out in the most straightforward and easy-to-understand terms what exactly you are buying, including the features, fixtures, and fittings to the insurance, voting rights (for a strata property), time frames, and dispute-resolution processes. Obviously, this is another situation where you want an experienced real estate legal adviser at your side.

A mortgage broker friend had a client who bought an "off-the-plan" strata unit and loved it until the heavy rains came. Then her basement and car park routinely flooded. The damp was setting in, and it was unclear who was responsible for correcting the situation, as it was not addressed under the original contract.

If nothing else, having a necessary and sensible dispute-resolution process in an "off the plan" contract can at least bring disagreements to a conclusion, whether for better or worse.

Despite potential drawbacks, buying "off the plan" could be an excellent option for those with patience and who want significant savings on their home purchases.

Funds to complete - how much deposit do I need?

When buying your first home, you will need to show that you have a deposit, referred to as funds, to complete.

Your broker will need to check that you have enough funds to cover the purchase price minus the loan proceeds, for example.

Before jumping in and answering this with a "one size fits" all answer, I want you to picture this, regardless of the numerous lenders and the fact that there are probably thousands of loan products out in the marketplace.

There is one aspect of any scenario that is always 100% unique! And that aspect is you.

Therefore, the percentage of the value of the property you are buying that you need as a deposit can vary from 5% to a whopping 40% in some cases.

But don't worry. For most scenario's a deposit of 5% up to 10% will be enough to get you into your first home.

Let's take someone employed in the public sector, say as a schoolteacher, and therefore they are what we term a PAYG applicant, i.e., they are not self-employed.

Someone like this may get away with only having a 5% deposit of the purchase price. However, the bigger the deposit, the less you have to borrow.

Continuing with our example, if the purchase price were $700,000.00, 5% of that would be $35,000. Now, of course, we haven't factored in Lender's Mortgage Insurance and that they may have to pay stamp duty. (LMI is most likely payable because we are borrowing over 80% of the purchase price.)

So as you can see, even though the lenders often advertise that you only need a 5% deposit, if there are other fees involved, excluding LMI (because in most cases it can be capitalized onto the loan). However, once you factor in stamp duty, you may need a deposit of 7% to 10%.

Now, suppose you're **self-employed**, and you have been operating for two or more years, either as a sole trader, company, trust, or a combination of all of them, and you have all your financials up-to-date. In that case, you may be able to do the same as this person who is a PAYG applicant.

If you're self-employed and have full financials and two years tax returns, we refer to it as a **Full Doc** loan.

You are self-employed, and you have been trading for less than two years. In a lot of cases, you may need the full 20% deposit plus costs.

Therefore, if you are self-employed and you're using an Alt document loan, sometimes known as **low doc** lending, the minimum deposit would most likely be 20%.

For someone who is **employed in a PAYG role**, a 5% deposit may be all that is required.

Someone in a PAYG role, i.e., working for an employer, may get away with a 5% deposit. However, there are a lot of other factors that come into play. Other criteria that would need to be met, such as employment history, credit history, etc.

Speak with your broker about your scenario. They will be able to provide you with a tailored funds to complete worksheet.

The higher the LVR or, the less deposit you use, the harder it is to get approved.

Regardless of the amount of deposit you have, there are several reasons you may have a hard time getting a loan approved.

For example, If you have bad credit, or you may have a default listed on your credit file, it could be as simple as a telco bill that you didn't pay, even small amounts. We have seen issues with telco defaults for as little as $182.

If you fail credit score? Tough one, you may not have any defaults, but if you've moved jobs very frequently or changed address frequently, or maybe you have numerous credit cards. What some lenders call Behavioral Scoring based on your spending patterns, yep, big brother is watching your spending habits!

Gifted Funds

If you don't have enough funds saved for a deposit, another way that you might be able to get into your dream home is to use a financial gift.

If you are lucky enough to get a financial gift from someone you know, you may be able to use this instead of having genuine savings or using it in conjunction with your savings.

Usually, the lenders will want you to get a statutory declaration (or Stat Dec) declaring that it's a non-refundable gift. If it is refundable, then it will be considered a liability, and your broker will have to include the funds as a debt to be repaid, to work out your borrowing power.

As mentioned with a Stat Dec showing that it's a non-refundable gift, it's not considered a liability. Therefore, it can be included in your deposit as funds to complete the property purchase.

Getting a financial gift may be the difference between getting into a property now or having to wait until you have more savings.

It's common for parents to want to see their kids get ahead, and so if they are in a position to do so, they are willing to offer support in the form of a financial gift.

Having the correct loan structure from the get-go

Getting your loan set up correctly from the get-go is essential so that you have the loan structure that suits the way you plan to use your mortgage and meets your goals and objectives.

Any loan won't do. It's pointless getting a 5-year fixed-rate loan if you are thinking of selling and moving in three years, for example.

You will incur break costs as the fixed-rate term is not in alignment with your needs and objectives.

If you plan to use your mortgage as a transaction account, depositing all your salary into your home loan or offset account, using a credit card to pay for all your expenses such as the weekly shopping and other daily expenses such as fuel, with the view that you will repay the credit card in full each month, then the type of loan structure will be different to someone that only wants to pay the minimum with very basic features.

For example, if you don't plan or don't need to redraw any funds, or if you will only redraw funds once or twice per year, paying a redraw fee once or twice per year may be a cheaper option for you rather than a full-featured product that has all the features but comes with an annual fee.

Otherwise, if you must pay a redraw fee each time you go shopping, it could become a very expensive exercise.

It's imperative to discuss any future plans with your broker so that they can set you up with the correct loan and correct loan structure

Lenders Mortgage Insurance.

What is Lenders Mortgage Insurance? Abbreviated as LMI.

What are the costs associated with LMI, who pays for LMI, and why would I need LMI, and also just as important, what and who does LMI cover?

It’s a topic that you need to be aware of if you don’t have a 20% deposit, which is the case for most first home buyers.

For those of you fortunate to have a 20% deposit, you most likely will avoid paying LMI, and so you can skip this section if you wish. However, it's still useful information to know about.

Back to LMI, anytime you borrow over 80% of the value of a property, you will, in most cases, incur lenders' mortgage insurance, which is usually added to the total loan amount you borrow.

It's essential to keep in mind that lenders' mortgage insurance should not be confused with income protection insurance or life insurance, or any other type of insurance you may have taken out, which covers you, the borrower, i.e., loan protection insurance.

Lenders' mortgage insurance, on the other hand, protects the lender and not you, the borrower. If you stop paying your mortgage for any reason and the lender must repossess your property, and there is a shortfall between the outstanding loan amount and the sale proceeds of the property.

In most cases, for first home buyers, having a 20% deposit is not common, and often it is practically not possible, and so to overcome this, you end up paying a one-off fee called lenders mortgage insurance.

The lender has to lend more of the purchase price (i.e., over 80% LVR – Loan to Value Ratio) will seek to cover their risk by insuring the loan with one of the mortgage insurance companies.

As a side note, it’s important to remember that there are only two mortgage insurers in Australia, with a third option where some lenders self-insure. i.e., they have their own in-house LMI provider.

I want you to think about that, once you borrow over 80% of the property value, you have to satisfy lenders criteria as well as the LMI criteria, so from all the lenders in Australia, once you borrow over 80% of the value of your home you ultimately are at the mercy of three institutions, i.e., the two LMI provides as well as some lenders who have in-house LMI criteria.

It’s also important to remember that not all lenders have equal arrangements with the LMI providers. For example, some lenders have what’s called DUA, which stands for delegated underwriting authority. As long as you can satisfy the lender’s criteria, you automatically satisfy the LMI criteria with those lenders that have DUA.

Those lenders that don’t have DUA will need to send the loan application to the mortgage insurer for approval.

To reiterate the above, you must satisfy the lender’s criteria and the mortgage insurer’s criteria.

Who pays the LMI? And why would you pay it?

Why would you need LMI, and why would you pay for it? Well, basically, one of the advantages of LMI is it allows you to enter the property market with less than a 20% deposit. Of course, in a perfect world, you would have saved a 20% deposit, but that's often not the case in reality.

In many cases, clients may only have a 5% or 10% deposit. Without LMI or lenders' mortgage insurance, they wouldn't be able to enter the property market until they save the additional 5% or 10%. At which time, the property's value may have risen, especially in the last few years in the Australian property market.

Lenders' mortgage insurance allows you to borrow a higher percentage of the property value. So, for example, if you're buying a property for, say, $600,000 and you only have a $60,000 deposit, then the loan to value ratio is 90%.

The way you work that out is by subtracting $60,000 from the $600,000, then we divide that by $600,000, which gives us 0.9 or 90%. Because it exceeds 80% of the property value, you will incur lenders' mortgage insurance.

Now, the lender's mortgage insurance is paid by you, the borrower, to insure the lender against loss. So basically, what you're doing is paying this premium, which you pay to the lender. The lender pays it on your behalf so that in the event of default or you stop paying the mortgage. The lender has to repossess the property to sell it, if there's a shortfall, then the mortgage insurer will cover those costs to the lender. Of course, the mortgage insurer will probably come after you. So, it's probably not a pleasant situation to be in.

Depending on how much deposit you have and how much over 80% borrowing of the value of the property you go to, the less deposit you, the higher the risk, so there's less equity. In many cases, the lender’s mortgage insurance can be added to the loan. So effectively, you pay it off over the life of the loan, and of course, you would pay interest on that.

That's what's known as capitalizing the mortgage insurance on the loan. So, the example of $540,000 on a $600,000 property, well, that's the base loan amount, but then you would have to add mortgage insurance to that. So, the final loan amount would actually be higher.

If I don’t have a deposit, are there ways I can still buy a house?

If you’re having a hard time saving a deposit, you still may be able to get into the property market if you’re lucky enough to have someone who will go guarantor to help you secure your foot in the door.

There are various industry terms that you may have come across that refer to this process, for example.

Family pledges, deposit kickstart, guarantor loans, security guarantors all refer to the same kind of arrangement, where a family member allows you to use some of the equity in their property to enable you to purchase your first home without the need for a deposit.

This effectively allows you to borrow 100% of the purchase price and sometimes also plus costs, such as stamp duty and legal fees, which may increase the amount you borrow to 105% or more of the purchase price.

We will refer to this type of arrangement as a family pledge loan from here on. But, first, let’s explore some of these options in more detail.

If a first home buyer buys their first home without a deposit, we will assume, of course, that you don’t have any property already.

But even if you did have a property in the past and for whatever reason, you have since sold this property. Therefore technically, you’re not a first home buyer. However, you may still be able to take advantage of a family pledge loan.

Let’s start by examining a family pledge and what this entails. What is a family pledge, and what does it mean in everyday English? And does this apply to my situation?

A family pledge or a home loan using a guarantor simply works as follows.

The pledger or guarantor must own property to be able to use it as security. The security property offered under the pledge must have sufficient free equity. If there is debt on that property, there still needs to be sufficient space for around 25% of the purchase price of the property you intend on buying.

If the pledger has a loan outstanding on the property, but there is still sufficient equity, the lender will allow you to use that equity so that you may avoid paying the lender's mortgage insurance or LMI, which could save you thousands.

This effectively means that you're borrowing 100%, or slightly more, to cover costs such as stamp duty. Finance will be secured over both properties, i.e., the property you are buying and a limited portion of the pledger property.

In many cases, a family pledge is a limited guarantee, meaning that the portion attached to the guarantor's property is limited to an amount of around 25% of the purchase price of the property that you are buying.

There are risks associated with going guarantor, and a lot of times, lenders will insist that the guarantors obtain independent legal advice. Still, either way, it can be used for a first home buyer with no deposit to get into their own home.

Who can act as a guarantor or be a pledger to help me get into the property market?

Usually, someone related to you. Most lender policies at the time of writing insist that the pledger or guarantor is related to you. Often this will be your parents, guardians, siblings, grandparents, for example.

There is no one-size-fits-all, and lender policy does and is constantly changes. Hence, it's always advisable to speak to your broker, who will advise you on what is possible based on your individual situation.

So, speak with your finance specialist before venturing down this path.

It's important to remember that it's not necessarily that that guarantor is locked in for 30 years. Once the loan is paid down, and the value of the property you're purchasing has increased in value, and eventually, when there is sufficient equity, the mortgage attached to that property can stand on its own.

We can then look at releasing the guarantor. There is no set time when this occurs as it depends on how quickly the loan is paid down and how quickly the value of the property increases, so it’s best to get a home loan review to check if doing so is feasible.

Can you still use a family pledge scenario if you have some savings? Yes, using a family pledge scenario with some savings is still possible. It just means that the amount of equity in the guarantor's property that you must use will be less. How much less will depend on how much deposit you have.

In summary, the guarantor or pledger, or as some lenders call it, family pledge, allows you to use the equity in your parents' property to enter the property market. It's more common than you might think. Our Mortgage Options have assisted many first home buyers using this strategy.

It's not for everyone, as some people don't like to ask. They feel like they want to do it on their own, so, therefore, they'll still save a deposit. But for many people, it's the only way, and a lot of parents want to help their kids get into the property market. So, it's definitely worth exploring.

Now if you’re not a first home buyer, and you currently own real estate and would like to buy another property without the need for a deposit, you may be able to use the equity that you have built up in your existing property or properties.

Therefore, you could potentially use the equity in your current property or properties to purchase additional property or properties. If this is you, and you would be open to discussing your scenario, get in touch for a free consultation. We promise no hard selling tactics.

As an existing property owner, a family pledge would not be required as Family pledges are designed to help people get into their first property without a deposit. This would not be you.

Buying land and building your dream home.

If you plan to buy land and build your dream home, you will need a construction loan.

Let's look at getting a **construction loan**, how they work, and how they differ from a standard home loan where you are buying an established property that is already completed or a newly erected home.

With an established home, there is only one loan drawdown instead of numerous drawdowns for construction finance.

How does the loan process work with a construction loan versus buying an established home?

With an established home, the property's already there, and you make an offer. You go through the process, assuming the offer's accepted, and you've got your financing in place. Then on settlement, your loan will be a drawdown in one go.

With a construction loan, the house is not there yet. It only exists as an idea or on paper with the aim that it will be built according to the construction plans.

So, in this example, I'm working with a scenario of a house and land package. However, it could equally apply to buying land and building a house. The only actual difference between the house and land package and buying land and sourcing your builder is a timing issue.

So, when you buy a house and land package, they have already designed the house to fit on the land in many cases. So, you're buying it as a package. Whereas if you buy land and source a builder, you've obviously got to find a builder who has a house or can design a house that will fit on your land.

Therefore, the main difference between the two, house and land package versus buy land and source a builder, is one of delay. One is not better than the other. It really depends on what you want to do.

Whether it's a house and land package or you're sourcing and sourcing a builder, the process is the same. It's just really the timing may be longer if you buy land and source a builder. But apart from that, it's very similar.

In this case, the total purchase price is $800,000. And in a perfect world, you have a 20% deposit, which I realize is often not the case, but for this example, I'm just going to ignore mortgage insurance, stamp duty, and any other fees that may apply to the loan. So, in this case, you've got a $160,000 deposit.

The total purchase price is $800,000. The land component is $400,000. The house component is $400,000. And the total loan approved is $640,000.

The very first drawn down is when the land settles. So once the land is ready to settle, usually you've got something like two weeks for that to occur. So, you always want to make sure you've got your finance in order well and truly before that time. Otherwise, you're running around crazy trying to get everything done, and it's challenging.

In this case, the very first drawdown is $240,000 because the land is $400,000. You've got a deposit, so the lender will usually insist that you use your funds first. And then any additional funds are from the loan that's approved.

So, in summary, the loan is approved for $640,000. Now, you don't pay interest on the $640,000 yet because it hasn't been drawn down yet. The first drawdown for the land would be $240,000 and once that's drawn down, you will start paying interest on the $240,000. So, interest will accrue on the drawdown amount.

Now, at this stage, usually, not always, but usually, the loan is set up as interest-only, meaning you're only paying the interest.

As opposed to principal and interest where you're paying principal and interest, now, if you're unsure about principal and interest and interest only repayments remember principal and interest means you are paying down the debt and interest only means you are only paying interest payments and the debt does not decrease.

So, the very **first drawdown**, $240,000 is for the land settlement. The next stage is the slab or base.

Assuming all the paperwork’s in order, and you've got the loan approved; your builder will want to see evidence that the loan is approved.

Usually, we obtain what's called an Authority to Commence letter from the lender saying, "Yup, you're good for the money. This is the loan amount approved. Go for it."

Now, of course, they're dealing with the council. They've done all their bits and pieces of making sure that it's compliant with the council and all similar matters, as the lender won't allow you to draw down the money or approve the loan' until that's happened, anyway. They may give you conditionally, but definitely not full approval.

The **second drawdown** after the land drawdown is the slab and usually represents 10% of the purchase price.

Now, the house purchase price was $400,000, so 10%'s $40,000. So, what happens is, the builder will give you an invoice, and often there's a form you fill in for the lender, sometimes called an Authority to Pay.

You fill in the form, sign it, along with the builder's invoice and the lender's form, which gets sent to your broker, who will then liaison with the lender to get that approved. When I say approved, not the loan approval, it’s the drawdown approval because the loan's approved, because you wouldn't get to this stage without approval. You'd be mad. It is dangerous because how do you know you're good for the money for the rest of the build?

The second drawdown for the slab is $40,000. Which brings the total loan amount to $280,000 ($40,000 for the slab plus $240,000 for the original drawdown for the land equals $280,000) As the loan has increased, you will now start paying interest on the new total of $280,000.

Moving forward, the next stage is usually the frame which industry-standard usually represents 15%. Now, bear in mind these percentages are not fixed in stone. There are variations and what we would call exceptions. The whole concept works the same way.

The **third drawdown** is the frame, when it goes up or it put together. Again, you will get an invoice from your builder, along with the form that you fill in. Some lenders, you just sign the invoice. It's just an admin task whether you sign the invoice or get the invoice and fill in a form. There's a drawdown, and in this case, 15% represents $60,000. We add that to the existing loan of $280,000, which brings us to $340,000. Now you're paying interest on $340,000.

The next stage is usually what we call the lock upstage. So that represents 35%, and it's the **fourth drawdown**. In this case, it's $140,000, and we add that to the existing loan, so as you can see, your loan balance is slowly increasing. In this case, it's now representing $480,000. As you can see, the house is going through the stages of being built, and each stage brings it closer to the final stage when you can move in.

Then, the next stage is the fit-out, which represents 25%. In this case, it's the **fifth drawdown**, which is $100,000, bringing the total loan drawn down so far to $580,000. So, we're nearing completion at this stage. And again, of course, you're paying interest on the $580,000.

The next stage and the final stage is practical completion. So, pretty much the house is finished. It's livable. That doesn't mean everything's finished. You may still have landscaping to do, or driveways. It really just depends on what's in the building contract, and what parts you're looking after.

But for all practical purposes, it's finished. So the final drawdown or the **sixth drawdown** is $60,000, which brings the total loan to $640,000, which was the original loan amount you were approved for. In this case, you move in, and usually, the very last step is, well, you move in congratulations. Happy days.

Then the total loan now drawn down, in this case, is $640,000, and usually, the loan will now convert to principal and interest. So, what that means is that because it converts to P&I, you're paying the loan off. Not just paying the interest. (Remember, if you're paying interest only, the loan balance does not change.) So, if you're buying a house to live in and it's going to be your home, then you usually want to pay the house off. And it's probably not a bad idea to do that.

At this stage, it converts to principal and interest. You move in, and if you're renting somewhere, then you can stop paying the rent and concentrate on paying the loan, and life goes on. Happy days.

Additional notes

The building cost of a home must be fixed for several reasons, but most obviously to make sure there is enough money to complete the house.

Otherwise, what can happen is your lender gets stuck with security that is half complete; if you try to buy or sell a property that is partially complete, I am not sure that any lenders will take it on, and it is a very, very difficult market position to be in.

Better to have a fixed-price contract with the builder and know the project costs and loan amounts.

The split loan

A split loan is as simple as the name implies. It's a loan that has been split into two or more portions.

Often, a single property loan has been divided or split into two or more portions. Hence, the term split loan, as technically speaking its one loan, but split two or more ways.

There are several reasons why you may wish to split a loan. Some of the common reasons are:

You want a part of the loan to be variable and another part to be fixed, known as a combo loan.

To explain a split loan further, let's use a metaphor, think of an apple pie. The total loan is the whole pie. But suppose a pair of business partners or friends want to buy a property together but keep a clear track of obligations and responsibilities.

Let us say the business partners apply for a loan for $600,000, split right down the middle, each accepting responsibility for half of the loan.

Usually, each split will have its own account number or another way to distinguish each split from the other.

However, it is one loan from a lending point of view because there is only one loan application with the bank or lender.

Having a loan split does not require you to apply for two loans. Instead, it's a product selection where you nominate how much of the total loan will be split into which portion.

For example, let's say you had a loan that combines variable interest rates and fixed interest rate portions.

So, for example, if you had a total loan of $400,000, you could split it into two.

One part is $200,000 fixed, and another part variable for $200,000.

There could, of course, be some other combination. It does not have to be 50/50.

There could be several reasons why you may want to set up your loan with various splits, discuss your requirements with your broker.

5

ACTION TIME - GETTING READY TO BUY

Now it's time to take action.

By now, you may have a better idea of what you want with regards to your ideal home, you may know if you are going to build a new home or buy an established home, and you may have worked out or had an idea on how you are going to go about achieving your goal.

Hopefully, you have a written plan, Your written plan does not have to be a lengthy document, but it should have the main points clearly. These are your goals, and your action plan should set out the steps you will take to bring them into reality.

You should have created your goals and objectives, and your broker will finalize a preliminary assessment for you.

The next step is to get pre-approved, so you know you are good for the money and good to go, so to speak.

Part of the preliminary assessment that your broker will undertake to get you ready to obtain a pre-approval will involve looking at your employment and employment history and what type of income you earn.

It will come as no surprise that you need some income to qualify for a home loan, and the most common types of employment and income are:

Full-time - salary, where you work for someone and are paid a wage, usually this income is taken at 100% of its value.

Bonus income - if you are fortunate to receive a regular bonus, this income often is given a haircut, meaning that lenders will take bonus income at anywhere from 0% to 80%.

Casual or temp employment depends on the lender, but some lenders will consider it. Usually, you must have been employed anywhere from 6 months to two years in your current job.

Commissions - similar to receiving bonus income, often commission income is shaded as well. For example, several lenders will take commission income at 80% of its value.

Are you employed by family? If the family employs you, lenders will usually want to see more evidence of a genuine employment arrangement. For example, they will often want to see tax returns or at least several months' bank statements showing salary credits.

If you receive regular overtime, you may use all or some of the value of this type of income.

Centrelink payments, usually parenting payments A and B, can be used depending on the age of your dependents.

Child support maintenance. Some lenders will allow this income, providing six months' history and registration via the Child Support Agency. Usually, the dependents will have to be under the age of 12 or 13 years. However, it varies, so best to check.

Do you have a fully maintained company car? Some lenders will allow you to add $5,000 to your base income. Others will not allow you to add anything. It depends on the lender. As mentioned, different lenders have different criteria.

Contractors. There are many types of contract employment, so it’s best to check regarding your situation.

Foreign income - some lenders will allow foreign income, usually converted and then shaded for currency fluctuations.

This is not an exhaustive list. Depending on your situation, your broker will guide you as to what is possible given your unique situation.

How to buy your first home when you're self-employed

How does working for yourself change the home loan process?

Buying your first home as a self-employed or small business owner is no different from anyone else who is an employee. In most cases, the only difference is in the type of documentation you need to supply to get your loan approved.

There are two main types of loan products you will access as a self-employed client.

These are known as full documentation loans, and Alt documentation is sometimes referred to as low documentation.

I prefer to use the term Alt doc as the amount of documentation can still be as much as a full doc, but the only difference is the type of documents used, hence the term Alt documentation.

For full documentation loans, we will discuss alternative documentation verification later, but for now, I am talking about full documentation or full doc as it's referred to in the industry.

For a full doc loan application, all other documentation is the same as it would be for an employee. So, for example, you will need to supply the same type of ID documents, bank statements, savings history, etc.

The fundamental difference is that you will have to supply two years of trading history in the form of company tax returns if you operate as a company and two years personal tax returns.

If you are a sole trader, then there, of course, won’t be company tax returns.

So, let's have a look at how working for yourself changes the home loan process as far as documentation is concerned

You may also have to supply interim financials and several BAS.

The purpose of owning and running your own business or being self-employed is to turn a profit.

Therefore, the lender will want to see that your trading history is consistent, are there dips in profit from one year to the next, is the latest financial reports show an upward trend or a downward trend.

And so, when it comes to getting approved for a home loan, you will need to show that your business is sound and operating at a profit.

Regardless, being self-employed and getting a home loan can be complex. Therefore, I recommend that it's best to seek assistance early on and get professional advice.

What happens if I can't supply tax returns or have an excellent accountant, and my tax returns don't show how good I am doing.

The other method of getting a home loan approved if you are self-employed is a low doc or Alt doc loan.

This is where you cannot verify your income using the usual forms of documentation required for a mortgage (i.e., up-to-date tax returns).

If you can show the ability to repay the debt using alternative documentation, such as..

- Business bank statements,
- BAS, and sometimes an accountant's declaration.
- Self-declaration of your income.

… then these alternative documents could be used to verify the income you declared.

If this is the case, then a low doc or alternative documentation loan may be an option for you.

Regardless of what type of documentation you use, the loan application process is the same, and all other aspects of the buying journey are much the same.

Pre-approval

If you are ready to buy your first home, then it's time to take action and get pre-approved.

By now, you should have a better idea of what you want with regards to your ideal home, you should know if you are going to build a new home or buy an established home, and you should have an idea of how you are going to go about achieving your goal.

Hopefully, you have a **written plan**, your written plan does not have to be a lengthy document, but it should have the main points clearly. These are your goals, and your action plan should set out the steps you will take to bring it into reality and how you will go about achieving your dream of homeownership.

Your Broker would have completed a **preliminary assessment** for you and given you several options for feedback and consideration.

The next step is your broker will prepare your application and lodge it with your chosen lender to obtain pre-approval. Then, when you put an offer on a property, you know you are good for the money and good to go.

In summary, a Pre-approval will give you confidence that you will be able to buy your dream home within your budget. It will also speed up the full approval process once you have found a suitable property. Finally, in some cases, it will show the real estate agent and vendor that you are a serious buyer.

You are prepared and ready to proceed, so this might give you some leverage when it comes to negotiating the purchase price, as you are a qualified buyer.

The documents you'll be asked for

When it comes time to apply for your home loan, we will ask you for several supporting documents and details on your current housing situation, how long you have lived at your current residence, are you living at home with family, and are you renting? What are your living expenses, current employment, and if it's less than two years, we will want to know about your employment history as well.

Other details include the date of birth, driver's license details, the usual contact details, such as phone, email address, age, and the nearest relative not living with you.

Details about your requirements and objectives, i.e., how much did you want to borrow, the purchase price of the property, details of your risk profile, and then there will be a request for all supporting documents for verification and compliance purposes.

A typical list includes some of the following.

- ID documents, such as drivers' licence, passport, birth certificate.
- Payslips and or tax returns
- ATO Income statement
- Bank statements showing salary credits
- Credit card statements
- The Latest superannuation statement
- Evidence of your deposit
- Other documents depending on your scenario

As you can see from your home loan application, you will be asked for a lot of information, don't be put off by this. There are several reasons for the gathering of your details and documentation.

To complete a preliminary assessment and provide you with credit advice, your broker needs to understand your current financial situation. We do this by verifying your information by reviewing original supporting documentation. Such as bank statements.

It's also a legal requirement to make reasonable inquiries into your financial situation to make sure you are in a fit position to get approved and that you are not overcommitting. No professional broker wants to put you in a position where you can't afford the repayments on your home loan. We don't want to set you up for failure.

Lenders will want to make sure your broker has completed a preliminary assessment, so this is another reason your broker will ask for so much information. They need to assess your complete financial situation, not just on what you think they should get.

This means all accounts, all credit cards, even the account that you only have 1c in.

When buying your first home, it’s a good idea to get prepared and gather as much of this information together in one place. Buying a property is a complex and lumpy process so the more you are home buyer ready, the easier it will be for you.

Funds required – Funding Position

Here is a sample funding position, reproduced from our broker software.

This report is produced to work out if you have enough funds available to complete the purchase, either as an established home or to construct a new home. The sample used is for an established home.

Funding Position – Sample Report

We have calculated that the following funding position is to apply.

The funding position below confirms that there are adequate funds available to complete the transaction.

Funding Position Worksheet

Funds Required		Funds Available	
Purchase Amount	$1,000,000	Loan Sought	$800,000
Refinance Amount	$0	FHOG	
Stamp Duty – Transfer of Land	$40,305	Sale Proceeds (gross)	$0
Titles Office – Mortgage Registration	$148	**Other Funds Available** Own Savings: $200,000 Gift: $46,000	
Titles Office – Mortgage Discharge	$0		
Titles Office – Transfer of Land	$148		
Establishment Fee	$750		
Legal Costs	$3,000		
Discharge Cost	$0	**Debts to Repay**	
Lenders Mortgage Insurance	$0		
Other/Sundries	$1,000		
SubTotal Funds Required	$1,045,350	Total Lend	$800,000
Deposit already paid	- $0	Total Security	$1,000,000
		Loan Value Ratio	80.00%
Total Funds Required	$1,045,350	**Total Funds Available**	$1,046,000
Funds Surplus: $650			

Note* - The fees quoted above are estimations as advised by the various lenders and government bodies. Final fees will be quoted on the Letter Of Offer from the lending institution that you choose to proceed with.

Disclaimer:

This report is for informational purposes only and is provided as a guide only. The information contained in this report may not be current or complete, or may not

remain current or complete, and therefore under no circumstances should be relied upon.
The information is based upon the data provided by you and others which changes regularly. It is your responsibility to assess and verify the accuracy, currency, completeness and reliability of the information and whether it applies in your individual circumstances.

No warranty or representations as to its accuracy or completeness is provided. We are not liable to your or any other person for loss, damage or injury arising from the use of, or reliance on, this information, including but not limited to loss suffered in connection with incorrect or out of date information.

Your First Home (Purchase)				**Transaction:**	Owner Occupied
				Location:	NSW
				Security:	House
Value/Purchase Price	$1,000,000	Purchase Stamp Duty	$40,305	Current Loan Balance	$0
		Transfer Fees	$148	Total Costs	$45,350
		Registration Fees	$148	Deposit	$0
		Discharge Fees	$0	Loan Requested	$800,000
		Lender Setup Fees	$750	LVR	80.00%
		Client Legal Fees	$3,000		
		Discharge Cost	$0		
		Other/Sundries	$1,000		

The column at the top left-hand column shows the purchase amount, in this sample scenario its $1,000,000, which is then followed down the left-hand column of other costs associated with the purchase of your new home, such as:

Stamp Duty – Transfer of Land, this is the amount payable to the State Government.

Titles Office – Mortgage, also payable to the State Government.

Titles Office – Transfer of Land, also payable to the State Government.

Establishment Fee – Payable to the Lender.

Legal Costs - This is where your legal costs will go; this will vary depending on your solicitor; check with your solicitor or conveyancer about what they will charge you.

Discharge Cost – usually payable if you were refinancing or discharging a mortgage.

Lenders Mortgage Insurance, any loan over 80% of the property value, will have Lenders Mortgage Insurance payable. The amount depends on many factors, such as how much over 80% of the purchase price (LMI is on a sliding scale) as well as what lender is being used, and what the purchase price of the property is.

The total loan amount also affects how much the lender's mortgage insurance amount will be.

At the bottom of the left-hand column, you will see “Total Funds Required,” which is how much money basically is required to purchase the property and obtain a loan to do so.

Funds Available

Now let’s focus on the right-hand column called “Funds Available” the rows are as follows:

Loan Sought is the total loan amount needed to purchase the property, this amount includes Lenders Mortgage Insurance, so it’s the base loan amount before LMI is added.

The lender's mortgage insurance is then added to the base loan amount, so effectively, you are paying the LMI throughout the loan term with interest.

FHOG refers to the “First Home Owners Grant,” which is usually money received from the government as a grant for constructing a new home.

Sales Proceeds (gross) money you receive if you have sold a property to assist with the new purchase.

Debts to Repay – if you have any debts that need to be repaid at the purchase time.

Total Lend – this is the total amount of the loan, including fees such as LMI.

Total Security – basically means the value of the property being purchased; usually, this is the same as the purchase price but may, in some cases, be more or less.

Loan Value Ratio – this is what we refer to as the Loan to Value Ratio abbreviated to LVR; the LVR is worked out by dividing the loan amount by the purchase price, as an example, a loan of $800,000 divided by a purchase price of $1,000,000 would be an even 80% LVR.

Total Funds Available –the total funds available, i.e., the loan being applied for plus your deposit and any government grants.

At the very bottom of the two columns is either a funds surplus or funds deficient. To proceed to obtain a loan, we need to have a surplus, or at a minimum $0, it can not be negative as we must demonstrate to the lender that you have what is called "funds to complete," which is one of the main reasons to prepare this report.

The last page is basically a summary of what is included in the main first page, but this page only shows the base loan amount before factoring in lenders' mortgage insurance.

Stamp duty

When you buy property, you will most likely have to pay stamp duty. It's a tax levied by all states and territories in Australia on a property purchase.

In some cases, if you are a first home buyer, you may qualify for an exemption or a concession on stamp duty, depending on the property cost.

Before proceeding, get advice as there are changes to what is available from time to time, so it's best to get the latest information.

Your broker will be able to assist you with this, also speak to your conveyancer or solicitor.

As mentioned, stamp duty is a state government tax payable on the sale or transfer of property. Different states have their own way of calculating the cost of stamp duty.

Each state has its own revenue office where the stamp duty has to be paid.

As mentioned previously, there may be concessions that apply to first home buyers.

Here are some useful links for each State and Territory revenue office, where you can find information about stamp duty.

NSW	https://www.revenue.nsw.gov.au/
VIC	https://www.sro.vic.gov.au/
QLD	https://www.treasury.qld.gov.au/
WA	https://www.wa.gov.au/organisation/
TAS	https://www.sro.tas.gov.au/
SA	https://www.revenuesa.sa.gov.au/
ACT	https://www.revenue.act.gov.au/
NT	https://treasury.nt.gov.au/

These links can also be useful for other related property information.

Your Action Plan

It's Time for Action. All that thinking, planning, and learning are of no value until you bring your goals and objectives into reality.

Having previously written out your **SMART goals** or written them out using another method you prefer, it's time to create an action plan.

Think of your smart goals as your big picture or blueprint, and your action plan as the details, details as to what steps you will take to bring to life your goals and objectives, and get closer to your dream of homeownership.

For example, if you wanted to build your first home and then invest for your future and retire with four properties and no debt, then you will have to create a plan to achieve this, i.e., what are the steps you will take, who will you need to get involved to help you along the way.

What kind of property, located in what location, ownership structure, how will the loans be set up?

Also, what time frame are we talking about? How will you go about paying down the debt?

Will you choose principal and interest and let the loans be paid out over time, or will you sell some investment properties and retire the debt that way?

These are all things that you need to think about. Without the goal and action plan, it's just a thought, and although starting with the thought or idea is a good place to start, you need to put the plan into action.

- **Putting it all together.** You have created a set of smart goals, come up with your dream home, and perhaps thought about your future retirement life. Now is the time to put all this into a workable plan and take action. The best-laid plans are only that, ideas on paper. It's not until you take action and build your dream life, so to speak when it starts to take shape.

- **Implementation**. Who do you need to involve getting it done, i.e., trusted advisors, such as finance broker, accountant, solicitor, to name a few.
- **Ongoing education and research**. You can never stop learning and growing.

It's always a good idea to begin with the end in mind, visualize the final outcome you want to achieve.

In your action plan, you will need to document the step-by-step process you will take, who you need to involve in your home buying journeys, such as a good finance broker, accountant, solicitors, and possibly real estate agents, either buyer's agents or sellers' agents.

The first thing that your broker will do is listen to your goals and objectives. They will want to know what you want to achieve.

They will want to know your short-, medium- and long-term goals. We refer to this as a deep dive into your current situation and understand where you want to go as far as your future plans.

Your broker will then prepare a fact find, or what we call a client, needs analysis, which is a fancy word for what you want to do and your current financial situation. Taking into account any foreseeable future changes.

Foreseeable future changes, such as having children, changing jobs, starting a business.

What is it that you want to achieve? What is your goal? What are your plans, hopes, and dreams?

When it comes time to apply for your home loan, you will be asked for several supporting documents and details on your current housing situation, how long you have lived at your current residence, are you living at home with family, or are you renting? In addition, what are your living expenses, details about your current employment, as well as employment history?

Other details such as date of birth, driver's license details, the usual contact details, such as phone, email address, age, and nearest relative not living with you.

Details about your requirements and objectives, i.e., how much did you want to borrow, the property's purchase price if known, details of your risk profile, and then there will be a request for all supporting documents.

For your home loan application, you will be asked for a lot of information, don't be put off by this. There are several reasons for the gathering of your details and documentation.

To complete the preliminary assessment and to be able to provide credit advice, your broker needs to understand your current financial situation, and the process to do this is via verifying your information by reviewing original supporting documentation, such as bank statements, driver's license, passport, and other documentation that makes up the loan application package.

It's also a legal requirement to make reasonable inquiries into your financial situation, also to make sure you are in a fit position to get approved and that you are not overcommitting, no professional broker wants to put you in a position where you can't afford the repayments on your home loan, we don't want to set you up for failure.

Lenders will want to make sure your broker has completed a preliminary assessment, so this is another reason why your broker will ask for so much information. They need to assess your complete financial situation, not just on what you think they should get.

Your broker will also inquire into your living expenses, which we cover off elsewhere. This will be used as part of the process to determine your borrowing capacity and your borrowing comfort. It's one thing that the lender will let you borrow x amount but more importantly, what are you comfortable borrowing?

Remember, you have to pay the loan potentially over 30 years, especially if you only make the minimum repayments.

Another aspect of the process is to determine if you have enough deposit or funds to complete.

Before a bank or lender gives you a loan, you need to have “funds to complete” or put more simply a deposit.

- The bigger the deposit, the better it is for you for several reasons.
- You don’t have to borrow as much. Therefore, you pay less interest.
- If you have 20% of the property value plus costs as a deposit, you most likely won’t have to pay Lenders Mortgage Insurance.
- You will usually get a much better interest rate.
- You only have to meet the lender's criteria for approval rather than the lender's and then the lender's mortgage insurer's criteria.

Your broker will also want to understand where the funds for your deposit came from. For example, are they genuine savings, or are they nongenuine savings?

Genuine savings are those you saved, and as a rule, nongenuine savings are funds you obtained via a gift, or perhaps you sold a car to raise funds for a deposit. These are sometimes referred to as nongenuine savings.

Max Borrowing Capacity

Regardless of your maximum borrowing capacity, i.e., what the lender will tell you that you can afford, you should always ask yourself what you are comfortable with. I.e., what are you able to repay month after month?

After all, a home loan is usually for 25 or more years!

It's essential to keep in mind that life's circumstances often do and will change, for example, the birth of children!

Having Children can be a wonderful time in your life (or stress!), but children will add significantly more expenses to a possible already stretched budget. Also, the cost of living will increase in line with CPI, and as many of you know, wages don't always keep up! (I hear you, a pay rise is due!)

You may be forgiven for thinking that interest rates rising is something you don't have to worry about right now. It's also quite possible that they won't go up for some time. However, we are in a historically low-interest-rate environment, a situation that I can honestly say that I have not seen in my lifetime.

The point I am urging is it's important to have a long-term view and factor in some stress testing, meaning that you should determine if you are comfortable repaying your home loan at 2% or even 3% more than you are currently paying.

To find out how well you will survive in a higher interest rate environment and still maintain your repayments on your home loan without impacting your lifestyle, speak with your broker, who will provide you with some "what if" scenario's.

Case Studies

- Client was told by his bank that he could not borrow any more money, came to us and got him another $1.5m with a subsidiary of his current bank.
- Client was told by their Bank (one of the big four) that it would cost $50,000 in LMI if they wanted to buy their current property, but we got them the finance, and they paid $0 LMI, I think the bank staff member did not know what they were talking about.

- Client was told by their then-current bank that they would not even lend them $10. So we got a refi for $750,000, which included cash out of $115,000, so they could help their daughter purchase a property and get married. It helps to read the P&L reports and understand what can be added back.
- Saved a client $9k in Lenders Mortgage Insurance because we could use the current value of the off-the-plan land purchase and not the contract price. The land had gone up in value, so the client had equity before they even settled. (Usually, you can do this if the contract is 6 to 12 or more months old.)
- Saved a client $7,000 LMI by getting a second valuation on a refinance. The first valuation came back at $565,000k which was on the 10 Feb 2016, tried with another lender on the 17 Feb 2016 and got a valuation at $625,000, the difference in rate was 0.04%, but the client was saved the extra cost. Had the client proceeded with the first lenders valuation it would have taken 13 years to break even.
- Many more stories like these.

Arranging the finance

Before you run out and start negotiating on a property, you need to know that you can get the finance, and not only know you can get the finance but also how much!

Otherwise, it's pointless looking at properties that are out of your reach.

Are you comfortable with the amount the lender is offering you?

Regardless of the amount the lender will lend you, you should always borrow within your comfort level. Remember, you must pay the loan each month for possibly 30 years unless you pay more and pay the loan off sooner.

No deposit, but still want to buy a property?

Although your options diminish greatly, there are still a few things that you may be able to do.

Favorable purchase, a favorable purchase is where you purchase a property at a discount, usually sold to you by family. Some parents who want the kids to get into the property market may sell their property to them below market value, which effectively means that the parents are gifting equity.

Family pledge, a family pledge, is where the family will go guarantor by using their property as security. This is done by having the family allow the use of part of the property's equity.

The buying process

When looking to purchase a home for either investment purposes or as a principal residence, there are several factors to consider.

For example, location to work, friends, family, schools, shops, hospitals, public transport, other amenities, etc.

Not only do you need to consider the present requirements, but you may wish to consider what your requirements might be in 10 years.

Although you may not need the extra room at the moment, if you are planning on starting a family, you may need the extra room in the future.

Purchasing a home is always a mixture of your budget and your requirements; we would all like to purchase the home of our dreams.

But always keep in mind that you will need to make the repayments on the loan every month, and it might be a good idea to factor in that interest rates may rise and start to build in a buffer as quickly as you can.

Some other things to consider when purchasing property are:

Purchase stamp duty is payable by the buyer of a property and is payable to the office of state revenue. It's different in each state, so check with your state's revenue office for details. Your broker, as well as your legal representative, will be able to assist as well.

The lender will want you to have home building insurance. It's always a good idea to have contents insurance as well.

Have you factored in moving costs into your budget?

What about the fees you must pay to your solicitor or conveyancer?

Research the locations you are interested in, places where you see yourself living, and consider purchasing.

With the assistance of your broker, do your sums and find out your borrowing capacity. Get a pre-approval when you are ready so that the process will run smoother once you locate a property.

Once you have located a property that you like and is within your criteria and budget, make an offer. Contact your solicitor or Conveyancer once the contract of sale is obtained to review the documentation.

Next is going for the final loan approval. You might also like to arrange a pest and building inspection on the property.

6

PITFALLS TO AVOID

Important news for people who are first home buyers

When it comes to buying your first home, there are several pitfalls to avoid.

Here are some of the most common.

What are some of the things you need to watch out for on your home buying journey? Many pitfalls are waiting to happen if you don't plan well enough. I am sure you have heard the saying, if you don't plan, you plan to fail. You may have heard this a lot because there is a fundamental truth contained within its message.

Without a plan, here are some of the most common situations you may encounter, with outcomes that may not be in your best interest.

Getting the wrong advice. Your mum, dad, brother or sister, or neighbor might have the right intentions, but are you getting the right advice from someone qualified to give it?

Not having clear and defined goals and objectives of what you want. If you don't know what you want, you will be going around in circles. You need to give it some thought. What's your budget, what kind of property do you want, and in what area? Armed with these three things you will be better prepared to succeed with your home buying dreams.

Not having pre-approval before shopping for a property. Before you run out and view the property, it's best to have a pre-approval in place.

Chances are you will find something you fall in love with. Then the pressure is on to purchase it. Without a pre-approval, you will be running around trying to organize finance in a hurry. This is where the stress and anxiety set in, not to mention that you may miss out on your dream home because you have not put effort into getting a pre-approval.

Overcommitting yourself. It's your first home, it may not be your forever home, but it's a foot in the door, so to speak, a foot on the property ladder, your first home could be the stepping stone to much greater things, you must start somewhere, and something is better than nothing

Trying to do it all yourself. Where do you go, and who do you speak to?

You could spend hours, which takes you away from what you should be doing, like spending time with friends and family and looking for your dream home.

There is no real benefit of doing it yourself. You most likely won't save any money and, in fact, may work against your own best interest.

You may end up making it more difficult if you apply through a few lenders and get knocked back each time. This will affect your credit rating, and so by the time you approach the third lender, you will have gone from an A client to a C client.

Without knowing the lender's policy, it's a bit of a hit-and-miss process. Even if you do get approved, how will you know if it's the best option for you?

Just as you can fix your own car and do your own tax returns, it's not always the wisest idea as you most likely won't' have access to the latest lender policy. Dealing directly with a lender will mean that you only are offered their product, which may or may not be the right fit for you.

Why you should be concerned about what happens to your

information

Your personal information you supply to a mortgage broker is of a very private and sensitive nature, so your broker must have the systems in place to keep your information safe and secure.

You should have confidence that your broker does not allow anyone to see your information except to apply for a home loan, to which you would have given written consent.

Most brokers are professionals and will protect your information as they would if it were their own. But unfortunately, there are bad apples in every industry, so check the reputation of your broker and ask them about their systems to keep your information safe and secure.

You might also want to ask them if they have had any breaches in the past and if they have been the subject of an investigation.

If they have had data breaches, this could lead to identity theft. Identity theft is where someone takes over your identity. For example, they may apply for loans, credit cards in your name and destroy your credit rating, plus you will have to deal with getting things back in order.

Equally damaging could be things like unauthorized transactions on your accounts or your credit card. Access to your bank accounts may drain your funds.

It could lead to the conduct of illegal activity. Having to clean up the mess could be costly and be at your financial detriment, not to mention the emotional toll you may experience.

Make sure your broker keeps your information secure like they would for themselves. There can be no compromise on this.

Thinking again about pre-approvals

If you are serious about buying your first home, you should arrange to obtain a pre-approval.

Once you are in the market for your first home, you should not venture out without a pre-approval.

A pre-approval will allow you to know how much you can borrow, so when it comes time to purchase, you will know how much you can spend and therefore stick within your budget.

You will also be confident that you are good for the money when it comes time to put in an offer and that the lender will back you with the funds to complete the purchase.

You will also have a good idea of the likely repayments, so you won't be in for a shock when it comes to making your loan repayments.

A pre-approval will also speed up the process of getting your loan fully approved once you have located your property to purchase.

Another thing to consider when getting pre-approved is that not all pre-approvals are the same. The term pre-approval can mean different things to different lenders and banks.

In most cases, the best pre-approval is termed a fully assessed pre-approval, which means that your application has been fully assessed by the lenders' credit team and is usually approved subject to satisfactory security property.

Not all lenders offer these, so check with your broker to see if a fully assessed pre-approval is the right option for your situation.

A fully assessed pre-approval subject to a suitable property will allow you to be fully prepared. The only thing you will need to do is find a suitable property for full approval.

Your journey as a first home buyer is a time of learning and information gathering.

Your journey as a first home buyer is a time of learning and information gathering.

Information may be volunteered from all sorts of people. However, you need to be careful who you listen to when it comes to getting advice on buying your first home, or second home for that matter.

We all love our friends and family, so it's natural that they want to share their views on various topics with you, and buying a home is no different.

However, although well-meaning, your friends and family are often not the best people to get home buying or home loan finance advice.

The home loan market is vast and complex, and lender policy changes all the time. Unless your friends and family work in the finance world, it's doubtful that they have the latest information regarding what kind of business lenders are looking for and what scenarios fit the different lender's policies.

So, unless your friends or family actively work in the mortgage/finance space, it's most likely that they won’t have the necessary training or ongoing professional development.

Mortgage brokers who are members of the MFAA, the peak body in Australia, have to undertake 30 hours of professional development each year. In addition, brokers regularly attend lender training sessions and regular compliance training.

A professional Mortgage broker will also put your best interest first.

Is being loyal to your bank worth it?

Is being loyal to your bank going to make it easier to get a loan approved?

Regarding being “loyal to your lender or bank”—or in my opinion, the misguided sentiments of being loyal to your bank or lender, perhaps you might think that because you have “banked with them for x-number of years, and they always looked after you.”

Allow me to explain why bank loyalty is misguided and sometimes even foolish.

First, loyalty is not a bad thing. On the contrary, it is an excellent human trait to have. But when we speak of lenders, it is all business, certainly from their point of view. And there is a cost of doing business with lenders: it is called interest and fees.

Now let me ask you a question: When was the last time your bank or lender independently called you up to reward you with a rate discount for your loyalty?

Most likely, they never have. If your bank has offered a rate discount, almost certainly that is because you raised the topic of refinancing.

Which raises the question, “What didn’t they offer you a rate discount before?”

What about rewarding you for your ongoing loyalty? That generally doesn’t happen.

Often, we have renegotiated interest rates down with existing clients with their current lender. That is because we have intervened—not because the lender called us up and said, “We are contacting your client to offer a rate discount.” That just does not happen, in my experience.

So, you could be potentially paying extra every month to your bank or lender due to a misguided sense of loyalty and even trust.

In many cases, we had clients contact us after approaching their lender and being knocked back. The clients lamented, “Hey, they have always looked after us, until this particular time.”

And then the idea of “loyalty” is damaged.

I have seen clients a bit hurt, in some cases distressed—it is a bit of a rude awakening in some respects.

To give you an example: I had clients banking with a major brand-name bank and paying 4.65%. The clients believed the rate was competitive, but a friend told them to go to their bank and ask for a better rate. They were refused.

The clients were a middle-aged couple, pre-retirement age, self-employed, dog owners. The wife ran a beauty shop with her sister, the husband was in cleaning services. Good, solid people.

They always thought, incorrectly, the loan was variable; therefore, it always remained competitive. But their friend had refinanced with a similar loan.

So, they came to us. We managed to drop it to 3.75%. Why? Because we went to the lender and said, "Look, we will refinance the client unless you become more competitive." So obviously, retention kicked in, and the bank offered our client 3.75%.

It wasn't just a straight refi; we even got the couple some cash-out, or equity release, to help the daughter acquire property and finance a wedding. I liked that part especially—that is always one of my favorite cash-outs when the client builds a portfolio by buying more property.

In other cases, we have saved clients 0.45%, or 1%--it varies depending on the circumstance, of course. The bottom line is the lenders are doing fine without you paying them extra money.

In some cases, we save clients as "little" as $80 a month. Maybe this pays the postal bills, but hey, over a year that adds up and can cover a short vacation. In other cases, we are saving enough to help finance the acquisition of an investment property to build wealth for yourself and your family.

Loyalty, in my opinion, is what you show to your family and close ones, those you care about in your immediate circle, friends, and family.

Loyalty to the lender is not a sound way to go about your finances. That is another reason to review your loans regularly.

Show due respect to the bank, but reserve loyalty for those who earn it.

It's always a good idea not to over-commit yourself when it comes to getting a loan to purchase your dream home.

You don't want to be in a situation where you can't afford to do anything or go anywhere, so borrowing within your means is a smart move.

That way, you can still live and enjoy life while meeting your mortgage repayments.

Another way of looking at it is to borrow within your comfort level, not what the lender will lend you, but what you are comfortable managing.

Just because a lender will lend you a certain amount does not mean you should borrow this amount. Likewise, the fact that you can borrow a higher amount does not mean you should.

You have to be comfortable with the amount of funds you borrow and the repayments that go with it. After all, it's a commitment that is for the long term.

This is not a small purchase. You are not borrowing money for a few weeks, it's a loan that you will repay over many years, and if you only make the minimum repayments, then this could be over 30 or more years and, in some cases, up to 35 years.

7

PURCHASING

Your team of professionals

When buying a property, there are several professionals that you will deal with directly and others indirectly.

Here are some of the other professionals you will need to engage in the home buying process.

Solicitor or conveyancer. It's highly recommended that you engage the services of a solicitor or conveyancer before you sign any contract to purchase a property.

It's always a good idea to engage a solicitor or conveyancer at the same time that you start speaking with your finance broker.

Your broker will be able to guide you regarding credit, and the solicitor conveyancer will guide you concerning the legal side of purchasing a property.

These are just two of the professionals you want as part of your first home buying team.

In theory, you could do the conveyancing yourself, but my advice would be not to attempt it. Conveyancing is a minefield in itself, and it is best left to the professionals.

One of the other things that you should seriously consider is getting a building and pest report to ensure no major issues with the property being purchased. Building & Pest reports are usually a couple of hundred dollars, but it is a couple of hundred dollars well worth the cost.

Some of the other professionals or organizations that will be involved in the process are:

- Building & pest inspection
- Mortgage Insurer
- Building and contents Insurance broker and provider
- Accountant
- Vendor/Seller
- Real Estate Agent, sellers agents, and buyers agents
- Bank valuer
- Office of State Revenue, Stamp duty
- Council where the property is located.
- Property manager if it's an investment.
- Finance Broker/Mortgage Broker
- Solicitor/Conveyancer
- Building & pest inspection
- Mortgage Insurer
- Council

Making an offer to purchase a property

Before making an offer to purchase a property, I would strongly recommend that you speak with your finance broker first to get an idea of what you potentially can achieve as far as your borrowing power is concerned.

Your broker will work out your borrowing capacity, how much deposit you will need and advise you on what the repayments are going to be.

Equally important is to speak with your legal representative who will be able to guide you as far as the contract of sale, details on any cooling-off periods, property checks, etc.

Contract of Sale

Ask the real estate agent for a copy of the contract of sale and have your solicitor or conveyancer look over the details, and seek their guidance.

When you are purchasing a property, there will be a contract of sale. When you sign, this is a discussion you should have upfront with your solicitor about the best way forward for you.

Often the Real estate agent will want you to sign the contract, and it's out of my place to advise if this is wise. This is where having a legal representative is of the utmost importance.

Part of your planning phase should include getting advice from your conveyancer or solicitor.

You need to make sure you don't enter into a purchase that you cannot complete. Because, if you do, you may have some serious legal issues to deal with.

As discussed previously, have your pre-approval in place, so you are good to go and good for the money, providing everything checks out.

Each state in Australia has a slightly different method of buying and selling property, so you should check the process in your state. Your solicitor or conveyancer can help you with this.

If you plan to buy at auction, there is no cooling-off period, so you will want to make sure you have a "solid" pre-approval, solid in that your application has been fully assessed. More on this in the Buying at Auction section.

Buying a property via a real estate agent, also known as a seller's agent, the real estate agent will have several properties that they are selling on behalf of sellers.

Depending on what state you are in, offers can be made verbally or in writing. Again, check the process depending on where you live.

Before making an offer, check with your broker if the type of property and its location will be accepted as security. Different types of property will have a bearing on what lender can be used, so always check with your broker about the location and type of property.

Don't be afraid to ask for help. Your broker and the legal representative are there to guide you.

When buying at auction, there is no cooling-off period

If you are keen on a particular property, and it will be sold at auction, here are some things to consider.

If you plan to bid at an auction, you should know that if you are the winning bidder, you will need to put down a deposit of usually 10% on the day.

The thing to think about is this: You are playing for keeps. There is no cooling-off period. That means you are buying the house if you place the winning bid.

There can be no changing of your mind later unless you are willing to face possible legal consequences, which would prove to be costly.

It's important to become familiar with some of the jargon used at auctions, for example, terms like reserve price, passed in, and fall of the hammer.

Before the property goes to auction, the seller will nominate a reserve price which is usually not disclosed. Once bidding exceeds the reserve price, the property will be sold at the fall of the hammer.

You will need a 10% deposit payable immediately if you are the successful bidder, so it's important to ensure that you are properly prepared.

What is the process during an auction?

If you wish to bid at an auction, you will need to register with the seller's real estate agent, and you will be given a bidding number.

The auctioneer facilitates the bidding process and will receive bids from potential buyers simultaneously, keeping track of the current bid price.

Be prepared before you attend an auction

There is a sense of having gotten all dressed up and prepared and even having to bid, so who wants to go home empty-handed? Who wants to place a losing bid on a desirable house? Those are all understandable emotions and sentiments and a vulnerable way to proceed in an auction.

So, if possible, sit through a few auctions to get a feel for how things work and to witness how people behave.

It's always a smart move to have the contract of sale reviewed by your solicitor before the auction. You may even want to organize a pest and building report to ensure nothing too serious to worry about.

It's always wise to know your maximum purchase price beforehand and stick to that and not let your emotions run wild.

Perhaps pick auctions in which you do not like the property and do not intend to bid. But, on the other hand, auctions can be intoxicating, and the enthusiasm contagious, so be careful.

If you have the time and inclination, perhaps plan to attend a few auctions and sit on your hands.

If buying at auction, it's always a good idea to plan and get a pre-approval, not any kind of pre-approval, but rather a "fully assessed pre-approval." That means when you go to an auction, you are armed with the knowledge the lender will back you.

And speak to your solicitor to get some legal advice, and before not after you take the plunge.

Also, consider giving your mortgage broker some time to arrange to get approval before you start playing the auctions. But, again, there are options to explore, different lenders have different turnaround times depending on how busy they are, and of course, you always want to be aware of fees, terms, and rates.

If you are trying to find financing after a successful bid, you will be in a hurry. Unfortunately, hurried borrowers are not smart borrowers.

It is always better to err on the side of caution, talk to a mortgage broker about your needs and objectives. Your broker will be able to steer you in the right direction and help you get your fully assessed pre-approval on better terms than scrambling after you bullied other house-bidders into submission.

Buying established property: The pros and cons

If you plan to buy an established property, you will know what you will get as the property is established.

As it's already there, you can go and inspect it and get a feel for if you can see you and your family living in the property.

You can also check out the local area to get a feel for what life might be like for you in the suburb.

If you are keen, try driving around the area on different days and at different times.

You might be surprised by what you see and find.

The pros of buying an established property are many and mostly obvious; you know what you are getting, and you get to examine it. Moreover, it is usually ready to move in, usually in an established neighborhood, and with a ready market in case of resale.

However, if the established house is not newish, it may need some tender loving care depending on how well it has been maintained, or it may be immaculate and in great condition. If a property needs renovating or upgrading, many a homeowner can tell you such repairs often seem to cost more and take longer than initially estimated.

If you do not really want to spend more money or get a house improved or upgraded, then obviously buying something that needs renovations, or a fixer-upper, so to speak, may not be your cup of tea.

Still, sometimes the cheaper way of getting into the housing market, especially for first-time buyers or people who want to leap-frog from one level of housing to a higher level, is to buy a property that needs repairs and renovations.

So, with established properties, you know what you are getting, and you may be able to make some improvements, add extra rooms, or other measures to improve the home to live in and improve the home value. Also, the older-style properties are often on bigger blocks of land, which may be something a buyer, perhaps one with a green thumb, wants.

Should I get a building and pest report?

When you are purchasing a property, ensure that you arrange for a building and pest inspection to be completed.

Having this done will give you a good idea of the property's condition and if there is anything that needs to be addressed before proceeding with the purchase.

If you are buying an established property, keep in mind that there is no perfect property, which also applies to a new home.

Even a new home can have issues that need to be fixed.

The building and pest reports are for your peace of mind. Normally it does not need to be forwarded to the lender.

Even though the lender does not require you to get a building and pest report, it's always a good idea to arrange this for yourself. It's not a good idea to purchase a property without getting it checked out.

No property is perfect, but some properties may have major issues that, if not found out upfront, could cost you a lot of money that you may not have after settlement.

Once a settlement has taken place, you are the owner, and you have purchased the property as is, meaning with its faults and all.

If you purchase a property and later find some Major fault, you most likely don’t have any recourse and will have to cover the cost of repair yourself.

Property valuations

Once you have located a property and negotiated the purchase price, the next step is to go for full approval for your property purchase and to finalize the purchase.

Depending on the lender's policy, the lender or broker will arrange a valuation ordered as part of your finance application. A valuation is required as part of the process to obtain full approval.

How are property valuations undertaken?

Independent valuers conduct the valuations. These independent valuers will arrange either to conduct a full valuation, a drive-by valuation, or a desktop valuation.

In some cases, lenders will accept the contract of sale as sufficient for valuation purposes, but this is usually if the purchase price is within a certain price range and usually if the LVR is in the low range, most often 80% or less of the purchase price.

A valuation will be arranged, the lender sometimes arranges this, and in some cases, the broker will order this for you, so you don’t need to worry about it, but you do need to know that it's going to occur.

What happens if the valuation comes in less than the purchase price?

If the valuation comes in less than the purchase price, you will have a shortfall. This occurs when the valuer values the property less than the contract purchase price.

If you have access to additional funds, you could use these to cover the shortfall.

If you still wish to proceed, your broker may obtain a new valuation via a different lender to see if this works better for you. It will mean that a new application will need to be lodged with the new lender.

When it comes to buying property and valuations, with perhaps some exceptions, lenders will use the contract of sale price or the valuation figure, whichever is the lower, so if the contract of sale is $700,000, but the value comes back at $680,000, the lender will use the figure of $680,000 as it's the lower of the two figures.

On the other hand, if the value is $700,000, but the contract of sale is $680,000, the lender will use $680,000 as it's also the lower of the two.

Before putting in an offer, it might be a good idea to get some property reports to determine if what you intend to offer is reasonable as far as value is concerned.

Providing you don’t pay too much, most of the time, the valuation returns the same as the purchase price. As long as this is the case, there usually is not much to worry about.

Once you have put in an offer, and it's been accepted, your solicitor will then start the process of doing several checks and balances. Once these have been completed and you have full approval, the next step is that the contracts will be exchanged.

The cooling-off period will have expired, and each party is locked into the sale and purchase. Sale for the vendor (the seller), and purchase for you the purchaser.

Keep in mind, I am not a solicitor or a conveyancer, but when the contracts are prepared, there are usually two identical contracts. And providing everyone to the transaction has agreed on the terms, the seller of the property or the vendor will sign the contract. And the purchaser of the contract will sign the contract, usually via the conveyancer or solicitor.

This will be sent to the seller's or the vendor's solicitor, who will then check it against their copy of the contract to ensure that they are both identical. Assuming everything's well, the seller will then sign their copy of the contract, and that contract signed by the seller will be sent to the purchaser's solicitor. And the signed purchaser contract will stay with the vendor's solicitor. And so, therefore, there are two contracts signed by both parties. Both are identical. And once they are dated, this is typically what is referred to as the contracts have exchanged. Finally, of course, a deposit is usually paid. Either it's been paid beforehand, or it's paid at that time.

In a nutshell, that is what happens when contracts are exchanged. There may or may not be a cooling-off period, depending on what has been agreed upon. So once the cooling-off period has been completed, and obviously, the contracts are exchanged, the purchase is usually locked in.

There are rare exceptions to being locked in. We did have one case where, unfortunately, before settlement, the borrower passed away, which is unfortunate.

This also brings up ensuring that you have adequate insurance to protect yourself in unforeseen events. But in this case, the vendor agreed to release him from the contract, and there were no legal ramifications because of that.

But that is a rare exception, and of course, you wouldn't want to do that to get out of a contract. So effectively, once they're exchanged, you're locked in, and you're buying it, and you want to make sure you have full approval and are good for the money.

After your loan is approved

After approval of your loan, the lender will instruct their solicitor to prepare loan documents.

Once your loan has been approved, the next step in the process is that loan documents will be issued, either the old way via paper documents or as is becoming more common every day some lenders allow their loan documents to be delivered electronically.

Once you have received these, you will have the option to review the loan documents, either with your broker, who will answer the common questions, or elect to get independent legal advice and take the documents to your solicitor.

Your broker will be able to answer your questions but can’t give legal advice, which is why you may wish to take the documents to your solicitor.

Loan documents that are issued in the traditional way of being printed need to be signed and returned.

Docs issued electronically can usually be accepted via email, with the security features of using your mobile phone.

Regardless of how the loan documents are issued, you will need to review them and provide all is in order, and you are happy to proceed. Then, you will need to accept them either via the traditional way with wet ink or via electronic signature.

Insurance for asset protection

When you purchase a home, your lender will want to make sure you protect your asset. They will do this by insisting that you take out building insurance, usually for the replacement value of the building.

Replacement value is not a bad idea, but you may want to have a little more cover to cover the costs of removing debris. If your property burns down, for example, there will be a lot of rubble that needs to be taken away.

You may also like to consider having contents insurance to cover the contents of your property. Speak to your insurance broker about your requirements.

If you don't have building insurance and your home is destroyed, you will still have to pay the mortgage. You won't have the home anymore, but you will still be responsible for paying the debt.

So, building insurance is vital as a form of asset protection.

How long does it take before you are ready to settle your property purchase?

It can take anywhere from 1 to 4 months, even longer in some cases, but the most common time frame is between 1 to 4 months.

The time it takes is agreed between the seller and the buyer. This will be written into the contract of sale.

Transfer documents will be prepared and be ready for reviewing and signing. Your Conveyancer or solicitor handles this. They will go over the details with you.

Book in a pre-settlement inspection with the real estate agent.

When you do the pre-settlement inspection, it's a good idea to check to make sure everything is in order and nothing has been changed, i.e., it's the same condition as it was when the contract of sale was signed.

On the day of settlement, you might want to arrange a final inspection, again to make sure all is in order and that what was agreed upon in the contract of sale is still there.

Ensure there is no damage and that all fixtures and fittings are still present as per the sale contact.

And that there is no rubbish left behind, and everything is relatively clean.

Ensure all the gardens are in order and that no one has dug up any plants or trees. You would be surprised.

The strangest things can occur. It’s not common, but it can happen.

Settlement day is here! Congratulations!

It’s the day of settlement. You have been waiting for this day with anticipation, having gone through the process of being coached, learning, applying for finance, and getting approved.

On the settlement day, money changes hands in the background, and the transfer of ownership is registered with the relevant government body.

You are the proud new homeowner; you take legal possession of the property and get to move into your new home as the new owner.

It’s the day all the hard work pays off, of getting your pre-approval, finding a suitable property, and obtaining full approval from your chosen lender.

In summary, settlement is the final step in the home buying journey, where you take legal possession of your new home.

It’s the last step in the buying process. It's where you take legal and physical ownership of the property. Then, in the background, the money changes hands to complete the purchase.

Once this has occurred, you should be able to pick up the keys as the proud new owner and get to move in.

Well, you did it, the settlement has occurred, and now it's time to move into your new home. Congratulations are in order.

You might need to take care of some things if you have not already done so.

Once you have found your dream home, you should not forget to get a mail redirection for all your mail as part of your plan to move. Although a lot of communication you receive these days is electronic, you might still receive some items in the mail.

If these are important to you, you will need to update your provider with your new address. However, for anything that is in transit, it might help to get a mail redirection. This can be arranged at your local post office for a small fee.

When you move into your new home, in today's world, snail mail is not as common as it once was, but if you do receive traditional mail that is important to you, make sure you advise the sender of your new address and consider getting the mail redirected.

Another thing to keep top of mind is getting the **power connection** for your new home. Again, this is not an automatic thing, so get the power put on, so you are not left in the dark after moving in because you forgot.

Other connection of services to consider, such as gas and phone and the Internet.

And of course, don't forget to tell your friends and family.

Title deeds

While there is a mortgage on your home, the title deed is usually securely held by the lender until the loan has been fully repaid, and the mortgage is then discharged.

Once you have paid off your loan, the mortgage gets discharged from the title via the land titles office, and then you will have what is known as **clear title**, i.e., you are debt-free; I am sure you will be celebrating at this point.

It is a major achievement, and you should be proud.

If **you refinance,** the deeds change hands from one lender to the next. The two lenders' representatives will meet and exchange the paperwork and the deeds, though more and more these days this is done electronically via a system called Pexa.

The new or incoming lender will then have the outgoing lender's mortgage discharged and arrange at the same time to have themselves registered, which is why there are always some government fees to pay to the Office of State Revenue when refinancing.

As to arranging the transfer of the deeds from one lender to the next, this is done for you, so you don’t need to worry about doing this yourself.

This is where you need to understand that a loan and a mortgage (although often they go hand in hand) are, in fact, two separate things. A loan is an advance of funds, and a mortgage is an instrument or legal agreement that is taken over security, in most cases property.

Once the loan is paid off and the mortgage discharged, the title deeds will be returned to you for safekeeping.

8

MANAGING YOUR LOAN AND FUTURE GOALS

Congratulations, your loan has settled, and you have moved into your new home.

Now you can relax and enjoy your new life in your new home.

Once the dust has settled, it's a good time to review the journey you have gone through and think about managing your mortgage.

Now that you have moved into your new home and your loan has settled, part of having a home loan is getting into a pattern of making sure you make your loan repayments on time every time.

Also, consider paying extra loan repayments, i.e., payments that are over and above the minimum repayments.

When do your loan repayments start?

In most cases, your loan repayments usually start one month after settlement. However, if you selected weekly repayments, some lenders would start weekly repayments after the first month, so your first payment may be monthly and then revert to weekly.

Your lender will usually send you a welcome letter to advise when repayments will start. If you are not sure, you can contact your broker, who will follow up for you, or call the lender directly.

What is the impact of paying an extra $50 per week?

If you can pay more than the minimum repayments, you will build up a buffer, which can be helpful in an emergency but also certain other situations when you might need some additional funds.

Home Loan Review & Statement Cycle

One question we get asked often is regarding home loan statements. Questions like, how often are they issued? As a minimum, they're usually issued every six months. However, some products may have statements issued more frequently.

It’s always a good idea to **keep copies** of those in your files. Don't throw them out because you never know when you need them. It's always a good idea to maintain a folder where you can maintain all your correspondence and information regarding your home loan, or, if you're a little more tech-savvy, you may want just to keep soft copies or electronic copies.

If you opt for this method, make sure you have a **backup** policy in case of computer or hard drive failure.

Either way, make sure that they are easily locatable because, when it comes time to review, it's a good way to look at how the loan is tracking and to check and see if it's still meeting your goals and objectives, and it's still suitable for your present situation.

As circumstances change in life, you might find a new loan that is more suitable for your circumstances. So, I recommend checking with your broker periodically to do a home loan review or even an audit. Sometimes everything’s fine, but in other cases, maybe your broker will try to get an interest rate reduction without the need to refinance.

It also could benefit you to **refinance**. Again, this will not be something you do straight away for first-time buyers, but after you've got your home and got your loan, and it's in place, you should check-in and get your home loan reviewed periodically. I would suggest every year meeting with your broker to see if everything is still on track.

Consider a plan for contingency, i.e., what-if scenarios?

Ask yourself this question, how long can you survive financially if you lose your job?

Three months? Two months, a few weeks?

What if you lose your job? And it takes you six months to find a new one. How will you manage in a situation like this?

What if you get divorced? No one gets married with the view that this will happen, but it's a fact of life that around 50% of marriages end this way.

Protecting your investment, making sure you have enough insurance to cover you in the event of a disaster.

You may want to also look into having personal insurance such as life, TPD, and income protection. Speak with a financial planner regarding these types of insurances.

Creating a contingency plan will allow you to handle unforeseen events

Do you have enough money set aside for an emergency?

If you lost your job, became ill, or stumbled into another financial pothole, how long could you live on the money you have saved? If you answered less than four to six months of basic living expenses, I suggest you store your extra cash in an emergency fund or pay extra into your mortgage if you have a redraw facility that way, you can access the excess funds if required.

Another option is to save some into your offset account – this creates a buffer. You will be able to draw on this buffer if you are faced with a situation of reduced income for one reason or another.

It's always important to keep in mind that what works for one person may not work for another. So, my aim here is to get you to think about possible options that you might like to implement.

Home loan reviews

Now that you are an existing homeowner get your loan reviewed at least every 12 months.

A lot can change over one year, such as a recent addition to the family, change of employment, or another lock-down!

It’s often the case that once you have had your home loan for around 2 to 3 years, your loan may suffer from what we call rate creep or, as some brokers call it, bank loyalty tax.

Over time, your loan will most likely become less competitive, even to the point that your current lender will offer new clients a better deal, which they failed to pass onto you or even tell you about it.

This is one reason why it’s important to review your loan every so often, not just for the above, but circumstances in your life may have changed, and your current loan may no longer be suitable for your needs.

Depending on your current needs and objectives since you first got your home loan, now might be the time to ask for a review if you have not already done so.

Strangely enough, many people do not review their home loans. They get their home loan when they purchase their home, and then they forget about it. It appears that once it is there, they ignore it and don’t even think about it.

Perhaps it's out of sight and, therefore, out of mind.

On the other hand, these same people will shop for days to get the best mobile phone deal to save a few dollars.

And yet, when it comes to reviewing their home loan and getting a competitive advantage by refinancing, it's often left for another day.

We have saved clients $600 a month, $300 a month, and sometimes even more. It is crazy.

So don't be one of these people; it's like anything that needs maintenance, you get your car serviced, you might go to the doctor for a health check-up, but when it comes to your financial wellbeing, some people become complacent.

In summary, we have found that usually, after about 18 months to two years after taking out your loan, and with the competition in the market, your lender and usually **all lenders will offer new clients a better deal with new rates.**

We can give you hundreds of examples. So, it is also important to review your home loan, especially as your circumstances change—you may have a family, buying an investment property, or less happily, a divorce.

It can’t hurt to review a home loan. We do not charge for a home loan review; it is part of the ongoing service to our clients, and many, many times, we have been able to improve a client's situation.

On a final note, in one example, a client came back to us for a review, and we saved them about $6,000 per year in interest by renegotiating their interest rate with their existing lender with no need to refinance.

What everybody ought to know about rate creep and why you may need to have a home loan review!

If you have had your loan for some time, usually anywhere from 18 months to 3 years, then it might be a good idea to ask for a review.

There are several reasons you should get a home loan review. Here are a few good reasons that you might want to consider.

You might be suffering from Rate creep! For example, your circumstance could have changed, and therefore your current loan no longer suits your needs and objectives, or you may wish to start investing in real estate.

These and other reasons are why it’s good to get a review. It's free and usually only taking 10 to 20 minutes.

And you might be able to save money, the savings are better in your pocket, which you can use for you and your family. I am sure you can think of many things that you could do with the extra cash.

Rate creep, anyone?

The setup of your loan would have been based on your then-current individual situation when taking out your home loan.

The lender and loan product chosen would have been what was available to you at the time, and since then, a lot may have changed, not just in your life but also in what is available regarding loan products in the marketplace.

There is a good chance that you may be experiencing rate creep. Experience has shown us that if you have had your loan for two years or more, this may be the case.

Home Loans seem to lose their competitiveness over time through no fault of the borrower. After about two years, on average, borrowers often will begin to experience what we term rate creep.

Rate creep is where your current lender offers new clients a much better deal than you currently have on the same product.

All lenders don't treat their current customers the same as their new customers.

We have observed that lenders' current loans on their back book, meaning loans already settled some time ago, become less competitive for various reasons.

The question is what can you do about it?

Before we answer that question, let's look at a case study.

CASE STUDY:

Tom (not his real name) was with lender A (not their real name). Tom told us he was happy to stay with lender A but wanted to see if he could get a better deal than he currently had.

And after reviewing Tom's home loan, we found that the current home loan rate he was on was 3.55%, and a quick check found that the same lender is now offering new customers 2.49% for the same product!

We put in a quick retention request with the same lender; an offer came back quickly to lower Tom's home loan rate to 2.49%. This allowed Tom to put more money back into his pocket.

The new rate of 2.49% got applied to his home loan in line with the current offering from his lender.

For Tom, getting a home loan review and obtaining a retention request saved Tom the hassle of going through the refinancing process, and it only took about 20 minutes of his time!

As you can see, asking for a home loan review is a good idea, and won't cost you anything. Often getting a better deal does not require the need to refinance, but if it does, we can discuss the pros and cons of going down that road.

If you think you are suffering from rate creep, here is what you can do about it. First, ask us to review your current home loan, and we will walk you through the process.

A retention request is where we ask your current lender to reprice your home loan to be more competitive again. We go back to your lender with a current offering available in the market and ask them to review your current loan and come back with a better offer than your current one; we have found that this is successful nine times out of ten. If it's not, we can then discuss.

Often asking for a retention request fixes the issue.

Other options to deal with rate creep are to consider refinancing, but of course, you must consider the costs of switching. Is it worth it? Will refinancing put you in a better position? Are you able to refinance?

A quick call to your broker will get the review underway, and it does not cost you anything.

Your house is settled! You've moved in, and everything is going great. Congratulations! What Does the Future Hold?

Property Investment Anyone?

At some future point, you may be interested in looking at options for building wealth for your future.

Moving forward a couple of years, the equity in your property may have increased due to several factors. Some of those factors are 1) the loan has been reduced because you've been making repayments. And 2) you may have experienced an uplift in the value of your property over time, which has given you some capital growth.

One of the things that you may want to consider is buying an investment property to lay down foundations for a better financial future.

If this sounds like a good idea, it might be a good idea before running out and saying, "Okay, let's buy a property! to sit down with your partner, if you've got one, and map out a plan for the future. Remember, planning is important.

Buying an investment property is the easy bit, but if you don't map out your financial plan for the future, you may end up with less than the desired outcome.

Part of your planning should cover things like; Where do we buy? How much do we pay? What location?"

Other considerations for discussion that you may want to include in your plan are how much money you feel you need in retirement? A useful formula to work out how much of a nest egg you will need to achieve the desired income is as follows:

Work out the amount of income you would like in retirement, multiply this amount by 20. It works out to be an approximate rate of return of 5% per year, the total figure (5% x 20 = 100%) is the value of your assets without debt, which means you will need to own the properties outright.

Income Required $__________

X 20

= $__________

Of course, this is a somewhat generic formula, and it has not been tailored specifically to your individual circumstances. Still, it should give you a general idea, and it's an excellent place to start.

As mentioned, it’s a good idea to create a plan, because once you've set your plan in writing or created your plan, then everything that you do as far as buying investment properties, where they are, how much you spend, etc. how many investments properties you need, needs to marry up with what's in your plan.

That way, you use your plan to check your progress and adjust as necessary.

Owning an investment property and becoming a property investor is not as difficult as you may think. When you purchased or built your home, it was just you. First, you had to save a deposit. Then, you and your partner had to pay the mortgage on your own and pay the mortgage with after-tax dollars.

When it comes to buying and owning an investment property, you will have help with the mortgage payments, via the tenant and possible tax benefits, unlike your owner-occupied home.

Now, unlike when you bought your first property, assuming you didn't do a family pledge or 100% lend, you saved the deposit, applied for financing, and went down all that that path entails.

When you're investing in property, you most likely don't need to save another deposit because it's entirely possible that you can tap into the equity in your current home and use that to purchase an investment property.

Effectively what that means is that you would be borrowing over 100% of the purchase price by using the equity in your current property.

When you purchased your first property, you had to come up with a deposit. Still, when you're using equity and buying an investment property, you may be able to **use the equity in your current property as a down payment** on another property.

For example, in this case, if the value of the property is worth $800,000.00 and the outstanding loan is $350,000.00, there's quite a lot of free equity.

And suppose you were to buy an investment property for $600,000.00. What you could do is borrow the $600,000.00, using the equity in the new property and the free equity in the property that you currently own.

The good thing is that we can include the rent for servicing because you're buying a property to rent out. So, banks and lenders will consider that you're getting an income for the property, and they'll allow you to use that to help with getting the loan.

In this case, if you're buying an investment property for $600,000.00, the way the loans might be structured depends on your goals and objectives.

Often we might recommend structuring the loans in the following manner:

The investment property being purchased for $600,000.00 would have a loan of approximately $480,000.00. This keeps the LVR (Loan to Value Ratio) at 80 %. That way the property is not cross-collateralized with any of the other properties.

On the owner-occupied property, we would have the existing loan for $350,000.00, and we'd probably have another loan, or what we call a split, for around $170,000. The aggregate total would be $520,000.00 with an LVR of 0.65%.

We split the loan because the $170,000.00, (which may include stamp duty and other fees), plus the $480,000.00 loan attached to the investment property form one pool of funds, i.e., the purpose of these funds are to purchase the investment property for $600,000.00. Allowing an extra $50,000 for stamp duty and other possible costs.

To recap on the loan structure of a possible investment property purchase of $600,000.00.

- There will be a loan of $480,000 on the investment property,
- There will be a loan of $170,000 on the owner-occupied property,
- There will be the existing loan of $350,000 on the owner-occupied property

From a tax point of view, you want to keep it all nice and neat and separate, so when you go to see your accountant for tax purposes, there are two splits for the investment property.

You can give your accountant the loan statements for the loan of $480,000 and for the $170,000. Your accountant can then easily work out the interest component on both loans.

Then, later, as the investment property increases in value, we may refinance or suggest that you refinance the combination of these two loans of $480,000.00 and $170,000.00 into one loan again if there is sufficient equity in the investment property.

Often the loan structure is the first step to understand when buying an investment property.

Most times, the structure is set up this way, and there are several reasons why we would do it this way.

Some of them are, as I mentioned,

- Not to cross-collateralize the properties.
- Not putting all your lending eggs in one basket.
- Easier to discharge a property when its stand alone.

Cross-collateralizing means that the lender will take both properties and use them as security. But by keeping them separate, even with the same lender, they're not cross-collateralized. So, if you go to sell one, you don't have to go and untangle all these loans.

If you only have two properties, it's not that complicated, but when you get up to like 10, 11 or more, and you have them all cross-collateralized, it can be a disaster. As a rule of thumb you want to avoid cross-collateralizing them.

By not crossing the properties, it gives you a lot more flexibility down the track, especially if you want to sell some and refinance some without affecting others. But, unfortunately, as soon as they're all cross-collateralized, it just becomes one big mess and is usually an indication of an inexperienced finance broker setting it up that way. Of course, you’re free to cross -collateralize if you want, but a lot of investors will avoid it.

Risk Management

Now with any investing, there are always risks associated. Nothing is risk-free, but we learn to manage those risks. And some of the ways we learn to manage the risks are by using a professional property manager to manage the property and making sure we have the appropriate insurances in place, such as landlord insurance. Because many insurance policies, like building insurance for standard residential properties, may not cover you for malicious damage.

In my experience, most tenants are decent people, but unfortunately, just as in any walk of life, some people are not decent and can cause malicious damage to your property. And so, therefore, you definitely want to make sure you have mitigated all your risks by doing so. Not just for malicious damage, but for loss of rent and other matters like that.

Having some extra cash set aside for possible investment opportunities is also worth considering. Bearing in mind the current condition of the property market, you never know when a promising investment prospect will fall into your lap. Keep an eye on up-and-coming areas surrounding city and town centers. Even some regional and country areas are offering low property prices with great investment potential.

Redraw Vs Offset – What is the difference?

I often get asked about the difference between an offset account and a redraw facility. So, let's have a look at both of them now.

Many variable interest rate home loans have a redraw facility where you can redraw surplus funds. Surplus funds are any repayments you make over and above the required minimum repayments on your home loan.

For example, if your loan repayments are $2500 per month, and you pay an extra $1000 each month, these additional funds over time will build up a buffer in your home loan.

These extra repayments or buffers can usually be redrawn later, which will increase the balance again on your home loan. However, after you have redrawn the funds, either all or part, you will start to pay interest on the higher principal amount.

A redraw facility is unlike an offset account. There are two accounts in an offset setup (A Home Loan and a transaction account), which is linked to the loan account, and, therefore, usually, two statements from the bank.

The redraw is simply a loan or loan account where any excess payments can be redrawn, which means taken back out. When you redraw funds, your balance will increase, and so will your interest payments.

Redraw," sometimes mistakenly called a "redraw account," however, it's not a separate account. It's what is correctly called a "redraw facility, a feature of the loan account.

From a cost point of view, a redraw and offset account are very similar, having the same result in saving you in interest expense.

In the example of a redraw, if a client with a $400,000 mortgage is fortunate enough to come across a surplus of $100,000, they could deposit the funds in a redraw facility, and while the funds are there, they would pay interest on only $300,000—the $400,000 reduced by $100,000. That is, they would be paying interest on $300,000 while the surplus funds were in the redraw facility.

The limit of the loan, the $400,000, won't reduce unless the client asks for that to happen and applies the $100,000 surplus (thus losing access to the funds permanently to the bank, and reducing the outstanding balance).

So, offset versus redraw facility, which one is better? This really depends on your individual circumstances.

If you are investing in real estate, we would often recommend an offset account for any future surplus funds, simply due to the tax implications as seen by the Australian Taxation Office. It's always a good idea to check with your accountant what works best for your individual tax situation.

I want you to imagine the following two scenarios; both scenarios are almost identical with one small difference.

In both scenarios, you live in your current principal place of residence and have a home loan of $500,000.

You have a redraw facility in the first scenario, and in the second scenario, you have an offset account.

Also, in both scenarios, you have $200,000 surplus cash available. In the scenario where you have a redraw facility, you simply deposit the

$200,000 surplus cash in the loan account. As at the current moment you don't need to use the funds. While it is sitting in the redraw, it has reduced your balance, and therefore it will reduce your interest cost.

So, in this instance, although the loan limit is for $500,000 with the extra $200,000 in the redraw, the current balance is $300,000. And so, the interest component is calculated on the remaining $300,000 balance.

Now let us take the scenario where we don't have redraw, or if we do, we don't use it. However, we do have an offset account that is linked to the home loan.

In this scenario, you take the $200,000 and don't deposit it onto the loan as you would in the redraw scenario, but rather deposit it into the offset account linked to the home loan account.

In this instance, the loan limit is still the full $500,000. However, the offset account has $200,000. And as a result, the $200,000 is offsetting the loan limit of $500,000, and interest is therefore being calculated on the net difference of $300,000. Same as the redrew scenario.

From an interest cost saving point of view, it's the same as the above example where the funds are redrawn.

Now imagine that you wish to move to another property for both scenarios, retain the current property, and convert it into an investment property.

In both cases, you withdraw the $200,000 to use as a deposit towards your new purchase. In the first instance, the loan balance increases back to the $500,000 limit, and since you have converted the property into an investment property the interest cost should be tax-deductible. Well, it is, at least some of it is.

Only the interest on the $300,000 component is tax-deductible. The reason for this is that the $200,000 deposited into the home loan and then redrawn is now being used for personal purposes. I.e., a deposit on your new principal place of residence.

In the second instance, you withdraw the $200,000 from the offset account and use it as a deposit for your new principal place of residence, the same as in the first scenario where the funds are in the redraw.

However, in this case, the full interest on the $500,000 loan is tax-deductible!

Why is there a difference, you may ask?

The difference is that the $200,000 in the first instance was deposited into the loan and therefore reduced the balance. In contrast, in the instance of having the funds in the offset account, it simply offsets the loan but does not ever reduce the loan balance.

It's a subtle difference but a vital one to understand, get it wrong, and there could be tax consequences.

Why is this so? The reason has to do with an ATO taxation ruling or law, which is an area we can't advise on, and so, therefore, I strongly urge you to seek appropriate taxation advice.

However, to the best of my knowledge, the above is true and correct, and you are welcome to check this with your tax agent.

It's all about the purpose of the money, i.e., where did it go and what was it used for?

Are the funds being used for income-producing purposes, i.e., investment, or are they being used for personal purposes, i.e., to purchase a home to live in, a car, a holiday perhaps, etc.?

Of course, as advised earlier, we are not a tax agent, and so this is not taxation advice, and you should seek the appropriate advice from a suitably qualified tax agent.

Accelerating mortgage repayments

Like most homeowners, you've probably dreamed about the day you'll live mortgage-free. When extra cash has come your way, you might have considered accelerating your mortgage repayments.

Any extra mortgage repayments you make are applied directly to the mortgage principal. Therefore, your home loan will be paid off sooner than the standard 25–30-year term with regular additional repayments.

No more mortgage repayments mean increased cash flow and a greater sum of money if you sell your property.

Sounds ideal, right?

The above strategy might be the right one for you. However, here is another option that you might like to consider.

Paying off your mortgage sooner may not be the best way to spend your extra money. In the grand scheme of debt, your mortgage is relatively ‘cheap.’ Double-digit interest rates are a thing of the past. Instead, most lenders are pushing interest rates as low as 3% pa and below. (At the time of writing)

This makes your mortgage more sustainable than credit card debt, personal loans, car loans, and other types of debt.

So, before you pay extra on your mortgage, ask yourself the following questions:

Do you have a more expensive debt to pay off?

If so, you should most certainly pay this off before your lower-rate home loan. Even though this more expensive debt tends to be smaller, clearing it away first will save you money in the long run.

Depending on the type of loan product you have, once funds are used to pay your mortgage, it can be quite tricky to access that money again if you do not have a redraw facility on your home loan.

Suppose you need to access the cash you’ve already put into your home loan. You may need to refinance your loan. Refinancing can be a money-saving process when timed right, but you may not get a financially beneficial outcome if you do it out of necessity.

Put simply, life happens. Therefore, we need to protect ourselves and our families from the financial troubles that come with emergencies. This is far more important than making additional repayments on our mortgages.

Who should accelerate their mortgage repayments?

Homeowners who plan on living in their home for the long-term, have little to no additional debt, have liquid emergency funds, and do not want to risk their funds in investments should most definitely accelerate their mortgage repayments. On the other hand, if you don't meet those criteria, you might be better off spending your money elsewhere.

Key points for existing homeowners

Existing homeowners can still make smart decisions that will improve their financial position now and into the future. Let's recap what we've discussed by focusing on three key points.

1. **Consider refinancing your home loan**

Most homeowners take out a home loan and forget about it. However, by taking out a new, more competitive home loan, you could secure a lower interest rate and possibly save on your monthly repayments.

Refinancing won't benefit every homeowner. Seek professional advice before starting the process.

2. **Consolidate your debt**

Debt consolidation can reduce your monthly repayments and streamline your finances, making it simpler to budget and easier to meet your monthly financial requirements. However, if you are already behind on repayments, you may not qualify for a debt consolidation loan.

3. **Accelerating your mortgage repayments**

While paying off your mortgage sooner is tempting, it may not be the best use of your additional cash. Always pay off more expensive debt first, even if that debt has a smaller outstanding amount. Also, ensure your emergency fund is adequate, and consider investment opportunities.

What to do with spare cash?

Let's say you are fortunate and have $50,000 lying around in a bank account. Maybe you saved it, inherited it, won it, or sold something that you no longer needed.

Are you better off putting that money into a savings account where it will earn taxable interest, or should you put the funds in an offset account or into your home loan account with redraw?

Having a spare $50,000 is a nice "problem" to have, but let's look at two possible options.

In Option 1, see's you will place the surplus funds into a bank savings account, earning interest.

In Option 2, you will place the $50,000 in an offset account or the loan account with the funds available as redraw.

Option 1

You place the $50,000 into a savings account and earn interest every month, and for this example, we will assume the account is paying an interest rate of 1.50%. In this scenario, you will earn about $62.50 per month or $750 per year. Since this is income, you will need to include it in your tax return as assessable income, and you will probably have to pay tax on it at your annual income-tax rate.

Option 2

You place the $50,000 into an offset account or on the loan itself. But, of course, you earn no interest, so there is nothing for the taxman to tax. In short, you are only reducing the interest you pay.

For this example, we will assume you have a home mortgage and pay 2.89% in interest.

In effect, the amount of the mortgage outstanding is reduced by $50,000. Based on the 2.89% rate, you would save a total of $120.41 per month and $1,445 per year if you were paying off an interest-only loan, and just slightly less if you are paying off a principal and interest loan.

So, Option 1 vs. Option 2 stacks up like this:

Option 1 - you earn $750 a year in interest before taxes

Vs.

Option 2, where you save $1,445 a year in less in interest

So, we see from the above that with Option 2, we are at least $695 better off. Additionally, this is not considering that with Option 1, you probably have to pay tax on the income.

With Option 2, you won't pay tax as it's not considered "income" because you are saving on interest.

That makes Option 2 way more enticing – as you will gain an extra $695 a year. A no-brainer.

Of course, you should get tax advice from your accountant regarding anything to do with income tax.

What to do if you can't pay your mortgage?

Hopefully, you will never find yourself in this unfortunate situation. However, if you do ever find yourself in a situation where you can't make your loan repayments, you need to speak with your broker or lender directly without delay.

It's not a good idea to procrastinate, so don't ignore it. Instead, it's important to work with your lender to get yourself back on track.

A way to prevent this from happening is to build up a buffer by paying extra into an offset account linked to your mortgage. That way, if you find yourself in a situation where you can't pay your mortgage, you can use this buffer as an emergency fund, and then in the meantime, you can work to get yourself back on track.

There are many reasons you might find yourself in the situation where you can't pay your mortgage, you could have lost your job, for example, maybe you can't work because of illness, or some other reason, it might also help to consider having some insurance, so speaking with a financial planner before you are in this situation would be good advice.

Lenders will want to work with you to get you back on track, so don't be afraid to seek assistance if you need it.

I strongly advise you to reach out early on and don't leave it to the last minute.

Hopefully, you will never have to worry about not being able to pay your mortgage, but life sometimes deals us with a bad hand, figuratively speaking.

CONCLUSION
WHERE TO FORM HERE?

I tried to cover many of the most common questions and information that many first home buyers ask.

In this book, we have covered the most important information that first home buyers need to know and answered the most common questions.

If you have questions that are not covered here, I will welcome your questions. Please email me at alex@ourmortgageoptions.com.au.

Also, any constructive feedback is always welcome. I am always open to improving this book so that it can be a much more effective guide.

Find out where you are on the home buying journey.

If you are open to working with us, we will answer any questions you may have, and provide you with a personalised assessment and a unique road map for you to get into your first home.

Simply call us on 02 9068 6644 or email me.

The team at Our Mortgage Options has helped many first home buyers get into their first home, using our easy, 4 step process:

In a nutshell, here are the steps you go through when you ask us to work with you:

1. **You have a discovery session with us.**

You tell us your needs and objectives. What's your timeline and what are you looking to achieve?

2. Planning – Your first home buyer road map

Your first home buyer road map a unique mortgage plan is created for your consideration, designed to help you achieve your goals and objectives as a homeowner.

3. Application and Approval

Once you give us the go ahead, your application is prepared and submitted for approval. All going well, you get the funding you need to buy or build your home.

4. Settlement

We project manage your purchase to settlement, so that your road map to home ownership is as smooth as possible.

After this, it's time to celebrate and congratulate yourself on your purchase!

So, you're getting ready to buy your first home? Congratulations!

But as you've probably discovered already, it's definitely not a simple process.

In these pages, you'll learn every stage in the house-buying process and you'll discover the many financing options that are available. You'll also learn about the various **traps** you could fall into.

Alex Sperling, a registered mortgage broker with **25 years experience**, has helped THOUSANDS of Australians get into their first home. And he's ready to help you now through the pages of this ebook.

BEWARE! You've seen those ads offering "the cheapest advertised rate"? They can cost you bigtime! Why? Because the cheap deal only lasts a very short while, then the interest rate zooms up - and you're locked into the contract you signed.

Alex's advice is... ***before you sign,*** you need to know the total lifetime cost of that deal. A mortgage broker will calculate that for you, at no charge. Then he'll suggest one or more cheaper alternatives that meet your borrowing criteria.

Did you know...?

- ✔ You can easily damage your credit score by trying to DIY
- ✔ If you don't have enough deposit, there are financing options worth knowing about
- ✔ A bank employee is paid to show you their in-house packages. A mortgage broker is not restricted like that – and there are many APRA-registered non-bank lenders!

CASE STUDIES

- ❖ One of Alex's clients saved $9,000 in Lenders Mortgage Insurance
- ❖ Another client saved $600/month with a rate review. Another client saved $6,000/year.
- ❖ By contacting the lender, Alex got another client's interest rate cut from 3.55% down to 2.49%.

All this and so much more! Get your copy of this life-changing book today!