



***Borrowers Guide to
Owning Your First Home***



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Introduction

The Borrowers Guide to buying your first home has been designed to assist consumers in gaining a better understanding of how the lending process works. The process can be confusing and overwhelming at times, but when you understand the basic process, you'll be much more prepared. The purpose of this guide is to assist you through each step.

We believe the collection of the enclosed mortgage information will make your journey to owning your own home an enjoyable one!



Factors

To consider before deciding to buy

Savings

What savings do you currently have? Most lenders will want to see that you are able to save consistently and will usually require your last six months saving history prior to considering you for a loan. If you are able to afford the repayments, some lenders will loan you up to 95% of the property purchase price. This may even allow you to add mortgage insurance costs to the loan as well, meaning you may be able to borrow up to 97% of the property value. However, even in this situation the lender will require you to have at least 5% of the property value in genuine savings as well as enough money available to cover the other costs of purchasing a property. Sitting down with your trusted mortgage professional will ensure you know which options are available to you.

Current Financial Situation

What current debts do you have? The amount of current debts that you have will affect how much you can borrow. You may want to consider reducing your current debts prior to purchasing your first home.

Savings

Owning your own home should be an enjoyable experience not a financial burden. You may wish to consider what concessions you are prepared to make to own your own home. Think about how repayments on your new home will affect your current lifestyle and whether borrowing to your maximum capacity will prevent you from doing things you enjoy. You may wish to consider borrowing a smaller amount that you are completely comfortable with. Talk to a mortgage professional about what you feel comfortable in repaying each month prior to making decisions about your loan amount rather than just borrowing the maximum that you can. If you are planning a family in the near future you may also want to consider how you will manage your repayments on just one salary.



More factors to consider

Preparation

Before you start looking for a property to buy there are several key details to consider such as:

- ✿ How much can I borrow?
- ✿ Understanding the costs involved
- ✿ How much deposit do I require?
- ✿ Can I afford it!

How much can I borrow?

How much you can borrow will depend on several factors including:

- ✿ Your income
- ✿ What deposit is required
- ✿ Eligibility for Home Owner Grant
- ✿ Other loan repayments and commitments

An important factor to consider is how comfortable you are financially to repay the proposed loan. It is imperative that you do not over stretch yourself, it is best if you sit down and work out a budget and understand how much you have left over to repay a loan comfortably. You should also factor in interest rate movements as this will affect your repayment amount.

First Home Owners Grant



Understanding the Costs

Thankfully there are several government incentives and benefits available to provide a little helping hand.

For more information visit www.firsthome.gov.au

To check what's applicable in your area, visit your relevant website below:

- ✿ ACT
(www.revenue.act.gov.au)
- ✿ NSW
(www.osr.nsw.gov.au)
- ✿ NT
(www.revenue.nt.gov.au)
- ✿ QLD
(www.osr.qld.gov.au)
- ✿ SA
(www.revenuesa.sa.gov.au)
- ✿ TAS
(www.treasury.tas.gov.au)
- ✿ VIC
(www.sro.vic.gov.au)
- ✿ WA
(www.osr.wa.gov.au)

Stamp Duty

This is a government cost that is usually the biggest expense outside the purchase price of the property. Stamp duty varies between the states and territory. A great website is available for guidance on what the approximate stamp duty cost would be in your relevant state: www.stampdutycalculator.com.au

Loan Setup Costs

This includes establishment fees and will vary pending on the lender and the loan product chosen. It is important to note that you may also require Lender's Mortgage Insurance (LMI) depending on your deposit size.

Conveyancing Costs

Conveyancing is the process of which a property's ownership is transferred from the current owner (the vendor) to the buyer. Either a conveyancer or a solicitor will review your Contract of Sale and ensure appropriate checks are conducted on the property with local government agencies.

Inspection Costs

It is always recommended that prior to purchasing a property; you hire professionals to inspect the property for structural defects, concerns, pest infestations, or anything else that could potentially cause damage to your property.





The Mortgage Steps

Understanding the mortgage process

The Mortgage Steps.

There are 10 steps to the Mortgage Process.
These are:

Step 1: Interview

Step 2: Completion of a Loan Application

Step 3: Lender Assessing Application

Step 4: Obtaining Conditional Approval

Step 5: Valuation of Security being provided

Step 6: Lenders Mortgage Insurance

Step 7: Formal Approval

Step 8: Mortgage Documentation

Step 9: Insurance Requirements

Step 10: Settlement



Step 1: *Interview*

Your mortgage professional will discuss the home loans (with the necessary features and benefits that you require) that best suit your situation. They will go through and provide you with numerous options that are available and then go through each one with you to see which is the most appropriate that will suit your needs and wants. Once you are happy with your selection of the loan product, the loan process will commence.

Step 2: *Completion of Loan Application*

Your Mortgage Professional will now complete the lenders application that you have chosen and will go through what is required in relation to all the necessary documentation which is to be included so they can lodge your home loan application. They will also go through your income situation to see if you will be able to service the loan that you are applying for. Upon receiving all the relevant documentation the Mortgage Professional will submit it to the chosen lender.

Step 3: *Lender Assessing Application*

The lender will assess your application to determine whether you meet their serviceability and credit requirements. This process includes confirmation of your income, employment, assessment of your supporting documentation and a credit reference check.



Step 4:

Conditional Approval

The Mortgage Professional will receive a communication from the lender in the form of a conditional approval on your behalf. The lender will also outline any matters that need to be addressed before they can issue an unconditional approval.

Step 5:

Valuation of Security being provided

The most common condition of an approval is valuation of the security being provided. The lender will order the valuation and this could take up to 3-4 days to complete – it will all depend on when/how quickly the valuer can obtain access to the security property being provided.

Step 6:

Lenders Mortgage Insurance

This step will only be necessary if you have less than a 20% deposit or insufficient equity in an existing property.

What is Lenders Mortgage Insurance?

Lenders Mortgage Insurance (LMI) is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Many lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. This is largely to protect against the risk associated with providing the borrower with the loan in the event that they default.





By using LMI, lenders are able to pass on this risk to a mortgage insurer, which in turn enables them to offer the same loan amount but with less of a deposit.

LMI should not be mistaken for Mortgage Protection Insurance, which covers your mortgage in the event of death, sickness, unemployment or disability. LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, the lender is entitled to make an insurance claim to the Mortgage Insurer for the reimbursement of any shortfall, calculated in accordance with the terms of the insurance policy. It is a once off premium and in a lot of cases can be capitalised with the loan.

Step 7: *Formal Approval*

When a home loan application is formally approved (unconditionally approved) it means that all conditions and criteria required to assess a loan application have been supplied, assessed and approved. It is only when a home loan application is formally approved that the borrower can feel comfortable that they can obtain a home loan. If you are buying a property it is advisable not to exchange contracts until such time that your loan has been formally approved. A formal Letter of Offer will then be issued by the lender. Mortgage documents will be prepared and will be sent directly to the applicant/s or the applicants' solicitor if that was requested in the loan application.

The Mortgage Process



Step 8:

Mortgage Documentation

Now that the formal offer has been provided, mortgage documentation is prepared by the lender. These include the letter of offer; transfer document; terms and conditions of the loan you have chosen and any other documentation that is pertinent to the lenders own guidelines. If a purchase is involved then it is highly recommended that you should sit down with your solicitor/conveyancer to go through the paperwork and it will be the solicitor/conveyancer who will then liaise with the lender to schedule a settlement date. If it is for a refinance or a 'top up' then it is recommended you sit down and go through these documents with your Mortgage Professional.

Step 9:

Insurance Requirements

With the new liabilities that come with owning property, it is important to consider or review your insurance requirements to ensure you are appropriately covered. There are four main types of insurance you should consider:

- Home Insurance
- Contents Insurance
- Life Insurance
- Income Protection

You may need to start your insurance cover prior to settlement.

Step 10:

Settlement

After the mortgage documents are signed, witnessed and sent back to the lender, then settlement is arranged via your solicitor/conveyancer or if there is not a necessity for a solicitor/conveyance then the Mortgage Professional will be involved to ensure settlement is completed. The first repayment on your loan will usually be required one month after the settlement date.

Tips

Things to remember



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Lenders will require a paper trail for money that has been deposited into your account. The paper trail will verify from where the money came and that the money is not a loan that will have to be paid back. So, if the credit assessor discovers that a large amount of money has been deposited into your account, the credit assessor may want further information/verification of where it came from. When you go to sign your mortgage documentation, bring your driver's license or some form of picture identification.

How long does it take to obtain a loan?

Not having the finance at the right time could cost you money, potentially thousands or even your whole deposit. Understanding the time frames in getting a loan can help you be prepared and remove much of the stress in obtaining a loan.

Making an Offer:

Private treaty or auctions are two types of ways to purchase property.

Private Treaty

- ✿ Finding out as much information as possible from the agent may be helpful to you. For example, if you find out the vendor has purchased another property already; they may be more willing to negotiate on the purchase price.
- ✿ Try to keep your enthusiasm for a property to a minimum when talking to the agent.



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Tips

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- ✿ Never start with your highest offer. Begin low so that there is room for you to negotiate.
- ✿ If your offer is accepted you will usually need to pay a 0.25% deposit on the day however a cooling off period will normally apply, time valuations can be conducted and a formal approval is gained prior to you paying your 10% deposit.
- ✿ It is always best to have a conditional approval prior to beginning to look for property so you know exactly how much you can borrow.

Auctions

At auctions you will be required to pay a 10% deposit immediately and there is no cooling off period so you need to be careful. Issues can arise such as if the property values less than the purchase price you will need to provide the difference between the value and the purchase price. If you cannot come up with the extra funds you are at risk of losing your deposit.

Below are some useful tips in regards to auctions:

- ✿ Ensure you have finance approved and do not bid above your limit.
- ✿ Complete the necessary building and pest inspections prior to auction.
- ✿ Get your conveyancer to look over the contract prior to auction.
- ✿ Take photo ID with you and remember to register to bid.
- ✿ Have your deposit ready on the day of the auction.

Paying Your Mortgage

Tips to getting the best out of your mortgage



1. Pay weekly or fortnightly

This will mean you will pay an extra repayment in the year but will reduce your interest.

2. Reduce your loan by making additional repayments

Making extra repayments will allow you to reduce your debt quicker. Note there may be penalties for paying extra on fixed loans. Check with your mortgage professional about penalties or fees.

3. Pay higher than your minimum repayment

Paying more than your minimum repayments can make a large difference over the term of your mortgage. Note there may be penalties for paying extra on fixed loans. Check with your mortgage professional about penalties or fees.

4. Home loan health checks

Because our needs change, the loan that you originally got may not be the best loan for you in the future. Review your home loan on a regular basis to make sure it still suits your circumstances. Every three to five years is a reasonable timeframe, or just prior to part, or all, of your mortgage switching from a fixed rate to a variable rate.



Moving Checklist

A checklist that may be useful after your new loan has settled

- ✿ Give notice to your real estate agent if you are currently renting
- ✿ Obtain quotes from several removalists to ensure you are getting the best deal
- ✿ Redirect your mail with the post office
- ✿ Have enough appropriate boxes for packing and label them for each room
- ✿ Change your driver's license details
- ✿ Notify appropriate companies/people of your new address
- ✿ Disconnect electricity, gas, water and phone at the property you are leaving
- ✿ Connect the electricity, gas, water and phone at your new property
- ✿ Check smoke alarms are working











Need help?

What a mortgage professional can do for you

Nearly half of Australian home buyers now use a mortgage professional to find them the home loan that best suits them.

Mortgage Professionals have the expertise, the contacts and experience to ensure you get the right loan for you. Furthermore, we take on the legwork so you don't have to.

-  Discuss your existing situation, your lending needs, requirements, and obtain all necessary information pertaining to your lending application.
-  Explain the types of loans available to you from a range of banks and specialist lending institutions.
-  Based on the information provided by you and utilising specialist lending software, match your lending requirements to a selection of loan products offered by a diverse range of lenders.
-  Provide an overview of the relevant costs associated with your loan application.
-  Provide an in-depth overview of the loan product or products you select.
-  Act as an intermediary between you and the lender by completing and packaging your loan application.
-  Liaise with your solicitor; real estate agent; accountant and any other related party to ensure a smooth and timely settlement.
-  Assist with any future lending requirements, whether you wish to check, change or top-up your loan.



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Ready to get started?

Contact:

Tony Crome

Email:

mortgages@actonadvice.com.au

Phone:

+61 2 6104 9059

0487 268 224

Website:

www.actonadvice.com.au

Credit Representative:

478070