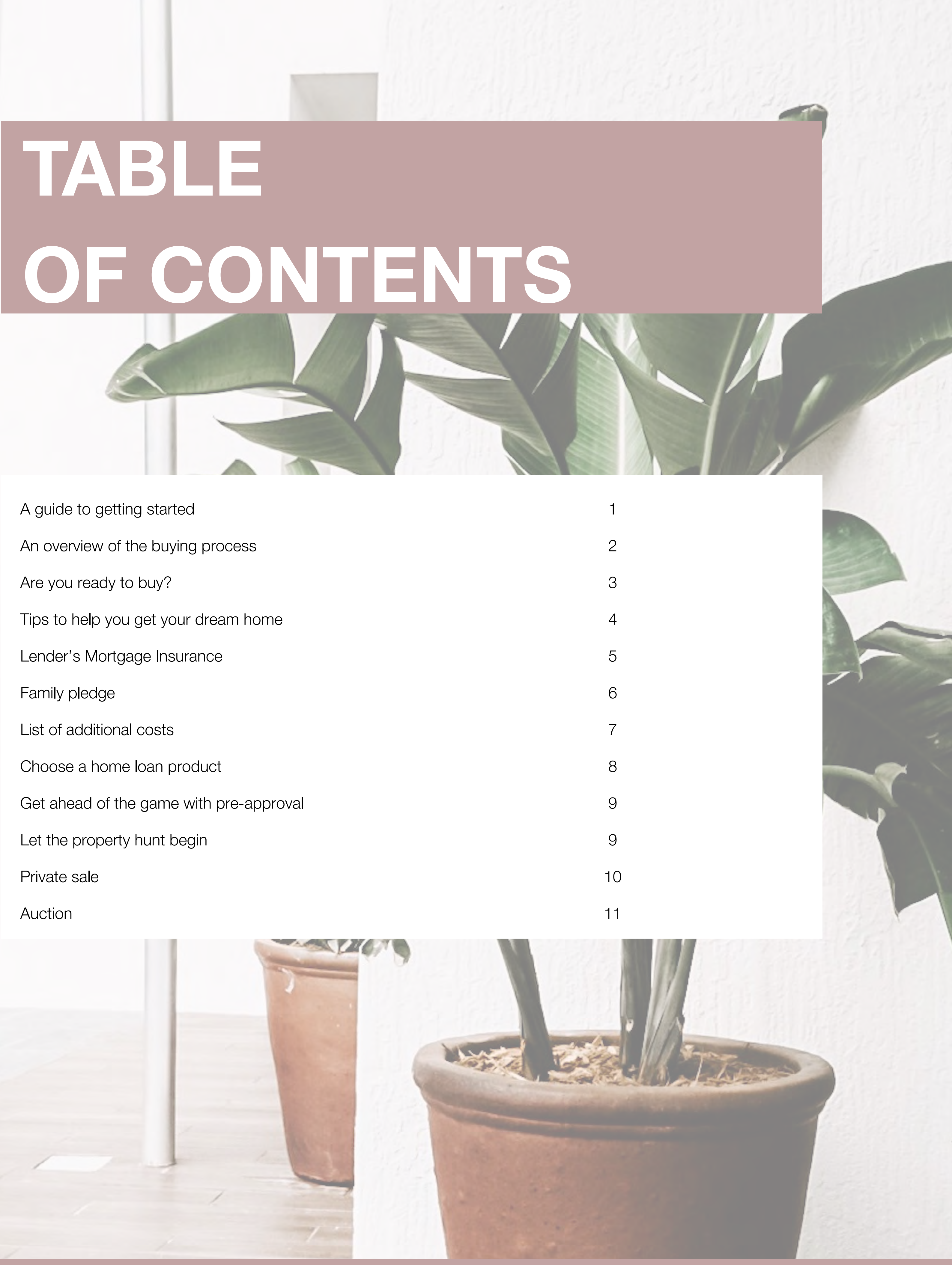
# FIRST HOME BUYERS GUIDE

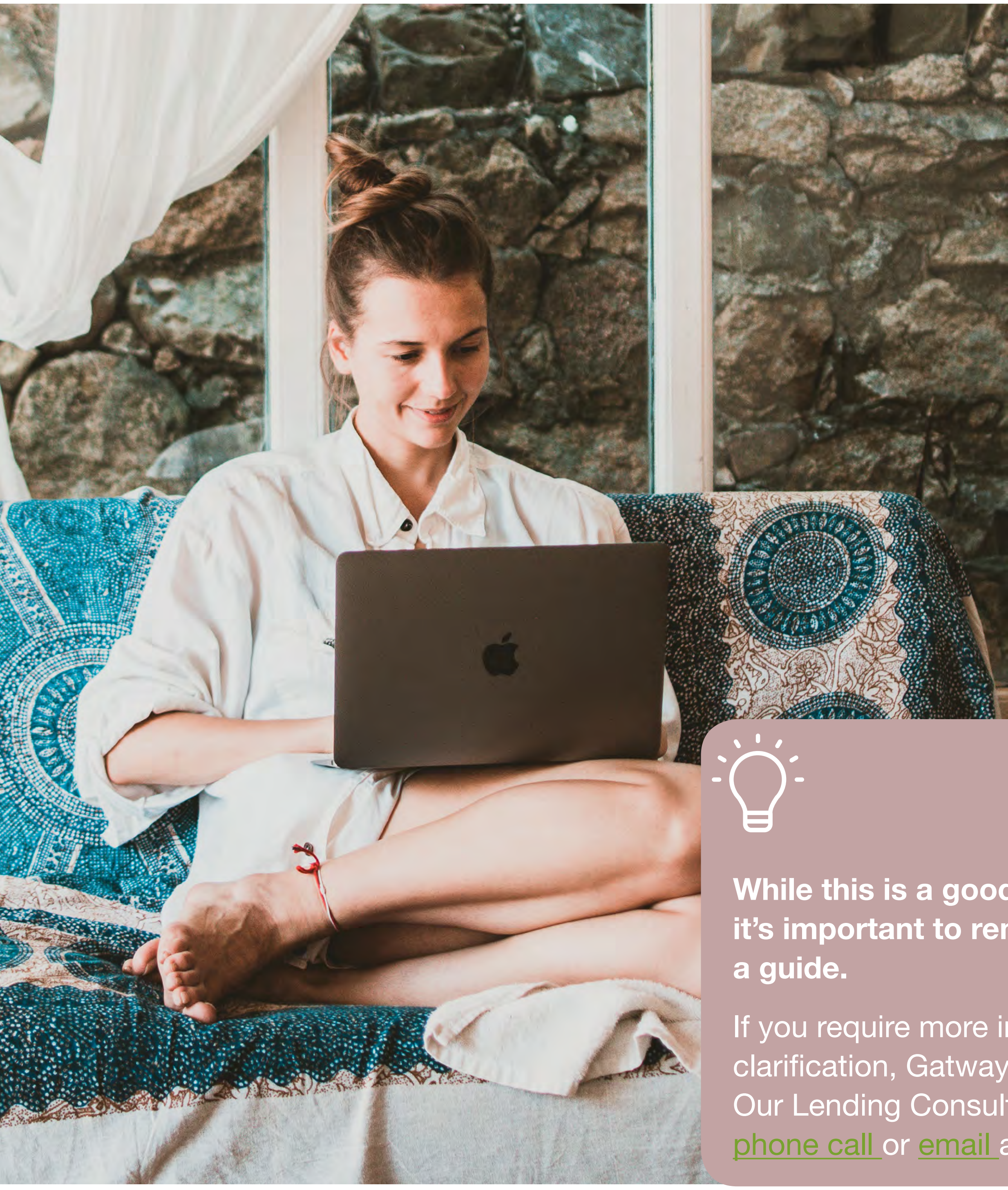
BY Gateway bank

# TABLE OF CONTENTS



# A guide to getting started

Buying your first property is an exciting milestone but, as with any “first time” experiences, it can also be daunting as it may be one of the biggest financial commitments you’ll make in life. This guide offers valuable information and tips for first home buyers.



**While this is a good starting point, it’s important to remember that it is a guide.**

If you require more information or clarification, Gatway is here to help. Our Lending Consultants are just a phone call or email away.

# An overview of the buying process

The process of buying a property starts well before you actually find a place you like. We've outlined the overall process for you.

**1. Review your finances**

It's important to take a deep dive into your finances before you start looking at properties. Be active in reducing existing debt, review your spending habits and set a plan to save a deposit.

**2. Determine your borrowing power**

Determining your borrowing power or borrowing capacity will give you an idea of how much you can borrow, and you can do this with online calculators.

**3. Research the home loan market and decide on a lender and type of home loan product**

Costs, products, and services can vary from lender to lender so make sure you do your research and find a lender that suits you best.

**4. Get pre-approval**

Obtain pre-approval to give you peace of mind as you will know exactly how much you can afford to buy a property for. See page 9 for more information.

**5. Start looking for a property**

Domain and realestate.com.au let you search, save and share properties.

**6. Make an offer**

When you find your dream home it's time to arrange your inspection reports, such as building and pest inspections, and a strata search if you're buying an apartment. And if they all check out, you can consider making an offer or bid at the auction.

**7. Contract exchange**

When your offer is accepted, you will sign and exchange contracts. You may also find your 10% deposit is due. Once this is completed, you'll have a cooling-off period in case you change your mind. These periods vary depending on which state you buy in. Please note that if you buy at auction the deposit is payable on the spot and there is no cooling-off period.

**8. Get the keys**

After the cooling-off period, there is generally a three to six-week settlement period. On settlement, you'll finally receive the keys to your new property!

# Are you ready to buy?

The prospect of becoming a home owner is certainly exciting but before jumping into the property market it's necessary to determine if you're in a financial position to do so.

While each person's situation is different there are certain things you should do before you consider buying a property including paying down your debt, build a healthy savings balance and strengthen your credit score.

# Tips to help you get your dream home

### Pay down your debt

A mortgage is a significant financial responsibility so reducing any current debts will put you in a much better position in terms of your borrowing capacity and your ability to service the loan down the track. This includes everything from personal loans to credit card debt.

### Build a healthy savings account

Build a healthy savings balance. Having a regular savings plan is not only a good way to prove that you are money-wise but it will also give you peace of mind if unexpected costs arise. Setting up a separate savings account will help make you accountable. Consider an interest savings account or term deposit (TD) to boost your savings with interest.

### Strenghten your credit score

A credit score is a numerical figure that shows your reputation as a borrower. Lenders may use this information to decide if lending you money is worth the risk. Things like the type and size of credit you request on your loan applications, paying your bills on time, not applying for too many credit cards, paying off outstanding loans and credit card debt or your employment history can impact your overall credit score.

### Build a deposit

One of the biggest challenges for those looking to enter the property market for the first time is building up a deposit. Your required deposit amount will depend on whether you are buying a home to live in or as an investment. If you're looking to buy a property to live in, generally lenders require you to have 20% of the purchase price to avoid paying Lender's Mortgage Insurance (LMI). Which means if you're looking to buy a property worth $500,000, you'll need a home loan deposit of $100,000. That's a hefty "pay-to-play" entry point. This doesn't even take into account all the additional upfront costs associated with buying property such as stamp duty, solicitor's fees and the like. Here are four tips to save for your first home loan.

### First Home Buyers Grants

When you're trying to buy your first home you know every little bit helps. Thankfully, there are grants and concessions available for first home buyers to give you a head start. Every state and territory has different eligibility requirements for the grant and duty concessions so be sure to visit your state's or territory's office of revenue website to find out if you qualify.

**You're entitled to one free copy of your credit report every 12 months from each of the three nationwide credit reporting companies, such as Equifax, Illion and Experian.**

# Lender's Mortgage Insurance

If you can't save up to a deposit, there are other options available including the Lender's Mortage Insurance (LMI). This insurance protects the lender from financial loss in the event that the borrower can't affort to keep their home loan repayments. LMI allows borrowers to forgo the need to save a 20% deposit and can be paid upfront as a lump sum or can be applied directly to your home loan. However, be aware if you add LMI to your loan balance this will increase your repayments and the total interest you pay over the life of your loan.

# Family pledge

A family pledge loan is another way to purchase a property without the need to save a deposit. It allows you to make up for the fact that you don't have a sufficient deposit saved by using the equity in a family member's property or term deposit, as security for your loan The person providing the assistance is known as the guarantor.

It is generally restricted to immediate family members such as parents, grandparents or siblings, however, some lenders can be flexible depending on your circumstances.

**Family pledge benefits**

- **No savings required.** A family pledge provides access to finance immediately, meaning first-time home buyers can enter into the market faster, without having to wait years to build up their contribution.
- **No Lender's Mortgage Insurance (LMI).** Without a 20% deposit, most borrowers are required to purchase LMI. Having a family pledge guarantee removes the need for LMI and the hefty premiums that come with it, which can add thousands of dollars to a loan.
- **Increased borrowing power.** A family pledge loan increases borrowing power. With a guarantee, up to 105% of the purchase property's value can be borrowed to cover set-up costs such as stamp duty, legal fees or even renovating if the property you purchase is run down.
- **Limit the guarantee.** Family pledge loans now require the guarantee to be limited to a specific amount. This allows the guarantor's security to be released once the LVR on the borrower's security falls below 80%.
- **Using other assets.** Many family pledge loans require a property to be used as collateral for the loan. However, some will let you use other assets so don't forget to ask your lender.

# List of additional costs

Forgetting to factor in all the extra costs can leave you with a financial shortfall that could compromise your purchase. While these upfront costs vary, it is usually a good idea to set aside an extra 5-10% of the purchase price as a buffer.

| Type | Description |
|---|---|
| Loan application fee | Some lenders may charge you a fee to process your application. It is used to cover things like credit checks, property appraisals and administrative costs. |
| Property valuation fee | Lenders may require a valuation of the property to ensure the value of the property is greater than the loan amount. |
| Stamp duty | This is a tax paid when transferring the title and ownership details of a property. As a tax imposed by state governments, the percentage you pay will depend on the state you buy property in. |
| Mortgage registration fee | The Land Titles Office imposes this administrative fee for registering the lender's mortgage on the title record for the property. |
| Solicitor/conveyancer fees | This is the cost of having a solicitor or conveyancer carry out any legal work involved with purchasing your property. |
| Building and pest inspections | It's recommended that you carry out these standard inspections before you buy to ensure the building is structurally sound and there are no insect problems such as termites. |
| Strata search | This cost is only applicable if you're buying an apartment. The strata search will give you the history of the building in terms of past repairs, special levies, disputes, reoccurring maintenance problems, insurance details and more. |
| Home and contents insurance | This will protect you financially in case your home and its contents are damaged by fire, storms, flooding or theft. It's a good idea to have this in place right before settlement occurs. |
| Mortgage protection insurance or income protection insurance | If your ability to work becomes impaired it will be difficult to make your home loan repayments. These types of insurance are designed to take care of part or all of your repayments. |
| Utility connection costs | When you move into your new home there will be costs to get your utilities such as gas, electricity and telephone connected. |
| Moving in costs | This includes council and water rates, postal redirection and strata fees, if you've bought an apartment. |

# Choose a home loan product

There are several different types of home loans available. The one you choose will depend on your circumstances and what features you find most important. Home loans generally work on a (P&I) basis. Meaning over the term of a loan you repay the principal as well as the interest charged on the balance.

## Variable rate

A variable rate home loan will have an interest rate that can increase or decrease. This is generally decided by the lender in response to a range of internal and external market factors.

Your repayments will vary during the life of the loan as a result so before committing to a variable rate home loan it's worth thinking about whether you can maintain the repayments if the interest rate increased significantly. However, you also benefit if rates drop, saving you interest during this time.

## Fixed rate

A fixed rate home loan will have the interest rate locked in for a specific period of time. Generally fixed rate home loans are normally set for anywhere between one to five years. As your interest rate doesn't move during your set period, your repayments will remain the same, which can be handy for budgeting. However, if interest rates drop, you will lose the benefit of paying less interest. There can also be expensive break costs and limits on extra repayments to take into consideration.

## Interest only

A method of temporarily reducing your repayments is opting for an interest only loan, which allows you to pay the interest part of the loan only without any repayment of principal for a set period. The set period can range from one to five years, however, once this interest only period ends you are required to start making (P&I) payments. It's important to note that these P&I repayments will be higher over the total remaining loan term, than if you had always paid P&I from the outset of the loan.

## Low rate

The low rate basic home loan offers the benefit of a low interest rate, it usually forgoes additional features and benefits that can offer you more flexibility and control. It is often a popular choice among first home buyers, because it helps reduce your ongoing repayments.

## Low-doc

If you're self-employed you may not have the documentation required to apply for a standard loan, like a group certificate or a letter from your employer. A low-doc loan allows you to get around this challenge by providing alternate paperwork but it's important to note that while you may not be required to show the standard paperwork you will often be required to pay a higher interest rate.

## Construction

A construction loan is used if you're building a home as opposed to buying an established property. Usually these are shorter term loans which you draw down as required based on construction progress payments. In many cases these loans are set up as interest only loans and typically they require a 20% minimum down payment.

View our home loan products here.

# Get ahead of the game with pre-approval

Pre-approval gives you a good understanding of the amount a financial institution would be willing to lend you based on your current financial status.

Items that will be assessed during pre-approval generally include; your income, employment situation, as well as the status of any credit cards, existing loans and other fixed costs. There are several benefits of obtaining pre-approval including:

- It is free, valid for 90 days and there's no obligation
- You can property hunt with the confidence of knowing exactly what you can afford
- It shows the real estate agent that you are serious about buying
- It can speed up the documentation process once you've found a home

# Let the property hunt begin

Once your pre-approval has been finalised, you can start your property-hunting!

Visit our HomeHub for handy tips on your property hunt!

# Private sale

Private sale is when the vendor has set a sale price and is happy to negotiate individually with prospective buyers. If you find a property that is a private sale here's the process you will likely follow.

1. **Set-up pre-purchase inspections.** Arranging building and pest inspections will alert you to any issues the property might have.
2. **Strata search.** This only applies if you're buying an apartment, but like a building and pest inspection, this will tell you if the building is structurally sound as defects will be recorded, any reoccurring problems or issues that need to be corrected and, importantly, if the strata finances are in order.
3. **Obtain a copy of the contract.** Have a copy of the contract for sale sent to your solicitor or conveyancer for review. Remember, you are bound to the contract once you sign it so make sure you understand and are comfortable with the terms of the contract.
4. **Make an offer.** If the pre-purchase inspections check out and you're happy with the contract it's time to make an official offer. This will need to be in writing and sent to the real estate agent. There will likely be a negotiation that takes place between you and the vendor on the price so it's wise to offer below what you're willing to pay. It's also important at this point to outline any conditions you want noted, such as changes to the contract, settlement timeframes and the like.
5. **Sign the contract and pay a deposit**. If the vendor agrees to your price and conditions you will sign a contract and pay a deposit. The deposit is usually 10% of the purchase price. Without signing the contract or paying the deposit, the vendor can accept a higher offer from another bidder.
6. **Cooling-off period.** Once the contracts are exchanged, the cooling-off period begins. It allows you to withdraw from the Contract for Sale by providing written notice. If you decide to rescind the contract you must notify the vendor (through their solicitor or agent) within the allocated timeframe; you can't cancel on the last day of the cooling-off period. Be aware, even though you rescind the contract, you will likely forfeit part of your deposit. Each state and territory has different cooling-off periods so obtain legal advice from your solicitor or conveyancer to understand your obligations.
7. **Setlement stage.** If you decide to proceed and make it through the cooling-off period, you enter into the settlement stage. Settlement can range between three to six weeks depending on your state or territory, though the terms can be extended or shortened if seller and buyer agree.
8. **Final walk through**. During the final week of settlement, you will make a final inspection of the property. This allows you to make sure everything is in the same condition that you bought it in and aligns with the contract.
9. **Settlement date.** This is the day you will become the official owner of the property. The balance of the purchase price will be transferred to the seller. Your solicitor will also work out any additional costs you're required to pay, for instance, adjustments to council rates that have already been paid. Your solicitor and lender will work together to handle the loan settlement. Then Registration of Titles occurs. This is when the title deeds and mortgages will be registered at the lands office. Your lender will pay stamp duty (if this hasn't already been paid) and registration costs to the government on your behalf.

# Auction

Unlike a private sale, there is no negotiation between vendor and buyer. Instead, the property is sold to the highest bidder.

1. **Pre-purchase inspections and reports.** Much like buying a property through private sale, you should arrange building and pest inspections (and a strata search if you are bidding for an apartment)  well before the auction day. This will give you time to arrange a builder or relevant tradesmen to come and inspect the property to advise you of potential costs to fix issues.
2. **Obtain a copy of the contract.** As the sale of the property is final when the hammer falls, it's imperative you have your solicitor or conveyancer review the Contract for Sale and give you the all clear. Without a cooling-off period you could be stuck with unexpected surprises.
3. **Pre-approval.** Securing your finance before the auction day not only gives you confidence as a bidder but also sets your bidding limit. Choosing to make a bid at auction without securing your finance is very risky and leaves you financially exposed if you are the highest bidder.
4. **Register to bid.** In some states you are required to register ahead of the auction day. The real estate agent will be able to guide you on the requirement for your state. If you are required to register, you will be given a bidding number to use on the day.
5. **Make a bid.** On the day of the auction be ready with your bidding limit and your deposit (if you are the highest bidder you will be required to sign a contract and pay a deposit of 5% to 10% of the purchase price on the spot). The auctioneer will start the process by giving a description of the house and then invite bidding to commence.
6. **Outcomes of an auction.** There can be two outcomes to an auction. If the auctioneer declares the property is "on the market", it means the reserve price has been hit and the property will definitely sell to the highest bidder. However, if the reserve price is not met the property may not sell. This means you could have the opportunity to approach the real estate agent privately and enter into further negotiations. If you were the highest bidder on the day, congratulations! You're now a home owner.  After the auction, the process becomes the same as if you were to buy a property through private sale (see page 10 from step 7 onwards).

**If you would like to learn more about our home loan products visit our website or give us a call.**

**We're here to help you every step of your journey**

# 1300 302 474

**8am – 6pm (AEDT) Mon - Fri**

**www.gatewaybank.com.au**

ABN 47 087 650 093