

A downloadable eBook

First Home Buyers Guide.

A mortgage brokers guide to
buying your first home.

By **BEYOND
BROKING**



LEAVING THE NEST

A MORTGAGE BROKERS GUIDE TO BUYING YOUR FIRST HOME

There is a lot of information available that is either not in one place or leaves you with more questions than answers. We set out to fix this by helping end confusion and create confidence in first home buyers. While the process can be daunting if you have the right people helping you it will be straightforward and simple.



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STEP 1 - GETTING STARTED

For all those people out there who are completely confused about buying their first home, let me be the first to tell you that you are not alone.

First things first – **do some research**. There is a lot to cover and it pays if you have some idea about what lies ahead of you. Start familiarising yourself with terms, especially if you are pretty green when it comes to the finance world. It may be a long way down the track but some clarity up front will help. You will also avoid surprises down the track.



STEP 2 - BUDGETING AND THE BORING STUFF



WHAT YOU WANT VS. WHAT YOU CAN AFFORD

Let's face it – this part is far from exciting. I can't remember how many times I've spoken to first home buyers and their excitement turns to depression when you bring up finance. Unfortunately, it's essential and you need to have your head around it.

So, how much do you want to spend versus how much can you afford? Your bank or broker can give you a figure based on how much you earn and how much you spend.

Be realistic when you factor in living expenses here because what's the point in buying a house if everything you do from that point on hinges on you being able to make your next repayment? In my opinion you want a buffer that is larger than what the bank approves as the minimum.

DEPOSITS - HOW MUCH DO YOU NEED

So you know how much you can borrow and unless you have been living under a rock it is pretty widely known that you will need a deposit to get started.

Most banks will need to see a savings history over at least a 3-month period in order to approve your finance. **Establish a savings plan that will help you achieve at least 5%** of the property value plus fees and charges, and stick to it.

Based on median house prices in Perth at the moment this works out to be about \$40,000 - \$45,000, but **a larger deposit will help you avoid fees.**

STEP 2 - CONT. BUDGETING AND THE BORING STUFF

DEPOSIT ALTERNATIVES

RENTAL HISTORY

Some banks will accept a rental history as evidence of savings if you can prove rental payments through a registered agency. Just to be clear, this doesn't absolve you from contributing a 5% deposit but it opens up the option of receiving gifted funds or selling an asset. Be careful if you go down this route.

GUARANTORS

Using a guarantor is essentially using your parents' equity to provide a deposit for your home. This is of course assuming they have equity in their house and love you enough to risk their guaranteed amount if you can't repay the debt. This is also a great way to avoid Lenders Mortgage Insurance (more on that later).

THOSE TV ADVERTS

There are also other options available that require an even smaller deposit. You know the ones – those house and land packages advertised on TV. They are a great option but do have restrictions on eligibility and are essentially designed to help lower income earners purchase property. A lot of the applications are completed through Keystart (a government back loan scheme) as well as privately executed deals with developers, so shop around.

FIRST HOME SUPER SAVER (FHSS) SCHEME

The FHSS scheme allows you to save money for your first home inside your superannuation fund. This will help first home buyers save faster with the concessional tax (pre tax) treatment of super. When all is said and done you may be able to access up to \$30,000 from your superannuation fund to contribute to the purchase. Strict eligibility requirements do apply. More information available [here](#).

STEP 2 - CONT. BUDGETING AND THE BORING STUFF

FIRST HOME OWNERS GRANT - \$10,000 FOR THOSE BUILDING (WA ONLY)

The first home owner's grant can contribute to your deposit but is currently only available in Western Australia when you are building. This includes:

- Off the plan purchase (buying a property that hasn't been built yet)
- House and land packages
- Newly established homes

If you decide to buy land and then build separately you will be entitled to receive the grant but only when funds are first drawn down which is typically when the slab is laid and obviously too late to be included in the deposit.

If you or your spouse have never accessed the grant and never owned a house then chances are you probably qualify but the complete eligibility rules are available [here](#).

HOME BUYERS ASSISTANCE ACCOUNT - \$2000 FOR THOSE BUYING (WA ONLY)

This is currently only available for purchases of established and partially built homes worth \$400,000 or less through licensed real estate agents.

With this scheme, you are entitled to up to \$2000 in fee assistance as a first home buyer in Western Australia to assist with associated purchase costs. For additional detail on HBAA eligibility [click here](#).



STEP 3 - FEES - THE REALITY CHECK

I mentioned you will need savings to cover off fees for the purchase and unfortunately this is probably the most disheartening part of the experience. Try and stay positive though because when you finally get your house it will be worth it.

Your bank will facilitate the payment of fees upon the settlement of the loan as long as you have the cash to complete then you will pretty much be none the wiser. Apologies upfront but there are a few to get through.

As a conservative guide you will need about 5% of the property purchase price for fees.

BANK FEES

It is pretty common these days to get home loans without application or establishment fees. That being said, there are lenders that do charge these and the amounts can vary as well so check your bank's fine print.

You can expect the price to be anywhere between \$0 and \$1800 depending on the lender. Generally speaking most banks will cover the cost of property valuation and mortgage preparation fees within the application as well whether it is waived or not.

LENDERS MORTGAGE INSURANCE

This is a fee incurred when your deposit is less than 20% of the property value in case the bank has to step in if you can't foot the bill.

The amount depends on the value of the property and can be pretty expensive. A 5% deposit on a \$500,000 property will cost between \$15,000 and \$19,000 depending on the bank. Don't panic if you don't have a spare \$15,000 lying around though; some lenders will allow you to add this onto your loan amount.

Avoiding LMI can be done if you work in a specific industry, if you appoint a guarantor, and in some cases if your deposit is close enough to 20%.



STEP 3 - CONT. FEES - THE REALITY CHECK

GOVERNMENT FEES AND CHARGES

STAMP DUTY

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REGISTRATION

Whenever a property changes hands there are associated government registration costs because there is no such thing as a free lunch. Below is a summary of what to expect:

- Transfer registration (\$165) – incurred whenever a property changes hands.
- Mortgage registration (\$165) – State Government's fee for registering a mortgage.
- Title searches (\$25) – conducted in order to check the details on the certificate of title are correct and to see if there are any encumbrances (caveats, covenants or mortgages) on the title which could prevent the execution of the transfer.



STEP 3 - CONT.

FEES - THE REALITY CHECK

RATES ADJUSTMENTS

You will be required to pay an adjustment for shire water and council rates. This amount will depend on how long is left in the current year's billing period. So for example if you're halfway through the billing period, you will pay half the annual rate.

CONVEYANCING/SETTLEMENT AGENTS

This covers the cost of actually making the settlement happen including the preparation of paperwork to change the name on the titles, registrations at the land titles office, water and council rates adjustments and so on. You can settle a property independently but generally speaking it is better left to the experts. It would be reasonable to expect a fee of \$1500 – \$2000 for these services. It pays to have a good settlement agent working on your purchase because there is nothing worse than missing a settlement due to incorrect paperwork.

BUILDING AND PEST INSPECTIONS

These fees are optional but in my opinion they are worth every penny. Do you buy a car without taking it for a test drive or looking under the hood? You want to make sure you know exactly what you are buying. A building inspection will make sure that the house is structurally sound and trust me – this is something you want to know before you buy because having to replace structural beams in your roof will not be cheap. Same goes with the pest inspection. While termites are not as common these days, it's not a surprise you want to deal with. Getting these two inspections done could be the most important \$800 (approx.) you ever spend.

HOME INSURANCE

In this day and age your bank will likely require confirmation of insurance held on the property you are looking to purchase. It is required before settlement occurs and typically your insurer will allow you to set the date at which it kicks off.

STEP 4 - HOW TO PICK A BANK OR BROKER

The options you have for a bank will be dictated by your financial situation. Banks give loans based on their credit policy which sets out how they value your income, how much they lend, acceptable deposit amounts, acceptable loan to property value ratios, the types of properties they accept as security and so on.

There are really only three ways to go about getting a loan either you walk into a branch and speak to them directly, use an online lender or you go to a mortgage broker for advice.

Remember: just because you see a cheap rate advertised doesn't mean you can get it. There are always eligibility criteria.

GOING DOWN THE MORTGAGE BROKER ROUTE

These individuals work as agents for banks. Where they differ is their ability to broke deals across multiple banks. For example, it is pretty common practice for a broker to have access to over at least 20 lenders which means a plethora of opportunity for the shopper.

PROS

- Availability of options – multiple lenders and products.
- You do not normally pay them directly; the bank does.
- They have the ability to negotiate interest rates below what is advertised.
- They understand bank policy, which means saving you time in searching for which bank will be willing to lend.

CONS

- There is an abundance of brokers in the market and while some brokers can be highly experienced others can be newbies and not understand the whole process.
- Brokers are paid commissions by banks and this can potentially cause bias in which loan products they present you.



STEP 5 - PICKING A HOME LOAN

There are literally hundreds of products to choose from in the home loan market and it will get overwhelming. A broker can be good at this point because of their experience but if you are doing this yourself consider the following:

TIME

Change your time horizon from 30 years to 4 years. Whether you like it or not, 4 years is actually the average life of a home loan and it's getting shorter. That is generally the time it takes for you to either buy a new home, sell it for a change or just generally get pissed off with your bank or broker enough to refinance elsewhere.

FEES

Factor in all the fees and their impact on your ability to open, hold and close the loan. A low rate loan with high fees may cost you more than you think

BONUSES

Include the value of bonuses like cashbacks and rewards if there is one. Essentially a \$1000 cashback can represent a discount of 0.25% on your interest rate in the first year (this obviously depends on your loan size).

PACKAGES

Consider packages that give you credit cards, transaction accounts and so on but have a look around to see if you can create your own package for cheaper. Remember, this line of products like all others were created with profitability in mind. Transaction accounts are far more valuable to banks than you would expect.



STEP 5 - CONT.

PICKING A HOME LOAN

FEATURES

While there are hundreds of different loans in the market the features available across the board don't really vary from bank to bank that much. You need to be aware of what is available in order to select the most suitable home loan. Fixed and variable rates, redraw facilities, extra repayments, portability are just some of the terms that will be thrown at you. First home buyers tend to favour products with more basic features in order to avoid fees.

INTEREST RATES

This is one of the most important things when shopping around and it's normally what captures people's eye when they are looking. The reason I have mentioned them last in this list is that they are directly influenced by the features you want and the time you hold the loan for. You need to find the right mix in a loan that will work for you. Don't be afraid to branch out from the 'big four' in order to get a cheaper rate – it may save you thousands.

To sum up the market there are variable loans which come in the form of introductory offer products, basic products, and lifetime discount products. The rates of these loans can change at the discretion of the bank, normally relative to official interest rates set by the Reserve Bank of Australia.

Then there are fixed loans, which come in a range of terms normally 1 – 5 years and essentially lock in your repayment amounts over that period. Remember, cancelling your contract within the fixed contract period will cost you.



STEP 6 - GET A PRE-APPROVAL



So you have a deposit and enough spare change to cover the fees and charges – time to get a pre-approval. It's essentially a loan application pending a security (which will be the house itself) and gives you comfort over what you can offer when you're out house shopping.

Your bank or broker will do a full financial assessment in order to issue you with a pre-approval so that the process is easier when you have found your house. This includes looking at your income, expenses, assets and liabilities to make sure you can afford the house you are after. **Be open and honest when going through your application because banks will know if you have not fully disclosed your financial situation. It will make things faster for you.**

STEP 7 - LET'S GO SHOPPING

If you're anything like my wife and I, you're currently trawling through countless listings on realestate.com.au hoping to stumble across something that ticks all the boxes. You're probably also filling your weekends with strategically timed viewings so you can fit as many in as possible.

From someone who has been in your position, make sure you don't get bogged down with finding the perfect house. When I bought my first home I wanted a modern, standalone house with a double garage and ducted air conditioning... I ended up with a 3 x 1 villa that needed some serious attention.

The point I'm trying to make is that your first house doesn't have to be your last. It doesn't have to be 'the one'. It's not a marriage; it is a stepping-stone that you can someday build on. It took me a year and half of shopping to figure that out.

If you're worried about the direction of the property market remember that when it comes time to upgrade you will be buying and selling in the same market. Logically whatever gain or loss you make on the sale will be factored into your next purchase.



STEP 8 - MAKING OFFERS AND ACCEPTANCE

This really only applies if you're buying an established home but it was what I found to be the most daunting part of the experience. I remember whispering to my wife in a room full of people about what we should offer while trying to make sure no one else could hear our conversation.

The important thing is to do your research before you even go to the viewing, and **try to gauge how much demand there is for the house**. Generally speaking you will know by how long the house has been on the market, the amount of people at the viewing and sometimes you can get hints from the agent as to what offers are already on the table (this is obviously assuming the agent isn't trying to push a sale so tread lightly here).

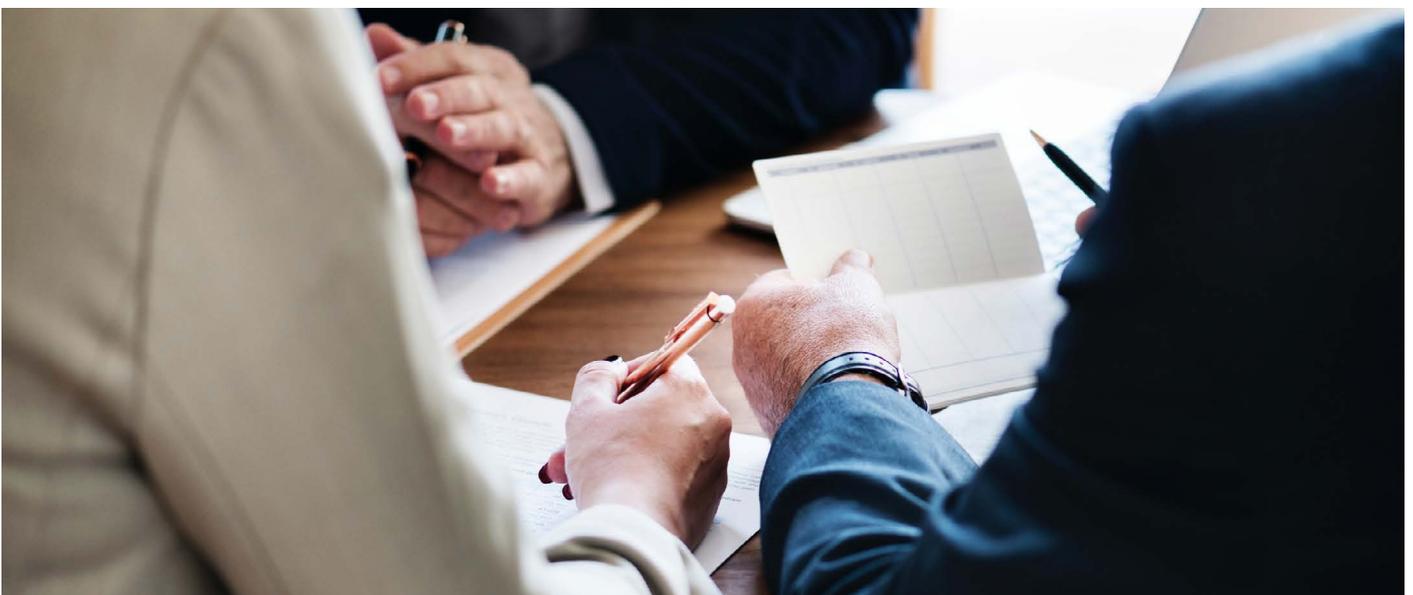
There are also some seriously good resources online at reiwa.com.au.

For houses that have been listed for a while you could probably be conservative with your offer in the hope that it gets accepted. Be reasonable here because an offer that is too low won't win you any favours with the seller and in reality \$50,000 discounts are not really common in the first home buyer market but you will need to gauge this at the time.

If you stumble across a house that seems like it is well-priced and has a few offers on the table, try to avoid round numbered offers and go with an obscure amount – I won the offer on my house by a mere \$1000.

It's worth noting that **just because you have the highest offer doesn't mean it will be accepted** either, so make sure you have a preapproval to give the seller peace of mind. Plenty of deals fall over because of finance declines and people with large deposits typically sit better with sellers.

Remember, a well priced house will sell. It's simple economics.



STEP 8 - CONT. MAKING OFFERS AND ACCEPTANCE



ACCEPTANCE

So you have made your offer and the seller has accepted it. You now need to satisfy the conditions attached to your offer. This will involve getting pest and building inspections and approaching your bank for formal finance approval. **If you have obtained preapproval this will generally be faster** and all you will need to do is provide a copy of the offer and acceptance to your bank or mortgage broker.

If your preapproval has lapsed or you never got one you will need to complete the full application process as mentioned earlier. The time it takes for a bank to complete this will vary; some can turn around applications in a couple of days while others may take a couple of weeks. The strength of the applicant's financial situation will also influence this. Logically it is easier for a bank to approve a high income earner with a large deposit over a lower income earner with a small deposit.

It is now worth getting home and contents insurance. There are different opinions around about when to get insurance but generally you should do this pretty early in the process because it is better to be safe than sorry. It is also worth noting that a number of banks require this for settlement.

Remember that the conditions set out in the offer will have to be performed within a specified time frame so work quickly.

STEP 9 - PRE SETTLEMENT

This is the stage when you will need to satisfy the conditions of your offer so that settlement actually happens. Contact your bank or broker to obtain formal finance approval and inform your settlement agent of your purchase. You will need to sign a fair few documents that need to be witnessed by unrelated parties.

UTILITIES

It is also the time to **speak to your utilities companies** and inform them about your purchase and the likely settlement date so you have water and electricity when you move in.

FINAL INSPECTION

You will also get the opportunity to complete a final inspection on the property. The West Australian Department of Commerce website has a good property checklist template to help you. At this time you should make sure your conditions have been satisfied. That is to say that if your building inspection found any issues make sure they have been rectified and work towards a solution to fix them with the real estate agent.



STEP 10 - ALL DONE! POST SETTLEMENT

This is when you get the keys and embrace the joys of moving in. If you're anything like me, this is also when you'll realise you never want to get involved in painting again.

It doesn't hurt to check your loan is set up the way it should be. Mistakes can and do happen because setting up a loan involves a lot of manual processing. There are numerous incidents nationwide where banks have forgotten to link accounts or apply correct interest rates to the loan, so double-checking can save you that headache.

If you have a broker, they should contact you to make sure you're happy with the service and double-check everything is set up as planned. You should also receive welcome packs from your bank if they haven't given them to you already. These will include necessary information about your loan.

Don't forget to pay your final bills from your old place of residence and change your mailing address. After all, there's no point finding a good rate for your home loan if you're going to wind up with a bad credit rating from old bills that you never received!





BEYOND
BROKING

ABOUT US

With over 15 years experience in the industry Brian Bratich and Jessica Preston have spent most of their working lives in the financial services.

With the majority of that time spent in banking it was an easy transition for two qualified accountants to step out on their own and move into mortgage broking in 2015 under the name Beyond Broking.

They are both well positioned with unique skill sets coming from their involvement in product design, interest rate price setting and sales strategy that give them significant advantages over their competitors that ultimately results in better advice for their customers.

CONTACT US

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