# An Essential Guide for First Home Owners

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# Welcome

So, you've been thinking hard about buying your first home? Well, I say to you…

CONGRATULATIONS!

You're now making the right steps to control your financial future. But how do you go about it and what do you need to know before you make a purchase?

Well, I thought I'd put together this guide to help answer some of the most common questions you might have as a first homeowner. We'll look at how much you need for a deposit and some tips on saving for a deposit. Plus, we'll look at the mindset required for purchasing, provide a breakdown of the different types of loans and cover some technical jargon you need to know. But as I like to say…

"Be great, take charge and better your life!"

Use this document as a guide and reference it as you need on your journey to being a first homeowner. Be sure to pass it on to a friend or family member who could also use a little help when it comes to buying their first home as well.

In the meantime, here's to buying your first home!

Best regards,

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# 01. First Home Owner - FAQs

## How much do I need for a deposit?

It all depends on the amount you want to spend on a property. If wish to purchase a $600,000 property, you would need to have a minimum of 5% deposit plus costs (in this case, $30,000 plus expenses). A great target to work towards is 12 – 13% of the value of the property.

Remember the more you contribute towards the purchase, the lower the loan amount, which means you will save more on interest and costs such as Lenders Mortgage Insurance (LMI). More on this later.

By the way, costs can include conveyancer fees, government fees such as stamp duty, insurance fees, removalist fees, outstanding rates & water charges, etc.

## Can I put cash incentives from the Government towards my deposit?

You sure can. But it will not count towards your 'genuine savings'. You will need to demonstrate that you have saved at least 5% of the purchase price from genuine savings like your income from a job.

## Can I use money gifted to me to contribute towards my deposit?

You can, in most cases, but it depends on the lender and how they will view this. Some lenders will accept you are saving 5% of the deposit amount and the gift can form the rest of the deposit.

## Can I have someone guarantor my loan?

You sure can. However, it is getting harder for this to occur as many lenders want to avoid having to do this.

A guarantor is a person who provides additional security for your home loan. Most lenders prefer the guarantor to be a close relative, usually a parent, grandparent, or siblings.

Some lenders will allow extended family members and even ex-spouses to be a guarantor for your loan. Again, securing a guarantor will depend on the lender.

Your guarantor doesn't need to provide any cash payment. No money changes hands with a guarantee. Instead, the guarantor agrees to offer part of their home equity to top up your deposit.

The bottom line is, if you have someone going guarantor, it might let you buy your place sooner.

## What do the banks mean when they say you need 'Genuine Savings'?

Most banks will need you to prove that you have saved 5% genuinely, i.e. not from a gift or a government grant. So, what does that mean? Well, generally, a lender will accept any funds that you have accumulated by:

- Saving cash for at least three months
- Term deposits held for at least three months
- Shares or managed funds held for at least three months
- Cash gifts held for at least three months
- Inheritance funds owned for at least three months
- Contributions from the First Home Super Saver Scheme
- Rental payments generally accrued over a minimum of 6 months

## What is the First Home Lenders Scheme?

If you are a First Time Buyer, you may be eligible to qualify for the First Home Lenders Scheme. The Federal Government will guarantee a participating lender up to 15% of the value of the property purchased.

You only need a 5% deposit plus costs to avoid having to pay Lenders Mortgage Insurance (LMI) in this case. You can find out more regarding the eligibility requirements by clicking this link.

## How Do I Save For A Deposit When Buying My First Home?

It can be daunting figuring out how you are going to save for your deposit to get your first home. But let's break it down into three simple steps to make it easier for you!

*Step 1 – Mindset*

Few, if any, mortgage brokers talk about this. But for me, this is the most crucial element when it comes to achieving any of your goals or dreams. And the right frame of mind is critical for getting you in your first home sooner.

You've got to shift your mindset from 'it will never happen to me', *to,* ***'it will happen, I am making this happen, and I must make this happen.'***

For me, it comes down to **'making it a must',** by making it a must you are saying to yourself that this is so important for me, my family, my future and my general wellbeing, that nothing is going to stop me. You are going to put all your efforts into making this happen because it means so much.

Picture the situation as it is without your own home:

- You may not know where you are living in the next three months, six months, or 12 months.
- There's a risk you'll be packing everything up in 12 months and starting all over again.
- You give a large chunk of your savings to your landlord monthly.
- There's continued anxiety knowing you should be in your place.
- You haven't taken the necessary steps to make Home Ownership happen, which leads to resentment and frustration.

Now, just imagine how great it's going to feel when you get the keys for the first time:

- How good is it going to be when you have all your friends & family over for a housewarming?
- Imagine the feeling of security when you have your own place.
- You now have an asset that will make money for you while you sleep.

Not to mention the feeling of pride and contentment and many other great reasons that will help you sleep at night.

***Remember: "I can, I will, I must."***

*Step 2 - Take advantage of Government Grants & Schemes*

Did you know if you qualify for the governments **first home lenders scheme (FHLS)** and you are looking at spending $450,000 property in metro Melbourne, you only need $22,500 in genuine savings for a deposit (5%) and typically around $5,000 for associated costs.

Now, because you are a first home buyer in Victoria, you will get a 100% concession on stamp duty for any purchase under $600k. And If it's a brand-new build (house/ apartment), you will qualify for the **First Home Owners Grant (FHOG)** too. You will get $10,000 towards your purchase or $20,000 if you're building in regional Victoria**.**

*Step 3 – Save Smart, Spend Smart*

The key to this step is **understanding what your end goal is**, what type of property you want, where you want to live and how much you are willing to spend. By working backwards**,** you can figure out how much you need to save for your deposit & purchasing costs.

1. **Determine how much you need for your deposit.**

2. **Figure out how much you spend a month and what you are spending it on.**

3. **Look at what items are musts and what are nice to have?**

4. **What can you cut back on in terms of life pleasures?**
   Here are a few ideas for you to consider when it comes to cutting costs:
   a. *Do you buy your lunch & coffee every day? If you do, can you make your lunch, and look at buying it only once a week. From personal experience, I used to spend more than $120 per week on lunch and coffees in five days. I was able to cut that down to $40 a week. That was an extra $80 in my back pocket every week and a massive $4,160 in savings per year.*
   b. *Do you need all those streaming services like Netflix, Stan, Hayu, Kayo, Amazon, Spotify? Can you cut a few of them or split the cost with a friend or family member?*
   c. *How much are you spending on entertainment a week (pubs, clubs, movies, gyms, footy tickets, concerts, etc.?) Can you find ways of reducing how much you spend when you are out or cut down how often you go out?*

5. **Can you get a better deal on your bills?**
   Here are a few ideas for you to consider
   a. *Get out your energy bills, insurance bills (health, income, death, contents, car, etc.), basically any essential bill. Now take an hour out of your day, each day, for five days straight, call your providers and* **demand a better rate**. *If they are unable to give you a discount or a better product, find a provider that will. Yes, it's a pain in the bum, but you might find that you can save hundreds of dollars a month with this simple exercise.*

b. *Take advantage of the* **First Home Super Saver (FHSS) incentive!** *You can make up to $15k in voluntary payments per annum into your super account and withdraw up to $30k for your home loan deposit. Consider this versus putting your money into a savings account.*
*And it's going to* **save you paying tax**. *15% is the going rate for tax on voluntary super contributions. Compare this with a 32.5% tax rate on your income which most people pay.*
*On $15,000 deposited in a year, you would save around $2,250 by using the FHSS.*
*There are many other advantages to depositing extra funds into your superannuation. I won't go into them here, but you can find out more by visiting this link. The other option is to talk to your financial planner if you have one.*

6. **Set up a high-interest savings account** and preferably do it with another financial institution that gets it away from your main transaction account. Don't get a debit card with it and don't set up Google pay.

   Why do this?

   Firstly, you want to make your money work for you; if you have an account that's not earning interest, you're probably losing out.

   Second, why pay fees when you don't have to?

   Third, don't be tempted to dip into your savings. By making it harder for you to access your funds, it is more likely your funds will stay there.

7. **Other things to consider**
   a. **Pay your bills on time:** *With comprehensive credit reporting, lenders can see your credit history (good & bad). Remember, by missing payments you might affect your credit rating and your chances of securing that loan.*
   b. **Consider your spending habits:** *Some lenders will want to see your transaction statements for the last six months. They do this because they want to verify how much you spend a month and where you spend your money. They may also take a disklike to things such as online betting accounts.*
   c. **Do you need that extra credit card or use that Afterpay service**? *Did you know the amount of credit you have available affects your borrowing capacity regardless if you use it or not? The less you have, the better it is when it comes to applying for your loan.*

d. **If you have a Personal Loan or Car Loan it may not be in your short-term interest to pay it off quickly, instead, stick to the standard repayments.** *Lenders don't want to see that you can pay things off quickly; they won't consider paying something off as an ability to save (yep, madness!) genuinely. They'll think that a third party like Uncle Bob is paying it off for you. It also affects how much you will have available for your deposit; you might be better putting the extra money towards your deposit in the short term.*

## What type of loans are there?

It can get tricky trying to figure out what type of loan products there are and why you should consider one over the other. So, let us run through the leading products out there for owner-occupiers & investor, and you can decide which one suits you better:

### *Fixed Loan*

This type of loan allows you to fix an interest rate for a set period, usually 1,2, or 3 years. If interest rates go down, you won't realise any savings. On the flip side, if rates go up, you won't pay any extra interest.

This type of loan is excellent for someone that wants certainty in repayments. Generally, fixed loans have the lowest interest rates available.

You can typically make up to $10,000 in extra repayments a year above your minimum repayment amount. If you decide you want to pay more off or pay your loan out in full, then expect to pay break fees.

Other loan features such as offset accounts and redraws are generally not available with your loan for the duration of its fixed period. Fees may also be higher with a fixed loan.

Be sure your broker contacts you before a fixed loan falls due because these loans typically default to a much higher interest rate without active negotiation before expiry.

### *Variable Loan*

A variable loan has a floating interest rate, so if interest rates go down, you should expect to save some money with your interest charges reduced. If rates go up, it will cost you more as you will pay more interest.

The benefit of this loan is that it gives you flexibility as you can make unlimited extra repayments or have unlimited cash sitting in an offset to reduce your interest expense. If you want to pay your loan off fast, then this is a loan that you should seriously consider having.

The loan features such as offset accounts and redraws are available with a variable loan.

### *Split Loans*

The name says it all, this product breaks your loan amount into two, so you have a portion of your loan fixed and the rest variable. A split loan allows you to take advantage of the benefits of fixed & variable, certainty in repayment and the flexibility to pay down your loan quicker.

Here's an example: if your loan is going to be for $250,000 and you think you can pay an extra $40,000 over and above your regular repayments in the first three years. If you want to fix your loan for three years, then you might look at fixing $200,000 and keep $50,000 variable instead of fixing the entire $250,000 loan amount.

Chat with your broker about the costs of fixing and make sure analysis is done with all costs factored in. Remember, there is more to a loan than the interest rate.

Also, be sure your broker contacts you before your fixed loan falls due for reasons mentioned before.

### *Interest Only*

Interest Only loans allow you to repay the interest on the amount borrowed and no principal. In other words, the loan amount will stay the same as you are just paying interest.

You might want to consider this type of loan if you are experiencing financial difficulties and need to lower your repayments. You may also consider this type of loan if you need a short-term loan such as a Bridging Loan or Construction Loan.

If you are an investor, you might consider an interest-only loan to claim higher tax deductions from your investment property. I strongly advise talking with your accountant to find out more about tax deductions.

There are a couple of things to consider here:

- Once you are out of the interest-only period, your repayments will generally be higher as you must pay back the principle of the loan over a shorter period.
- On this type of loan, the interest rate is higher than your standard principal & interest loan.

## What information should you have ready to see a mortgage broker?

I encourage you to take full advantage of your mortgage broker. But to do so, we need some information from you first:

- A 'Fact-Find' pre-filled. We will request this 24 hours before our meeting to enable us to understand your situation. We can then focus on your goals and needs when we meet.
- If you're a PAYG employee, then you'll need your last two payslips.
- If you've been self-employed the last two years, then we will need personal & business tax returns and a notice of assessment (1 year if that's all you have).
- 100 points of ID (usually passport & driver's license)

From there, we will figure out what other information we need from you to complete your application.

See the list below for other documents we might need in addition to the base-level documents mentioned above.

### *For a purchase*

- Contract of sale & section 32.
- Monthly statement (no older than 45 days) for your main transaction account with your bank.
- Evidence of your remaining savings to complete the purchase and your most recent transaction account summary.
- A rental statement if you're in an investment property on a registered letterhead from your real estate agent (the information must be less than two months old).

### *For a construction loan*

- Contract of sale & section 32 for the land purchase.
- A copy of your land purchase deposit receipt.
- A monthly statement (no older than 45 days) for your main transaction account.

- Evidence of your remaining savings to complete the purchase and your most recent transaction account summary.
- A rental statement (if an investment property) on registered real estate agents' letterhead, the information must be less than two months old.
- A copy of the builder's deposit receipt.
- A copy of the Fixed Price Building Contract clearly stating the contract price, signed by all parties (your builder will have all these documents).
- A copy of the Stamped Council-Approved Plans and Specifications.
- A copy of the Builders All Risk Insurance Policy, for an amount not less than the contract price.
- A copy of the Progress Payment Schedule.
- A copy of the Home Owners Warranty Certificate.

## What is Lenders Mortgage Insurance (LMI)?

It's an insurance most lenders will charge when you borrow more than 80% of the property value.

### *Does LMI protect me if I can't make the repayments or get into financial difficulty?*

No, unfortunately, it doesn't, it's an insurance to protect the bank if you are unable to meet your obligations—nasty banks.

### *How much does LMI cost me?*

Just remember this: the more you borrow over 80%, the greater the risk to the lender and the higher the charge for LMI.

Let's say you were borrowing around 88% of the property value. In this case, you would be charged around $8,000 depending on the lenders LMI policy. In most cases, the LMI charge is added to the balance of your loan, or you can opt to pay it upfront, so you're not paying interest on the amount.

You would then make repayments on the new loan total, i.e. $400,000 Loan plus $8,000 LMI = $408,000 Total Lending. You'd be making repayments and paying interest on $408,000 instead of $400,000.

### *How often do I get charged LMI?*

You only pay LMI once; it's not an ongoing fee. Phew.

*How can I avoid paying LMI?*

You can avoid paying LMI by saving a 20% deposit plus costs, using a guarantor, or getting a gift to push your savings up to that required level.  Some professions such as doctors, lawyers, dentists, vets can pay no LMI up to 90% of a property's value due to the stable and predictable nature of their business.

If you are a First Time Buyer, you may also be eligible to qualify for the First Home Lenders Scheme. The Federal Government will guarantee a participating lender up to 15% of the value of the property purchased.

In this case, you only need a 5% deposit plus costs to avoid having to pay LMI. You can find out more about the eligibility requirements by clicking this link.

## What is Settlement?

Settlement is when ownership transfers from the seller to you and you pay the balance of the sale price. The process of settlement involves many activities that must be signed-off before you can begin living in your new home. It is a legal process that is facilitated by your legal & financial representatives and those of the seller.

The settlement period is usually in the range of 30 – 90 days (but can be longer or shorter). Generally, it begins on the day the contract of sale is signed, ending on the settlement day when the property exchanges hands between you and the seller.

*What is settlement day, and what happens on the day of settlement?*

Settlement day is the day that you legally take possession of your new home. You and the seller agree on the exact date.

Before final settlement, your solicitor/conveyancer will provide you with a settlement adjustment statement. Adjustments like stamp duty, stamp duty concessions, and the First Home Owners Grant (if applicable) will be applied.

There may also be adjustments to compensate the seller for council rates, water, and body corporate fees. The seller is required to pay all the property's bills right up until the buyer takes ownership on settlement day.

Specific bills may have been paid in advance by the seller, which extend beyond settlement day. If this occurs, the seller is compensated through an 'adjustment' to the purchase price on settlement day.

On Settlement day, at an agreed time & place, your settlement agent (solicitor or conveyancer) meets with your lender and the seller's representatives to finalise payment and legally transfer the property from the seller to you.

Your solicitor or conveyancer will hand transfer payment to the seller, and the seller will provide signed transfer documents. Your lender will register a mortgage against the title of your new property and give your solicitor or conveyancer the requested funds to purchase your new home.

Your solicitor or conveyancer will also check that:

- Any existing mortgage on the title to the vendor is not your responsibility.
- Any third party or person who has rights over the property (a caveat) is taken care of with relevant parties.
- All clauses on the sales contract are honoured and fulfilled.
- The transfer of land and mortgage is recorded with the appropriate title office in your state or territory.

Once all that is complete, you can move in!!!!

### *How can you prepare for settlement day?*

Settlement is a huge part of the purchasing process. It can often be complicated and stressful even for seasoned property professionals.

You want to make sure that you are as prepared as you can be to reduce the risk of things going wrong at your end.

Here are a few tips to ensure that settlement goes like clockwork:

- Get in contact with a solicitor or conveyancer to act as your agent in the settlement process (preferably before you enter a contract of sale).
- Ensure that the contract of sale is signed and dated with the correct settlement date (agreed to by both you and the seller).
- Make sure you have all the funds ready to complete the purchase (to cover stamp duty, lenders mortgage insurance and other fees).
- You have taken out necessary building & contents insurance for your new home effective from the purchase date.
- You complete a final inspection of the property. It's essential to take a last look around the property and make sure everything is in order. In general terms, the properties condition should be in the same condition as it was at the time your contract-of-sale was signed. Your solicitor or conveyancer will be able to provide you with more advice on what to look out for.

## Why use a solicitor/conveyancer?

The success of your property purchase depends on how prepared you are to minimise things going wrong at your end.

Generally, most people looking to purchase will engage the services of a solicitor or conveyancer to take care of all the legal work associated with buying a property and assist them in making decisions related to the purchase. They don't do this to fill the paperwork out (and yes there is a bucket load).

They do it to protect themselves from restrictive contractual clauses, to identify risks associated with the land they are purchasing so they aren't caught out with extra costs or suffer the possibility of losing the property.

They also do it to have someone that understands the settlement process; someone who can calculate final purchasing costs related to stamp duties, FHOG, adjustments for water, rates & body corporate fees.

### *What is the difference between a solicitor and conveyancer?*

A conveyancer is someone licensed specifically to handle title transfer, without being a qualified lawyer. A solicitor is a licensed legal professional who may also be capable of handling title transfer.

A solicitor may be able to provide more general property advice, such as tax affairs. The choice of practitioner depends on your legal needs, budget, and complexity of the purchase.

### *How much will a good legal representative cost me?*

A general rule of thumb is to allow $1,000 - $1,500 for your legal services for a standard property purchase. Be careful of cutting corners and being enticed by low fee providers as you want to ensure that the process runs smoothly.

You do not want to be caught out by nasty surprises that end up costing you thousands. Put your trust in a legal representative who is proactive and helps you review the contract of sale before entering it. Once entered, they need to be proactive in managing the settlement process.

# 02. About Switch my Mortgage South East

Well, that's it!

I hope you found this guide useful and reduced some of the stress and tension of buying your first home.

Take the next step and book a call today to find out how you can get into your first home!

At Switch My Mortgage, we provide more than just loans. We know the process of purchasing a home can time consuming and complicated. That's why we like to there with you every step of the way.

We can help you figure out how much you can afford, get you pre-approved, put you in contact with agents, builders & conveyancers and get your loan approved fast!

Plus, we can help you with the all-important mindset and belief required to purchase your first home and get you firmly placed on the property ladder.

Don't hesitate to get in touch for a no-obligation chat about your current situation and where you'd like to go.


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# 03. Disclosure


The information contained in this guide is general in nature and does not take into account your personal situation. You should consider whether the information is appropriate to your needs, and where appropriate, seek professional advice.

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