FIRST HOME BUYERS GUIDE

Here are the most important things to know before you borrow

If you're looking to buy your first home, chances are you're also looking for your first home loan.

The task may seem daunting but it doesn't have to be. With the right knowledge, advice and help along the way, you can find the right loan, and more importantly, get closer to becoming a homeowner!

Did you know that 70% of Australians taking out a home loan do so with the help of a mortgage broker?

We will look at some of the most important things you need to take into account when applying for your first home loan and why working with a broker is the smart way to go.

Please note that this guide is not intended to provide, and should not be relied on for, tax, legal or accounting advice. We encourage you to consult your own tax, legal and accounting advisers before engaging in any transaction.

Saving for a deposit

There is no time like the present to start saving for a deposit. The longer you put it off, the harder it will be to develop good savings habits. Unless you win the lottery or inherit some money, it's a good idea to make some minor adjustments to your lifestyle to watch your savings grow.

Start by making an honest appraisal of all your living expenses and see where you can shave off some costs.

The second step is to set up a realistic budget. Budgeting is a wonderful tool that can help you achieve your goals and there are many great budgeting tools that can help you get there.

The 50-30-20 budget rule, for example, is a popular budgeting style popularized by author Elizabeth Warren.

The rule splits your after-tax income into three categories: needs, wants and savings. 50% of your income should go to your bills and things necessary for you to live, for example: rent, utilities, car, groceries, insurances, etc; 30% should be put aside for all the things that are not essential but that make you happy, such as eating out, entertainment, sporting events, movies, holidays, etc; The remaining 20% should be set aside for savings that will grow your wealth, like your deposit for your first home.

There is never a one-size-fits-all answer when it comes to finance, so you should adjust your saving startegy according to your circumstances.

How much do you need to save?

A commonly desired target is 20% of the property price as most lenders like to limit their exposure to a loan-to-value ratio (LVR) of 80%. But don't worry if you haven't reached that magical number because some lenders will give you the option of paying for LMI (lender's mortgage insurance). LMI might be a helpful tool, allowing you to borrow up to 95% of the value of a property, meaning you only need to put five per cent upfront.

Why use a mortgage broker?

When it comes to buying your first home, it's always a smart idea to speak to a mortgage broker before you get too far down the track.

The first thing we usually do is catch up and chat about your needs and goals. Once we have a good picture of where you stand, we can give you a realistic idea of your borrowing potential and start looking for a loan that meets your needs and goals.

There are literally hundreds and hundreds of different loan products for you to choose from. Our main goal is to help you find the right one.

We search, compare and negotiate with various lenders and work with you to find a loan that suits you and your circumstances. We have access to multiple lenders and an array of different loan products, and we stay up-to-date with changes within the market and new products from lenders as they come online.

We will narrow down what your best options are. Once you have chosen which loan option is the right one for you, we will apply for a home loan pre-approval so you can begin looking for your dream home with confidence.

After you find your dream home, we will take care of the application process, from start to finish. Our aim is to keep the application process simple by managing all the paperwork for you and providing you support every step of the way.

Why not go straight to a bank?

Going to the bank might be the first thing that comes to your mind when you think of a home loan, but this option might be trickier than it sounds.

Firstly, which one do you choose? Which of their products is right for you? And what about other lenders, building societies and credit unions?

Australia is a lucky country, we have plenty of options when it comes to a mortgage. But with so many lenders with so many products with regularly moving interest rates and policies, the task of finding the right loan might become overwhelming.

That's why a broker makes sense. We do this every day. We know the lenders, their products and policies and we keep up-to-date with regular changes. We can help you choose what's right for you.

Banks enjoy working with brokers because, le'ts be honest, we make their jobs easier.

We are experts at what we do. We do this every day, so we know how the process works and what successful applications look like. We've helped thousands of customers find the right loan.

Simply put, having a broker in your corner will make finding the right loan a lot easier, saving you time and money.

"We wouldn't be able to purchase without their help".

Kaylani via Google

How much can you afford?

You may have a dream home in mind but first, you need to know if you can afford it. There are many factors that will influence your decision around what to buy and where – proximity to work and family and your stage of life are just a few – but the single biggest decider is nearly always what you can afford. It's really a case of looking at the big picture and working your way back from there.

As a guide, a mortgage calculator can be a great place to get a rough idea of your borrowing capacity, but it won't take into account all of your personal circumstances or eligibility for a loan.

The amount you will be able to borrow will depend on a lot of factors.

These include how much you earn, how much you've saved, your expected future financial power, your credit history and a number of other factors such as:

- Your savings history
- Any debt you hold
- Your monthly expenses including discretionary items
- The market value of your desired property
- Your personal information
- The type of you loan you want, as well as the term and interest rate.

It's important to keep in mind that just because the bank says you can borrow a certain amount, that doesn't mean that's right for your circumstances.

Many people confuse their borrowing capacity with their affordability.
Your borrowing capacity is the amount of money a lender will loan to you based on your financial situation.
Even though interest rates are around 4.5%, the banks will use a higher rate (3 to 4% higher) when calculating your borrowing capacity.

Your affordability has more to do with your lifestyle and the choices that you make daily, and your future plans.

When you take on debt, you have a responsibility to you (and your family) to ensure that you know your numbers.

"We absolutely love their expert assistance, advice and clarity along the way".

Karen via Google

Understanding the different types of loans.

When it comes to home loans, there are two very important things you need to consider:

1. TYPES OF INTEREST RATES

Most types of home loans will have these three options:

- **VARIABLE INTEREST RATE**

A variable interest rate is a loan with an interest rate that is influenced by market conditions. If interest rates go up, so do your repayments. If they go down, your repayments will, too.

- **FIXED INTEREST RATE**

That name says it all. Fixed-rate loans will have a 'locked' rate for a certain period, usually between one and five years. With a fixed interest loan, you will know exactly how much your repayments will be. These types of loans offer certainty and security. The downside is that your repayments won't decrease if interest rates fall.

- **SPLIT INTEREST RATE**

The best of both worlds. Part fixed, part variable. With a split home loan, your repayments are split into a fixed-rate component and a variable-rate component. For example, let's say you borrow $500,000, you can fix $300,000 and keep $200,000 variable.

This sort of loan lets you enjoy the benefits of an interest rate drop and also protects you from being fully affected if they rise.

2. PRINCIPAL AND INTEREST

Home loans are made up of two parts: the principal and the interest.

- The principal is the initial amount you borrowed.
- The interest is the amount the lender charges you for borrowing the initial amount.

Most types of home loans will also have these two repayment options:

- **PRINCIPAL AND INTEREST REPAYMENTS**

A very popular repayment option for most. Each repayment you make reduces the principal, as well as the interest. So gradually, your repayments will be paying off more of the principal and less interest because you're chipping away at the balance from the start.

- **INTEREST ONLY REPAYMENTS**

Interest-only repayments delay the repayment of the initial amount borrowed – the principal – for a period of time. You only start paying off the principal at the end of that period.

During the interest-only period, your repayments will be significantly smaller, but over the life of the loan, you'll end up paying more interest.

Borrowing from the bank of mum and dad

With property affordability getting increasingly tricky for some, many first homebuyers are reaching out to their families for financial assistance to help increase their borrowing power.

Partnering up can reduce the financial burden and may mean a better quality property with greater growth potential. However, it's not a move you should make lightly. Even if you decide to buy your first property with family, make sure you seek legal advice and ensure each party understands their financial and legal obligations. You don't want a financial transaction or financial partnership to come between you and your family.

You should talk about what would happen if one of you were unable to cover their share of the mortgage and how you might reduce this risk. It's also important to contemplate scenarios such as one of you wanting to sell or move out sooner than planned.

We also recommend speaking to a financial planner and lawyer. There are benefits to be gained but as with every significant financial decision you make, it is critical to weigh up the risks at the same time.

Family guarantor loans

If you're struggling to save for a deposit, or find your dream sooner than reaching your required deposit amount, there may be other options that will get you into your first home faster.

A family guarantor (or family guarantee) home loan is a special type of loan that allows your parents or a family member to assist you with purchasing your first or subsequent home by offering their property as security. In some cases, a family guarantee loan can be also used to buy an investment property. The guarantors (usually mum and dad) offer their property as security for the loan, so the overall loan-to-value ratio (LVR) on the purchase property is below the 80% LVR target.

This can be a great way to increase your deposit to avoid paying lender's mortgage insurance, which is usually a requirement if you are borrowing more than 80% of the property value.

The guarantor should understand that if you fail to make a payment, the bank may look to them to pay the guaranteed part of your loan. As such, it's important for all parties to seek independent financial and legal advice prior to entering a guarantee arrangement.

Renting out your first home

There's no rule that says you have to live in your first property.

Many first home buyers are challenging convention by rent-investing – renting where they want to live and buying an investment property in a more affordable location.

The objective for these renters is to buy where they can afford to get a foothold on the property ladder. That could be another suburb in the same city or a town in an entirely different state.
As with any investment, the key is to choose a property on financial merit, not emotion. Are you looking for capital gain over time or high rental yields right away? Would you prefer a positively geared property, where the rent exceeds the cost of the mortgage and upkeep to give you a profit? Or a negatively geared property, where the rental income you receive is less than the total costs of holding the property, but you can use the 'loss' to reduce your taxes?

Again it's important to seek appropriate legal and financial advice so you are well informed about how renting and taking on an investment property impacts your finances and tax obligations.

First Home Owner grants and schemes

There are quite a few available grants and schemes to give first homebuyers a leg up.

The First Home Owner Grant, for example, is a national scheme funded by the states and territories and administered under their own legislation. Under the scheme, a one-off grant is payable to first home owners that satisfy all the eligibility criteria.

Eligibility criteria may vary depending on the the state or territory in which the property is located.

The savings can be significant, though. Some states or territories also offer stamp duty exemptions or concessions for first home buyers. So it's certainly worth exploring. Visit www.firsthome.gov.au to find out what's on offer under the FHOG scheme in your state or territory.

The Home Guarantee Scheme is another national initiative to help Aussies who are struggling to save for a home deposit. The scheme enables eligible first home buyers to purchase their first home with as little as a 5% deposit, with the government providing a guarantee for up to 15 per cent of the purchase price, waiving the need for LMI. Visit www.nhfic.gov.au for more information.

Other things you might need to save for

The deposit is not the only thing you need to save for. Here are some other just-as-important-things you need to consider when saving to buy your home:

1. Stamp duty

Stamp duty is a tax on a property transaction that is charged by each state and territory, the amounts can and do vary. The stamp duty rate will depend on factors such as the value of the property, if it is your primary residence and your residency status.

2. Moving costs, utility connection and furniture

Moving costs can vary a lot depending on your location and how big your house is. On average it will cost between $12-90 to connect electricity. It's important to do your own research to find out how much these services will cost you.

3. Inspections and legal fees

This could save you a lot of money down the track. Getting help from a solicitor or conveyancer to review the contract before signing and getting a building and pest report done by a professional are a must.

4. Emergency buffer

According to financial advisers, a buffer of three months of expenses is a good short-term savings goal in case something goes wrong.

"After getting nowhere with our first 2 brokers we couldn't be happier with the service we received from the UFinancial team, helping us secure our first property! Highly recommend using them for anyone interested in purchasing a property!"

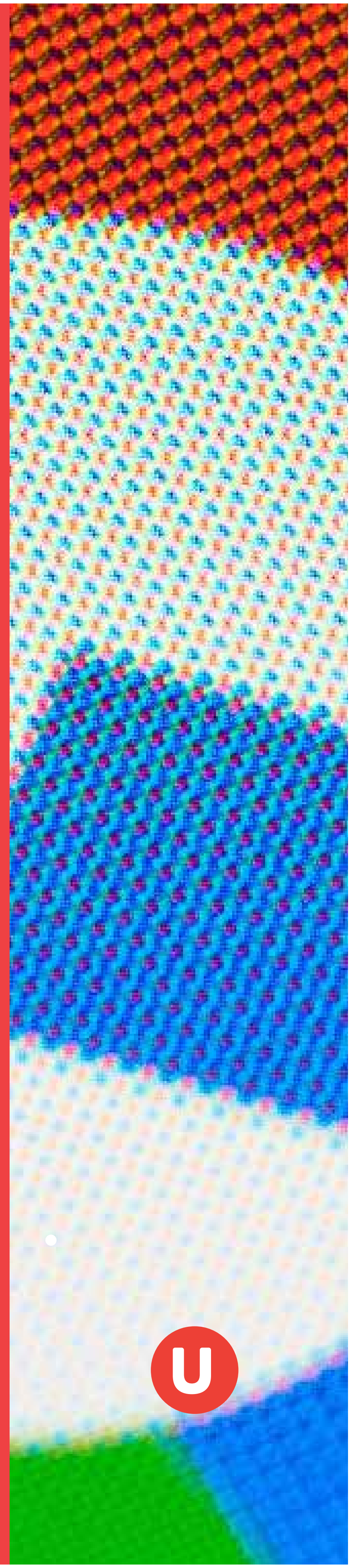
Alex via Google

"We recently purchased our first home with the assistance of Lucas and UFinacial. They made the process so easy and were very helpful at every stage of the process.I would highly recommend UFinacial, Lucas was extremely helpful, very quick to respond and made my family and I feel at ease".

Amanda via Google

"We had the honor of dealing with UFinancial in particular Franco while purchasing our first home and I've never had a smoother process conducted with such a professional. The level of service I was provided with exceeded my expectations and the professionalism from Franco was beyond incredible. We are so greatful for all of your help and will be recommending in the future. Once again extremely please with our whole experience and Franco was an absolute king.

Luke via Google



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If there's something you don't understand or need more explanation, please email or call us today!

Scan to book a free chat:

CONTACT :

Phone : +61 396 869 087
Fax : +61 386 790 576

Email : here4u@ufinancial.com.au
Web : ufinancial.com.au

Address :
Level 4|580 St Kilda Road
Melbourne VIC 3004

Australian Credit Licence: 389087

UFinancial.