Home Loan Advice Centre

The complete home loan service

HOME BUYER GUIDE (PART 1)

Welcome to the Home Loan Advice Centre Home Buyer Guide. The information contained within this Home Buyer Guide is Home Loan Advice Centre's compilation of information, tips, and ideas gained from over 8 years experience in the home loan and property industry. It gives you all the information you need from start to finish in purchasing a property in Australia. If at any time you'd like more information or anything explained in further detail please feel free to speak to us on 02-9210-1000 or email us on info@hlac.com.au

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PART ONE – WORKING OUT YOUR OPTIONS

Purchasing property, whether it be to live in or as an investment has long been part of the great Australian dream. It seems people in Australia, more so than in many other countries, have a strong inclination to own their own home. This might be because its more affordable here, or perhaps because of the historical evidence pointing towards property ownership being a major contributor to individual wealth. Whatever the reason, property ownership has become a goal at some stage in the lives of most Australians.

When the idea of purchasing a property first pops into your head, it can be quite daunting because of the number of steps involved and because of the size of the financial commitment. As with most complex things, the best way to get a handle on it all is to break it down into component parts and deal with each of these one step at a time. The aim of the Home Loan Advice Centre Home Buyer Guide is to give you an in depth overview of how the whole property purchase process works. Obviously we can't teach you everything involved because it takes years of experience to become proficient in what we do. We can however teach you the most important and relevant points to show you what to expect and how best to prepare for the purchase of your home or investment property.

So, as a guide to what this Home Buyer Guide covers – think of it as an insight into all the information you need from when you first start thinking about buying property …… all the way to settlement of that property when you can finally move in.

BUYING PROPERTY

Before you delve down into the details of what property you can afford most people will want to consider where they want to buy and for what purpose.

The 2 main purposes for a property purchase are either to live in the property yourself (owner occupied) or to invest in a property for financial gain (investment).

By far the majority of property purchases in Australia at any one time is for owner occupied purposes – everyone after all needs somewhere to live. It can be a large commitment to spend a large amount of money into a property especially when that property doesn't generate you any income (rent) whilst you are living in it and seeing most people need to take out a large loan in order to purchase it in the first place. Luckily however there are very few people in the Australian population who own owner occupied property and have not done very well financially from it. Historically property in NSW has doubled in value on average around every 7 to 10 years. Most people who have ownership of a property for the long term tend to find that the capital appreciation of the property more than compensates for the cost of any loan to hold the property. It's the short term buyers and sellers (ie people trying to make a quick dollar from trading property) who are more likely to come unstuck. The other great benefit of owner occupied property is that you may not have any tax to pay on any capital gain. This aspect is best discussed with your accountant however in general owner occupied property in Australia is free of capital gains tax in most situations.

If you're more interested in purchasing property for investment, there is also much historical evidence of the value of such investment. You are effectively purchasing an income producing asset which benefits you in 2 ways. The first is again the capital growth that property enjoys in the Australian marketplace; the second is the rental return you can generate from the tenants. Additionally, the Australian Tax Office currently allows a tax benefit to owners of investment property in the sense that if you make a net loss from holding this investment ie if the cost of owning your investment property exceeds the income (rent) you generate from the property each year, then you may be able to claim this loss as a tax deduction. Ultimately the loss is still a loss, however the tax benefits may reduce the "pain" of this loss on a year by year basis. In such a situation, it is the capital growth of the property over time that turns the loss into an overall gain. We again recommend you speak to your accountant to determine your exact situation re investment property or alternatively speak to us and we can put you in contact with an investment property specialist who can explain all tax benefits to you in detail.

The location to buy your property is also an important thing to consider. If it's an owner occupied property you're purchasing, the answer is simpler. You buy where you can afford and where you want to live!

If the location you want to purchase in is expensive, you may need to consider ways to overcome this by either considering a smaller property or looking to see if there is anyway to increase your loan capacity ie second job or buying property with another person (or family). If all this fails then the only option is to consider a cheaper neighbourhood.

If you're buying an investment property, the location should not be so important. The most important characteristics are that the property will generate a regular rental income and have good capital growth. The decrease in importance of the location may mean that properties in other states can be put on your consideration list.

YOUR LOAN OPTIONS

The best starting point if you are considering a property purchase is to get an idea of your loan options. There's no point in rushing out and attending property inspections for $600,000 properties if your income and deposit situation limits your capacity to a $400,000 property.

The first port of call therefore is to either speak to a lender or to a broker to get an idea of where you sit in the spectrum of potential borrowers primarily regarding your borrowing capacity. We recommend that it is probably better for you to speak to a broker rather than a specific lender. An individual bank can only assess your situation and capacity according to their own rules and hence may not inform you of all the options available to you in the market. Most brokers deal with a large number of lenders ie at least 15 or so and hence can give you a much larger option range than an individual bank.

The main point is that a good broker knows the rules of the various banks and how they vary and therefore once they understand your individual situation can quickly work out what options you have …….. ie which lenders you *shouldn't* be approaching, and which lenders you *should* be approaching to get a loan approval.

The type of information you need to give to your loan adviser before they can determine your options is as follows.

1. **Income -** your gross yearly income before tax

2. **Nature of your work –** are you PAYG, self employed, a contractor, casual, part-time ?? Your loan adviser will need ultimately need to provide evidence of your income to the lender you choose so its not a bad idea to take as much documentation to your loan meeting as possible. If you're PAYG then take your last 3 payslips + previous group certificates. If you're self employed then take in your last 2 tax returns etc.

3. **Your existing assets –** if you own property, shares, or cash you'll need to provide some type of evidence of this. Take your last 6 months bank statements showing your cash holdings. Your latest share statements if you are intending to sell shares to make up any of your deposit, and a council rates notice of any property you hold if such property is being used as security for any of your loans.

4. **Your existing liabilities –** the lenders generally class liabilities as any ongoing regular payments on your current loans or credit facilities. Take with you your last 6 months statements (ensure they are up to date) of any current loans ie existing home loans, motor vehicle loans, personal loans. Also take the last 3 month statements of any credit cards or store credit cards.

5. **Identification –** the final major documentary requirement is identification. Lenders need you to provide them with 100 points of identification and the easiest way to do this is a passport + a drivers licence. Alternatively a birth certificate + a drivers licence also exceeds 100 points.

Armed with all this documentation, your loan adviser should be able to inform you of your property purchase capacity options in fairly good detail ie they should be able to give you're your property purchase capacity down to around an accuracy of say $10,000 – $20,000 , an indication of your interest rate to + or - 0.1%, and an idea of the different loan types you can choose from.

Some of the factors that affect your property purchase capacity are listed below.

Factors Affecting Your Property Purchase Capacity

1. Income and Deposit

In general, when you purchase a property, the amount you can borrow is based on two things:

1. The amount of deposit you have available (and)

2. The level of your income.

All lenders in the market determine how much they are willing to lend to you by running your income figures over their own serviceability calculator and then matching this to their own internal loan to value ratio criteria.

For example John Smith may have a $80,000 net income per year and when we run their income over a particular lender's serviceability calculator it may show that their maximum borrowing is say $550,000.

Income however, is not the only factor lenders consider when they decide how much a customer can borrow. They also consider what their maximum loan to value ratio is at different loan amounts. For example, a particular lender may have policy it will give a 100% loan (ie they will give a loan up to 100% of the value of the property) up to $500,000 but over $500,000 the loan to value ratio must decrease.

Therefore you will see that even though John has an income that technically should allow him a loan of up to $550,000, if he only has a small deposit, it may be that the deposit that acts as the limiting factor in the final assessment.

The opposite can also be true also. A person may have access to a large deposit but not have a high income and therefore may be somewhat limited in their borrowing capacity unless they know how to structure their loan accordingly.

A final thing to note here is that even if your situation doesn't fit the criteria of standard lenders, don't worry, there are usually a multitude of other options that we may be able to arrange for you. A person on a high income but with little or no deposit still may be able to get a loan to purchase a considerable cost property by allowing us to use a lender who'll allow a higher loan to value ratio loan; and another person with low income but a large deposit may also be able to get a loan via lodoc or alternative loan structuring routes. If you're situation is a little out of the ordinary then best to speak to us about your individual options.

2. Personal Situation

Your personal situation and the way you structure your application will make a difference to your purchase capacity. The lenders basically want an idea of your life situation ie

- Where you live and with whom ie still at home with parents, or renting, or sharing a household.
- If you're single or in a relationship
- If you have any dependent children
- If you're an Australian citizen, permanent resident, or other
- If you'd had loans from other lenders in the past

From this information they try to get an idea of your cost of living because this needs to be taken into consideration when they calculate how much they can lend to you but still allow you to afford your living expenses.

Understanding how lenders think here can also work in your benefit. For example, lenders will generally allocate a higher cost of living to a couple compared to an individual applicant. Just because you are in a relationship however doesn't necessarily mean that you will have a higher cost of living however because it may be that you are in a situation where you don't have to support your partner. So in certain cases you may still be within your right to apply for a loan as and individual resulting in a lower cost of living calculation and a corresponding increase purchase capacity.

3. Stamp Duties And First Home Buyer Benefits

Stamp duty exemptions and government first home buyer benefits differ between each state.

In NSW first home buyers of new unlived-in properties are eligible for the First Home Plus stamp duty exemption scheme which gives first home buyers discounts on stamp duty payable dependant on the cost price of the purchased property. Similarly to the First Home Owners Grant, eligible applicants must be an Australian citizen or permanent resident and you (and your spouse / partner) must have not previously owned a home in Australia. There are equivalent schemes in other states however the exemptions receivable vary. See the Office of State Revenue web page for your state for more information on relevant stamp duty exemptions.

QLD gives varying exemptions based on whether you will live in the property and VIC tends to give minimal stamp duty exemptions but compensate by giving additional amounts via the First Home Owners Grant.

The First Home Plus scheme in NSW gives a 100% stamp duty exemption for property purchases up to a cost price of $500,000 ($300,000 if vacant land) for new unlived-in properties (ie off-the-plan or substantially renovated properties). First home buyers buying established properties do not receive any stamp duty exemptions within NSW (since 1 Jan 2012).

A $500,000 first home purchase of a new unlived-in property in NSW for example will have no stamp duty payable (on the transfer of title or on the mortgage) saving around $19,000 in stamp duties normally payable. Above a $500,000 cost price, purchasers are on a sliding scale of increasing stamp duty up to a purchase price of $600,000 where 100% stamp duty is again payable. Please call Home Loan Advice Centre on 02-9210-1000 for more information on exact stamp duty amounts payable against different home purchase prices.

So the amount of stamp duty you are charged on your property purchase will be another factor that your loan consultant should take into consideration when calculating your purchase capacity.

4. Mortgage Insurance

Mortgage insurance is the name given to a type of insurance available to lenders that insures them from any loss they may incur if the borrower defaults (fails to adequately repay the loan) and they are forced to sell the property for less than the amount of the original loan. An important point about mortgage insurance is that it is for the benefit of the lender and not, as is often misconstrued, for the direct benefit of the borrower.

Indirectly however it does create a benefit for the borrower in the sense that, if mortgage insurance did not exist, lenders would typically be much less willing to lend above 80% of the value of the property. Therefore the reason that lenders currently appear willing to lend up to 95% and 100% in some cases, is because they are able to “insure” these loans against loss. It is the buyer whom ultimately pays for the insurance however although in many cases the “premium” for the insurance can be “capitalised” (added onto the loan) and paid off over time.

Therefore, if your situation is such that you require mortgage insurance when you arrange your loan, it will affect your purchase capacity because you either will need a larger deposit or a slightly higher income to purchase the same cost property. Please speak to Home Loan Advice Centre if you need any further information about this topic.

In summary - your property purchase capacity will be affected by all the above factors amongst others. To get a rough idea of what your own purchase capacity is there are a couple of pages on the Home Loan Advice Centre website which you may find useful. The first is the borrowing capacity table which gives an indication of how much you can borrow given your *net* income.

Sample Borrowing capacity table – example

Combined net yearly income	Single applicant	Joint applicants*	Joint applicants +1 dependant	Joint applicants +2 dependents	Joint applicants +3 dependents	Joint applicants +4 dependents
$20,000	$91,000	$50,000	$26,000	$0	$0	$0
$30,000	$208,000	$156,000	$125,000	$103,000	$82,000	$65,000
$40,000	$315,000	$271,000	$240,000	$220,000	$195,000	$170,000
$50,000	$430,000	$375,000	$328,000	$328,000	$305,000	$280,000
$60,000	$540,000	$489,000	$442,000	$435,000	$365,000	$356,000
$70,000	$650,000	$600,000	$555,000	$509,000	$462,000	$455,000
$80,000	$770,000	$710,000	$669,000	$622,000	$575,000	$553,000
$90,000	$889,000	$829,000	$782,000	$736,000	$689,000	$652,000
$100,000	$1,003,000	$943,000	$896,000	$849,000	$802,000	$756,000
$110,000	$1,117,000	$1,056,000	$1,009,000	$963,000	$916,000	$869,000
$120,000	$1,230,000	$1,170,000	$1,123,000	$1,076,000	$1,029,000	$983,000
$130,000	$1,344,000	$1,284,000	$1,237,000	$1,190,000	$1,143,000	$1,097,000
$140,000	$1,457,000	$1,397,000	$1,350,000	$1,303,000	$1,257,000	$1,210,000
$150,000	$1,571,000	$1,511,000	$1,464,000	$1,417,000	$1,370,000	$1,324,000

Please see the Home Loan Advice Centre – How much can I borrow page for more details

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If you haven't already done so, Home Loan Advice Centre can work out your loan options for you.

Click the following link to go to the online enquiry page on our website or call us on 02-9210-1000

ONLINE ENQUIRY

It takes less than 5 minutes to complete and we'll assess your capacity and prepare a full Loan Report showing your

1. Loan capacity
2. Property price capacity
3. Breakdown of all costs involved with a purchase at this level
4. Deposit you would need
5. Breakdown of your expected repayments by week, fortnight, and month

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YOUR PROPERTY OPTIONS

The next step in the process is to match your borrowing capacity to your property purchase options. What this means is that it's important to think about the type of property you want to purchase and whether your borrowing capacity allows this.

Using the property purchase capacity figures Home Loan Advice Centre has given you, you can check newspapers, check real estate agent publications, or speak to local real estate agents, to get an idea of what type of property you can purchase at that price. If you find yourself in the situation where your capacity is not sufficient to purchase the type of property you want then you may consider the following …

1. speak to your loan adviser to see if there are any other ways possible your capacity can be stretched.

2. consider if there are any other ways you could structure your purchase to increase your capacity ie would you be happy to live with family for an interim period so that you could purchase your new property as an investment. This may allow your lender to take rental income into consideration.

3. is there any capacity for your family to act as income or security guarantors?

4. is there any capacity to increase the level of your deposit or income? for example by delaying the purchase, purchasing the property together with another person etc

If none of these are available then your only maybe to reduce the property cost price, or delay your purchase until your financial situation improves.

Once you're happy with the your purchase capacity and the type of property you can purchase, the next step is to start the process in arranging an approval in principle with a lender. This doesn't bind you into using a particular lender because when you ultimately find a property we can easily swap lenders at that time if a different lender to the one you have approval with is offering a better deal.

In general (in virtually all cases in fact) there is no cost to get an approval in principle and they generally last for 3 months and are easily extendable for additional periods.

Home Loan Advice Centre will load your details onto our Online Application System and then run over a shortlist of the best lenders for your situation. This usually includes a list of lenders who can give you a loan with the features you want and at the best interest rates. We explain to you which lenders we recommend, which loans within those lenders we recommend, and why we recommend them. When you are ready to proceed we can electronically send your application to the lender of your choice.

The time frame to get an approval in principle is between 2 – 5 days dependent on the complexity of your loan. Once received, having an approval in principle makes a big difference to your ability to move quickly when you find a suitable property.

This brings us to the end of part one of the Home Loan Advice Centre Home Buyer Guide – Working Out Your Options.

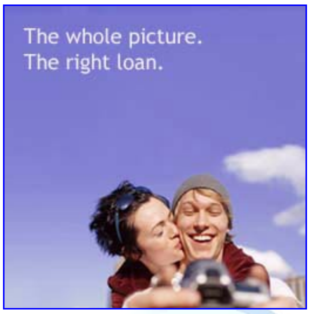
You now should have a relatively good idea the factors that affect your purchase capacity and the process involved in organising a loan.

Part 2 of the Home Loan Advice Centre Home Buyer Guide is property search preparation. It goes through the actual things you need to do to get to the stage where you are completely ready to purchase and includes …

1. Getting your approval in principle - what exactly is an approval in principle?

2. Getting a conveyancer – what they do and when

3. Preparing your deposit – when do I need to pay it?



If you would like any of the information contained within the Home Loan Advice Centre Home Buyer Guide explained in more detail or any help with your situation in purchasing property please don't hesitate to call us on 02-9210-1000. Our service is free to you when you organise your loan through Home Loan Advice Centre. Home Loan Advice Centre – The complete home loan service