FIRST HOME BUYERS GUIDE

Your first home buyer journey starts here.

2018 ed.

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The way to a secure future.

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INTRODUCTION_

For many first time home buyers, the housing market and dealing with agents can be confusing, especially when it comes to understanding fees and charges, and wading your way through the contract before signing it. However, this does not need to be the case. This guide allows you to make sense of the housing market by walking you through the do's and don'ts of home buying.

This guide explains how to get your finances right, before you buy. It also helps you to understand just what home loans are, the different types available and what fees and costs are associated with these loans. You'll also learn how to work out how much you can borrow and just how you can avoid making the common mistakes that first home buyers typically make. In addition, this guide will help you to organise yourself for home inspections, and will take the guess work out of defining what you need in a home with our specially designed work sheets; 'Home Requirements' and the 'Open Inspection Schedule'.

Overall, this guide makes the process of buying your first home a little more simplified. In fact, by the time you have finished reading this guide you'll have a clearer vision of what you want in a home loan and just how you are going to achieve your goal of home ownership.

So let's get started!

GETTING YOUR FINANCES RIGHT_

Buying a home is a big financial commitment, one that typically spans over 20 to 30 years of your life. In fact, a home is probably the biggest asset that you'll seek to acquire in your lifetime. Therefore, it makes sense to get your finances in order before you seek to buy. Doing so makes keeping up with repayments easier, helps you to buy the home you want and gives you a better chance of securing a loan.

Organising your finances

Before buying a home, you need to look at your financial situation. If you have several small personal loans then you either need to pay these out or consolidate them into the one loan, so that these are easier to manage. If you have several credit cards with more than a $1,000 limit, then you will need to reduce these to just one card, and decrease the limit to just $1,000. Why? Well the more debt you have or the more access to debt, the lower the amount you can borrow and your chances of loan approval are reduced. Lastly, you need to establish a savings plan for a deposit, if you don't already have one. Why? Well your lender will want to see a consistent saving history. This reassures them that you can manage home loan repayments and that you are a good risk.

Tips for saving for a deposit

- Decrease your number of credit cards to one.
- Reduce your credit limit to $1,000.
- Pay off all other debts or consolidate loans.
- Open a separate 'home loan' savings account that has low fees and a higher interest rate.
- Create an automatic debit for your 'home loan' savings account from your wages.
- Buy only the necessities and reduce your spending so you can save more
- Create a weekly budget for yourself and stick to it.
- Work on saving at least 20% for your home loan deposit. This way you avoid costly Lender's Mortgage Insurance (LMI). To calculate how much you can borrow, work out how much you can afford to repay on a home loan in a month, then use the borrowing power calculator.

How the government can help you

The First Home Owner's Grant (FHOG) is offered under Australian State Governments. This grant is an incentive that makes buying a home more affordable. FHOG values vary from state to state and also depend on the type of home that you are buying. For more information, visit the website of the revenue office in your state or territory as shown in our table below:

State/Territory Revenue Offices Contact Details

State	Office	Website	Phone Number
Australian Capital Territory	Revenue Office	revenue.act.gov.au	(02) 6207 0028
New South Wales	Office of State Revenue	osr.nsw.gov.au	(02) 9689 6200
Northern Territory	Department of Treasury & Finance	revenue.nt.gov.au	(02) 8999 7406
Queensland	Queensland FHOG Website	firsthomeowners.initiatives.qld.gov.au	1300 300 734
South Australia	Revenue SA	revenuesa.sa.gov.au	(08) 8226 3750 or 1800 637 778
Tasmania	State Revenue Office of Tasmania	sro.tas.gov.au	(03) 6166 4444
Victoria	State Revenue Office of Victoria	sro.vic.gov.au	13 21 61
Western Australia	State Revenue WA	finance.wa.gov.au	(08) 9262 1400 or 1300 368 364 (WA country callers)

Accessed on 19/02/2018

Home loan financing solutions

Once you have established a savings plan and budget, and you have been saving for some time, then you will have a clearer picture of how much you can comfortably afford to spend on mortgage repayments per month.

The next step is to then establish just how much you can borrow. This should be an amount that is affordable for you to repay. You also need to take into account that your interest rate, if variable, will change. This means if rates rise you will pay more for your home loan, per month, and if the interest rate goes down, you'll pay less. Therefore, you will want to have a little residual income left over for these fluctuations in repayments. Plus, you'll need to leave yourself with some money to cover unforeseen home expenses, such as a new hot water service and other maintenance and repairs that could be required.

The most important consideration to remember when looking at home loan options, such as the number of years you have the loan for, the interest rate you pay and how often you repay the loan, is that these aspects all dictate the total amount of interest that you will repay over the term of the loan. For instance, if you borrow $300,000 at 5.00% over 30 years you will repay $1,610.46 per month on a variable rate interest and principal loan, then the total interest that you will pay will be $279,765.60. However, if you cut 10-years from the repayment time on the same loan and borrow $300,000 at 5.00% over 20 years, the total interest that you pay drops to $175,168.80.

It is also important to remember that most home loan lenders will allow you to repay more off your home loan than you are obligated to. But, always clarify that this is possible before taking out the loan. If you are able to make additional repayments, then this will reduce the term of your loan and the total amount of interest you repay. Therefore, you can commit to longer loan terms, say 30 years, knowing that you have reduced your financial obligation. You will also have more residual cash and greater control over your finances. However, you can elect to reduce your loan term and the total amount of interest that you pay by paying more off your loan when you can.

FINDING THE RIGHT LOAN FOR YOU_

Before you go in search of a home, it can pay to get loan pre-approval. This then makes it easier for you to find a home that is within your budget. Plus, it can save you headaches and heartache, especially if you find a house you love, but then cannot get the finance approved.

To get pre-approval for a loan, you firstly need to consider what loans are available and what options these give you. Most lenders will be able to offer you several different loan types, these will have various options and varying interest rates.

Types of Loans

The most common loans you'll encounter when going in search of a home loan are the following:

Variable home loan:

This loan has an interest rate that changes depending on the current cash rate offered by the Reserve Bank. This means that the interest rate will go up and down depending on the Reserve Bank cash rate and/or the lender passing on the rate movement. There are two types of variable home loans available. The first is the basic variable home loan, which has a changing interest rate, but does not include any additional features, such as a redraw facility. A redraw facility allows you to redraw any additional payments you have made on your loan when you need them. The second type is a standard variable home loan, which also has a changing interest rate, but it does include additional features. Often a basic variable home loan will cost you less than a standard, because it has less features. So you need to work out whether or not you prefer the features and will use them, or if you prefer to pay less.

Fixed rate home loan:

The interest rate for this loan is fixed over a specific term and does not change over this time. When you take out this type of home loan you will agree to a fixed term. This will be from 12 months to 5 years.

Introductory home loan:

This is a fixed rate loan for new borrowers that is also known as a honeymoon loan. The fixed term for this loan is usually 12 months. When the fixed term expires, the loan will revert to a standard variable rate home loan.

Interest only home loan:

This loan allows you to pay only the interest over the term of the loan, which is typically 5 years. You will then begin to pay off the principal when theloan term ends.

Principal and interest home loan:

This is a common home loan, where the borrower will pay the interest incurred monthly and a portion of the principal. The amount of interest that is paid at the start of the loan is greater than the principal. However, as you near the end of your loan term you will pay more off the principal.

Construction only home loan:

A loan for the building of a new home. This type of loan allows the borrower to draw payments during construction to pay for building costs.

Lo doc home loan:

This loan requires less documentation to secure and is typically offered to self-employed borrowers, who may have to rely on business financial statements as proof of income.

Line of credit loan:

An agreed sum is deposited into an account by the lender, which then gives the borrower access to funds as they need these.

Pros & Cons of Home Loans

All home loans come with benefits and disadvantages. Therefore, before taking out any loan it is advisable that you compare what each type of loan has to offer, and just what its drawbacks are, so that you can make an informed decision as to which loan is right for you. The most common loans you will encounter have been compared below. You may also wish to compare other home loans to decide which is the most suitable for you and your circumstances.

Fixed and Introductory Loan

Pros	Cons
• Budget and plan ahead with confidence over the life of your fixed loan period. • Repayments don't change during the fixed rate term. • Affordable when rates rise.	• Loan exit fees can be high if you exit the loan before the end of its term. • Some fixed loans don't allow you to make extra repayments without incurring a fee. • Most fixed loans don't have redraw available. • If the fixed period expires when interest rates are high, repayments may be harder to meet.

Variable Loans

Pros	Cons
• Rarely have exit fees. • You can make additional repayments. • You may have redraw options. • Rates can fall and you can save money. • You can make weekly, fortnightly or monthly repayments.	• Rates can rise and you'll pay more. • Can have less features than other loans. • It can be difficult to budget as your repayment amounts can rise and fall, depending on the Reserve Bank cash rate and/or the lender passing on the rate movement.

Interest Only Loans	
Pros	**Cons**
• You have more money available and can save or have cash on hand for emergencies. • You can make extra repayments, which then comes off the principal of the loan and reduces your interest payments.	• Terms are typically up to 5 years. • At the end of the term, the loan reverts to a principal and interest loan and your repayments will increase. This can make it harder to make repayments. • If you do not make extra repayments, then you are not paying anything off the principal of the loan. Therefore, interest remains high and is not reduced over the loan term.

Principal and Interest Loans	
Pros	**Cons**
• You pay off the principal and interest of the loan. • You can pay more off the loan without incurring any additional fees. • You reduce the amount of interest you pay by reducing the principal of the loan.	• You are obligated to pay more per month than on an interest only loan. • Your cash flow is less, due to you having to pay more per month. This, in turn, may make it difficult for you to find capital in emergency situations.

Loan Fees, Costs & Charges

All home loans have associated fees, costs and charges. The most common ones you will encounter are as follows:

Loan application fees:

A loan establishment fee that is charged by a lender. These vary from lender to lender and typically cost between $300 and $1,000. Though some lenders will waiver these fees.

Property valuation:

The lender may charge you a fee to have the property independently valued. This is often carried out before loan approval and will be charged even if the loan is not approved. The fee is based on the property's value and is usually charged at 0.1%. Therefore, a $300,000 property valuation will incur a $300 fee.

Property and title search:

This is a government fee that is charged by your lender for the conduct of a property search. Fees vary depending on the state that the title is held in and on the type of property. Typically, fees range from $25 to $250.

Stamp duty:

This is a government tax charge, which is incurred at the time of sale. This fee varies from state-to-state depending on whether a property is purchased to live in or as an investment, with the rate calculated as a percentage of the purchase price of the property. Therefore, the greater the home's value, the greater the stamp duty. However, not all states charge this tax. For more information, visit the website of the revenue office in your state or territory as shown in our earlier table on page 5.

Conveyancing fee:

A legal service fee that is charged at the time of property settlement. A conveyancer is a property solicitor that makes sure all utility charges and other costs associated with home title transfer are accurate and correct at the time of sale. The fee charged for a conveyancer's service is typically more than $300 and less than $1,800.

Lender's mortgage insurance:

An insurance policy that covers the lender for loan repayment default. This insurance is mandatory if the lender lends more than 80% of the property price to a borrower. The fee charged is typically a percentage of the loaned amount. For example, if you want to borrow $255,000 to purchase a $300,000 property, mortgage lender's insurance will cost you between $2,200 to $6,440, depending on the lender you are borrowing the funds from.

Annual and ongoing fees:

A bank fee that is charged over the duration of the loan. This varies from bank-to-bank and is usually between $5 to $20 per month.

Transfer fee:

A government fee charged to transfer the title of a property into another person's name. Transfer fees vary in each state, and can range from $130 to $2,250. For more information, visit the website of the revenue office in your state or territory as shown in our earlier table on page 5.

Mortgage registration fee:

A government charge to register a mortgage in the new property owner's name. Mortgage registration fees vary in each state, and can range from approximately $100 to $200. For more information, visit the website of the revenue office in your state or territory as shown in our earlier table on page 5.

The Benefits of Using a Broker

A mortgage broker represents many different lenders and their home loan products, enabling you to find the most suitable loan for your circumstances.

A broker will manage the loan application process for you. For many people, this simplifies the home buying process, giving them expert advice before they make a decision.

Key benefits

- A good broker can provide you with a wide selection of home loan products.
- Brokers typically represent a variety of lenders. This includes banks, credit unions and building societies.
- A broker can compare home loans for you, saving you time and helping you find the most affordable loan.
- Most brokers don't charge you a fee for their service as they are paid by a lender after settlement of your loan.
- Brokers will assist with the paperwork, including government grants and dealing with lenders.

Loan Amount

The amount you borrow should be based on what you can afford to repay monthly. This repayment ought to be easy to manage and should allow you to cover any unexpected costs. Most lenders will base the amount you can borrow on your annual income and expenditure, and on the number of dependents that you have. You will also find that the number of credit cards, their limits, and other loans and debts may affect the amount you can borrow. This is because these are considered as liabilities that reduce your loan repayment efficiency. The amount you can borrow is called your borrowing power.

Your Type of Employment

When you apply for a loan, a lender will take your type of employment into consideration along with how long you've been employed for. A lender has strict lending guidelines and a borrower must meet these criteria before a lender can approve a loan. A long employment history in a secure or full time position is more favourable than a short employment history in a casual position. If you are self-employed, then a lender will want to see your business statements for a number of years. Basically, a lender wants proof of income and wants to verify that you are a good risk.

The Types of Loans Available

There are also loans available for those who are self-employed, casually employed, contractors or investors. However, not all lenders will offer these types of loans. Before applying for a loan it is important to disclose your employment type, this will ensure you find a suitable loan for your circumstances. Plus, your lender will also be able to tell you what type of documents you will need to present so that you can successfully apply for your loan.

Repayments

Home loan repayments are typically made monthly. But some loans and lenders will offer you flexibility. If you are able to, ask to pay your loan weekly or fortnightly, rather than monthly as this will pay more off your home loan principal over the term of your loan. Paying your loan more frequently, or making higher repayments than needed will reduce the term of your loan, as well as reduce the total amount of interest that you pay.

COMMON MISTAKES TO AVOID_

New home buyers often make mistakes when they go in search of a home. This is mainly because they have little or no experience dealing with real estate agents, they think with their heart and not their heads, and they forget about future plans or financial obligations. The most common mistakes made are as follows:

Mistake 1: Going over your budget

When looking for a home you may be tempted to go over your recommended borrowing amount. After all, we all want something a little better or just out of our reach. But, when you're buying your first home sticking to your budget makes repayments affordable. You won't stretch your financial resources, and if interest rates change you won't feel as financially stressed.

Mistake 2: Buying with your heart, not your head

A home is an asset. If you buy right, then over time, your home value should increase. This means that when you are looking to buy you should leave your emotions at the door. Instead, think of buying a home as a business transaction. You want to buy at the lowest possible price so that your return on investment is higher over the years of ownership. Even if you think a house is ideal, give nothing away, otherwise a real estate agent will use this to their advantage when negotiating a price. If negotiation doesn't go as planned and the vendor (seller) doesn't accept your offer, then remember that there are plenty of other homes on the market and that there is an ideal house out there for you.

Mistake 3: Failing to do market research

Before you buy, always research the market. Look at locations. Compare home values and features. Consider infrastructure, such as schools, hospitals and transport. Look at what other homes have sold for in your chosen locations. Overall, get to know an area. The more you know, the more you will save in time and money. Plus, you'll find it easier to negotiate and find yourself a 'good' buy.

Mistake 4: Not finding the right mortgage

Compare mortgages before selecting a lender. Look at what banks and other lenders have to offer, compare packages. Look at loan features, fees and interest rates. Then use a broker to find you the best mortgage that matches you and your circumstances. This will save you a great deal of expense in the long run.

Mistake 5: Rushing to buy

Finding the right home takes time and patience. Don't be in a rush to buy. Poor decisions are costly. Instead, take your time, research the market and know what you're looking for. When you find a suitable home, make sure it is in a good location and that it is sound. Look for faults in the buildings structure, electrics and plumbing and for possible signs of white ants. Then have the home inspected before you buy.

Mistake 6: Not understanding the contract

Contracts can be complicated. They are full of legal terminology and many clauses. So they are difficult to read, and at times they don't make a great deal of sense. Therefore, if you are not sure of what you're signing, then don't sign the contract. Instead, ask questions and have the information clarified. If the real estate agent comes across as being pushy or doesn't want to explain the contract, then don't continue with the contract. If needed, seek independent advice. You also need to be aware of how to use clauses to your benefit. The most frequently used clauses are as follows:

- Always put 'subject to finance' in your contract, even if you have home loan pre-approval. This is due to the fact that pre-approval is not final or formal approval, as your lender will need to have the property you're seeking to buy valued, before they will give you final approval for a home loan. By putting 'subject to finance' in your contract you are protecting yourself financially, so if you do not find finance within an allocated timeframe then the contract will become null and void. This then allows you to avoid costly finance.
- If the home needs to be inspected, then you'll need to add a clause that states, 'subject to a building and pest inspection'. Inserting this clause means that if the home is unsound or has white ants (pests) then you can get out of the contract.

Failing to have these inspections carried out can be costly. It also pays to remember that contracts typically have a 3 to 7 day cooling off period. During this time, you can change your mind and discontinue with the purchase.

Mistake 7: Underestimating costs

The purchase price of a home is not the only cost that you need to consider when buying a home. There are many other costs associated with the purchase. These costs include stamp duty, council rates, water and sewer fees, valuation, title searches and transfers, as well as conveyancing fees. These costs add up quickly and, in many cases, can add thousands to the price of a home. Therefore, before you buy, work out what these additional costs will be and include these in the amount you can afford to borrow.

Mistake 8: Failing to have the home inspected

Building and pest inspections are a must. Yes, they cost money, but the hundreds of dollars that you may spend will seem minimal when compared to the thousands in repair bills if you buy an unsound home.

YOUR WISH LIST_

Trying to work out the differences between what a home needs to have and what a home buyer would like the home to have are two of the most challenging issues a first home buyer will encounter. In fact, many first home buyers tend to confuse their needs with their wants. Unfortunately, the more features a home has, the more expensive it becomes. So if you know what you need, what you like and what you can live without, then you can narrow down your search and possibly save yourself a lot of time, money and unnecessary heartache when house hunting. The following table will help you decide between your needs and wants. Simply print it out, put your thinking cap on, and then start jotting down your ideas. Once you know what you need you can start your search.

Home Requirements

Home 'Must Haves' *3 bed, 1 bath, 2 car parking, 700m² block*	**Home 'Likes'** *4 bed, 2 bath, lock-up garage, 1200m² block*	**Home 'Live Withouts'** *Pool, gym, study, alfresco dining, spa bath*

YOUR OPEN INSPECTION SCHEDULE_

This is a great tool to use when you are planning to visit homes that are open for inspection. To use this simple, but excellent organisation tool, simply print out this sheet, fill in the date, times and locations, as well as the home features of the homes you wish to inspect. Then, take this sheet with you to the inspections and take notes when you're inspecting each homes. This will then help you to keep track of the homes you've visited and it will also refresh your memory when you are trying to make decisions about the best home to buy for you.

Open Inspections

Date/ Time *10/04 @10:30am*	Address *40 Park Tce, Sherwood*	Features *4 bed, 2 bath, 2 car*	Price *$400,000*	Sale Type *Auction / Private sale*	Agent *John Smith, Remax*	Ratings/ Notes *4/10 / Needs work*

NOTES_

Publication Date February 2018.