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An Easy Guide to Buying a House.

Written by Peter Fraser

These notes are designed to help Home Buyers understand the process of buying a house, on a step by step basis. The information is written to be informative and easy to read. A handy a list of industry Jargon terms is at the end to help you interpret discussions with professional such as lawyers, bankers, real estate agents, and mortgage brokers. This booklet can be downloaded and saved in pdf format, or printed out. It cannot be distributed without the Authors written permission, and attempts to do so will breach copyright and prosecution may be pursued. We are keen to assist in school education projects, and permission will be granted for genuine class activities as long as a formal approach is made to RescueMe Homeloans via this website or info@rescueme.com.au

It has been priced at $2.50 AUD to make sure that the booklet is within easy financial reach of the maximum number of people. It is **FREE** for anyone applying for finance through Rescue Me Home Loans.

About the Author

Peter Fraser worked in the Commonwealth Bank of Australia for 16 years in most branch roles, but spent most of his bank years engaged in lending. He worked for some time in the Qld Head Office for Residential Lending at King George Square, and later became a branch loans officer. After leaving the bank he ran a successful food distribution business before selling that and returning to lending as a finance broker in 2000, where he has run his own finance brokerage for over 10 years.

CONTENTS.

CHAPTER ONE.

I'm thinking about buying a house, how much can I afford?

Knowing how much you can borrow means that you will know what suburbs or towns you can buy into, how much you can spend, and what quality level and size house you can expect. Before heading off on the house trail, take some time to do a little research. You will need to know the following details to discuss your loan with your broker: -

- What is your current income? If you don't know, look at your last three payslips and average out the gross income. Use a little commonsense here, make sure that those weeks are normal weeks and don't include holiday pay or large unusual overtime payments.
- Know your occupation, length of service, employer details, and details of any work probationary period that you are serving. If you have been in your current occupation less than 2 years then you will need details on your previous occupation and employer.
- What credit cards do you have, what are the limits, and what do you owe on each card.
- What personal loans or other debts do you have, and what is the debt and monthly repayments?
- What savings do you have?
- Is there any other money available, eg assistance from Mum and Dad or another family member.
- If Mum and Dad are willing to use the family home to support your loan. This is something that you would need to have full and frank discussions about. Parents or family Guarantors need to fully understand that they are liable for at least a portion of the loan obligation) See explanation in the Industry Terms on page 30.
- Are you eligible for the First Home Owners Grant? Contact the "Office of State Revenue" in your state, or simply look on their website and read the qualifying conditions.
- Find out what is on your credit file. Go to www.mycreditfile.com.au and get the information online for $30. You won't need to do that if you are very sure that there will not be anything on your file, but if you have had telephone bills unpaid, or lenders or companies chasing you in the past for payment, it is a must have. We do this at our cost when we are concerned about our clients past history, but most brokers do not have that facility.

Now that you have that information, you can find out how much you can borrow. To do that, you can do one of the following: -

1. Call a mortgage broker and give them your details. (We would love you to call us on 1300 309 656) This method should give you quite an accurate guide on your borrowing ability with a ***broad selection of banks and lenders.***
2. Call your bank and give them your details. This method is also quite accurate, but will only give you a guide on what ***that bank*** will lend, when another bank or lender may be able to do so much more.

3. You can visit any number of websites that will calculate your borrowing ability. I rank these as virtually useless, but if you want to try one you can visit http://www.infochoice.com.au/distributions/flash9/10202/BorrowingPower.asp

Of the three methods above, I recommend method (1) **-** and that is not just because we are mortgage brokers. Most people do not realise that there are ***subtle differences between bank lending policies***. It is not unusual to see applications that we know would fail with one lender, and yet it will succeed with a different lender because of small differences between lenders rules. As an example most banks will not lend to someone who is still on probation, but we have been able to successfully write many of these loans simply by knowing which lenders will accept that situation. Some lenders require 5% genuine savings, some 3%, and some no genuine savings. All of those policy differences can determine whether or not you get your house. You could approach every bank and lender, but do you have time when we can do that for you, all without any cost to you?

THE DEPOSIT

This is one thing that changes from time to time. At times we are able to access 100% homeloans, but in reality a 95% or a 97% plus *LMI loan is usually a better deal for the homebuyer. As at the time of this update (Jan 2010) a homebuyer will need at least 5% genuine savings and a total deposit of 10% including the Grant. *Refer chapter 11 for full details.*

*Lenders Mortgage Insurance **–** See explanation in the Industry Terms on page 30.

CHAPTER TWO.

How much could I spend on a house, and what are the costs?

Your broker will tell you how much you can borrow, but you really need to consider how much you wish to pay each month so that you can work out what size loan you will be comfortable with. Never take on higher payments than you can manage, and allow for possible interest rate increases over the term of your loan. Rates never stay constant; they bounce around depending on the economic conditions of the day.

Download our free excel REPAYMENT CALCULATOR from
http://www.rescueme.com.au/calculators.html
Make sure that you ***choose the save option***. Then you will be able to use it at any time on your own computer, and you can email a copy to a friend. It is yours to keep. By using this calculator you can input different interest rates to see how it will affect your repayments each month.

COSTS:

This is a typical example of the basic costs incurred when you buy a house: -

The Price of the house	$425,000
State Government Stamp duty cost	$ 3,666
Bank application fee	$ 500
Mortgage Insurance (allow 2 % as a guide)	$ 8,500
Solicitors Fees including search costs	$ 1,200
Pest and Building Inspections	$ 600
TOTAL	**$439,466**

To estimate the cost of state government stamp duty and registration costs, go to http://www.infochoice.com.au/distributions/flash9/10202/StampDuty.asp and input the relevant details. We have calculated the above on a First Time buyer in the ACT with a 95% loan of $403,750. Every state has a different cost structure.

Your mortgage broker will tell you what your Mortgage Insurance cost is, as well as the bank application fee. Your solicitor will give you an estimate of the legal costs, as well as the stamp duty and government charges. A Pest and Building Inspection is not compulsory, but we do recommend it unless you or a close friend is a member of the building trade and can check out the integrity of the building for you. A quick yellow page or Google search will find a local inspector.

CHAPTER THREE.

Where should I look and what should I buy?

Real Estate Agents will tell you that the three most important factors in a house are Position, Position, and Position. I don't agree entirely with that, but position should certainly be the most important factor in your decision. Decide what area that you would like to live in, and then see if your budget can afford the type of house you need there. If not you may need to consider a nearby area.

Consider your needs for the following: -

- Number of Bedrooms.
- Number of bathrooms (eg ensuite to main bedroom)
- Car accommodation – two car lock up garage?
- The number of living rooms.
- Outdoor living area
- Close to family and friends
- Close to transport.
- Close to shops
- Close to schools
- Close to your work
- Close to recreation areas

WHAT TYPE OF DWELLING TO CHOOSE: -

- A detached house
- A terrace house
- A home unit
- A townhouse

Consider the number of children that you have or are likely to have, what age you are, the local requirements such as shops, clubs, restaurants, pubs, golf club, bowls club, parks and recreation areas, etc. If you have to drive a distance for basic needs or work you should look in another area. The further you need to drive, the greater your cost of living will be.

All of these things should determine where you buy, and the type of housing that you look for.

CHAPTER FOUR.

How do I negotiate with a Real Estate Agent?

Maintaining a good relationship with your agent is important. In theory a Real Estate agent is working for the vendor, because it is the vendor who pays the sales commission. However in my experience agents either favour the vendor, or the buyer. When buying, talk to a lot of agents, but spend most of your time with agents who give you that bit of extra service. If they seem too pushy or reluctant to help in any small way, then they are the type who is only interested in their commission, and not you the buyer.

The agent is in a position to be your best adviser during the negotiation stage, but always remember that the agent is really working for themselves, so there are three parties who stand to win or lose from this transaction. It is in the agent's interests to get both the seller and the buyer to meet in the middle to get the deal done. That is the agent's intention, and as a buyer, it has to be your intention to keep any final agreed price as low as possible. Don't ever be afraid to walk away if the negotiations are not going the way you want them to. The buyer always has bargaining power even in a sellers market.

The Offer – I suggest that you start your offer as low as possible, but don't go so low that you insult the vendor as that may make them difficult to deal with. Talk to the agent, and don't be afraid to ask what offers have been made, what was accepted, how long ago was it, and has the market changed since then. This is the touchy feely art of negotiations that is has been around since tribal members started bartering spear heads for animal skins. It has largely been lost in our normal retail trading in Australia, but it is alive in many other parts of the world.

Your Target Price – You need to work out in advance what price you would be happy to pay for the property. Ideally you will be able to steer negotiations to, or below that price. Take into account the market play. Is it a buyers market, or a sellers market? Are interest rates rising, and what might the market do in the near future.

Electronic Valuation - If you are having doubts about the price that you expect to pay, then it is possible for us to get an electronic valuation done by RPData at a very reasonable price. However don't place absolute faith in that valuation, as markets are continually moving, and prices will change quickly at times.

The Counter Offer – The vendor will usually come back with a counter offer that probably will not be what you want, but treat it as the start of negotiations, not the end. If you know what your target price is, you can increase your offer but still keep it under your target price. Note how much they have moved from their original price, and ask the agent what their reaction to your offer was. Also remember that this is where people play games and pretend that they don't need a sale, but they did place the property on the market, so you cannot believe everything that you will be told at this point. Just as a good poker player can bluff on a pair of deuces, many vendors will try to bluff at this point.

The Bluff **-** Buyers can bluff too, and a good tactic is to pause the negotiations and make them sweat a little. Tell the agent that you will consider it overnight. What usually happens during this time is, over enthusiastic buyers start to fall in love with the house, and are over keen to “win” the negotiation process. Vendors also start to think of what they will do with the money they will get, so they start to panic a little as well. Strong nerves are required at this moment.

The Agent **–** At this point the obvious question is -Is my agent telling me the complete truth? Probably not, but neither will the vendor be completely honest with the agent, and nor should you disclose everything either. Just be aware that there are three parties with a monetary self-interest in the transaction. I don’t have a problem with that, but just knowing that can help you understand the position of all three parties involved. The oldest trick in the book is to tell you that someone else is also interested in buying the property, but then again sometimes it is true. Try not to get into a bidding war with another buyer and be drawn into paying too much.

Closing The Deal **–** if you are new to this, you may feel the stress of the negotiations. I suggest that you never go above your target price, and very gradually negotiate towards that target by slowly increasing your offer bit by bit. The vendor will also feel the stress, so put as much pressure on them as possible. If the agent can see that one party is more likely to “crack” they will put more pressure on that party to close the deal, so make sure that the easy target is not you.

This is not an easy process, and you won’t win every negotiation. Just make sure you win most of them, because every extra $1000 that you pay for the house comes out of your pocket when you sell, and it costs you extra interest in the meantime, so it is important.

Best of Luck…

CHAPTER FIVE

Selling one house to buy another

There are three main ways that this can be approached.

1. **Sell and repay the existing loan**, and then re-apply for another loan. If you are upsizing and you need a bigger loan, then you need to use this method. The costs of setting up another loan and possibly paying mortgage insurance again can be quite high. Most borrowers use this method.

2. **Transport your existing loan** - if you are downsizing your loan in the process, then you transport the old loan to the new house. This saves most of the costs of setting up a new loan, but it is usually only practical if mortgage insurance is involved. Most lenders can do this, but there are some limitations. These are: -

   - The loan amount cannot be more than the previous loan, but it can be the same.
   - The LVR must be the same or less than the current loan. To explain that, if your debt was 75% of the value of your house when you got the loan, then the new loan to value ratio would need to be 75% or less.
   - The settlement of the new house must be on the same day, or later than the settlement of the sale of your existing home.
   - If settlement of the new house is some time after the settlement on the sale, then a bank will place the funds into an interest bearing account. You will be paid interest on those funds, and you will be charged interest at a higher rate on your loan during that period. You would need to talk to your lender to get the exact details on this as it will vary from bank to bank.
   - The banks cost of the new valuation and documentation etc will be charged to you.

This is an option that may not always be possible, and it is not always the best option, but it is worth investigating. Remember if you wish to do this you need to talk to your bank early about this and get the paperwork completed to allow the bank time to do their work. Banks do not move quickly these days, and everything does take time.

3. **Bridging Finance –** It is possible for the bank financing the new purchase to lend against your equity in your old home pending the sale of that home. In the post GFC era it is not favoured by banks, but it is possible as long as you are able to meet all repayments and interest costs from your income.

CHAPTER SIX.

Signing the Contract – Important points.

Always engage professionals such as a solicitor to help when signing contracts, unless you are very experienced. Even then they are still worth consulting.

However I will cover the basic points that you need to be aware of:-

1. Date of the Contract. Usually the real estate agent will date the contract on the day that the vendor signs. This will vary depending on state legislation and protocol. The date is very important as all things such as finance, building and pest inspections, and the date of settlement is usually based on the date of signing.

2. Cooling off period – again this can vary between states, but during this period you the buyer can pull out of the contract without penalty or with very little penalty. Again consult you solicitor before pulling out, and do it quickly so that you don't run out of time for this period.

3. Finance clause – this is where you stipulate how much finance you need to complete, which lender you will use, and how long you will need to arrange that finance. Always allow extra time rather that try for the minimum. I suggest 21 days, but ask your broker as lenders are sometimes quite fast, and at other times quite slow. If you haven't got finance arranged, contact a broker immediately and get the items discussed in ***chapter one***.

4. Building Inspection – this is not mandatory, and in some states it is automatically provided by the vendor. I do recommend that you get a qualified building inspector to check the structural integrity of the building. A small cost of a few hundred dollars could save you tens of thousands of dollars. Try to visit the house during the inspection and talk to the inspector afterwards. They will give you some easy to understand information that may get lost in the technical jargon of a formal written report. If there is anything significant you may need to renegotiate with the seller. Please don't worry about minor items such as one leaking tap in an older house. You could ask for it to be fixed, but it is not structural or really that important if you have negotiated well and got a good buy at the outset. Note to that it is almost useless paying for a building inspector in a new 60 storey residential tower. For a structure like that you need engineers reports and that would cost thousands. If it is new it has been certified by authorised engineers.

5. Pest Inspection – Also not mandatory, but in a country with a climate that suits termites you are taking a chance on not using their services. A house that is termite infested will cost thousands to repair, and you probably won't know until it is too late. I suggest that you get one done. Sometimes both the building and pest reports can be done by the same person. Also many inspectors have

“thermal imaging cameras” that can actually see termites in the walls. These devices are particularly useful in some circumstances.

6. Signing the Contract **–** Again I recommend that you do this in the presence of your Solicitor to ensure that you are well protected. In most states both the Vendor and Purchaser must sign the contract. However in some States each party signs one copy each and the signed contracts are “Exchanged” when finance has been approved. Your Solicitor will help you understand your obligations for your particular situation and State. (See Below)

7. Exchange of contracts **–** when you have your finance arranged unconditionally, and the full deposit is paid, the vendors’ solicitor and your solicitor will exchange contracts and it is then unconditional and binding.

8. Settlement date **–** this is usually 30 days, or 60 days from the date of signing the contract. Actually it can be any length of time agreed to by both the seller and buyer that allows everyone to arrange whatever they need to attend to such as moving out, finance etc. Try to give yourself sufficient time to have everything done. If there are public holidays during the contract period, allow extra time for that. Lenders get days off too and your application won’t progress on those days.

Your most important contacts during this phase are your mortgage broker, and your solicitor. I suggest that you annoy your broker every few days at the beginning to see how your loan is progressing, and daily if you haven’t heard anything after 10 days.

I also suggest that you do not annoy your solicitor with unnecessary phone calls during this period as you may get billed for them if you make too many calls and waste their time.

This period can be a stressful time, especially if you haven’t arranged enough time on your contract for finance and the settlement. In that case your solicitor will need to arrange for an extension of time. Most vendors are ok with some extension, but they can say no if it doesn’t suit them or if they have another offer.

CHAPTER SEVEN

Getting a Solicitor - What do they do, and what will they charge me?

I would never recommend that anyone buy without a solicitor to look after their interests. It is your responsibility to ensure that all the documentation, searches, and other checks are done, so you will need someone with legal experience and skill. A solicitor or conveyancer can do that for you. They have professional insurance to cover any genuine errors, but in many years of working in property transactions it has been very rare that errors occur when you engage a professional.

Costs – we normally allow about $1000 to $1200 to cover their fees and the cost of all searches required, but this can vary.

Searches – A solicitor will perform a number of searches such as:-

- A real property search to check the title of the property, the ownership, and easements and encumbrances. This is a must have search.
- A rates search to ensure that rates are paid up to date, no legal action by the council is being taken on the property, and no building or construction issues are outstanding or unresolved.
- A zoning search if that may be an issue. Certain zonings affect land usage and future values.
- A main roads search to ensure that the property is not being resumed to make way for a new highway, or adversely affected in any way by the proposed construction of a highway nearby which will affect land values.
- A mining warden’s search if appropriate. If the house is in an old mining area a search could reveal a likelihood of possible subsidence in the future.
- A toxic waste search to ensure that the area has not been used to dump toxic waste, or household waste leading to future methane gas emissions and fires.

In fact there are almost a limitless number of searches that can be performed, and your local solicitor will be aware of local historical land uses, possible future gazetted road changes, slip soil areas, new developments etc.

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CHAPTER EIGHT

What if I build a house - How does that affect me, and is it different to buying an existing house?

Building a home is a great option, and it does have some benefits, but it also has some problems. In addition to that there are two basic ways to buy a new home, and I will discuss those ways before I tackle the Pros and Cons of home building.

1. The most common way for someone to build a home is to purchase a block of land, and then engage a builder to erect a house on it. Many builders advertise a "home and land package" but in fact it is usually a two stage sale where you first buy the land, and then you have them build the home. Sometimes the building company will own the land, and sometimes the land is owned by a development company. All of that is fine, but you need to make sure that you know what is going on, so before you sign anything ask the salesman whether you are getting a completed home and settling on that home in one sale when the house is finished, or buying the land first and then having the house built on it. Note that during the building of the home the builder will ask for "Progress Payments" rather than one big payment at the end. This is normal and I will explain that later.

2. The other way to buy a new home is when a builder has completed building a home and then sells it off as a new home. Sometimes they will sell it before they start construction, and sometimes during construction. This is not as popular as it was years ago, but it still happens.

Progress Payments:
Building homes is an expensive business, and if a builder is constructing several homes at once, then he will have a major cash flow problem unless he gets regular payments from the client who has engaged him to build the home. The builder needs to be able to pay for materials, workers, sub-contractors, insurances, permits, excavation work, and other numerous costly items. For that reason you will be asked for a deposit of 5% upfront to cover the drawing up and submitting of plans and specifications for the building permit, plus excavation and groundwork costs. Then along the way they will ask for regular draws at various stages of construction. As an example on a construction costing $244,020 Progress Payments may look something like this:-

• Deposit	$12,201-
• When the Slab or footings are completed	$24,402-
• Frame completed	$36,603
• Enclosed – Roof on stage	$85,407
• Fixing Stage	$48,804
• Practical Completion	$36,603
TOTAL	$244,020

<u>IMPORTANT NOTE</u> - that if you make any alterations to the plans or add any extra appointments, extra items such as granite benchtops, pergolas, pathways, driveways etc.

during construction you will be charged a quite lot extra for the inconvenience that the builder has to tolerate to change what he has planned. It is very important to think long and hard over the plans and appointments before you get the final quote and sign a contract. Any added items such as better ovens, cooktops, light fittings, tiles, carpets, air-conditioning, swimming pool, etc.will cost you money. CHANGES COST MONEY. Take your time with the plans and get it right the first time. Also ensure that you are specific on paint colours, carpet and tile choices, and the PC items such as which oven, cooktop, dishwasher, rangehood etc you have chosen. Write everything down and supply the builder with a copy so that there is no confusion. If you choose a better model of appliance or higher quality tiles then you will have to pay extra for it, so make sure you put that extra money aside to pay for it when installation occurs.

THE PROS AND CONS OF BUILDING:

The Pros:

- You will save stamp duty. Each state is different, but a quick trip to an internet calculator or a call to you states “Office of State Revenue” will provide the answer. It can be significant.
- You will get the house you want, and everything will be new so maintenance costs will be nil for some time.
- The home will have a modern layout, and up to date kitchen tops, light fittings and appliances.
- All work and appliances have a warranty.

The Cons:

- If you buy land first and then build your home, usually the First Home Buyers Grant is not available for the land purchase. Some lenders will assist with that, but not all lenders. Talk to your broker about that.
- Non-Conforming lenders will not lend for house constructions, so if you have several defaults and will use a non-conforming lender, this route is not for you.
- Costs in building always come in higher than anticipated. There is a possibility that excavation costs will exceed the amount allowed for in the contract.
- If you don’t maintain discipline and start asking for numerous extras your costs will blow out considerably. Do you have extra money for that?
- Often the house will have no driveway, lawn, or landscaping. Some homes come with all of that built in and it is a good way to go. You can plant some shrubs and gardens later to make it “your home”
- Builders’ errors may not become evident for many years.
- You must insist on a professional finish throughout during construction. Getting problems fixed later can be a drama.
- Some people find home construction a very stressful exercise especially if you have a difficult builder. Vet your builder first and ask questions about reliability with the Master Builders Association and other industry bodies.

CHAPTER NINE

Obtaining Finance

OK, you have negotiated with the agent/builder and agreed on a price. I would hope that you have already spoken with your broker or bank to get an idea of availability of finance. If you haven't then all is not lost, but you should be acting quickly to arrange your finance. Here is a list of things you will need when you call at your brokers.

ITEMS REQUIRED FOR EMPLOYEES:

1. 100 points ID for all applicants. That is usually a copy of your birth certificate or passport, with a copy of your drivers licence and Medicare Card. If you don't have those items then we can work through other identifiers if necessary.
2. The last two payslips for all employed applicants.
3. Your last group certificate or PAYG Summary would be helpful.
4. A copy of the purchase contract or land contract and builder qoute.
5. A copy of your bank account statement for the last six months or more showing your savings. Also if your salary is credited to a different account, then those statements will also be required.
6. A copy of your last credit card statement for all cards held.
7. If you have any Centrelink Benefit Entitlements such as Family Allowance, Family Support etc then a statement of your entitlement is required. (Less than 30 days old please)
8. Details on your current Superannuation holding.

ITEMS REQUIRED FOR SELF EMPLOYED:

1. The same as Employees above, except that instead of pay slips you will need the last two years tax returns, plus,
2. Your ABN (Australian Business Number)

If you do not have the last two years tax returns, then that may not stop you from getting finance. Ask your broker about Low Doc loans. These are ideal for self employed income earners who have a substantial deposit, but cannot prove their income with tax returns. As long as you have had your ABN for at least 12 months (2 years for some banks) and have been conducting a genuine business, then finance may still be available.

NOTES FOR ALL:

Ideally you should sit with your broker and watch as they input your details into their computer program. After they calculate your income, savings, current car repayments, credit cards etc. your broker will be able to give you a very good idea of your chances of success, and suggest a number of lenders where your chances of getting your loan are highest. Most brokers use sophisticated computer programs that will compare all of the available loans from many lenders and present you with some choices. Apart from the program your broker will have a good knowledge of the lenders current policies. Often lenders will tighten or relax policy depending on how much they wish to lend in the current market conditions. That knowledge will save you time and money in your quest to get the best available loan for your circumstance.

It is often the case that the lender with the best interest rates in the market also has some restrictive conditions. You may not qualify with that lender, but your broker will usually have some excellent alternatives. Ask questions of your broker, in particular why he or she suggests a particular lender. Your going to pay for this loan so you want to ensure that you are getting the best available to you.

If you are not able to sit with your broker during this process, tell him/her exactly what you would like and also invite alternative suggestions for you to consider. This can be done via phone or email, or both. But *BE INVOLVED* in the loan selection process, it affects your future.

CONSIDER THESE QUESTIONS:

- Do you want interest only for the first few years to keep repayments low?
- Would you like to split your loan and fix one split for two or three years?
- Would you like an offset account for salary crediting that will help you save on interest?
- How long would you like the loan term. Thirty years is standard, but you can choose a shorter loan term.
- Do you want to make loan repayments Monthly, Fortnightly, or Weekly?
- Do you want a Redraw Facility? Ask what this is if you don't know. Also see next Chapter for an explanation.

When you sign the loan application form you should be doing that in the knowledge that you and your broker have looked at all of the loans available to you, and have selected the lender and product that best suits your circumstance.

You want the best quality loan available to you. It costs money to set up a loan, and even more money to change lenders, so do it once and get it right.

CHAPTER TEN

Loan Options Explained

Standard Variable:

Not one of our favourites as better rates can usually be found. These loans were the standard some years ago, but are now rarely used.

Professional Loans:

This is a type of Standard variable loan, but it has a rate reduction usually of 0.6% or 0.7% off the Standard Variable Rate. The exact reduction is governed by the loan size. This type of loan usually has an annual fee of around $350 but it does come with a free Gold or Platinum Credit Card and a free account. Really these loans don't compete with basic loans in the small loan category, but above about $350,000 they start to beat the basic loans because of their better interest rate. They are definitely worth a look. We like them.

Basic Loans:

We like these loans in the small loan category. They are a no frills loan at very good rates and low fees. They have the essential features such as redraws via the internet or phone, and we can usually find a loan with free redraws and no monthly charges. Whilst you can get lower rates for the first year with a Honeymoon Loan (see section below) generally those loans increase to the standard variable rate after the honeymoon period, which is above the basic rate. Most borrowers have their loan for quite a few years, so the savings in the first year is more than offset by costs in later years. Time and time again these loans shape up as a very economical option over the long term.

Honeymoon Rates:

These loans have a reduced rate for the first 6 or 12 months of the loan and sometimes up to 3 years. We consider them to be worth a look especially if you take the option to switch to a basic variable loan after the end of the honeymoon period. Usually there is a small fee for this. These loans usually sound impressive because of the reduced initial rate, but need to be compared to the other options to see if they suit your needs.

100% Home Loans:

These loans are not available in 2010, but we have the information here in case they re-appear. We do hope to see these loans return for selected clients in the future. (These loans are especially popular with first time borrowers. Why? Because the idea of borrowing the whole amount required to buy their first home seems attractive. But did you know that mortgage insurance cost is much lower on a 97% loan. To the point where often a 97% loan gives you more in the hand than a 100% loan, plus it leaves you with a lower debt and lower repayments. Don't talk to inexperienced brokers, talk to us so that we can examine your different options to save you money in the long run)

97% Home Loans:

Refer to the 100% loans above. Not available in 2010.

95% Home Loans:

These loans are available from a few lenders on a very selective basis. Most borrowers will not qualify for these loans. Talk to an experienced broker to ascertain if you may be able to get one of these loans.

FIXED RATE HOME LOANS:

You can fix an interest rate for a term of 1 to 5 years, and sometimes beyond that. You should really think about these before you jump in. Yes they are attractive when interest rates are rising, and many people do lock in rates for a fixed term. However if have to sell or refinance in the meantime and therefore break your contract, you will be penalised financially by the lender. It can be a problem for them as they have also borrowed in the market at fixed rates to cover your loan, and they will pass any economic costs on to you. If you have any concerns about "going the distance" with the fixed term think twice before committing. Also if you lock in for more than 12 months, no-one can really predict what may happen with rates over that time. You could be stuck on a high rate while everyone else is enjoying low variable rates.

There are the possible benefits, and these are: -

- You may save considerable interest if you fix at low rates and then the rates rise for the term of the fixed rate. Care you will also lose if rates fall.
- You may be able to afford a larger loan if you fix for a longer term as some lenders will take the fixed payments into their calculations, instead of using payments that include a buffer.
- You know what your repayments will be and can budget accurately for that until the term has run its course.

Interest Only Loans:

If you borrow money, it has to be repaid at some point. That said, we consider that there are occasions where paying interest only has a real benefit.

- If you think that you will struggle to meet commitments, you can take your loan "interest only" for the first year or two. By then your income should have increased sufficiently enough to handle the higher payments. This can be a good option for your first home.
- It can be a good tax option for investors. Discuss this with your accountant if in any doubt.
- If rates rise and meeting the principle and interest payments become unmanageable, then you can switch to interest only for a period to allow you to get back on your feet financially.

Line of Credit or Equity loan:

This was the preferred option for borrowers some years ago, but really a basic loan or a Professional Pack with an offset account is cheaper, and if used correctly has the same benefits. It still seems to be a bit of a status symbol for some borrowers, but you will pay for that status.

Construction Loan: (refer Chapter 8)

When you are building a house, your loan will be called a "construction loan" until such time as construction has been completed. You are not usually asked for repayments during the construction period, unless the work is unduly delayed (e.g. builder goes into liquidation). In that case the lender may look for interest only payments to keep the loan balance in check. At the end of the construction, the loan will revert to whichever type of loan that you have chosen, and regular payments will commence.

Split Loans:

Most lenders offer the ability to split loan amounts. IE if you borrowed $150,000 for your house, and $150,000 for your business, instead of taking out one loan of $300,000 you can set your loan up as two loans of $150,000. This is ideal for borrowers who need or want to isolate loan amounts for tax or other reasons.

Reverse Mortgages:

Yes we do arrange these loans; however you must be at least 60 years of age before you can access them. You do not need an income and credit defaults don't usually matter. We only use reputable banks and members of SEQUAL for these loans so that the borrowers are protected at all times. These loans have become accepted by the public, and will grow in popularity with finance savvy retirees who want to maintain their lifestyle.

Low Doc:

Incredibly popular loans with the self employed, investors, and now even wage earners are using them to access finance that was until recently denied to them. You do need good equity in a house, but only need to sign a declaration stating your income, and perhaps copies of BAS returns instead of tax returns. Excellent for self employed income earners who know what they earn, but cannot prove it in the normal manner.

No Doc:

Similar to Low Doc but you don't provide any proof of income. You just declare that you are able to meet your existing and proposed commitments. Generally these loans are for borrowers with substantial assets. These loans are now **very** difficult to obtain, if at all.

Non-Conforming:

All of the above loans are available through non-conforming lenders. The difference is that non conforming lenders will accept defaults and credit problems that mainstream lenders won't accept. They may also accept income streams that banks won't. Interest rates are usually higher and scale up according to the risk evaluation. You will really need a broker (preferably us) to guide you through these lenders as product profiles and lending policies vary greatly.

Private Loans:

Also see vendor loans below. We do have some private lenders, and some institutions that we deal with who also have private label loans that they manage. We prefer to use these lenders for short term situations, or as a stop gap measure to clean up a bad credit situation before we arrange traditional finance. There are no hard or fast rules here, and each one is taken on a case by case basis. We urge you to take your own solicitors advice before you accept private finance as they are often very expensive.

Vendor Loans:

This is really here for information only. We don't arrange these loans. This is when a vendor will lend either in full or part, and may take a first mortgage to secure that loan, or a second mortgage where another lender is involved. We have seen examples of these loans where the transaction has been completely upfront, transparent, and beneficial to all concerned. We have also seen examples where this is not the case. Use your own solicitor if you wish to use this method of finance. Do not use the vendors solicitor even if it is free. A solicitor should only act for one party at a time. If the vendor is paying the legal fees, guess who the solicitor is acting for. Be warned...

CHAPTER ELEVEN

The First Home Owners Grant

You must read the instructions and explanations of the terms of the First Home Buyers Grant application form in conjunction with our notes. We are **NOT** the party who will determine whether you will qualify for the grant, so always discuss your situation with the Office of Fair Trading in your State if there is any doubt or question arising in your case.

Basically if you or your partner have not received a grant before, and have not owned or had an interest in a residential property in Australia before you should be eligible for the grant. Anyone born overseas who has permanent residency status or a New Zealander residing permanently in Australia will also qualify for the grant.

Download your states application form and read the notes on eligibility carefully. The forms are available here: -

ACT FHOG application form

NSW FHOG application form

NT FHOG application form

QLD FHOG application form

SA FHOG application form

TAS FHOG application form

VIC FHOG application form

WA FHOG application form

CHAPTER TWELVE

My Loan has been approved, now what happens?

- The bank will send the documents to you within a week. Please let your broker or bank know if you haven't received them by then. They rarely go astray in the mail, but it can happen.
- You should sign your documents in front of your solicitor, so that they can be professionally witnessed and documents returned to the bank. Your solicitors or conveyancer will be very experienced at witnessing documents, and they will ensure that all documents are completed correctly. You could use a Justice of the Peace, but take care with the documents; it can be daunting for the inexperienced.
- Your broker or bank will lodge the First Homebuyers Grant with the bank so that they will have that money ready for you at settlement. Make sure you discuss this with your broker beforehand so that it is not overlooked.
- You will have to pay some stamp duty to your solicitor, and other costs may be involved. Please refer to your solicitor to calculate the cost of stamp duty and for information on related costs.
- Once documents have been signed and returned to the bank without delay. They will need about 4 to 5 working days to be prepared for settlement. Your solicitor will make all of the arrangements with your bank and the vendors' solicitors for settlement.
- You will need to have your portion of the money ready for your solicitor to use at settlement. He/she may want it put into their trust account, so it will have to be ready at least 4 or 5 days before settlement to allow for cheque clearance times..

Once all that is done you can sit back and relax. Is all your packing done?

CHAPTER THIRTEEN

The Day of Settlement, final inspection, getting the keys, and moving in.

FINAL INSPECTION:
I recommend that on the day before settlement, or at the latest the morning of settlement a final walk through inspection of the house or apartment be made. It is at that time you should check that any items that were scheduled for attention by the vendor have been completed satisfactorily, and you are satisfied that the home has been left in clean habitable condition. It is normal for the vendor to engage a professional cleaner, or clean the premises themselves when they move out. Don’t expect perfection, but you have every right to expect a reasonable standard of cleanliness.

THE MOVE:
Many buyers arrange the removal for the day of settlement. In most cases that will work out, but be aware that some settlements are called off at the last moment because of minor reasons, and that will throw your plans to move into disarray. In that case have a backup plan for the storage of your furniture and the removal the next day.

If possible try to arrange the move on the day after settlement as a safeguard against any problems at settlement.

As soon as settlement has been confirmed by your solicitor, the Real Estate Agent will release the keys to your new home, and you can move in. Ensure that your solicitor has the fax number or email address for your agent to make this as smooth and fast as possible. Delays will cost you money if the movers have to wait around.

CHAPTER FOURTEEN

Mortgage Repayments and Options

Your first home loan payment should commence 30 days (or very close to that) after the day of settlement. In the vast majority of cases you will have signed an authority to make the repayments by direct debit from one of your accounts.

It is important that you make sure that you have enough money in that account before the due date. It certainly looks bad if you cannot meet the very first repayment.

Once you get into the routine of meeting payments every month, then you will understand fully what is expected of you. I suggest that you start to make extra repayments from time to time as a method of saving money, which in turn will reduce your interest cost on the loan and help you pay it off earlier.

If you do need access to those savings at a later date then they are available on the redraw facility via the internet, or at the local branch of the bank.

I recommend that you make the necessary arrangements for full internet access to your home loan so that you can regularly check the loan and move funds into the loan whenever possible to reduce your interest cost. Over time that can save you quite a bit of money.

CHAPTER FIFTEEN

Refinancing

This chapter is for information purposes only, and I certainly do not recommend an early refinance of your loan, which can cost thousands of dollars.

Many borrowers at some point look to change their loan to a more advantageous facility by fixing the loan, or looking at lower cost options. Loan offers change over time, and sometimes the loan that you took out loses its commercial advantage.

Before you refinance I recommend that you contact your bank or broker to discuss options that won't cost you thousands.

This process is called "switching" and that is just a term for changing from one loan facility (called product) to another. There may be a low cost switch fee of about $300 which is much more cost effective than a complete refinance of your loan.

CHAPTER SIXTEEN

Researching before you buy.

It is important to know the real estate market in the area you have chosen to buy in before you go out and buy your home. Agents will quickly realise that you may not be an experienced buyer, and frankly it is difficult to hide that from any experienced agent. So study the market and become informed and experienced.

I suggest that you start looking well before you buy, and spend as many weekends as possible looking at houses to get a feel of the market. Until you have looked at quite a few homes you will not be able to compare houses and prices accurately.

You will look at many homes that win you over emotionally, but buying a home also has to be a practical decision that takes your future needs into account (children for example) as well as your immediate needs, and importantly your financial situation.

Don’t sign up for any home that is more than you can afford. So have a look at loan repayments, go to every open house in your area, and research homes for sale over the internet as much as possible.

In Australia the two main real estate sites are: -

http://www.realestate.com.au

http://www.domain.com.au/

There are also many other real estate websites, and they can be located with a Google search. But the above two sites have by far the largest database of homes and units for sale.

CHAPTER SEVENTEEN

Other helpful Resources

When you are narrowing your choices down to streets or actual houses, it is very helpful to know what recent sales have taken place, and average price (often called median price) is in an area. Don't take too much notice of the asking price, it is actual sales that really count. This is what the valuer will go on as well.

You can access the sales for a suburb from several sources such as RPData where you can buy property reports and actual computer generated valuations. They are not a fool proof guide, but they will help you with likely pricing for the home you are interested in.

You can also go to the CBA Property Value Guide at GetFreeReportPage where you can obtain a lot of free information on the suburb or postcode demographics. The report displays price trends over the last 12 months that will help you with your research.

Talking to friends and locals will also help you reach your decision, but always bear in mind the experience of the person you are talking to.

Know the market – are prices rising, standing still, or falling?

EXCEL DOWNLOADS:

We invite you to down load the following excel files to help you work out loan repayments, and other useful tools.

REPAYMENT CALCULATOR

Just load in the loan amount, the term of the loan, and the interest rate, and this calculator will work out the repayments that you will need to meet. Repayments are calculated monthly, fortnightly, weekly, and monthly principal and interest, as well as interest only. The loan term can be in years and months, and a honeymoon period and rate can be input.

RENT OR BUY CALCULATOR

Also estimates when you can sell at a profit after allowing for agents commission and exit costs. Note these are estimates only and it is no substitute for a financial advisers professional advice, but it is interesting and can illustrate the principal of wealth building over time by owning property..

COMPARE TWO LOANS

This "***Loan Comparison Calculator***" is very similar to "***Repayment Calculator***" above, but you can compare two loan scenarios to help you choose the one that will be the best priced for you over the term of the loan. Note that if you sell your house before the loan term has been completed, then all comparison calculations will alter.

MORTGAGE MINIMISATION CALCULATOR

If you have a mortgage you really should check this "***mortgage minimisation calculator***" out. Input your current loan details such as the balance owing, interest rate, and current repayments, and this will tell you the remaining loan term. Then go one step further, and put a small payment increase on either a weekly, fortnightly, or monthly basis, and you will see in both dollars and time what you will save. Most people are amazed at what an increase of $25 per week will make to the amount of interest that you will pay to your lender over the loan term. This is not a secret, but you really do need to know this so that you can better manage your finances, What you do with your money now will significantly affect your latter years. For example If you smoke, try putting your cigarette money off your loan and see what your habit really costs you. You may get a shock. Whatever your circumstances, we urge you to always pay extra off your loan to get it repaid as soon as possible.

HOW MUCH WILL I OWE CALCULATOR

With this calculator you can see when your loan will be repaid, or what you will owe at the end of each year up to 30 years into the future. Use this to help you tailor your finances to suit your long term plan. You do have a long term plan don't you? If not start making a life plan now. We estimate that when you retire you will need to own your own home plus have an income earning nest egg that gives you about 80% of your working income. If your working salary is $50,000 pa then you need in income of about $40,000 to maintain a comfortable retirement. That could be provided by commercial property worth $550,000 that is debt free, or shares valued at $700,000 in blue chip income earning companies. (Note that this is a very rough guide and we recommend that you seek guidance from a qualified financial planner. Amounts are calculated as at 2008 and need to be increased by 5% for every year after that to allow for modest inflation) Right now you should work out how much you need to increase your home payments by to clear that debt, and then save to give you the money required for retirement.

WEEKLY BUDGET

If you have trouble making ends meet, then a weekly budget would help you allocate and manage your income. We aren't all born financial wizards, so use tools like this to make managing your money easier. You need to be able to see where your money is going, and put aside some money for rainy day expenses. Use this calculator in conjunction with our cash flow forecast for the best results. (See below)

CASH FLOW FORECAST

Many expenses are irregular. That is they come annually, half yearly, quarterly, or even at random intervals. If you need to cover school fees, uniforms, annual vehicle registrations, insurance premiums, council rates, drivers licence renewals, holidays, birthdays, Christmas expenses, etc, etc. etc. Then you need to foresee when these expenses will occur, and ensure that you have savings to cover those expenses. If you are having trouble making ends meet, then you need to take extra care with your finances. Honestly this applies to almost everyone at some point in their life. We all need to know where our money is going, and when we need to meet necessary expenses. You will find budgeting can successfully change the way you manage your finances, and if used correctly will significantly reduce the financial stress in your life.

HOUSE HUNTERS CHEAT SHEET

. Not a calculator, but this printout will help you select the right house for you, and is used correctly it may help you get the best price for your dream house.

WE ARE HERE TO HELP YOU... Just click on the blue "**APPLY NOW**" button below and fill out our easy to use home loan application form. We will then analyze your situation and discuss your options by telephone with you. There is absolutely no cost or obligation to get this assessment. Don't let your defaults or bad credit stop you from getting your home loan

INDUSTRY JARGON

A list of Industry Terms explained

The following is a listing of words commonly used by lenders and mortgage brokers. We have tried to give a brief and simple explanation so that you may have a better understanding of the process. For a more detailed explanation we suggest that you refer to your solicitor or accountant.

AGENT: The Real Estate Agent handling the sale.

ASSET: Something of value that you own such as your savings, a car or a house etc.

CAVEAT: Not a mortgage but a charge that will prohibit any dealings on the property involved.

CLEAR TITLE: This is a Title or Deed without any encumbrances recorded. (See Deed or Title)

CONTRACT: The document that you sign to sell or purchase a home or other asset. Laws vary from state to state regarding cooling off periods etc, we suggest that before signing any contract you consult a solicitor.

CONVEYANCING: This describes the process where your solicitor searches the title, council rates, toxic waste records, future main roads requirements, land tax and any other items that your solicitor may deem appropriate for your property. Please discuss these searches with your solicitor as each situation will be different.

DEED or TITLE: These are mainly an electronic record these days, but we still talk about them as though a tangible record exists. In past times there actually was a parchment style document that recorded the current and past owners on the deed. In some areas these may still be in existence.

ENCUMBERANCE: A registered charge such as a mortgage or caveat.

EQUITY: A term used a lot by Banks, it is the amount of your house or property that you own. IE. Market Value minus Loan Debt = Equity

GUARANTEE (Also Guarantor): If you are a loan guarantor then you will be responsible for all or a portion of the loan. Always ensure that your responsibilities are fully explained, and if in any doubt then consult a solicitor. Often family members are used as guarantors for loans to close family members. Be in NO doubt – you will share responsibility for the loan repayments, and if the borrower defaults it is then your full responsibility.

LENDERS MORTGAGE INSURANCE: This is an insurance policy taken out by the bank, but paid for by the borrower that insures the bank against loss in the event that the security property (house) has to be sold to recover their debt. Any shortfall is made up by the mortgage insurer.

LIABILITY: Usually a debt such as a loan, credit card debt etc.

LOAN CONTRACT: This is the contract that you will sign with the lender. It will give you all costs and fees that apply to your loan. We recommend that you familiarise yourself with all of these items in particular exit fees or deferred establishment fees may apply if you repay the loan early, refinance, or sell the house.

MORTGAGE: A registered charge over the title for a home, unit or land. This is recorded on your title deed, and gives the bank the power to sell your house if you default.

SETTLEMENT: To a purchaser, this is the term used to describe the moment when your solicitor exchanges your money for the deeds and documents to give you ownership of the property that you are buying.

SOLICITOR OR CONVEYANCER: The name given to a qualified professional who will ensure that your best interests are protected at all times during the process of purchasing.

VENDOR: The person or persons selling the property.