

House Hunting & Finance Tips

We've compiled a guide which will outline 19 ways on how to:

- Provide you with a basic insight into house hunting
- Link home loan features to your needs
- Reduce your mortgage in record time

Take into account the whole package when evaluating home loans. The biggest trap people fall into when looking for a home loan is concentrating solely on the interest rate, or concentrating solely on features. It's important that you get the balance right. Beware of new promotions or special offers. Utilising one of our experienced accredited mortgage brokers will answer all your questions and clarify the following 19 points for you.

1. The process of getting started

- First establish how much you can comfortably afford by doing a budget then choose your area. Email us for a comprehensive excel spreadsheet budget or simply visit our website at www.bluekeyfinance.com.au and download it at your convenience. As a general guide, your total annual debt repayments should not exceed 44% of your total annual gross income. Take into account any family considerations, whether you plan to have children in the near future. If one partner takes time off work to raise their child, this situation could put a strain on your income.
- Control your current debt through consolidation to increase your savings capacity.
- Maximise your savings by transferring them from a low-interest bank account to high-interest online accounts.
- Write down all the attributes you require in a home. How close to work, family & friends would you prefer to live? What local facilities do you require? Do you need good public transport? Will you enjoy the neighbourhood? Is the house sound? Is it an area that will benefit from capital growth? How much will you need to budget to make your new home comfortable?

Follow this monthly repayments guide to help you decide how much to spend on your first home.

Monthly repayment estimates

Interest Rate	Loan Amount			
	\$200,000	\$300,000	\$400,000	\$500,000
4.5%	\$1,013	\$1,520	\$2,026	\$2,533
5.0%	\$1,073	\$1,610	\$2,147	\$2,684
6.0%	\$1,199	\$1,799	\$2,398	\$2,998
6.5%	\$1,264	\$1,896	\$2,528	\$3,160
7.0%	\$1,330	\$1,996	\$2,661	\$3,326
7.5%	\$1,398	\$2,098	\$2,797	\$3,496
8.0%	\$1,468	\$2,201	\$2,935	\$3,669
8.5%	\$1,538	\$2,307	\$3,076	\$3,845
9.0%	\$1,609	\$2,414	\$3,219	\$4,023
9.5%	\$1,682	\$2,523	\$3,363	\$4,204

2. Building v buying

- Advantages of building are you're more than likely going to end up with the house of your dreams. You can choose exactly what you want. You can start small and add on as your accommodation requirements change.
- If you decide to build make sure you get your contract right and your solicitor checks it out. Secondly, choose a good, reliable builder who is appropriately licensed. Finally, see examples of their work and talk to their clients independently. You can email us for our comprehensive booklet in relation to building.

3. Buyers' Advocates vs. your own search

Buyers' advocates don't sell property, they represent you when:

- Searching for suitable properties
- Negotiating with the estate agent on price
- Bidding at auctions and organising building inspections.

Expect to pay from 0.75% to 1.50% of the purchase price for their service.

There are plenty of places to look for your new property. For example, visit www.property.com.au, www.realestate.com.au and www.domain.com.au. Secondly, the 'property for sale' section of your local paper. Finally, scan properties listed in real estate agents' windows in the area you are targeting.

4. How much to pay

- Never believe the price the real estate agent selling the property tells you.
 - Some questions to ask the estate agent are:
 - How did you come up with the asking price?
 - What do you think the property is worth?
 - Do you have recent sales history to justify your asking price?
 - How long has the property been on the market?
 - Have any offers been made on the property?
 - Work out what you should be paying for the property of your choice. An easy way is to use a reputable real estate valuer who has no association with any real estate agency. Visit the Australian Property Institute on www.api.org.au and click on Api-Divisions for a list of valuers in your area. Expect to pay up to \$500 for a written estimate.
 - Another alternative is to buy price guides from about \$100 on the areas you like. www.homepriceguide.com.au provides a list of prices paid for specific houses or units in any postcode for the past 12 – 24 months.
 - Now armed with your knowledge of real valuation you can start negotiations.
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5. The costs involved

STAMP DUTY

Stamp duty is a state government charge that may be payable on the purchase price and sometimes also on the value of your mortgage. The amount payable varies between states and territories. Go to your state or territory's website for the stamp duty in your area – we've listed their web addresses below.

<u>State / Territory</u>	<u>Website</u>
New South Wales	www.osr.nsw.gov.au
Australian Capital Territory	www.revenue.act.gov.au
Northern Territory	www.revenue.nt.gov.au
Queensland	www.osr.qld.gov.au
South Australia	www.revenuesa.sa.gov.au
Tasmania	www.treasury.tas.gov.au
Victoria	www.sro.vic.gov.au
Western Australia	www.dtf.wa.gov.au

While stamp duty can be a significant upfront expense, valuable concessions are available for first home buyers.

LENDERS MORTGAGE INSURANCE (applies to deposits less than 20%)

If you borrow more than 80% of the value of the property you're buying, you will need to pay Lenders Mortgage Insurance (LMI). This insures your lender (not you, the borrower) against non-payment or default. By protecting your lender against default, LMI allows you to borrow with lower deposits and even up to 100% of the purchase price. Your lender will organise LMI on your behalf, so it's not something you need to shop around for.

The LMI premium you can expect to pay will be based on the size of your mortgage and the purchase price. One of the best ways to reduce the cost of LMI is to save a larger deposit. However, this is not always possible, and to make the premiums more manageable some lenders let you add LMI to the value of your home loan. This is called 'capitalising' the expense, and it lets you pay the LMI bill gradually rather than adding it to your other upfront expenses.

OTHER COSTS

Purchasing a property involves other associated costs that we've listed below. Aim to get several quotes for services like insurance and furniture removal to insure you get the best deal, and don't forget to set aside funds for the house-warming!

Loan costs

- Loan application or establishment fee
- Valuation and lender's legal fees
- Settlement fee
- Fixed Rate Lock-in fee
- Account keeping fees & Exit fees

Inspection costs

- Building inspection
- Pest inspection

Moving in costs

- Council & water rates
- Strata levies (applicable to villas, townhouses & units)
- Furniture removal
- Utilities connection (telephone, gas, electricity)
- Mail redirection

Insurance

- Building insurance
- Contents insurance

Legal fees (also known as 'conveyancing' fees)

- Hiring of a solicitor or a conveyancer

MORTGAGE PROTECTION INSURANCE – *worth thinking about*

Unexpected events like illness, accident and death can play havoc with not only your plans for the future, but can also deplete savings you have worked hard to accumulate. A simple and cost effective way to prevent financial disaster is to insure your most important assets as much as possible, i.e. your life and your ability to earn an income.

Your *Mortgage Protection* Insurance with AIA will provide you and your family financial protection along with piece of mind. This one simple and easy *Mortgage Protection* policy will cover you for Term Life, Permanent Disablement and Disability Income protection. Make sure we speak about this product once you obtain your unconditional approval.

6. Improve your odds

- To improve your chances of obtaining finance through a mainstream lender reduce the number of credit cards or card limits you have. Lenders look at your maximum limit, not what you owe – the bigger the limits the less you can borrow.
- Secondly, review your credit history if you're suspicious of any defaults or mistakes. You can order your own credit file for free by visiting www.mycreditfile.com.au or by phoning Veda Advantage on (02) 9464 6000. A free report can take up to two weeks to reach your mailbox or you can pay a fee of about \$30 to receive it within 48 hours.
- Finally, if you've fallen behind in repaying existing debts, make sure you pay the arrears immediately.

7. Be organised

- Organise a preapproval before you make any offers on properties, which can take anywhere from 24 hours to two weeks for a lender to issue us with one. However, if your financial circumstances change during the preapproval period be certain that you inform our mortgage broker immediately in order for that broker to liaise with your lender to adjust the preapproval criteria.
- If you don't have the usual 10% upfront deposit for a house purchase then we can organise a deposit bond for you. Deposit bonds are a financial product which can be used by buyers as a temporary substitute for all or part of the cash deposit that is normally required upfront. These bonds cost 1.2% of the upfront deposit required to purchase a property, which in Victoria the upfront deposit is usually 10% of the purchase price.

8. Auctions v private sales

- Attend several auctions beforehand so you're familiar with the process. Make sure you have a solicitor or conveyancer to look over the contract of sale before the auction. Have your finance organised beforehand because if you're the winning bidder you will immediately have to fork out a 10% non refundable deposit.
- Set a limit and bid with confidence. Either, Bid hard and fast early. Hold back and beat the competition at the last minute. Adopt your own unique strategy.
- In Victoria with private sales, if the purchase price is < \$250,000, you have three business days to pull out. Having said this, you will usually face a penalty of \$100 or 0.2%, whichever is greater.

9. What affects your borrowing capacity?

- How many dependent children < 18 years old you have
- Your current income
- Your total debt commitments and credit card limits.

These variables play a major part in how much a lender will lend you. Mind you, there is a huge gap with borrowing capacity between lenders.

10. How mortgages work

- Interest is calculated daily on the daily outstanding balance and charged to the loan account at the end of the month. Therefore, reduce the daily balance as often as possible during the month to reduce your monthly interest charge and overall loan term. You can do this by making weekly repayments instead of monthly, have a 100% savings offset account linked to your home loan, or have your wage paid directly into your home loan.

11. The buying process

- Obtain a copy of the contract of sale. You should have your solicitor or conveyancer check the contract carefully.
- Personally inspect the property. Before you sign any contract, make sure you hire a professional to complete a pest & building inspection. Pest inspections range from \$200 and building inspections range from \$300 - \$500. Visit www.archicentre.com.au to organise either or both inspections or phone us for our recommended inspector.
- Hand in an initial deposit as a sign of good faith.
- You and the vendor must sign the 'contract of sale'. You will now be asked for up to a 10% deposit to be held in the estate agent's trust account.
- There is a three day cooling off period with private treaty sales while auctions do not have a cooling off period.
- Prior to settlement your lender will ask you to arrange and provide proof of building insurance to commence on settlement date. We recommend you arrange for building insurance to commence as soon as you've handed over your 10% upfront deposit to the real estate agent as this will protect your deposit in case the house burns down before settlement.

12. Questions you should ask your Mortgage Broker

- Are you an MFAA Accredited Mortgage Broker?
- How many lenders do you have on your panel?
- Do I need to prove I genuinely saved 3% or 5% of the purchase price over the past 3 or 6 months to the mortgage insurer before I can obtain finance?
- What would my repayments be if interest rates increase by 2%?
- How much does redraw cost? (if applicable)
- How often can I make repayments?
- What's the comparison rate?
- What happens to the loan at the end of a fixed term?
- What are the ongoing fees?
- What's the fee of breaking or paying out the loan early?
- Is 'Parent Repayment Break' offered?

13. Self employed or credit impaired clients

- Self employed people now have access to 'low-document' or 'no-document loans' which means no proof of income required and in some cases no declaration of assets or liabilities needed either. These products can now attract interest rates equal to those clients providing full documentation.
- People with poor credit histories now have access to non-conforming loans. They begin with slightly higher interest rates yet with a good repayment record can move on to a conforming, or regular loan, with a lower interest rate. Today, you may still be entitled to a standard home loan, so it is very important you clarify this with your Mortgage Broker.

14. Alternative lenders & products

- If you cannot prove your income then apply for a 'Low Documentation' or 'No Documentation' loan. If you have a bad credit rating, don't be disgruntled. Our brokers have access to non conforming lenders who will provide finance where the major Banks traditionally won't.

15. Affordability

- When determining on how much to borrow it's important to factor in a rate rise of at least 3% so that you aren't caught short if interest rates increase.

16. Comparison rate schedule

- When you choose a lenders home loan product, that lenders comparison rate schedule must be issued to you. This schedule shows the true cost of borrowing (a slightly higher interest rate) on each of their home loan products after including all ascertainable fees. However, it does not take into account 'condition fees' – fees that are incurred on condition that you do a redraw, exit within a certain period etc. Make sure all costs are itemised.

17. Home loans with family or friends

- If you want to buy together you should consider making your purchase as 'tenants in common' rather than 'joint tenants' so that if one of you were to die then their property automatically goes to their estate rather than direct to the other tenant. Parents wanting to go guarantor for their children could also consider limiting the amount of the loan they guarantee or making a financial gift instead.
- 'Property Share' allow friends to buy a property together but keep their finances separate. Each loan facility can be for different amounts, with different loan types, duration and payment structures that best suit each individual's requirements.

18. Which loan suits who

- A **100% Offset** feature
 - A **fixed rate** usually from 1 – 5 years. At the end of the fixed term you can lock in another fixed rate or switch to a variable rate. Most allow you to make an additional \$5,000 - \$10,000 extra repayments each year
 - A **variable rate** with redraw capabilities
 - Ability to **split** the loan part fixed and part variable to hedge your risk against anticipated rising interest rates
 - A revolving **Line of Credit** with immediate access to your equity up to the approved limit. Suitable for those renovating or investing
 - A **No Frills low variable** rate product from day one. Great for those borrowing < \$250,000
 - A very **low honeymoon interest rate** product for up to 12 months
 - A **Professional Package** with discounts on the variable home loan, credit card and savings accounts. Great for those borrowing > \$250,000
 - A '**Low Documentation**' or '**No Documentation**' Loan for the self employed. These loans do not require proof of income and in some cases no proof of assets or debts required either
 - A **Non conforming** loan provides finance for those who don't meet the banks' strict lending criteria. These clientele may include:
 - self employed people who have difficulty verifying their last two years of income
 - older borrowers
 - people with an impaired credit report
 - new migrants
 - A **No Deposit loan** allows you to borrow 100% of the purchase price and only have to save for the costs associated with the purchase.
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19. Eight ways to reduce your mortgage

- Pay more frequently than monthly – with fortnightly repayments you will actually be making one additional repayment a year. However, for this to be effective it is important that you ask your lender to halve your monthly repayments
- Make extra repayments above the minimum – even \$100 a month on a \$300,000 home loan at 5.00% will save you approximately 3 ½ years off your 30 year loan term
- Extra money like inheritance, a good tax return, a bonus from work should be credited into your home loan. If you have a redraw facility you still have access to this extra repayment when needed
- Consider a 100% offset feature
- Salary crediting: you can use a credit card with a good interest free period to pay for your regular living expenses and at the end of the month have the card 'swiped' (or paid off) against the home loan
- If interest rates fall ask your lender to leave your repayments as is
- Do a regular stocktake on your home loan. A loan may start off as good but have its competitiveness eroded by increased fees or rates, or by the introduction of better priced products on the market
- Interest repayments on an owner occupied home loan are non tax-deductible, which means it makes good sense to give priority to paying off your home loan quickly instead of directing funds towards paying off investment loans



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