CREDIT HUB

FINANCE | CONVEYANCING | FINANCIAL PLANNING

THE ULTIMATE GUIDE FOR FIRST HOME BUYERS IN VICTORIA

Learn about the new government incentives for first home buyers in 2017

BUYING YOUR FIRST HOME ?

With the rising competition in the Australian property market, buying a home involves more than just locating the home you want. Purchasing a home can be a time-intensive process.

It demands research, due diligence, knowledge of legalities involved, and patience, whether you are buying a home for the first time or are an adept homeowner returning to the market. Taking one wrong step in the process can cost you more than your budget allows you or even leave you with regret.

At Credit Hub, we do not want you to go through all these hassles or make any hasty decisions, which you might regret later. So, here we are with the ultimate guide that can help you sail smoothly through all the steps involved.

1

BEFORE YOU CONSIDER BUYING YOUR FIRST HOME...

You need to take some points into consideration before going ahead and buying your new first home. One of the most important point to remember is managing your finances. Hence, it's important to ask yourself these two important questions-

How much can I afford to borrow?

How much can I afford to repay?

Once you are done sorting out these two main questions, and determining the minimum amount to buy your first home, you can then go ahead and take care of the remaining requirements.

The requirements are-

- Home Loan Deposit
- Lender's Mortgage Insurance (LMI)
- First Home Owner Grant Picking
- Stamp Duty Taxes (Renewed)
- The Right Home Loan
- Additional Associated Costs
- The Home Buying Process
- First Home Buyer Jargon Explained

So, let's move ahead and understand what we need to know.

2

HOME LOAN DEPOSIT

As a first home buyer, this is the biggest dilemma one comes across,

"How much deposit do I need before I can get finance to purchase a property?"

There are numerous factors to take into consideration regarding the amount of deposit that you can borrow for buying your first home.

This is your borrowing power.

Check your Borrowing Power here

Your borrowing power will depend on the lender you choose and the type of home loan you have or are looking at. Other than that, it also depends on your income, financial commitments, loan type, credit and employment history, savings, and assets, etc.

Staying updated with your borrowing power will help you narrow down your property search and help you to better understand what your financial commitments will be.

For first home buyers in Victoria, who have not been able to save a substantial amount of deposit, the Victorian Government will contribute funds to make up for the shortfall. The amount will up to 25% of the property so that the home buyer can avoid paying mortgage lenders insurance. However, first home buyers in Victoria still require a minimum 5% deposit inclusive of stamp duty and legal fees.

How much can you afford to repay?

Now that you have determined your borrowing power, you need to also understand whether you can pay back that amount in time.

Being realistic about your repayments will help you service your loan without having to over-extend yourself. After all, Borrowers need to take into consideration other costs including stamp duty, solicitors fees, valuation fees, loan application fees, and moving costs.

So, start planning your budget once you arrive at a ballpark figure stating your borrowing power.

Plan your Budget with us here

3

BUYING YOUR FIRST HOME IN VICTORIA, MELBOURNE

Buying a house in Victoria involves research and careful consideration of all options. You want to make sure the property is the right price, location, value, size and lifestyle.

How to Buy your First Home in Victoria

Private Treaty

This is a common way to buy a home in Australia. In this case, the property owner who sets the price they would like to get for their property at a fair market value after taking advice from a real estate agent. The deal is said and done after negotiations are settled between the prospective buyer and seller of your property

Tip:
Minimise the risk of gazumping by getting your finances pre-approved, your building and pest inspector on stand-by, and getting your solicitor or conveyancer to look at the contract before you make an offer.

Tender

Here, the seller encourages interested buyers to submit an anonymous offer or "tender" for their property. These prospective buyers then submit their offers in a sealed envelope, which will contain a signed contract, deposit payment, and any other specific terms that a buyer would like to request. Once all the offers are received, the seller then considers these offers on the date of the specified deadline and either selects the most promising offer or rejects all of them if they are not satisfied with the price or terms. Prospective buyers are unaware of the offers made by other interested buyers. This type of sale is usually well-suited for high-end residential properties due to the complexity of the process involved.

Tip:
The cooling-off period depends on the tenders terms as they all will have completely different terms set out. This is why, every transaction needs to be treated differently.

Auction

When you choose to buy your first home at an auction, you must know that you will have to meet a reserve price, which is the minimum price, at what the home must sell for. Prospective home buyers who bid the highest are the ones to win. Once the auction is over, the winner is required to sign a contract there and then. Hence, before you head to the auction, it is a good idea to check how much you borrow and how much the repayments will be.

Tip:
Consult a legal practitioner or conveyancer to check the vendor's statement prior to making any bids at an auction. You might also want to consider getting a building inspection from a qualified building inspector before bidding day.

Off the Plan

Buying property off the plan means to sign a contract for purchasing a home that is yet to be built. Buyers can view the design and building plans and even take a virtual tour of the property, but in reality there is no actual physical property to see or inspect.

Tip:
Get proper independent legal advice from a specialist property lawyer before signing anything.

4

OTHER COSTS OF BUYING A HOUSE IN VICTORIA

There are a great number of expenses associated with buying a house - some up-front costs you expected, and some you probably haven't considered. This guide explains some of these, including government fees and stamp duty, mortgage protection insurance, legal fees, inspection fees, and moving costs.

Home loan costs

When you buy a house, you have to pay money to a number of different people. One of the most obvious cost is paying your home loan provider both mortgage repayments and lender fees. When choosing a home loan, it's important to look into a variety of mortgage packages and to study the fees that apply to each home loan product.

Government fees

A number of government fees will apply, including land transfer registration fees and government taxes. These fees are a mixture of flat fees and variable charges that change with the price of the property. You need to read the fee structures for your particular state carefully to make sure you understand all the charges that apply.

Stamp duty

Stamp Duty rates vary from state to state and these can add a very significant cost to the property you are buying. First home owners may be eligible for a reduced rate of stamp duty in some states.

Mortgage insurance

Lender's mortgage insurance is another fee to take into account, and the price of this varies from institution to institution, depending on the value and type of loan you have selected as well as the deposit you have saved. Mortgage insurance is obligatory for some loans, especially if you have less than a 20% deposit saved. Mortgage insurance doesn't protect you for any financial loss, but it does protect the lender against a home selling for less than the lender is owed.

Legal Fees

Legal fees will vary by state and by the legal professional you choose. You should factor into your budget such fees when buying a house and they will vary depending on the size and complexity of the purchase. In order to minimise conveyancing and legal costs there are websites available that help you quickly receive and compare conveyancing quotes. Just remember that experience and quality are also important factors in making a decision.

Inspection fees

There are two main forms of inspection that are recommended:

- Building inspection - checks for structural problems
- Pest inspection - ensures the house is free of pests and termites

Getting a building and pest inspection completed gives you peace of mind about your new home purchase

Moving costs

Another important set of costs to consider are moving expenses, especially if you are moving a long distance. These can be quite significant, and vary considerably from company to company, so it's worth doing your research and shopping around. Once again there are websites that allow you to quickly and easily receive multiple moving quotes.

The costs you might not have considered

There are also other fees, such as utility connection or transfer fees, which are paid to connect the water, electricity and gas. While occasionally these may be paid for, generally you will be expected to meet these costs.

When buying a house it's important to construct a detailed budget that takes into account all the costs you could accrue, revise it... and revise it again, to make sure you aren't surprised by any unexpected costs.

Grants & other monetary help available

Although all these costs above may scare you out of purchasing a house, remember there are also many grants and concessions available to a range of different purchasers, from nearly every state in Australia.

5

HOME LOAN DEPOSIT

Home loan deposit is perceived as 'your contribution' to the purchase amount of your desired property. Your deposit determines the kind of loan and loan amount that you may borrow.

Benefits of home loan deposit

- Home loan deposit gives the lender an idea of what you can afford to repay regularly. If you are in the initial planning (saving) stage of buying a house, try to keep aside some savings for the new home purchase. Depositing a specific amount regularly in an account for over a period of several months, along with regular rental payments and investments will help lenders to assess your capability to make home loan repayments. Lenders will also look at your income sources and assess their lending capacity for your financial profile.

- Bigger deposit may impact the interest rate and give you a higher negotiating power and choice of lenders. A bigger deposit may give you a higher negotiating power and choice of lenders, as well as the option of discounted interest rate. It also influences the risk factor of lending to you in a way that it decides if you need a Lenders Mortgage Insurance (LMI) or not.

What counts towards a home loan deposit and genuine savings?

Genuine savings:

Genuine savings are cash stashed away in a bank for a period of three months at least. These savings act as a proof to the lender of your regular repayment ability of a home loan. Lenders are often willing to offer loans of up to 97% of the property's value. However, you may need to demonstrate 5% of genuine savings.

Other investments that are counted as genuine savings:

- Term deposits
- Shares
- Equity in an existing property

Generally, all these savings must be held in a savings account for a period of at least three months to be counted under genuine savings.

Receipts of Regularly Paid Rent

For your rental ledger to become a proof of your genuine savings, you should:

- Still be renting when applying for the loan
- Have a rental ledger of a minimum of 3 months within a single property
- Currently be leasing through a licensed real estate agent.

Note: Not all lenders accept rental repayment history as genuine savings. So, it is advisable to talk to a mortgage broker to have a look at your unique circumstances and help you identify the right lenders and loan for you.

How much deposit do you need?

In general, you should aim to keep a deposit of at least 20% of the desired property's value. However, if we go into specifics, you need to factor the following costs:

- What you can afford to pay regularly
- Your Loan-to-Value ratio (LVR)
- Type of loan and lender

The first cost has been addressed already. Let's work on your LVR -

LVR holds the biggest impact on lender's willingness to loan you the amount you desire. If you're looking for a loan of $130,000 to purchase a property worth $150,000, then your LVR is 87% (130,000/150,000 = 87%), which is huge. The larger your LVR, the riskier you are for the lender.

Alternately, the more money you contribute as deposit, the wider the choice of loans and lenders is there for you.

6

FIRST HOME OWNER'S GRANT

If you are buying or building your first new home, you may be eligible to apply for the first home owner grant ('FHOG'). The FHOG scheme, which is administered by the Office of State Revenue, provides a one-off payment for eligible applications.

First home owners buying or building a new home may apply for a grant of up to $10,000. Contracts signed between 1 January 2017 and 30 June 2017 may be eligible for an additional boost payment of $5,000.

Eligibility for the FHOG

To be eligible for the FHOG, applications must satisfy the following criteria:

- Each applicant must be a natural person (i.e. not a company or trust).
- Each applicant must be 18 years of age or over at the date of making an application.
- At least one of the applicants must be an Australian citizen or permanent resident at the date of making an application.
- Each applicant and/or their spouse cannot have previously received a FHOG or FHOR of duty under this scheme.
- Each applicant and/or their spouse cannot have owned residential property anywhere in Australia before 1 July 2000.
- Each applicant and/or their spouse cannot have previously owned residential property anywhere in Australia on or after 1 July 2000 and occupied that property as a place of residence before 1 July 2004.
- Each applicant and/or their spouse cannot have previously owned residential property anywhere in Australia on or after 1 July 2000 and occupied that property as a place of residence for a continuous period of at least six months that began on or after 1 July 2004.
- Each applicant must occupy the home as their principal place of residence for a continuous period of at least six months, commencing within 12 months of completion of the eligible transaction.

- Each applicant must have entered into an eligible transaction on or after 1 July 2000. An eligible transaction is defined under section 14 of the First Home Owner Grant Act 2000, but is generally a contract for the purchase or construction of a home, or commencement of construction of a home as an owner builder.

- For eligible transactions commencing on or after 1 January 2010, the total value of the home must not exceed the cap amount. The cap amount is:

  1) $750,000 if the property is located south of the 26th parallel of south latitude; or

  2) $1,000,000 if located north of the 26th parallel of south latitude.

First Home Owner Rate of Transfer Duty

A person who qualifies for a FHOG, or a person who would qualify for a FHOG had the transaction been an eligible transaction, or is an Indian Ocean Territory resident, may be entitled to a First Home Owner Rate (FHOR) of duty on the transfer, or agreement to transfer (i.e. the contract for sale), in respect of the acquisition of the home or vacant land.

7

STAMP DUTY

From July 1, 2017, investors will no longer be eligible for the stamp duty concessions for new property off the plan and this could end up costing investors tens of thousands of dollars or more. Off-the-plan stamp duty concessions will only be available for people who intend to live in the property from July 1, 2017.

New Stamp Duty Changes
The new stamp duty changes in Victoria include:

- First home buyers to pay no stamp duty on properties valued under $600,000
- Discounts on a sliding scale for purchasers between $600,000 - $750,000

So how does stamp duty currently work?

In Victoria, stamp duty is split into two parts: the land component and the construction component.

Completed properties require the full stamp duty to be paid on both the land and construction component; however, if you purchase a property off the plan and it has yet to commence then you only have to pay stamp duty on the land component.

For off the plan properties that have begun construction, then stamp duty is paid on the land component and then it is tiered for construction depending how far construction has commenced. So, for new properties such as ones built off the plan, then you might not have to pay stamp duty on the full property value and simply benefit from the off the plan concession instead.

The only impact the new stamp duty laws might have is on the borrowing capacity as investors will also need to include the new stamp duty in their calculations.

This might mean, many investors might need to lower their property expectations and look for a property that is slightly more affordable than before, in order to afford to pay the full stamp duty on the property. It's best to speak to a Mortgage Broker to understand your full borrowing capacity.

8

PICKING THE RIGHT HOME LOAN

When planning for a home loan that you would pay off in 5-10 years or may be even 20 years, you have to think ahead. So, ask yourself these questions keeping this period in mind:

- Will I be happy to see out the term of the loan or do I want to pay it off as quickly as I can?
- Can I stick to a budget or do I have tendencies to blow it out even unintentionally?
- Is certainty in amount of the repayments of the loan better or am I happy to float with the interest rate fluctuations?
- How likely am I to draw back a part of my repayments in future for spending on furniture, vehicle, vacation, etc.?
- If I plan kids, how will this affect my families' work situation?
- For my existing kids, have I budgeted for their current and future expenses well enough?
- How secure is my work situation?
- How likely am I to receive cash windfall or bonus?
- Knowing the answers to these questions can focus you on the home loans that will suit your needs

9

TYPES OF HOME LOANS

With every lender introducing new products all the time, there are literally hundreds of home loans to choose from. However, to keep things simple, here's a snapshot of the main types of home loans and some of their pros and cons:

Variable Loan

Most popular home loan in Australia. Interest rates fluctuate over the life of the loan as per the official rate set by the Reserve Bank of Australia and funding costs. Your regular repayments pay off both the interest and some amount of the principal. You can also choose a basic variable loan, which offers a discounted interest rate but has fewer loan features, such as a redraw facility and repayment flexibility

Fixed Loan

The interest rate is fixed for a certain period, usually the first one to five years of the loan. At the end of the fixed period you can decide whether to fix the rate again, at whatever rate lenders are offering, or move to a variable loan. You may be penalised financially if you exit the loan before the end of the fixed rate period.

Split Rate Loan

Your loan amount is split into two parts - one fixed and another variable. The proportion of variable and fixed is decided by the borrower. Split loans can give you security of a fixed rate home loan and the benefits of variable rate loans.

Interest Only Loan

You repay only the interest on the amount borrowed usually for the first one to five years of the loan, although some lenders offer longer terms. Because you're not paying off the principal, your monthly repayments are lower. At the end of the interest-only period, you begin to pay off both interest and principal. These loans are especially popular with investors who plan to pay off the principal when the property is sold, having achieved capital growth.

Line of Credit Loan

How it works: The loan account balance, each month, is reduced by the amount of cash (salary) coming in and increased by the amount paid on the credit card or withdrawn in cash. This type of loan is good for people who want to maximise their income to pay off their mortgage quickly and/or who want maximum flexibility in their access to funds.

Introductory/Honeymoon Loan

Originally designed for first-home buyers, but now available more widely. Introductory loans offer a discounted interest rate for the first 6-12 months (honeymoon period), before the rate reverts to the usual variable interest rate

Low Doc Loan

Popular with self-employed people, these loans require less documentation or proof of income than most. Often carry higher interest rates or require a larger deposit because of the perceived higher lender risk. In most cases you will be financially better off getting together full documentation for another type of loan. But if this isn’t possible, a low doc loan may be your best opportunity to borrow money.

Loan features

Offset Account

Offset accounts are savings account that are linked to your loan account. Before calculating the interest on your home loan, the balance present in the offset account is deducted from your loan account. As a result, you pay less interest amount on your loan. For instance, if you have a loan of $300,000 and your offset account balance is $10,000, then you will be charged interest on $290,000 ($300,000-10,000). Some loan products do not offer 100% offset. Also, some require a minimum threshold amount in your offset account before the offset is applied.

All-in-One Loan Account

This is a loan, savings, credit and cheque account all rolled into one. All your salary, savings, credit/debit card and cash payments happen from this one account. Whatever the extra cash is left in this account, it reduces the principal amount and thus, the amount of interest charged. Once the minimum monthly repayment amount is deducted, you can access the funds you have left to pay your monthly expenses. These accounts lead to effective reduction in taxes paid on savings. If used with discipline, these accounts can result in saving your interest.

Professional Package

These are available only to higher home loan amounts. The higher the loan amount, the more chances of the lender offering additional discount on the interest rate.

Direct Salary Credit

Good for those who are not into a habit of saving regularly as it allows your salary to be directly deducted with your monthly repayment and transferred into your home loan account.

Repayment Holiday

A feature especially useful during career changes or breaks as it offers a leave from repayments for certain time interval or allows a period of reduced loan repayments.

Switch to Fixed Rate This feature simply allows the borrower to switch from a variable interest rate loan to a fixed one.

Top-up Having a top-up feature allows you to increase the limit on your loan using equity in your property for other needs like renovations.

Checklist of loan documents

Personal identification (100 points of ID are required)

- A current Passport or Birth Certificate is worth 70 points while a Driver's Licence adds 40 points.
- Other documents that help build up 100 points include: a Medicare card, Credit card, ATM/Debit card, Council Rates Notice, Pensioner Concession card, Health Care card, Tertiary Student ID card.

Note: If these documents are in your maiden name, you will also need to provide a copy of your Marriage Certificate.

Income details

- The two most recent payslips from your employer showing the company name, number of payslip and year-to-date income figure.
- The most recent Group Certificate from your employer.

If self-employed:

- The last two years' personal and business tax returns and ATO assessments.
- Other income details

You may also need:

- Rental income statements or bank accounts showing rental income for any investment properties
- Proof of share dividends or interest earned
- Centrelink letter confirming family tax benefits and permanent government pensions
- Private pension group certificate or statement
- Proof of any other regular, ongoing income

Additional documents for refinancing

- Documentation on your existing loan including the date the loan commenced, loan period and any financial penalty payable, if you exit the loan early
- Statements for the last six months for any existing home loans and personal loans
- The most recent Council Rates Notice and building insurance policy on the property or properties being offered as security Credit cards
- If you have credit card debt, statements for the last six months.
- If you don't owe anything on your credit card, the most recent statement.

Additional documents for First Home Buyers

- Statement for your First Home Saver Account, if you have one
- Statements for the last six months to show your savings/investment history. This could include share certificates, term deposit statements, etc.
- If other funds are being used for the purchase, evidence showing where the funds are held
- If other funds are being given to you, which are not already in your bank account, you will need a Statutory Declaration from the person giving you the money
- Your most recent credit card statement
- Copy of the Contract of Sale for the property being purchased

10

SUPERANNUATION

As per the 2017 Federal Budget, first home buyers can now get into the property market faster as the Government initiates steps and wide-ranging policies to make things easier. From **1 July 2017**, first home buyers will be able to save for a deposit by salary sacrificing or making after-tax contributions into their super saver account or superannuation.

So how does it work?

From 1 July 2017, first home buyers will be able to make voluntary concessional and non-concessional super contributions, before tax and after tax respectively, in order to save for a deposit.

Buyers can start drawing down on these contributions from 1 July 2018 at their marginal rate minus a 30% tax offset. First-home buyers can now use up to $30,000 of voluntary superannuation contributions to place a deposit on a house or apartment.

Spouse super contributions

If your spouse earns less than $37,000 per annum and contribute to their super, you can claim a tax offset equal to 18% of the contributions, up to $540. Even if they earn up to $40,000, you could still be entitled to a partial super tax offset. Other restrictions apply, however this change allows couples to get greater benefits from adding to each other's super.

Eligibility

This First Home Super Saver Scheme will be administered by the ATO, who will determine a person’s eligibility for release of super funds based on the information given by the applicant and only then can superannuation funds release request authorised by the ATO.

The government would provide $9.4 million to the ATO to implement this measure.

11

HOME BUYING JARGONS

Addendum: It is a form that describes changes being made to the purchase agreement. Content of the addendum must be read carefully.

Application fee or Establishment fee: It is the fee charged to fully or partially cover the lender's internal costs of considering a loan application. The fee is paid upfront and is non-refundable unless the loan request is declined.

Assets: Everything that an individual presently owns like property, savings accounts, home contents, vehicles, shares, etc. is called his assets.

Capped rate loan: When a loan has a guarantee of upper limit (cap) of interest rate for a fixed period of time then it is called a capped rate loan. The interest rate may fall, but cannot exceed the capped percentage.

Certificate of compliance: It is a certificate issued by Council, which is chargeable, certifying that all properties on a specific parcel of land comply with Council's building regulations.

Certificate of title: It is a certificate issued by a government body for a parcel of land confirming the titled/registered owner of that land and debts/mortgages taken against that title.

Closing: This is the process of settlement where you, your agent, lender, seller, and his agent sit at a table and finalize the purchase.

CMA (Comparative Market Analysis): It is the process of determination of a property's market value to suggest a fair asking price. The price is calculated by comparing the property in question to others that have recently been sold within proximity.

Conditional approval: A conditional approval of a loan means approval of loan amount (principle) whose final acceptance is subjected to confirmation of a certain criteria. Conditional offer It is an offer made by the buyer or seller subjected to various factors, such as securing a home loan, a satisfactory builder's report or a satisfactory valuation.

Conveyancing: This is the process where legal ownership of a property is transferred from one person to another.

Credit report: This report is simply a consumer's credit history which is prepared by a credit reporting agency. It generally includes loan information, credit cards details, and other bills and accounts, along with consumer's addresses and employers.

Credit score: It is a score used by creditors to evaluate the creditworthiness of a person applying for a loan. A high credit (>700) indicates less risk of defaulting on repayments.

Down Payment: The amount paid by the buyer in cash to the seller is known as the down payment. It can vary lender to lender, but usually falls in the range of 3-20% of the purchase price of the property.

Due Diligence: This includes verification of all of seller's representation and finding any pertinent facts that have not been disclosed but can affect buyer's decision to buy a property or not. Therefore, due diligence is considered a responsibility of the buyer to conduct before closing on the purchase.

Earnest Money Deposit: It is the amount paid by the buyer to the seller to show his earnest intent towards purchasing his property. If the sale proceeds and completes, the amount is included in the down payment, otherwise it is forfeited by the seller.

Equity: This is the property's current market value minus the amount still owed as loan and debts secured against the property.

Gazumping: When you make a higher offer for a house than another person whose offer has already been accepted by the seller and Fsucceed in acquiring the property.

Guarantor: Guarantor is usually a close family member or friend who agrees to fulfil mortgage repayments of the borrower in event of default on the borrower's end due to any reason.

Mortgagee: The person who lends out the funds (mortgage). Mortgagor The borrower of money who grants a mortgage over his property as security for the loan.

REFERENCES

- http://www.sro.vic.gov.au/fhbdutyreduction
- http://www.sro.vic.gov.au/2017-first-home-buyer-duty-exemption-or-concession-faqs
- https://advice.realestateview.com.au/buying/buying-methods/
- http://www.sro.vic.gov.au/2017-plan-duty-concession-changes-faqs
- http://www.sro.vic.gov.au/news/changes-first-home-owner-grant-and-stamp-duty
- http://www.budget.gov.au/2017-18/content/glossies/factsheets/html/HA_14.htm

CREDITHUB

FINANCE | CONVEYANCING | FINANCIAL PLANNING

We believe that you deserve better services at better rates. Tell us what you're looking for and we will start matching you to finance solutions, best suited for you. With numerous loans to choose from, we'll ensure the right deal and the right structure.

Mailing Address

Credit Hub Australia Pty Ltd.

108, 22-30
Wallace Ave
Point Cook VIC 3030

Suite 12,
2 Graystone Court,
Epping, Vic 3076

Contact Details

1300 782 944
info@credithub.com.au

Australian Credit Licence : 472959