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HomeLoan experts

# First Home Buyers Guide

# Taking the first step on your home buying journey

Every year more than **110,000 Australians** buy their first home, you can too!

We've created this guide to help first home buyers at each key stage of the home buying journey with expert tips, guidance and practical information.

This guide will give you a framework and a series of actionable steps that you can take when buying your first home while avoiding costly mistakes.

# Why use us?

We aim to set an example by delivering what we promise: a higher level of service, better advice and better home loans.

**Australia-wide services**

We finance properties anywhere in Australia for people anywhere in the world.

**Our customers love us**

We receive hundreds of love letters from our customers.

**We get tough loans approved**

We can help you navigate the often complex pre-approval and application process.

**Incredible interest rates**

Our relationships with our panel of lenders allow us to negotiate your interest rate.

Get in touch with one of our award-winning mortgage brokers:

Over the phone by giving us **call on**

**1300 889 743**

**Receive a call back** within 24 hours by filling in our online assessment

GET A **FREE** ASSESSMENT

Stage 01

# Preparing to buy

## By the end of this chapter, you'll be able to:


| | | |
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# Step 1 :

## Calculate your living expenses

Before you start hunting for your new home, the first thing you need to figure out is how much you can afford to spend. The easiest way to do this is to add up all your current living expenses (you can use our template below) and subtract the total from your income.

The amount leftover is the amount available to put towards home loan repayments or put towards saving for a deposit.

Lenders want you to be as thorough and realistic as possible when looking at your living expenses. This is because they are required by law to be “responsible lenders”. A responsible lender can’t offer a loan to someone who is unable to meet the repayments, so they want to gather as much evidence as possible on your financial situation.

While some expenses are fixed, for example school fees, or difficult to modify, for example rent and utilities, others are flexible - or what’s known as discretionary spending, like dining out, gym memberships and holidays.

So if you’re keen to free up more of your income for home loan repayments, you can consider changing your discretionary spending habits. It’s a good idea to create a budget and see if you can stick with it for a few months. This will help determine what you can realistically manage when it comes to your home loan. It is vital that you reduce unnecessary expenses and take control of your expenses.

# Monthly Living Expenses Template

| | |
|---|---|
| **Food and Groceries**<br>Include items such as household items, groceries, fruits, meats, takeaway food and coffee. | $ |
| **Utilities**<br>Include utilities such as water, electricity, gas, cleaning services etc. | $ |
| **Communication expenses**<br>Include items such as internet, phone, tv, streaming services (Netflix, Spotify etc.) | $ |
| **Education**<br>Include items such as school or university fees, books, courses, higher education fees. | $ |
| **Clothing and Personal Care**<br>Include items such as clothing, shoes, hair and skin products, beauty and hygiene products. | $ |
| **Transport and Auto**<br>Include items such as bus/train fare, rideshare costs (Uber, taxi), car registration, fuel, tolls, repair and maintenance etc. | $ |
| **Medical, Health and Fitness**<br>Includes items such as doctor, dentist, eye care, glasses, gym membership etc. | $ |
| **Insurance**<br>Include items such as life, car, income protection, private health insurance etc. | $ |
| **Recreation, Travel and Entertainment**<br>Include items such as dining out, movies, electronic games, tobacco, alcohol, gambling etc. | $ |
| **Children and Pets**<br>Include items such as daycare, childcare, music, tuition, pet expenses. | $ |
| **Other Expenses and Purchases**<br>Include items not covered elsewhere or purchases. | $ |
| **Total** | $ |

So if you're keen to free up more of your income for home loan repayments, you can consider changing your discretionary spending habits. It's a good idea to create a budget and see if you can stick with it for a few months. This will help determine what you can realistically manage when it comes to your home loan. It is vital that you reduce unnecessary expenses and take control of your expenses.

### How do banks calculate your living expenses?

First, lenders will ask you to self-assess your living expenses on your home loan application form. Then, they'll review your bank or credit card statements to confirm your self-assessment and adjust them accordingly.

Secondly, they'll use the Household Expenditure Measure (HEM), which is a standard benchmark that banks use to estimate a borrower's living expenses.

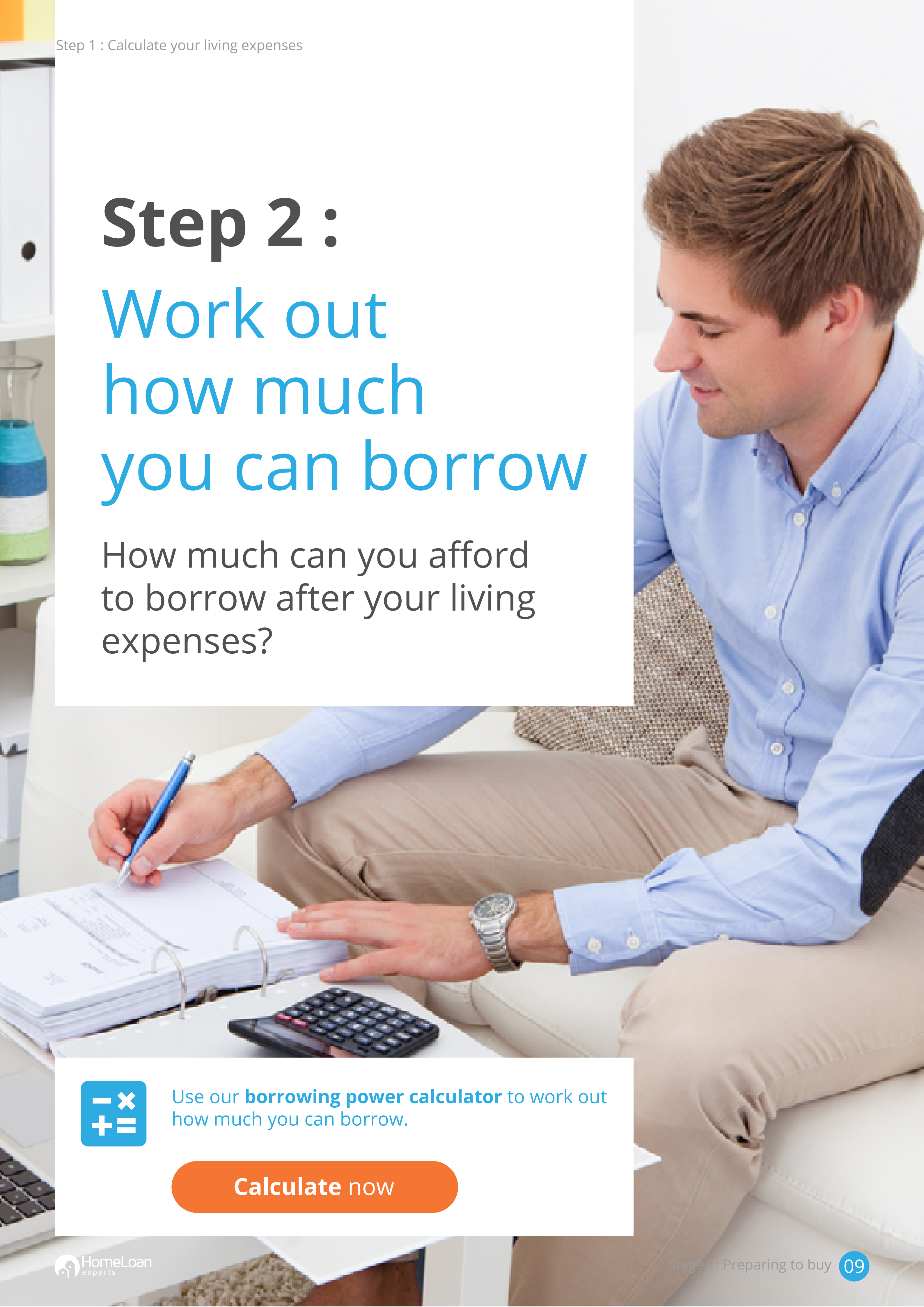
Your living expenses under HEM are based on your income, location, family size and type of lifestyle (student, basic, moderate or lavish). '

The figures from the HEM will be your minimum living expenses as it is considered unreasonable for someone to spend less than HEM each month.

Finally, they'll then compare the two living expenses assessment methods and use the higher of the two as your living expenses.

You can use our **living expenses caluclator** to get an estimate of the minimum living expenses (HEM) used by banks.

**Calculate** now



# Step 2 :
# Work out how much you can borrow

How much can you afford to borrow after your living expenses?

Use our **borrowing power calculator** to work out how much you can borrow.

**Calculate** now

There can be huge differences in how much you can borrow depending on the lender you apply with because of the way each lender assesses your income, debts and expenses.

Our calculator uses the same methods used by the lenders' credit departments and compares your borrowing power with three lenders in one go.

**If you would like to improve your borrowing power:**

- Reduce your credit card limits or cancel your credit cards
- Cut down on your living expenses at least three months prior to applying for a home loan.
- Pay off or cancel "buy now pay later' services such as Afterpay or Zippay as lenders consider these are ongoing liabilities even if they are short term.
- Apply for a longer loan term on your home loan. E.g. the amount you can borrow increases with a 30-year loan term compared to a 25-year mortgage.

Next use our **loan repayment calculator** to work out what your repayments will be on the amount you can borrow.

**Calculate** now

Your repayment amount will vary depending on your loan amount, interest rate, loan term, repayment frequency etc.

Use the calculator to work out the right home loan for you in terms of affordability and a suitable minimum repayment.

Remember, online calculators are designed to give you an estimate only.

## What is the right amount to borrow?

The right amount to borrow depends on your overall financial position and your asset position. It is a very personal decision.

To help you understand, consider the following: your borrowing power as provided by the lender is conservatively calculated using your current financial situation as well as your deposit. However, what it doesn't take into consideration is your future living expenses and income, and your plans

Ask yourself these questions:

**Are you anticipating any changes in the near future?**

Any major life changes could impact your ability to make your repayments. Consider these factors into your financial plan.

For example, if you plan on having children in the next few years, you'll want to leave yourself some buffer in your budget to factor these anticipated expenses. Or if you're planning a career change, then think about the impact this could have on your income.

While life changes are unpredictable, you can protect yourself by giving yourself breathing space, just in case.

### Are you financially disciplined?

What we've seen is that people who are good with money tend to borrow too little, whereas, at the other end of the spectrum, some borrow too much especially with credit cards and personal loans.

Financially savvy people are generally conservative and tend to borrow far less than the maximum loan available to them. This may mean that the property they purchase won't meet their needs into the future and they may need to sell and upgrade. It is worth pointing out that selling a property costs up to 3% (agents fees, advertising etc) of the property value and buying up to 5% (stamp duty). E.g. upgrading from a $1 million to a $2 million home would cost around $130,000.

### What if the interest rate rises?

Ask yourself if you would realistically be able to afford the loan repayments on your current income if interest rates rise.

You should be able to afford a rate rise of up to 2%, so a good tip is to add this rate to your current home loan and calculate whether you would be able to make these repayments.

**Tip:** We generally recommend that customers stay below 5% of their maximum purchase price.

# Step 3 :

## Work out upfront costs when buying your first home

There are certain upfront costs when buying a property that you need to take into account.

Generally, these fees can cost up to 3%-5% of the property value with stamp duty being the most expensive single item cost. As first home buyers, you may be exempt from stamp duty. For example in New South Wales, on a $650,000 existing home purchase, first home buyers can save up to **$24,585 in stamp duty**. We'll cover this in more detail later on in the chapter.

Without the cost of stamp duty, the property purchasing costs are significantly reduced, with some first home buyers only paying a couple of thousand dollars in upfront costs.

You can use our **stamp duty calculator** to get an estimate of the stamp duty payable.

**Calculate** now

These costs include:

**Government fees including stamp duty:**

Stamp duty, also known as transfer duty, is a one-off tax paid by the purchaser of a property. First home buyers qualify for stamp duty exemption or concessions when buying property up to a certain threshold, which varies between states.

**Conveyancing and legal fees:**

It is strongly recommended that first home buyers get a qualified conveyancer to handle the legal side of things. This will cost approximately **$800 to $1,500**. Conveyancing covers the legal and statutory process of transferring real estate ownership. Generally, your conveyancer/solicitor will handle the preparation of the contract of sale, the exchange of contracts, and the settlement.

**Building and pest inspection:**

A building inspection is a detailed assessment of the condition of the property that is carried out by a qualified professional. It can help you identify problem areas like cracked and damp walls, faulty roofs, etc. A building and pest inspection is recommended before you make any buying or selling decision. Depending on the size, location and the number of services you require from the building inspector, the costs vary and range between **$200 up to $1000**.

**Title transfer fee and registration fees:**

The mortgage registration fee from 1 July 2019 is **$146.40** and the land transfer fee is **$146.40**. These are government fees to transfer the land title to your name, and register the mortgage on the title respectively.

**Home insurance prior to settlement:**

Banks require that your property is insured before they'll advance the loan amount. When buying a property, make sure that your policy starts before the proposed settlement date and is insured for the minimum amount required by the bank. The average home insurance costs around **$1,000 in NSW**.

**Bank fees:**

There may be some bank fees for lodging an application, valuation of the property, settlement etc. These fees can vary from $0 to $900 with many banks waiving these fees for first home buyers.

# Step 4 :
# Save for a deposit

No doubt you've heard of the 80/20 rule in home loans. You provide a 20% deposit and the lender will lend you the remaining 80% to make up the purchase price.

That means on a $600,000 purchase, you'd require a deposit of $120,000 (20%). That is a lot of money to save especially if you're renting.

These days however, first home buyers with less than 20% saved up have a few options available to them.

## Lenders Mortgage Insurance (LMI)

Most first home buyers can now borrow up to 90% to 95% of the property value by taking out Lenders Mortgage Insurance (LMI).

LMI is an insurance fee paid by the borrower that provides protection for the lender if you default on the loan. A default is when you miss a loan payment or stop making payments all together. LMI allows you to borrow a higher percentage of the purchase price than you normally could, i.e. more than 80% of the property value.

This fee can be added on to your home loan so that you pay this over the life of the loan instead of upfront.

## How much deposit do I need for a house?

| Property purchase price | Minimum Deposit | | |
|---|---|---|---|
| | LMI not required | LMI required | |
| | 20% | 10% deposit | 5% deposit |
| $800,000 | $160,000 | $80,000 | $40,000 |
| $700,000 | $140,000 | $70,000 | $35,000 |
| $600,000 | $120,000 | $60,000 | $30,000 |

## How much is LMI?

LMI fees can vary depending on the loan amount, your deposit and the LMI provider. E.g. on a $600,000 property:

- With a 15% deposit, LMI can cost about $4,957
- With a 10% deposit, LMI can cost about $9,137
- With a 5% deposit, LMI can cost about $17,339

**Tip:** The rate that LMI is charged at jumps significantly when you borrow over $300,000, $500,000 or $1,000,000. E.g. If you're borrowing $299,999, you'll pay much less in LMI than if you borrow $300,001 even though your loan is just $2 more.

The cost of LMI also jumps when you borrow over 90% of the property value. So again a small reduction in the size of your loan can save you thousands of dollars in LMI.

Did you know some lenders have **special discounts** on LMI for first home buyers?

Find **discount**

Use our **LMI calculator** to find the cheapest LMI provider.

**Calculate** now

## Guarantor home loans

A guarantor home loan is where the guarantor (usually your parents or grandparents) use their property to provide a guarantee on your home loan.

With a guarantor home loan, you can borrow the full purchase price of the property as well as purchasing costs such as stamp duty and legal fees.

## What are the benefits of a guarantor loan?

- You don't need a deposit, allowing you to buy a home now
- Save money by not paying an LMI premium
- You can consolidate some minor debts, such as credit cards, when you buy your home
- You can limit the size of the guarantee
- You can borrow up to 105% of the purchase price plus costs such as stamp duty and legal fees

## Example of a guarantor home loan

James found a house that he really liked that is valued at **$531,500**. He wants to buy the property but doesn't have a deposit saved up.

He asks his parents to be the guarantor on his home loan. His parents have enough equity in their home and are happy to provide a guarantee as additional security on the loan.

With a guarantor, James buys the property without a deposit and avoids paying the Lenders Mortgage Insurance fee saving him tens of thousands of dollars **in LMI fees**.

## Guarantor loan details:

| | |
|---|---|
| Property value | **$531,500** |
| Loan amount | **$536,000**<br>(100.84% of the property value) |
| Amount secured on the guarantor's property | **$110,800**<br>(around 20% of the property value) |
| Amount saved on LMI due to guarantor | **$15,360** (calculated on a 5% deposit) |
| Interest rate | **3.41%** p.a. |
| Monthly repayment | Principal and interest repayment of **$2,360** |
| Loan term | **30 years** |

## What are the risks of being a guarantor?

The guarantor is ultimately liable for the part of loan they have guaranteed.

If the person they have guaranteed fails to meet their loan obligations and defaults, the guarantor will be responsible for the amount they have guaranteed.

This can put them at a great risk depending on the amount of assets or exposure they have on the mortgage.

**Tip:** Get independent legal and financial advice from a professional before committing to becoming a guarantor. This can help you understand how it will affect your financial situation.

# Step 5 :

# Government grants and schemes for first home buyers

First home buyers have access to a range of government grants and schemes which can significantly reduce your property buying costs. The most prominent ones are:

**The First Home Owners Grant (FHOG):**

It is a one-off grant for first home buyers purchasing a new home or building a new home.

| States | FHOG grant amount |
|---|---|
| NSW | $10,000 |
| VIC | $10,000 |
| ACT | N/A |
| QLD | $15,000 |
| SA | $15,000 |
| WA | $10,000 |
| NT | $10,000 |
| TAS | $30,000 |

Learn **more**

**Stamp duty exemption or concessions:**

Stamp duty is exempted or discounted for first home buyers up to a certain price threshold. The price threshold depends on the state you're looking to buy in and whether it's an established or new home.

Grant amounts and duty concessions change over time, so please refer to firsthome.gov.au for the latest information.

Did you know eligible first home buyers in ACT pay no stamp duty for any property, anywhere in the ACT, and at any price?

Check your eligibility. If you're eligible for these grants or schemes, generally your lender, solicitor or mortgage broker will apply for them on your behalf.

Learn **more**

**The First Home Loan Deposit Scheme (FHLDS):**

This federal government scheme essentially allows first home buyers to buy a modest home with a 5%-20% deposit while avoiding the high cost of Lenders Mortgage Insurance fees.

Learn **more**

## HomeBuilder Grant

The HomeBuilder Grant is a **$25,000** tax-free grant given to eligible owner-occupiers, including first home buyers looking to:

- Build a new home
- Renovate an existing home

This is a federal scheme designed to help the Australian residential construction market continue business in the wake of the Coronavirus.

See the **eligibility criteria**

**Can I apply for multiple government grants and schemes?**

Yes, you can, if you're eligible.

For example, an eligible first home buyer can technically apply for and qualify for the First Home Owners Grant and the First Home Loan Deposit Scheme while paying no stamp duty.

**Can I use the FHOG as a part of my deposit?**

Yes, you can.

However, first home buyers should be aware that being too reliant on the grants/schemes can have a negative impact on how a lender assesses your home loan application.

# Step 6 :

## Apply for a pre-approval so you can search with confidence

Over the years, we've seen many first home buyers successfully bid at auction only to get declined for a loan.

This is one of the key reasons we strongly recommend you get pre-approvals from at least two lenders before you consider putting down a deposit on a house.

A pre-approval or a conditional approval simply means a lender has looked at your income, expenses and your overall financial situation, and agreed to lend you an amount towards the purchase of your home.

A pre-approval:

- Gives you the confidence to go out and confidently search for your first property.
- Gives you an upper limit on the maximum property price that you can afford.
- Is valid for 3 to 6 months, which can be extended provided your financial situation hasn't changed.

## How reliable is your pre-approval?

Pre-approvals are subject to a few conditions. They can be revoked if your situation has changed or the lender's policies have changed.

For example, during the COVID-19 lockdown, many lenders started reviewing pre-approved mortgages for those who are going through financial hardship due to the loss of jobs or reduced hours.

Many lenders asked for a recent payslip or are doing some other kind of employment check before they advance the loan.

Since a lender is under no legal obligation to fund your loan, even on the day of settlement, they can withdraw the approval if they want to.

**Tip:** Get pre-approved with two or more lenders especially if you're bidding at auction.

# Meet James and Jenna

- Combined annual income: **$120,000**
- Looking to buy in: **New South Wales (NSW)**
- With savings of: **$60,000**
- Looking to buy a property worth: **$600,000**

After a discussion with one of our mortgage brokers, we work out their living expenses, upfront buying costs and borrowing power.

## The couple's budget

- Current living expenses: $2,000 per month excluding rent
- Upfront buying costs:  $17,000 with the Lenders Mortgage Insurance fee
- Borrowing power: $657,000 (maximum)

After going over their budget and their goals and objectives, they decide to apply for a pre-approval.

## Pre-approval

- Loan amount: **$657,000**
- Repayments per month: **$2,627 per month**
- Loan details: Indicative interest rate of **2.59% p.a. (comparison rate: 3% p.a.)** on 30-year principal and interest loan

With a pre-approval in hand, James and Jenna can now confidently start looking for their first home.

# Contact us

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**Receive a call back** within 24 hours by filling in our online assessment

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# We hope you liked our guide!

For more information visit our website [homeloanexperts.com.au](homeloanexperts.com.au)

**Disclaimer**

The information presented in this guide is of a general nature. It does not take into consideration your personal goals, objective or financial situation. The information provided herein should not be relied on as legal or financial advice.

Although considerable effort has been made to ensure accuracy of information provided, information is subject to change as such it should only be used as a general guide.

Everyone's situation is different as such they will need to be assessed on a case by case basis. Readers are advised to seek qualified advice from their financial advisor, mortgage broker or accountant prior to making any decision.

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