Do your first home loan *right.*

Own your home, own your home loan.
A first-home buyer's guide.

Loan Market™

Seriously helpful.

Life is full of *firsts.*

First car, international travel, job, house…

It may be your first time, but with a broker by your side, you could own your home and own your home loan.

This guide can help you on your way to home ownership.

01

Nail your deposit and budget.

Buying a home is no small feat. And yes, it is expensive and likely one of the biggest purchases you will ever make. The reality is, if your goal is to buy property, unless you are fortunate enough to win the lottery, you will likely need to get serious about ensuring you save a deposit and can demonstrate good savings habits.

The deposit

The general rule of thumb is the ideal deposit is at least 20% of the total house price. For example, if you were looking to purchase property worth $500,000, a 20% deposit would be $100,000. This isn't 100% essential as some lenders may accept as low as 5%, but it is likely you will need to pay for lenders mortgage insurance (LMI), which is insurance the lender takes out to protect against the risk of you not being able to repay the loan. In some cases it may be worthwhile paying the LMI to help you get into your home sooner but a broker can help you run the calculations to understand what this would mean for you and your repayments.

What is LMI?

Lenders Mortgage Insurance (LMI) is insurance you pay for that protects the lender if you default on your loan. This only protects the lender and you will likely be required to sell your home to repay the loan.

Can I fast forward the deposit?

If you don't have a 20% deposit, there could be other options available. Some include:

Guarantors

A guarantor is someone who "guarantees" a certain portion of your loan. They can be your parents, parents-in-law, step-parents, grandparents or siblings. They provide security (usually equity in their home) as security for your home loan, effectively boosting your deposit.

A security and income guarantee not only uses the guarantor's equity as security, but also their income to be calculated toward determining the serviceability of the home loan, meaning whether they could assist you to meet repayments should you experience troubles.

If your circumstances change and you can no longer meet your repayments, the guarantor will be liable for the portion of the loan they guaranteed. This could mean having to sell their home to cover the costs. For this reason, it is a good idea to have open, honest conversations and for them to seek legal advice before entering a contract.

First Home Guarantee

The First Home Guarantee (FHG), formerly known as the First Home Loan Deposit Scheme (FHLDS) is an initiative by the Australian Government to help first-home buyers build or buy their first home sooner. How does it work? Eligible first-home buyers can purchase or build a home with a deposit between five but under 20% of the total purchase value, and the Government guarantees the remainder up to a 20% deposit. This saves the buyer from paying LMI.

Am I eligible?

To be eligible you must:

- be an Australian citizen or permanent resident
- be over 18 years old
- buying by yourself or with one other applicant
- not have owned residential property in Australia in the last 10 years
- have earned $125,000 or less in the last financial year as a single, or $200,000 or less combined income as a couple
- have saved at least a 5% deposit
- live in the property
- Purchase a property under your state or territory's price cap

Other guarantees, including the Family Home Guarantee and Regional Home Guarantee offer a number of additional positions with slightly different eligibility criteria.

Budgeting

When working out your budget, make sure you factor in additional expenses such as stamp duty, conveyancer/solicitor fees and costs for the move. Some states and territories offer stamp duty concessions for first-home buyers up to a certain cap. As your broker, we can calculate how much you may need to budget for based on your goal and where you're buying.

Once you have your goal, set a budget an stick to it. Work out how much your income is and all your living expenses so you can understand your spending habits. You may then be able to identify areas where you could cut back on spending to supercharge your savings.

HOT TIP:
We have a bunch of free calculators on our website to help you including budget, savings and stamp duty calculators.

Ways you could save money

We don't need to teach granny how to suck eggs, and saving comes down to you evaluating your current spending and seeing where you can cut back. Some ways people can cut back on spending include:

- **Cut back on the lattes**
  Eliminating a daily $5 coffee can save you just under $2,000 over a year. It doesn't mean you have to go without. Take advantage of coffee offered at work or step up your at-home coffee game with a plunger or aeropress.

- **Saving from your kitchen**
  Rather than buying lunches out, try your hand at Sunday meal prep. If you saved $15 per work day on your lunch, that's just under $4,000 in a year.

- **Be economical for your pocket and the planet**
  switching electrical devices off, rather than on standby, using lights only when you're in the room and layering up rather than blasting the heating as high could pay dividends for you and the planet.

- **How about a side gig?**
  There are now so many ways you could potentially make money on the side of your main income. Whether you have a skill you can sell on websites like Airtasker, orjumping on shared economy platforms like those for dog walkers or food delivery, there are options available.

Genuine vs non-genuine savings

Lenders have a look at your savings account to see what your savings habits are like. This can give them confidence you will meet your repayments. The accumulation of your deposit demonstrates genuine savings.

Non-genuine savings could include lump-sum inputs such as gifts from your parents. These are helpful to meet your deposit goal, but lenders will want to see you have a history of being responsible with your money as well.

Number *crunch* - deposit example

You have your eye on a home worth $580,000

A 20% deposit is $116,000

If you qualify for the FHG or have a guarantor, you could purchase with as little as a 5% deposit of $29,000.

(If you have a guarantor and you put forward a $29,000 deposit, they would need to guarantee the remaining $87,000).

What is stamp duty?

Stamp duty is a state government tax on your property to cover things like transfer and mortgage duty, mortgage registration and transfer fees. Each state or territory charges different amounts based on the value of the property.

02

Navigate the loan process.

Just say you were in a position where you were comfortable with getting the ball rolling with purchasing property. There are a number of steps between now and hanging your photos on walls. But we are here to help at every step. Here's what the process usually looks like.

1. **Meet with your broker**
   In your initial meeting, your broker will discuss your situation and goals. They will be able to calculate your borrowing power (meaning the amount of money a lender may agree to lend you) and discuss your options, including whether you are eligible for any government incentives.

2. **Get your Game Plan**
   We hunt through our panel of over 60 lenders to find the loans we recommend for you based on your goals. These are sent to you in your tailored Game Plan. Let your broker know which option you would like to proceed with.

3. **Pre-approval**
   We will let you know if we require any further documentation from you and arrange your pre-approval application. If all goes to plan, you could have your conditional pre-approval within a few days. It is usually valid for around three months, giving you a clear idea of your spending limit.

4. **Organise a conveyancer**
   It is a good idea to find a conveyancer or solicitor who is available to work with you when you find the property you want to make an offer on. They will take care of the property transfer process including final checks on the property and council reports, as well as checking the contract of sale on your behalf.

5. Get house hunting

Now you know how much you are likely to be able to borrow, you can have the confidence to get hunting for your home and start making offers.

6. Make an offer

When you make an offer, think carefully about whether you want to include conditions. It is normal to include a clause for a building and pest inspection and for finance to be formally approved. The building and pest inspection will set you back a few hundred dollars, but will let you know if there are any major defects or problems with your potential home. You can also include other conditions such as repairs.

An unconditional offer is where you offer to purchase the property outright, as is. It could make your offer more competitive but carries more risk This is the only choice if bidding at an auction.

7. Formal approval

If your offer is accepted, it is go time. Your broker will sort the paperwork for your formal finance approval. In the meantime, you will need to arrange insurance and your lender will arrange a valuation of the property. Once this is over the line, the lender will run its assessment of your application and once approved, a settlement date is agreed on.

8. Settlement day

In this final stage, your broker will organise settlement with your conveyancer and lender. We will let you know the moment everything is finalised and you can celebrate the major milestone.

03

Know your options - the loan *cheat* sheet.

There are a lot of home loans out there. It isn't quite as simple as deciding you need a loan, and going out to get just any one. To help you understand the difference between your options, we've listed the variations in this cheat sheet.

Variable-rate loan:
The interest rate varies over the life of the loan. If interest rates rise, you pay more, and vice versa.

Fixed-rate loan:
The interest rate is locked at an agreed rate over the specified term (usually one to five years). This means repayments remain the same until the end of the term where the loan will transfer to a variable rate or you can choose to refinance.

Split loan:
You can choose to have a portion of your loan with a variable rate and the remainder with a fixed rate. This can enable you some certainty with the fixed rate, but access to features attached to a variable-rate loan.

Packaged loan:
You have the option to package your home loan with other banking products such as an offset account, credit card, car loan, savings account and insurance (home and contents, car, etc). These can offer discounted rates however often come with a package fee charged annually.

Introductory rate loan:
Also referred to as 'honeymoon rate loans', these offer a lower interest rate for a short period (such as a year) before converting to a standard variable rate.

Principal and interest repayments:
This is where your repayments go toward paying off the principal (which is the loan amount) as well as the interest charged on the loan.

Interest-only repayments:
Some lenders may enable you to only make interest repayments, without paying down the principal, for a set period of time. This could help lower the repayments, however it means you are not making progress toward paying off your home loan principal.

Construction loan:
These are designed for people who are building a home. The lender will provide the money in instalments as it is needed for each stage of the construction. You only pay for interest on the amount you've drawn down and these loans are often interest-only for the first year while the construction is underway.

There are also a few options that can accompany the loan, potentially helping you to pay it off sooner. These are:

Offset account:
This is attached to the home loan but sits separate. Any money you deposit into your offset account counts towards money paid off for your loan, meaning you don't need to pay interest on that amount. However, it usually is accessible, so you can withdraw it if you need to. These more commonly accompany variable-rate loans and can come with fees.

Redraw facility:
This enables you to make extra repayments toward your loan (which reduces the amount of interest you pay), but also withdraw any additional repayments you made if you need it.

Additional repayments:
Some loans allow you to make additional repayments toward the loan. Doing this could save you thousands of dollars in interest.

04

Find your *dream* home.

Whether it's your dream home, or the dream you can afford right now, owning is a big but exciting commitment.

Once you've set your budget and have an idea of where you want to buy, it's time to start looking. Find out what the future plans are for your suburb and think about what your priorities are in a home. If you're unsure what type of property you may want, here is a breakdown on buying a house vs a unit/townhouse and buying new vs existing.

BUYING A HOUSE	*VS*	BUYING A UNIT
+ Historically has seen greater potential to grow in value + More scope to improve value and appeal through renovations, additions and landscaping + Not limited by body corporate		+ Often cheaper to buy and can enable you to purchase in a more desirable suburb + Owners can share some repair costs through the body corporate + There could be shared facilities such as a pool or gym
- Usually costs more to buy and you are responsible for all repair costs - Council rates can be higher - Insurance may be more due to size and security requirements		- Body corporates may limit renovations and additions - You are generally closer to your neighbours and can share walls - You may need to pay money to the body corporate including for strata insurance

BUYING NEW	*VS*	BUYING EXISTING
+ There shouldn't be many repairs or maintenance required immediately and there may be a warranty on the build		+ Could be more choice in the location you want to purchase in
+ Amenities and technology will be modern		+ Greater potential to renovate to add value
+ Likely higher energy standards which can mean lower running costs for heating and cooling		+ More straightforward process and can be a shorter timeframe to move in
+ There may be government grants available		+ More evidence of value growth - new apartments can be in overdeveloped areas or new houses can be on smaller land plots
- Construction timelines may not run to plan		- Likely to have more need for repairs and maintenance
- There is less opportunity to add value through renovations and improvements		- Amenities and technology may be older and less modern
- Often new homes are located in suburbs further from the city centre		- The energy standards may be lower, meaning higher operating costs for things like heating and cooling
- Knock-down rebuilds can carry complications, additional costs and project management		- No ability to customise the floorplan outright, any changes will need to be done by you

05

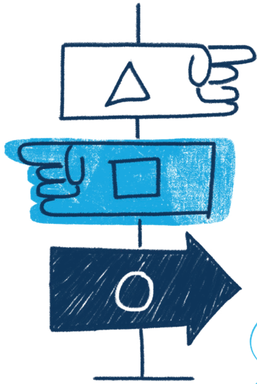
Property buying *checklist.*

What you should look for and consider when buying a home:

- What is your borrowing power?
- What area do you want to purchase in and does it enable you to purchase property that supports your lifestyle?
- Would you rather a house, apartment or townhouse? (Note, this goes hand in hand with the location as inner-city areas are more expensive and can limit the type of property you can afford).
- What facilities do you want tobe close to (such as public transportation, shops and schools)?
- Is there much noise in the neighbourhood? Consider traffic, neighbours, bars/restaurants and flight paths.

Once you have narrowed your search, consider:

- What state is the building in? Look for structural defects including cracks in the wall, termites, wiring and dampness.
- Are there any developments planned nearby? Check your state government or local council's websites.
- Does the floor plan suit your needs (or can you afford renovations)?
- Are there enough parking spots? Is visitor parking important to you?
- Is the property at risk of flooding or natural disasters? You can get free insurance quotes online.
- What are the ongoing costs for the property (such as council rates and body corporate)?
- Are there zoning or building restrictions on the property? You can check this with your local council.
- Will updates need to be made such as to the bathrooms or appliances?
- Have you inspected the property at different times of the day to check traffic, noise and sun exposure?



06

Why a Loan Market broker?

There are a lot of moving parts when it comes to buying property. As a first-home buyer, you can remove the uncertainty with the help of someone experienced in the process and is by your side every step of the way - your broker. As a Loan Market broker, we offer you:

We're not a bank, nor are we owned by one
A bank works for its bottom line. We work for you.

Family taking care of family
We're a family-owned business, helping Aussies and Kiwis with their goals for nearly 30 years.

Power to negotiate
With 60+ banks and lenders on our panel, we give you choice and power.

Keeping it simple
We break it down for you - no jargon.

Free for you*
We get paid by the lender you choose.

*We may charge a fee to cover additional time required by our team. Any fees will be discussed with you in advance so you can make an informed decision before proceeding with your application.

Ready to get started?
Do your first time right with a Loan Market broker by your side.

Contact us:
P: 13 56 26
E: customercare@loanmarket.com.au
W: loanmarket.com.au

10 May 2023
Published in Australia by Loan Market Group Pty Ltd, Level 17, 135 King Street, Sydney, Australia, 2000.

Loan Market Group Pty Ltd
ABN 83 105 221 967

Loan Market Pty Ltd
ABN 89 105 230 019
Australian Credit Licence 390222

Loan Market

Seriously helpful.