Buying Your First Home

The next big thing in your life…

SHERIDANS
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If you'd like more copies of this booklet to share around, please get in touch. I'd be happy to provide them.

As a mortgage broker, I'm legally bound to respect the confidentiality of my clients. The examples and case studies I've included in this booklet are gathered from my genuine experience, however names and circumstances have been changed.

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Introduction

There's so much to consider when you're buying your first home and it can feel overwhelming. From my experience over the years, as a mortgage broker and a home owner myself, I've identified seven key stages of buying your first home which I've found makes the whole process feel more manageable. Each section of this book describes one of the seven stages in detail.

Stage 1: Set Your Goals

From meeting with a lot of home owners I've concluded that setting and achieving goals is a really important part of their success in owning their first home. This chapter will go through the process of formulating your goals for buying your first home. It will help you clarify what you really want to do, understand the importance of pursuing your goals and commit yourself to making them happen. Setting sub-goals will help you break your goals into small achievable steps which will provide you with the motivation of knowing where you are going and how you anticipate getting there.

Stage 2: Work Out Your Borrowing Power

Your borrowing power is the amount of money that the lender is willing to offer you. You don't need to borrow to the max, as this may impact your living standard and quality of life.

Lenders consider a number of factors to determine your borrowing capacity. They generally include your income, living costs and any other existing debts. When buying in a competitive market, a small change to your borrowing power could be the difference between having enough funds to buy your first home and missing out completely. By understanding the factors that impact your borrowing power, you can be well prepared before approaching your lender for finance.

Stage 3: Get Your Personal Finances in Order

Before buying your first home you need to look at your financial situation making sure that it is in order. This is important because there are a lot of additional costs, some expected and others unexpected, associated with owning a home. Failing to prepare for this may result in financial hardship.

A budget is a vital tool to help you manage your money and help you maintain your standard of living. A budget can also help you establish a savings plan for your deposit. Your lender will want to see a consistent savings history. This reassures them that you can manage your home loan repayments and that you are a good risk.

Stage 4: Obtain Loan Pre-Approval

You should obtain loan pre-approval before you start searching for your first home. This makes a lot of sense as it gives you a real idea of how much you can borrow. With this information you can focus your search on a home that is within your budget.

You will be spoilt for choices when it comes to financing your purchase. The mortgage market has opened up in Australia to offer first home buyers like you much greater choice. The lending market is very keen to win your business, so it is very important that you choose wisely and it pays to shop around.

Stage 5: Choosing Your First Home

Shopping for your first home can be exciting and terrifying at the same time. This is understandable as there are a lot of things that you need to consider. How do you choose the right property type? How do you choose the right location? It's hard not to feel that you are drowning in possibilities.

A little planning goes a long way in helping you alleviate the stress. It could also help you save time and money down the track. Make sure that you take as much time as you need. Certainly there is nothing wrong with finding the right property straight away, but it is best not to rush into it. After all, you may only get this opportunity once in your entire life!

Stage 6: Buy Your First Home

You have found your dream home and you are ready to buy.

Buying at an auction means you can't negotiate the terms of the sale, you are immediately bound by the sale contract and you have to pay a non-refundable deposit on the day.

If the property isn't going to auction, you are saved the stress of auction day. But then you are faced with the daunting question - what should you offer? You want to make sure that you get good value for your money.

Once your offer has been accepted, you'll need to act very quickly to meet a lot of deadlines.

Stage 7: Now What?

Congratulations, you've bought your first home! It's a major milestone in your life. Moving into your own house is an exciting time and emotions are running high. While you are at it, throw a housewarming party. This will allow you to share your excitement and hard work with the people you care about. Not to mention, you might get a nice gift or two.

Homeownership will be one of the biggest financial investments that you will make in your lifetime. From a financial point of view, you need to think about how you are going to pay your loan long term and how you are going to protect yourself and your family. You'll need to consider insurance such as income protection and death cover as well as making a will and looking at other aspects of estate planning.

This guide will take you step by step through each one of the seven key stages to buying your first home and by the end of it, you will have a clear understanding of what you need to do to achieve your dream of becoming a home owner. Before I continue, here is a paragraph that the legal people insist that I include in this guide to ensure that I am compliant with the law:

> *The information contained in the booklet is factual and general in nature and is not personal financial advice. You should consider the appropriateness of the information as it relates to you. The booklet may cover deposit products and lending information which may contain some general advice. The booklet may also contain information about other investments, superannuation and insurance, the content of which is factual information and is not intended to imply any recommendation or opinion about a financial product. I am unable to give you any financial advice about what you should do. If you would like to obtain personal advice, I suggest you speak with a financial adviser.*

By the way, if you find this guide useful, don't keep it a secret!

Please share it with any of your friends or family members who would also find it helpful. If you'd like additional copies, please let me know. I'd be happy to provide them.

Stage 1: Set Your Goals

Let's Look at Why

Often when we do things in life we tend to ask "What?" and "How".

I believe we should always start with "Why?" When you understand your purpose for doing something, everything else will become a lot clearer and it's easier for you to work out what to do and how to do it.

All of us have different reasons as to why we want to buy our first home. However, one thing for sure is that the main purpose is not about owning a piece of real estate. That's the end result. The purpose of buying your own home goes deeper and it is very important to understand what that real reason is.

To do this, simply repeat the question "Why?" five times. It sounds easy, but you may need to do a bit of soul searching, so take it slowly. Use the answer of your first "why" to form the basis of your next question.

Here's an example to show you how it's done.

Example
Hana is 29 years old. She and her partner Brett both have stable jobs. When she told me she wanted to buy her first home, I led her through the Five "Whys?" Process. **The First Why:** *Me: Why do you want to buy your first home?* *Hana: Because I want to own a piece of real estate* **The Second Why:** *Me: Why do you want to own a piece of real estate?* *Hana: Because I don't want to continue renting for the rest of my life* **The Third Why:** *Me: Why don't you want to continue renting?* *Hana: Because renting can be uncertain and unstable. What if our landlord decides to increase our rent or sell the property in the future?* **The Fourth Why:** *Me: Why are certainty and stability important to you?* *Hana: They are important to me because my partner and I are planning to start a family.* **The Fifth Why:** *Me: Why are certainty and stability important to you and your family?*

Hana: The certainty and stability in being in the same neighborhood long term means a lot to me. We could get to know our neighbours and our neighbourhood and be part of a community. It'd be great in the future for our children to play in the park and meet the children they'll see in the local kindy and will eventually go to school with. The children would be able to build up friendships. Our children would grow up in an environment they're familiar and comfortable with. When I was a child we moved several times and it was always a wrench to leave a familiar place behind. That social stability is something I'd like to have for our family.

Hana's real reason for wanting to buy a home is stability. It's not the same for everyone. Let's look at another example.

Example

Grace, a nurse, is 38 years old and single. When she decided to buy her first home, she used the Five "Whys?" Process to find her real purpose.

The First Why:

Me: Why do you want to buy your first home?

Grace: I want to own the house I live in.

The Second Why:

Me: Why do you want to own the house you live in?

Grace: Rent is just money down the drain.

The Third Why:

Me: Why is rent money down the drain?

Grace: I work really hard and I don't want to pay off someone else's mortgage. I want to pay off my own mortgage!

The Fourth Why:

Me: Why do you want to pay off your own mortgage?

Grace: I want the financial security of owning my own home. If I own my own home I have an asset. Maybe it's early, but I worry that when I retire one day I won't have enough money to pay the rent. If I get my own home and pay off as much as I can I'll be secure. I'll be financially secure.

The underlying reason for Grace wanting to buy a home is financial security. As you can see, Grace found her true reason for wanting to buy a home after her fourth why.

From Hana and Grace's examples you can see that the main purpose for buying a home goes deeper than owning real estate. Their honest and genuine answers give them a solid base for their goal of home ownership.

Now it's your turn to identify your main reason of buying your first home. There are no right or wrong answers in this exercise. The important thing is honesty. This is because your "why" will be the backbone of the goals you set towards owning your own home.

Five "Whys?" Process

Question 1: Why do you want to buy your first home?
Answer:
Question 2: Why
Answer:
Question 3: Why
Answer:
Question 4: Why
Answer:
Question 5: Why
Answer:

Remember, you may need to ask "Why?", more than five times to get to the nitty gritty underlying reason. Then again, you may get to your main purpose in less, as Grace did in the example.

Set up Clear Goals

Now you're clear on exactly why you'd like to be a homeowner, how are you going to get there?

Studies have shown that you are more likely to be successful if you set clear goals. They get you to focus on what you want to achieve and help you make better decisions to bring that goal closer to fruition, so it makes sense to take the time to set up a goal.

You need to make sure that your goal is Specific, Measurable, Achievable, Realistic and Time specific, that is, **SMART**. The SMART approach brings structure that lets you effectively manage your goal to check if you're on track.

Let's follow Grace, the nurse, through her SMART goal.

<u>Specific</u>

Goals should always be as specific as possible. The more specific your goals, the bigger the chance you'll get exactly what you're aiming for. If your goal statement is vague, for example "I want to buy a house", it's not so easy to work towards. It just feels too big and too far beyond what life is like now.

Vague goals like this tend to make people procrastinate because there's nothing to hang on to.

A specific goal about buying your first home is:

"I will save for my deposit and buy my first home".

<u>Measurable</u>

How will you measure whether or not you've reached your goal? Your goal needs to include something that can be measured so you can track your progress. In this case the measurable item is money. Add the dollar amount that you would need to save for your deposit to your goal statement.

"I will save $60,000 for my deposit and buy my first home"

<u>Achievable</u>

Make sure that your goal can be reached. Your goal should stretch you slightly so you feel challenged, but be realistic and defined well enough so that you can achieve it.

Grace earns $5,500 a month and she is single. She's good at saving money, so she suggested saving $2,500 per month. However, with day to day expenses she would be unlikely to reach this savings goal each month. It would cause hardship and lead to anxiety. It would probably be demotivational rather than inspiring. After discussion

Grace decided on a more achievable and realistic goal of saving $1,200 per month (and anything extra she manages to put away will be a bonus!)

Her goal statement is now:

"I will save $1,200 per month in order to achieve my target of $60,000 deposit for me to buy my first home"

Realistic

Your goal must not only be achievable but also be realistic. You must be wondering what the difference is. In Grace's case she earns a full time salary of $65,000 per year. Setting her sights on a $2 million dollar mansion would be wildly unrealistic, unless she wins the lotto. A home priced around $300,000 is a more realistic goal.

Grace's goal statement is:

"I will save $1,200 per month in order to achieve my target of a $60,000 deposit for me to buy my first home that is valued at around $300,000"

Time Specific

Most people work more effectively when there's a deadline involved, and your goal is no different.

Make sure you keep your timeline realistic and flexible. Being too stringent could make you miserable, while being too relaxed could lead to procrastination

Here is Grace's time specific goal:

"I will save $1,200 per month to achieve my target of a $60,000 deposit by 30 June 2023 (which is just over 4 years from now) for me to buy my first home that is valued around $300,000 by 31 December 2023 (which is just over 4 and a half years from now)"

One more thing, always put your SMART goal in writing. It makes it feel that much more real. Go to the next page to fill in your SMART goal.

Here is a template for you to make your own SMART Goal. I've included Grace's examples.

____________________'s SMART Goal
Broad Goal: Buying my first home
Specific: *"I will save for my deposit and buy my first home".*
Measurable: *I will save $60,000 for my deposit and buy my first home.*
Achievable: *I will save $1,200 per month to achieve my target of a $60,000 deposit for me to buy my first home.*
Realistic: *I will save $1,200 per month to achieve my target of a $60,000 deposit for me to buy my first home that is valued around $300,000*
Time Specific: *I will save $1,200 per month to achieve my target of a $60,000 deposit by 30 June 2023 (which is just over 4 years from now) for me to buy my first home that is valued around $300,000 by 31 December 2023 (which is just over 4 and a half years from now).*
Comments:

The Four Obstacles

There's a big difference between setting a goal and actually achieving it, as anyone who has ever been on a diet can tell you! So, what is it that can stop us reaching our goals?

Psychologists have narrowed it down to four main obstacles.

Obstacle 1 – Lack of Desire

How badly do you want something to happen? To achieve your goal of owning your first home, you need to have a strong desire to do it. It needs to be something you really want to do. Your passion to realise your goal will influence almost every decision you make. The more you want to own your first home, the more effort you will put in.

It may sound silly but your goal needs to be something you really want. It's hard to build up passion and enthusiasm and to work hard for something you're not particularly interested in. Go back to your underlying purpose for wanting to own a home that you uncovered using the Five "Whys?" Process. If you've answered honestly, I'm sure you'll find your motivation. That motivation will help you help strengthen your commitment, overcome obstacles and recover from setbacks.

Obstacle 2 – Lack of Belief

You've probably heard the expression "What you believe drives your actions, and actions achieve results." If you believe that your goal is achievable, that certainty will help lead you to success.

Much of what we believe comes from the people surrounding us. If you've seen friends or family reach the same goal that you now have, it's so much easier to believe that you can do it too. Talk to your friends, relatives and colleagues about their experiences in home ownership and get some inspiration.

Example
Lauren is 26 and single. She has a steady job in an office of the State Government. *"I'd always dreamed of having my own little home, but I never thought I could afford it as a single person. Then chatting at lunch with my manager it came up that she had bought her first home at my age and managed to pay it off six years later. All by herself. It made me think about what I could do on my own. I started asking questions and researching and realised that I could make it happen."*

Obstacle 3 – Lack of Knowledge

Buying a home is a big deal. It's not something most people do often. You'll be able to learn a lot by talking to friends, colleagues and relatives who already own a home. Not only that, there's a wealth of information available in the form of books, websites and DVDs, as well as from the professionals like your accountant, mortgage broker , financial planner and real estate agents.

By learning exactly how people have succeeded in buying their first home, you'll be able to overcome the obstacle of lack of knowledge.

Obstacle 4 – Lack of Action

I've talked to a lot of people who've reached this stage and then come to a standstill. They've told me that what held them back wasn't financial constraint. It was the **F-word**, **Fear**: fear of change, fear of commitment, fear of getting into a situation they didn't understand.

I encourage them to work out exactly what it is that's blocking them (The Five "Whys?" Process is a great way to get insight on this) and once they've defined that underlying reason as to why they're at a standstill I ask them to really look at that fear and analyse how it can be overcome. Sometimes just recognising that there's a problem can be enough to overcome it, as it was in Hana's case below:

> *"We were ticking along nicely towards our goal deposit. I don't know exactly how it happened but I started to feel apathetic. I just didn't care so much about saving and putting that money aside. It seemed like such a waste of time. One afternoon, I happened to glance back at my main purpose for owning a home. I really did want a secure home and a feeling of belonging to a community. It was like a wake-up call. I wanted it so much that I was afraid of not succeeding. My fear of failing to get what I wanted was holding me back. Once I'd worked that out, I got back on track" Hana*

The overwhelmingly positive goal of owning your own home can actually allay many deeply held fears.

Yes, deciding to own your own home is a life changing decision.

So… what are you waiting for?

Setting Sub-goals

So, you have your SMART goal and your mind set. You've talked to homeowners and learned how they got there. Put this knowledge together to work out the steps of achieving your goal. These steps will break your SMART goal into smaller more manageable parts. Here's an outline that you might like to fill in and stick on your fridge or your bathroom mirror so you have a visual reminder of how you're moving along towards your goal. Feel free to add your own personal touches to it.

My SMART Goal
My Sub Goals

- Review my income and expenses to achieve by : _________________
  ○ Collect bank statements for past 3 months
  ○ Collect bills for past 6 months
  ○ Collect credit card statements for past 3 months
  ○
 	
- Prepare budget to achieve by : _________________
  ○ Enter information into Sheridans' Home Budget
  ○ Set up separate bank accounts for expenses
  ○ Arrange automatic payments for bills
  ○
 	
- Work out how much I should borrow to achieve by : _________________
  ○ Use borrowing calculator
  ○
 	
- Start savings plan for my deposit to achieve by : _________________
  ○ Determine how much I can save
  ○ Set up separate savings account for my deposit
  ○
 	
- See a mortgage broker or a bank to achieve by : _________________
  ○ Ask around for recommendations about mortgage brokers
  ○ Check on line resources for mortgage products
  ○ Make appointment with mortgage broker / bank
  ○
 	
- Apply for loan pre-approval to achieve by : _________________
  ○ Collect all information about employment, income, debts, expenses, assets and savings
  ○

- Research on property type, location etc to achieve by : ________________
    - Work out what you'd like in a home
    - Decide what areas you'd like to live in
    - Look at public facilities in the area – schools, parks, medical, employment – check crime statistics
    - Research on real estate websites
    - Talk to real estate agents
    -

- Attend open inspections to achieve by : ______________
    - Bring a friend
    - Bring your checklist
    - Get a building inspection
    -

- Make an offer on a property to achieve by : ________________
    - Determine what a reasonable offer would be based on similar sales
    - Negotiate with the real estate agent
    - Engage a conveyancer or solicitor
    -

- Finalise loan application to achieve by : ________________
    -

Stage 2: Work Out Your Borrowing Power

Work Out How Much You Should Borrow

When applying for a home loan, the amount that you can borrow may be different from the amount that you actually should borrow.

When a lender works out the maximum amount that you can borrow, it is based on a set of numbers: your income, your expenses, your assets and your debts. They can't take into account your personality. Only you know the kind of lifestyle that you want, how disciplined you are with your finances and if there are any major life changes that might be on the horizon, like starting a family or quitting your job and starting a new business.

> *"When we applied for pre-approval we couldn't believe it! We thought we were in the market for a fairly modest house but the bank was prepared to lend us enough to buy a five bedroom house with a swimming pool! Woohoo! After a euphoric weekend scrolling through mansions on the real estate websites, reality struck. What we could actually afford to repay was much less than what the bank would lend us. If we borrowed the amount the bank offered us, we'd never be able to stop working for a minute. We were expecting our first child and my partner was planning to stay at home for at least six months. I'd been hoping to cut back my hours a bit and spend time at home with them. With an unrealistically high loan, that wouldn't be an option for us." Chris, 37*

> *"Honestly, dining out with my friends is like oxygen to me! We go out once or twice a month and it's what I look forward to. I knew if I borrowed the maximum amount the bank offered me, I wouldn't be able to do that. I'd always be worrying "Can I afford that?" I don't need a mansion. In fact, I don't want one. I'm happy with a cosy home." Melody, 29*

For first home buyers, lenders look at three things to decide **if** they will lend the money and **how much** they will offer:

- Serviceability
- Deposit
- Genuine Savings

Serviceability

Broadly defined, serviceability is your ability as a borrower to meet loan repayments, based upon the loan amount, your income, your employment situation, expenses and other commitments such as credit card debt, personal loans and car loans.

The calculations for serviceability are a bit more complex than merely deducting expenses from income. Lenders in Australia tend to use one of the following methods for calculating serviceability:

Net surplus ratio (NSR) - This looks at the amount of money that you won't be using to pay your debt and it expresses this as a percentage of your total after-tax income.

Debt servicing ratio (DSR) - This method calculates the percentage of income that will be used to pay your debt once the proposed home loan is factored in.

Uncommitted monthly Income (UMI) – This calculates the income you'll have available each month after all expenses have been factored in, including proposed home loan repayments.

All lenders differ in how they assess serviceability and the way they work out your maximum borrowing power. However, regardless what the lenders say about your borrowing capacity, you need to be comfortable with your mortgage repayment and avoid **"mortgage stress"** which is when 30% or more of your income goes on your home loan repayment.

If you'd like to get a ball park figure on what you **should** borrow, you can use the "How much SHOULD I borrow calculator" that I have developed. You can access it from here: https://www.sheridans.net.au/our-resources/first-home-buyers-hub/.

Remember that the results are an indication only. They are neither a quote nor a pre-qualification for a loan.

Deposit

A home loan deposit is your initial cash contribution to the purchase price of a property. It means that you own a small portion of the home.

Lenders use a Loan to Value Ratio (LVR) to assess how risky you are as a borrower. It looks at the amount you wish to borrow in relation to the value of the house you want to buy. The higher the ratio, the more risky you are as a lender.

Generally, I would suggest that you have a Loan to Value Ratio of 80%. This means you need a deposit of at least 20% of the value of the property. On top of that you'll also need to have enough to pay stamp duty and legal costs. This will vary depending on which state you live in but a safe figure is 5% of the property value.

Example
Grace wants to buy a property valued at $300,000. That means she will need a deposit of $60,000. She'll also need around $15,000 on top of that for stamp duty and other costs.

It's a lot to save. So, why don't people borrow more?

The reason for borrowing up to 80% of the value of the property and not more is to avoid Lenders Mortgage Insurance (LMI).

LMI is a fee charged by lenders to provide themselves with an extra level of protection in case you can't pay your loan. It's not cheap and the more you borrow, the more it costs.

LMI on a $300,000 loan, like Grace's, would cost between $10,000 and $15,000.

> *"We really worked hard to get to the 20% deposit. I mean really hard. Paying an extra $10,000 in Lenders Mortgage Insurance just didn't make sense to us. I mean, if we can't pay the loan, the bank gets the house, right? Why should they get an extra $10,000 as well?" Helen*

If you are willing to pay for LMI, you can usually borrow up to 95% of the property value. However, keep in mind that higher borrowing usually attracts a higher interest rate.

On the other hand, the good news is, if you have a bigger deposit and you borrow less than 80% of the value, you may even be able to negotiate a discounted interest rate from the lender.

Genuine Savings

Genuine savings is a term used by lenders to define whether the funds that you're going to use as your deposit have been saved by you over a period of time. While different lenders have their own definitions of genuine savings, they all require evidence that you have held onto the money for a minimum of 3 months.

Your Genuine Savings can take various forms. They can be (this may vary between lenders):

- Savings such as Term Deposits or High-interest Savings Accounts accumulated or held over a period of 3 to 6 months

- Shares or managed funds which have been held over a period of 3 to 6 months

- A Monetary Gift. You'll need to have a statutory declaration from whoever gave you the monetary gift saying that you don't need to repay it. You'll also need to have had control of that money for at least 3 months**.**

- Inheritance – If the money has been held for at least 3 months to 6 months

- Rental payment – If you are renting before you find your first home some lenders may accept this as genuine savings as you have shown a commitment to paying a regular fee. Once you have bought a home, the money you would have spent per week on rent can now be directed into paying your home loan. To do this you would need to show a perfect rental history.

Genuine Savings represent your deposit.

If you plan to borrow 95% of the property value lenders will typically ask for a minimum of 5% of the property price as genuine savings.

Example
For example, in Grace's case she is looking to buy a $300,000 property, at a bare minimum she will need to be able to show $15,000 (5%) in Genuine Savings. This can be made up of any combination of the types of Genuine Savings discussed above.

How Can I Improve My Borrowing Power?

For first home buyers, understanding what will impact your borrowing capacity could mean the difference between buying your dream home or settling for less. Increasing your borrowing power is relatively straight forward. There are two main ways to increase your borrowing power. The first one is to increase your income and the other one is to reduce your expenses or monthly commitments.

Here are three things that you could do to increase your income:

1. <u>Ask for a Pay Rise</u>

You could boost your borrowing power by asking for a pay rise from your boss. While asking for a pay rise can be daunting, if you don't ask, the answer is always no. If you don't think you are getting paid enough, it could be worth a try.

Changing jobs to get a pay rise can have advantages and disadvantages in terms of a home loan. Employment stability is very important to lenders when assessing your loan application so a new job, especially if it's casual, might not impress them, but if you've moved from casual to full-time or regular part-time work lenders will look at this favourably. You may need to wait a little longer for your loan as very few lenders in the market place are willing to lend to someone who is still under probation in a new job.

2. <u>Take A Second Job</u>

The extra income from a second job will boost you borrowing capacity, however, there are a lot of restrictions surrounding it. Generally, you need to be in your second job for at least 12 months and your total working hours (your main job and second job) may not exceed 60 hours. Most lenders will only include 50% of your second income in the servicing calculation.

3. <u>Buying with a Partner</u>

If you are not married, buying your first home with your partner and combining both of your incomes may increase your borrowing power. However, this is a big commitment not just financially but also emotionally and the stress can take a toll on your relationship.

I used the words "may increase your borrowing power" because lenders will include your partner's expenses, commitments and liabilities when determining your combined borrowing power. If your partner has a lot of debts, this may actually reduce your borrowing capacity.

> *"Andrea had some unpaid mobile phone bills that played havoc with her credit history. We finally sorted it out with the provider and now we're able to borrow a decent amount based on our combined income" Lee, 29*

There are a lot more things that you can do to reduce your financial commitments and improve your borrowing power. For example:

1. Cut back on the number of Credit Cards you have

There is nothing wrong with credit cards… as long as you pay them off at the end of each month. If you can't afford to do that, honestly, you shouldn't have a credit card.

In relation to a home loan application, lenders will take into consideration the credit card limits and not the balance. So, if you are not using your credit cards, get rid of them or consider how much you really need and reduce your credit card limit to the bare minimum.

> *"I'm always signing up for new offers. It was only when I was preparing to apply for a home loan that I realised that I had 5 credit cards. I didn't really use them at all. The problem was the credit limit. If I added them all together I had a credit limit of $14,000! This really affected my borrowing capacity. Now, I have just two credit cards with a $4,000 total credit limit." Luke, 31*

2. Get rid of Store Cards

A store card, for example a Myer card, works exactly like a credit card except that its main purpose is to generate additional profit for the store. Again, like a credit card, lenders will take into consideration your store card limits and not your balance. Get rid of your store cards as soon as possible and pay cash for your future purchases!

3. Pay off Personal Loans

Personal loans attract very high interest rates and can significantly impact your borrowing capacity. Having several personal loans may indicate to the lender that you can't save and are living beyond your means. Make a priority of paying loans off as soon as you can.

4. Pay off your Car Loan

Like personal loans, car loans attract high interest and can significantly impact on your borrowing capacity. Pay them off and you will see your borrowing power soar instantly!

> *"I really wanted to buy a car brand new and I signed up for a car loan over 6 years. Now, a year later, I want to buy a home and I'm stuck paying off the car loan. It's affected my borrowing capacity and my ability to save " Sam, 24*

5. Decrease Discretionary expenses

Think about your non-essential expenses like take away food, dining out, hobbies, pay TV and entertainment. Cutting back on these, even by just 50%, can increase your borrowing power significantly.

Example
"Hana and I are both working full time and more often than not we'll grab a takeaway dinner. Entering it all on our budget spread sheet, together with bought lunches, came to a whopping $190 per week! Working out where we could start saving was a no-brainer!" Brett

Government Support and Incentives

It’s worthwhile checking if you’re eligible for any government support when you buy your first home. At the moment there are three major incentives: The First Home Owner’s Grant, the First Home Super Saver Scheme and Stamp Duty Concessions. The amount and the eligibility criteria vary from state to state and depending on which political party is in power. Other schemes may come up, so keep an eye on the Treasury or Revenue website for your area. You’ll find a list of the websites on the next page. I’ll give a brief outline of each of these three main incentives as they stand in **July 2018**.

1. First Home Owner Grant (FHOG)

The FHOG is a one-off payment for eligible first home buyers. It’s a national scheme but funded by the state and territory governments so the grant amounts vary, as you can see from the table below.

Eligibility criteria also differ between the states. In general, to apply you need to be a permanent resident or citizen of Australia aged over 18 and not have received the grant before. You need to be purchasing the house to live in yourself for a period of time. There are other criteria as well so check your state or territory website to see if you’re eligible and how much you will receive.

In South Australia, at the time of writing, the residence must be new and valued at less than $575,000.

The First Home Owner Grant isn’t means tested, which means the eligibility criteria isn’t based on financial considerations, such as your income. The grant is usually paid at the time of settlement to your lender and applied directly to your home loan. If you are building a home, the grant will be approved when your first loan repayment is due.

Here is a summary of current FHOG amount at the time of writing (July 2018).

State	FHOG Amount
SA	$15,000
ACT	$7,000
NSW	$10,000
NT	$26,000
QLD	$15,000
TAS	$10,000
VIC	$10,000 - Metro $20,000 -regional
WA	$20,000

2. Stamp Duty Concessions

State and Territory governments charge Stamp Duty on the purchase of property. It can be around 5% of the price of the property. Concessions and exemptions can apply for first home buyers depending on where you are buying. Check the Revenue Office or Treasury website for details on your state or territory.

State and Territory Websites

For further information on First Home Owner's Grants and Stamp Duty Concessions

State	More Information
SA	**http://www.revenuesa.sa.gov.au**
ACT	**https://www.revenue.act.gov.au**
NSW	**http://www.revenue.nsw.gov.au**
NT	**https://nt.gov.au/property**
QLD	**https://www.treasury.qld.gov.au**
TAS	**http://www.sro.tas.gov.au**
VIC	**https://www.sro.vic.gov.au**
WA	**http://www.finance.wa.gov.au**

3. First Home Super Saver Scheme (FHSS)

From 1 July 2017, you can use your superannuation fund to help you save money for your deposit for your first home. You make additional payments into your Super fund using salary sacrifice. That means that you choose for a certain amount of your pay, up to $15,000 per year and overall up to a maximum of $30,000, to go directly into your Super fund. The benefit of this is that the money in Super is taxed at lower rate, so you'll be able to save faster. This scheme is the same for all parts of Australia, but not all Superannuation funds are part of FHSS so you need to check if your fund is part of the scheme.

To qualify for this scheme, you must be over 18, not have previously owned property before, not have used the FHSS before and live in the premises you are buying for at least 6 months.

When you take your money out of the Super Saver account, the Australia Taxation Office (ATO) will calculate the amount of tax you would normally have paid on it. Then they will give a discount of either 17% or 30% on that amount. You'll need to include the final amount on your tax return.

You need to receive the money from your superannuation fund before you sign a contract to purchase or construct residential premises.

Once you have taken your savings out of the super fund, you have up to 12 months to sign a contract to purchase or construct a home. If not, you can apply for an extension of time or repay all the money into your super fund.

Example
Michelle earns $60,000 a year and wants to buy her first home. Using salary sacrifice, she annually directs $10,000 of pre-tax income into her superannuation account, increasing her balance by $8,500 after the contributions tax has been paid by her fund. *After three years, she is able to withdraw $27,380 of contributions and deemed earnings on those contributions. Her withdrawal is taxed at her marginal rate (including Medicare levy), less a 30 per cent offset. After paying $1,620 of withdrawal tax she has $25,760 that she can use for her deposit. Michelle has saved around $6,240 more for a deposit than if she had saved in a standard deposit account. (source: Australian Treasury website)*

Given the potential complexities related to personal circumstances (i.e. HELP Debt, impact on personal cash flow and other long-term goals), I strongly suggest that you seek both tax and financial planning advice relating to the FHSSS to see if it is suitable for you.

Stage 3: Get Your Personal Finances in Order

The Extra Costs of Buying a Home

The cost of buying a house is not just paying the purchase price of the property. There are some extra upfront costs that you need to be aware of and budget for when buying your first home.

Upfront Costs

Here are some of the common upfront costs of owning your first home:

1. Government Fees

Stamp duty is a property transfer tax applied by all Australian state and territory governments. It is one of the most significant upfront costs you'll have to pay. The amount you pay depends on where your property is located.

As a first home buyer, you may be eligible for stamp duty concessions. So, make sure you visit your state or territory revenue office to find out what is available for you (see page 23).

Mortgage registration and **transfer fees** apply when you are purchasing a property and the costs differ from state to state. Mortgage registration fees are usually in the hundreds of dollars while transfer fees generally go into the thousands. Each revenue office website has online calculators for you to work out the government fees associated with buying a property.

2. Legal and Conveyancing Fees

This is the cost of having the sale contract, mortgage document and any other legal documents prepared by either a solicitor or a conveyancer. While it is possible to complete the legal aspects of buying a property yourself, I would suggest that you engage a conveyancer or solicitor to prepare the documents for you and provide advice. The costs will vary depending on the property you buy and the professional you use.

3. Loan application

This is a fee the lender charges when you apply for a loan. It can also be referred to as an establishment, up-front, start-up or a set-up fee. Fees vary depending on your provider and will cover things such as credit checks, property valuation and basic administration costs. Some lenders will waive this fee under certain circumstances, so it's worth asking.

4. Building, pest and strata inspection reports

Building inspections and pest inspections are useful for all properties, and are particularly important for older homes. These inspections will alert you to structural problems or defects that may not be visible to the eye such as the presence of asbestos or termites, and electrical, ventilation and plumbing faults.

For a unit, a strata report inspection will let you know what work has been done on the building and if any is planned for the future, including all costs paid and those due to be paid.

5. Moving costs

Moving costs can vary depending on distance, how much stuff you have, if you rent a van, ask your mates to help or hire a professional removalist. Hiring a professional removalist team will take the stress out of the process but it can add to your upfront costs when buying a house.

6. Home, building and contents insurance

It's your responsibility to arrange building insurance and it needs to be in place as soon as you sign the contract of purchase. On top of this, you should consider taking out contents insurance. The cost of home and contents insurance varies from property to property and insurance company to insurance company so make sure you get at least three different quotes.

7. Buyer's advocate

A buyer's advocate works exclusively for you to find, negotiate and purchase a property. They use research tools and contacts to track down the right home for you. It usually costs between 1% and 2.5% of the property price to use a buyer's agent. However, this is usually the amount you'll save by using a buyer's agent to negotiate on the sale price.

8. Connection costs

The various utility connection fees (telephone, internet, gas, electricity etc.) add up and can make small dent in your cash flow.

9. Rates

When you buy a property you're required to pay the previous owner the remaining yearly or quarterly rates, such as water and council rates. These will begin from the date of settlement and the cost varies depending on the property and area. The conveyancer will add your portion of the cost to the purchase price of the property.

10. Lenders Mortgage insurance

If your deposit is less than 20% of the purchase price, most lenders will require you to pay Lenders Mortgage Insurance (LMI). This is a one-off fee equivalent to between 1-3% of your loan amount.

Saving for your home deposit

No time like the present to start saving for a deposit!

As I mentioned before, having 20% of the property value is ideal. That way you'll avoid a hefty charge for Lenders Mortgage Insurance. And no complaints if you can save up more! The higher your deposit payment, the less mortgage you have to pay off.

The basis for your savings is a solid budget. Don't groan! Having a budget doesn't mean that you have to give up enjoying life. A budget clearly shows how much you are spending and the areas where you can spend more wisely. It helps you understand your money and makes saving easier.

> "*I put off filling in the budget for as long as I could. I really didn't want to think about all those non-essential items I'd spent money on. Surprisingly, when I finally filled in the budget template I could see that I did have a decent wage and that I could set a savings goal. It made me feel….. strong." Melody, 29*

Here is a 7 step process that I've developed to assist you with developing your own personal budget:

Step 1 – Download the Sheridans Home Budget Template

After in depth discussions with my mortgage broking clients, I worked together with the Accountants and Financial Planners at Sheridans to put together the Sheridans Home Budget Planner. I'm pleased to be able to share it with you. You can download the Sheridans Home Budget Template here https://www.sheridans.net.au/our-resources/first-home-buyers-hub/.

Step 2 – Calculate your income

What do you earn? This is all the money you have coming in on a regular basis from your wages, any government benefits you receive and dividends from shares. If you're not on a fixed income use your average income (after tax) for the past 12 months. Enter your earnings amount into the budget.

Step 3 – Work out your spending

To begin with, it's important that you get an idea of your current spending habits and financial commitments. To do this, get copies of your bank and credit card statements for the last 3 months.

Review all your key expenses and take note of the amounts and their frequency and enter them into the Sheridans Budget Template.

Expenses come in three categories.

1. Fixed expenses

These are regular bills and payments that can't be avoided. Fixed expenses are things like phone and internet bills, insurance payments, rent, car registration, electricity, gas, car loan payments.

2. Variable expenses

These are also unavoidable expenses but the amount varies from month to month and you generally have some control over the amount you spend. Variable expenses are things like groceries, petrol, toiletries, clothes and hairdressing.

3. Discretionary expenses

These are optional expenses. They include dining out, take away food, pay TV and entertainment.

Step 4 – Add Up Your Savings and Investment

Enter all your savings and investments into the budget template. This will include savings accounts, managed funds and shares. Do not include your compulsory superannuation contribution.

Step 5 – Review your Expenses and Savings

This is the most important part of your home budget because it shows how you can increase your savings and get your home deposit that much sooner.

You want there to be enough money from your income to cover the bills without anxiety and to keep your expenses at a level that won't make you suffer stress. I suggest the following amounts to avoid financial hardship and stress:

- Fixed expenses should be **less than 40%** of your total income
- Variable expenses **less than 30%** of your total income
- Discretionary spending **less than 20%** of your total income

If you find that you're over these levels, you'll need to rethink your spending and perhaps change your lifestyle.

Step 6 – Use the information you've gathered to plan for the future and set up bank accounts

I remember my grandmother had a set of envelopes for all the bills to pay. When she got paid she'd divide out the cash - $10 towards the gas bill went into the envelope marked "gas", $12 for groceries into the "groceries" envelope, $7 for petrol and so on. Anything left over would go into the precious "holiday savings" envelope which she would then hide away in a hard to reach place so she wouldn't be tempted to spend it on any daily expenses.

This system is like a modernised version of Grandma's envelopes.

Set up a bank account for 90% of your pay to go into. Set up three sub accounts linked to this account for your different types of expenses: Fixed, Variable and Discretionary.

Now that you know what you earn and what you spend you can be prepared. Once your pay goes into your bank account, divide it out into the Fixed, Variable and Discretionary accounts.

The Sheridans Home Budget Planner can help you calculate how much should go into each account.

Where possible set up automatic payments from your Fixed expense account and Variable expense account to pay your bills. Some companies offer a discount for direct debit payments and a bonus for on time payment. Automatic payments will let you take advantage of this and remove the risk of forgetting to pay a bill and all the embarrassment, hassle and extra fees that go with it.

The Discretionary account holds your "fun money". Enjoy spending it or add it to your savings as a bonus.

Step 7 – Review Your Savings and Investments

Now you have a clear picture of all of your expenses you can also see how much money you can save regularly. Ideally, your minimum savings amount will be similar to what you expect your home loan repayments to be. If this is not possible because you are currently paying rent, your savings and investment should be at least 10% of your income.

Set up another bank account that's not easy to access, perhaps at another financial institution. This will be your savings account, and like Grandma, you need to make it a little hard to reach so it doesn't disappear on daily expenses. If possible, get 10% of your pay automatically transferred to this account.

If you have debt (personal loan, credit card, car loan etc.) your focus should always be paying this off first as debt will reduce your borrowing power.

You can now work out how long it will take you to reach your savings goal. To do that divide the amount you will need for your home deposit by your monthly savings.

Grace, the nurse, needs a deposit of $60,000. She can save $1,200 per month. 60,000 divided by 1,200 is 50. So, it will take her 50 months, or 4 years, to reach her goal.

If you're not happy about the time it could take you, you might want to consider a more affordable property or adopt more stringent saving measures.

If your expenses plus your savings are pretty much equal to your income you're right on track. Keep up the good work. Your home deposit is within reach.

Taking control of fixed expenses

Sometimes taking control of your fixed expenses means a major change. When Jessica and John got serious about saving for a home they changed their lifestyle by moving to a different, less pricey neighbourhood.

> *"We knew our inner city apartment was expensive. Not just the rent but all the things around it that just invited us to spend! Cafes, restaurants, boutiques. We also realised that we were both working so much we were rarely at home. At the time it was a hard decision but we moved to a more modest address in the suburbs with an equally nice home and we've been able to build our savings towards our home deposit significantly." John*

Taking control of variable expenses

There are things that we often think of as essential – like visiting the hairdresser, but saving for a deposit doesn't mean you need to give up these things entirely as Lauren shows.

> *"I used to go to the hairdresser every six weeks for a colour touch up. Now, after six weeks I do it myself at home and six weeks after that I go to the hairdresser. So, now I only go to the salon four times a year instead of eight. The hair dresser charges $140. The hair dye product costs me $15." Lauren, 26*

Melody decided to keep her luxury and decrease other things.

> *"Like I said, dining out with my friends is my big luxury. Of course, it's discretionary spending and I could cut it out but I've decided to cut back in other areas so I still have the enjoyment and the social contact with my friends. I work in the city and in my lunch breaks I'd always look around the shops and invariably come back to my desk with a bargain. That's over! Now, I'll eat my lunch (a packed lunch from home, of course) in the tea room at work and then do a power walk around the square." Melody*

Hana used a very simple technique to trim her grocery bills.

> *"My friend showed me an article by a psychologist who says that being hungry makes you acquisitive. You want to buy food and anything else you see. That's so true for me! Honestly, I'd go in for some bread and milk and come out with a couple of magazines, some snack food and pretty much anything else that caught my eye as I walked from the bread section to the milk area. Now if I do feel hungry when I get to the supermarket, I go in and I buy one banana. I go outside and eat it and then come back in and shop properly following my list. I suppose I look a bit crazy, but I tell you it's really cut down on our grocery spending and our home deposit is that much closer!" Hana*

Stage 4: Get a Loan Pre-Approval

Loan Pre-Approval

Before you start looking seriously for a home, get a fully assessed loan pre-approval. This is a statement from your lender saying how much they are prepared to lend you. It is free and valid for 3 months to 6 months, depending on your lender.

It's a serious process and it has many advantages. In addition, all the work you do towards choosing the lender and filling in paperwork for your loan pre-approval won't need to be repeated when you apply for your actual loan.

Having a loan pre-approval gives you very clear guidance on how much money you can borrow, so you'll know how much money you can spend on a house. This will save you time and energy, since you won't be looking at homes you can't afford.

Sellers often prefer buyers with a pre-approved loan. If a seller has several offers to buy their house they prefer someone who has a pre-approval since it's less risky. Sellers may also be more willing to negotiate with someone who they see as a serious buyer. In addition, real estate agents may work harder on your behalf if they consider you to be an actual property buyer.

Having pre-approval can give you confidence when you're bidding at an auction or negotiating a purchase price. Not only that, it quickens the settlement process as the loan is already part of the way being formally approved.

Please note that online applications and over the phone loan pre-approvals are **not** formal fully assessed pre-approvals and come with many conditions. This is not something that I would consider suitable for first home buyers.

Even with pre-approval, there is still an element of doubt until you have the final approval from the lender, usually known as "Unconditional" approval. This is the final guarantee that you will receive finance for the purchase.

Here are some of the factors that can impact pre-approval:

<u>Unsuitable/Unacceptable Property</u>

The conditions in your pre-approval will be "subject to a satisfactory valuation of the property". Depending on your lender, certain types of property may be unacceptable. For example, they may reject a property in poor condition or certain locations may not be acceptable to them.

<u>Change in Personal or Financial Circumstances</u>

Changes in your financial circumstances after your pre-approval may impact on your pre-approval as they can affect your ability to repay your loan. So, if you change jobs or change from full time to casual work, or take on a new loan or credit card, the lender may need to reassess your application as these can affect your loan repayment ability.

> *"We were so excited to be getting a new place that we went shopping for new furniture. Without thinking we bought it on terms. Our loan provider was just about to go through with our loan when the system flagged that we had another $4,000 of debt. After heaps of paperwork we sorted it out and we're back on track. Just a warning for you…" Chris*

Your personal circumstances may also change in a way that affects your ability to meet loan repayments. You may have an addition to your family or you may have had to spend your savings on an emergency expense.

Interest Rate Change

There is always a possibility that interest rates could change between receiving your loan pre-approval and buying your home. If the interest rate increases, the maximum amount that you are able to borrow may decrease. The opposite is also true, so if the interest rate falls, you may be able to borrow more.

Find the Right Loan for You

There are hundreds of home loans available, with new products emerging all the time. The main types of home loans, which form the basis of all the new products, are: variable loans, fixed loans, split loans, interest only loans and low documentation (low doc) loans.

Just a quick note here: The amount of money that you borrow from the bank is called the principal. The bank charges interest on the principal every month for the time period of your home loan. When you make your repayments there is a minimum amount that you must pay. In an “interest only loan”, this just covers the interest the bank is charging you to borrow the money. If you’re able to pay off more than just the monthly interest the principal itself will go down. That means that you owe the bank less money and as a result the amount of interest you need to pay will decrease.

Here’s a snapshot of the main types of home loans.

<u>Variable Loans</u>

Standard variable loans are the most popular home loan in Australia. Interest rates go up or down over the life of the loan depending on the official rate set by the Reserve Bank of Australia. That means that if interest rates fall, then your loan repayments will go down. It also means that if interest rates go up, your loan repayments will increase according to the official interest rate.

The Reserve Bank of Australia meets every month to decide what to do about interest rates depending on the world economy and Australia’s economy. Often they leave it unchanged. It rises or falls by half a percent at a time, so a rise in interest rates is a slow and gradual process. Even so, be prepared for the difference that a rise in 2 or 3% could cause to you in your loan repayments.

In a standard variable loan your regular repayments pay off both the interest and some of the principal.

Many standard variable loans allow you to make extra repayments to your loan, so you can pay it off faster.

Some standard variable loans have a redraw facility. This means that if your make any additional payments to your loan you can take that money out again if you need to. If you get a bonus payment on your tax return, for example, you can put it into your redraw facility. In the redraw facility that extra money is paying down your loan. If you ever need that money for any reason, you can take it out and use it.

There are also basic variable loans which may have a lower interest rate but not offer the benefits of repayment flexibility and a redraw facility.

Fixed Loans

In a fixed loan the interest rate is fixed for a certain period, usually between one and five years. This means your regular repayments stay the same regardless of changes in interest rates. At the end of the fixed period, you can decide whether to fix the rate again, at whatever rate lenders are offering at that time, or move to a variable loan.

The benefits of a fixed loan are that it's easier to manage your household budget because you know exactly how much you need to repay your home loan. You won't be affected by changes in interest rates at all, whether they go up or down.

A fixed loan may have restrictions on the amount of extra repayments you can make during the fixed period of the loan and if you exit the loan early you may need to pay a fee.

Split rate loans

Your loan amount is split, so one part is variable, and the other is fixed. You decide on the proportion of variable and fixed. You enjoy some of the flexibility of a variable loan along with the certainty of a fixed rate loan.

> *"I wanted to be certain about how much I had to pay, but I also wanted to take advantage of any interest rate drops, so I decided to split my loan. Now I have $200,000 in a fixed loan and $200,000 in variable." Mitchell, 27*

Interest only loans

You repay only the interest on the amount borrowed usually for the first one to five years of the loan. 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. This is not something that I would consider suitable for first home buyers.

Low doc or Low documentation loans

Popular with self-employed people, these loans require less documentation or proof of income than most, but often carry higher interest rates or require a larger deposit because of the perceived higher risk for the lender. In most cases, you will be financially better off getting together full documentation for another type of loan.

Typical Loan Features

Extra repayments

If you pay more than the required regular repayment, the extra amount is deducted from the principal. This reduces the amount you owe and lowers the amount of interest you repay. Making extra repayments regularly, even small ones, is the best way to pay off your home loan quicker and save on interest charges.

Weekly or fortnightly repayments

Instead of a regular monthly repayment, you pay off your home loan weekly or fortnightly. This can suit people who are paid on a weekly or fortnightly basis and will save you money because you end up making more payments in a year, cutting the life of the loan.

"I get paid fortnightly, so I opted for fortnightly repayments. They come to around $1000 a fortnight, rather than $2000 a month on my $350,000 loan. There are 12 months in a year (total $24,000), but 26 fortnights which comes to a total of $26,000. It's all automatically deducted from my pay so I don't even notice. It all helps to chip away at the debt." Hamish, 27

Redraw facility

This allows you to access any extra repayments you have made. Be aware that some lenders charge a redraw fee and have a minimum redraw amount.

"We paid an extra $7000 into our mortgage. With the redraw facility I know that we can take that money out if something comes up. (Touch wood we don't ever need to!)" Catherine, 46

Repayment holiday

If you pay extra into your loan, you can take a complete break from repayments, or make reduced repayments, for an agreed period of time. This can be useful for travel, maternity leave or a career change. For example, if you pay 3 months of your regular repayments in advance, you could arrange to make lower repayments for the next 6 months.

Offset account

This is a savings account linked to your home loan. Any money paid into the savings account is deducted from the principal of your home loan before interest is calculated. The more money you put in your offset account, the lower your regular home loan repayments. You can access your savings just like a normal savings account with EFTPOS and ATMs. This is a great way to reduce the interest on your loan.

Another bonus is that if you use the offset account instead of a savings account you won't have to pay tax on your savings.

Lenders provide partial as well as 100% offset accounts. Be aware that having an offset account may mean your loan has higher monthly fees or requires a minimum balance.

Direct debit

Your lender automatically draws repayments from a chosen bank account. Apart from ensuring there is enough cash in the account, you don't have to worry about making repayments.

All-in-one home loan

This combines a home loan with a cheque, savings and credit card account. You can have your salary paid into it directly. By keeping cash in the account for as long as possible each month you can reduce the principal and interest charges. Used with discipline, the all-in-one feature gives flexibility and interest savings. Interest rates charged on these loans can be higher.

Professional package

Home loans over a certain value are offered at a discounted rate, combined with discounted fees on other banking services. These can be attractively priced, but if you don't use the banking services you may be better off with a basic variable loan.

Home Loan Fees, Costs and Charges

All home loans have a range of application fees, government fees and other charges.

Loan application fee

A loan application fee is charged by the lender to establish the loan. These vary from lender to lender and cost between $250 and $1,200. In some cases lenders will waive this fee.

Property valuation fee

A lender may charge you a property valuation fee to get the property independently valued. This is often carried out before loan approval and will be charged to you even if the loan is not approved. Sometimes the fee is covered by the loan application fees.

Annual and ongoing fees

This is a fee charged by a lender for the duration of the loan. This varies from lender to lender and is between $5 and $40 per month.

Lender’s mortgage insurance (LMI)

This is an insurance policy that you have to pay to protect the lender for loan repayment default. This insurance is mandatory if your loan is more than 80% of the property value. The fee charged is typically a percentage of the loan amount.

Mortgage Broker or Bank/Lender or Online Comparison Sites

There are three major avenues for applying for home loan pre-approval and they are: see a Mortgage Broker, deal directly with a Bank/Lender or visit an online comparison site.

You can approach a mortgage broker who will have access to loan products from many banks and non-bank lenders some of which are only available through brokers. The mortgage broker will be able to shop around for you to find the best rates and lower fees from the products they offer. Many mortgage brokers will meet you at a time that's convenient for you such as after hours or on weekends and some will come to your home. Mortgage brokers are experienced in the home buying process and can offer you advice and suggestions throughout the process.

Before you meet, check if the mortgage broker charges a fee for service, as some do not. Many mortgage brokers are paid by commission only.

"The mortgage broker was pushy. I got the feeling that if we didn't choose the loan she was suggesting she'd miss out on a whole lot of commission." Tahlia, 37

"I felt like our mortgage broker really listened to us and understood our situation. He took time to go through our budget and show us where we could make savings. He encouraged us to put our deposit together and explained the different types of loans available to us." Brodie, 28

You can do the shopping around and decide which bank and which product you want. Remember, the representative at each bank will only have information about the products they offer so you'll have to do the comparison research yourself. This can be a lot of work, and you'll be limited to banking hours.

Online comparison websites are another way to research which loans you can get. They have access to a variety of banks and other lenders with some offers that are only available online. Look carefully as sometimes sponsored links may be shown ahead of what's actually a better deal. In addition, ratings and rankings may have different criteria on different websites so check these to make sure they meet your needs.

"I looked on the Canstar website and found the lowest rate on a loan that suited me was at a bank. From there I phoned the bank and made an appointment. " Joshua, 25

The home loan supporting documentation checklist on the following page will help you with the application process, regardless of which avenue you choose to go down to choose your loan.

First Home Buyer Mortgage Enquiry Form

Personal Details – Applicant 1

First Name: ____ Middle Name: ____ Surname: ____

Preferred Name: ____ Date of birth: ____ Marital Status: ____

Address: ____

Date moved in: ____ Occupancy Type: ____ Weekly rent (if renting) ____

Previous address ____

(If current address is less than 3 years)

Date moved in: ____ Date moved out: ____ Occupancy Type: ____

Email: ____ Mobile: ____ Home phone: ____

Dependents ages: ____ ____ ____ ____ Mother's Maiden Name: ____

Nearest friend or relative's name: ____ Nearest friend/relative's phone no: ____

Employment Details – Applicant 1

Employer name: ____ Occupation: ____ Basis: ____

Start date: ____ Contact person: ____ Work phone no: ____

Employer Address: ____

If current employment is for less than 3 years, please provide details of previous employment:

Employer name: ____ Occupation: ____ Basis: ____

Start date: ____ Contact person: ____ Work phone no: ____

Employer Address: ____

Personal Details – Applicant 2

First Name: ____ Middle Name: ____ Surname: ____

Preferred Name: ____ Date of birth: ____ Marital Status: ____

Address: ____

Date moved in: ____ Occupancy Type: ____ Weekly rent (if renting) ____

Previous address ____

(If current address is less than 3 years)

Date moved in: ____ Date moved out: ____ Occupancy Type: ____

Email: ____ Mobile: ____ Home phone: ____

Dependents ages: ____ ____ ____ ____ Mother's Maiden Name: ____

Nearest friend or relative's name: ____ Nearest friend/relative's phone no: ____

Employment Details – Applicant 2

Employer name: ____ Occupation: ____ Basis: ____

Start date: ____ Contact person: ____ Work phone no: ____

Employer Address: ____

If current employment is for less than 3 years, please provide details of previous employment:

Employer name: ____ Occupation: ____ Basis: ____

Start date: ____ Contact person: ____ Work phone no: ____

Employer Address: ____

Income Details

Applicant 1	Gross Amount	Frequency:	Applicant 2	Gross Amount	Frequency:
Salary:			Salary:		
Bonus:			Bonus:		
Allowance:			Allowance:		
Commissions:			Commissions:		
Overtime:			Overtime:		
Rental:			Rental:		
Dividend:			Dividend:		
Interest:			Interest:		
Pension:			Pension:		
Centrelink:			Centrelink:		
Child support:			Child support:		
Other:			Other:		
-			-		
-			-		

Monthly Living Expenses

Utilities & Rates - Owner Occupied Property:	$	Transport:	$
Utilities & Rates - Investment Property:	$	Education:	$
Telephone & Internet:	$	Childcare:	$
Pay TV & Streaming Services:	$	Insurance:	$
Groceries:	$	Rent:	$
Recreation & Entertainment:	$	Other:	$
Clothing & Personal Care:	$	Other:	$
Medical & Health (Exc. Health Insurance):	$	**Total:**	**$**

Credit/Store Card Details

Holder:		Lender:		Card Type:	
Limit:		Balance:		Interest rate:	
Holder:		Lender:		Card Type:	
Limit:		Balance:		Interest rate:	
Holder:		Lender:		Card Type:	
Limit:		Balance:		Interest rate:	

Other Loans (Personal, Line of Credits, Overdraft etc)

Holder:		Lender:		Loan Type:	
Limit:		Balance:		Interest rate:	
Holder:		Lender:		Loan Type:	
Limit:		Balance:		Interest rate:	
Holder:		Lender:		Loan Type:	
Limit:		Balance:		Interest rate:	

Life Insurance

Account holder:		Current value:		Insurance Company:	
Account holder:		Current value:		Insurance Company:	

Superannuation

Account holder:		Current value:		Superannuation Fund:	
Account holder:		Current value:		Superannuation Fund:	

Motor Vehicles Details

Vehicle Details:	*Make:*	*Model:*	*Year:*	*Manual/Auto*	
Owner:		Current value:		Loan balance:	
Lender:		Monthly repayment:		Interest rate:	
Vehicle Details:	*Make:*	*Model:*	*Year:*	*Manual/Auto*	
Owner:		Current value:		Loan balance:	
Lender:		Monthly repayment:		Interest rate:	

Savings Accounts

Account holder:		Current value:		Bank/Institution:	
Account holder:		Current value:		Bank/Institution:	
Account holder:		Current value:		Bank/Institution:	

Details of Other Significant Assets or Liabilities

Please provide details (Type, value)

Comments

First Home Buyer - Home Loan Supporting Documents Checklist

Most lenders follow a similar process when it comes to approving loans, so they generally need the same documentation. This is a general checklist and you may not need some of them.

For All Applications	
Personal Identification	
• Driver's Licence. (Please note if these documents are in your maiden name, you will also need to provide a copy of your Marriage Certificate.)	❑
• Medicare card	❑
• A current Passport or Birth Certificate (If you don't have a driver's licence)	❑
• Other documents that will be useful: Credit card, ATM/Debit card, Council Rates Notice, Pensioner Concession card, Health Care card, Tertiary Student ID card.	❑
Income Details	
For Pay as you go (PAYG) income earner:	
• The three most recent payslips from your employer. (Ideally these will show the company name, number of payslip and year-to-date income figure).	❑
• The last two year's personal and business tax returns and ATO assessments.	❑
• If you received regular bonus and commissions, copy of employment contract to verify bonus and commissions as regular and recurring income	❑
For business owner and self-employed:	
• The last two years of business financial statements	❑
• The last two years of business tax returns	❑
• The last two years of business ATO notice of assessments	❑
• The last two years personal tax returns	❑
• The last two years of personal ATO notice of assessments	❑
If you received any other income, you may also need:	
• Proof of share dividends earned	❑
• Proof of interest earned	❑
• Centrelink letter confirming family tax benefits	❑
• Centrelink letter confirming permanent government pensions	❑
• Private pension group certificate or statement	❑
• Proof of any other regular, ongoing income.	❑
Expenses Details	
• Details of monthly living expenses (per attached home budget)	❑
• Statements for the last six months of all day to day bank accounts	❑
• Statements for the last six months for any credit cards/store cards	❑
• Statements for the last six months for any personal loans	❑
• Statements for the last six months for any car loans	❑
• Statements for the last six months for any existing investment loans	❑
• Proof of any other regular, ongoing expenses – e.g. child support, maintenance payment etc	❑

Additional documents for First Home Buyers:	
• Copy of the contract of sale for the property being purchased	❑
• Statement for your First Home Saver Account, if you have one	❑
• 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	❑

Additional documents for borrowers seeking a construction loan:	
• A copy of a valid builder's fixed price tender, including all specifications	❑
• A copy of council approved plans	❑
• 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	❑
• Copy of the contract of sale for the land being purchased	❑

Stage 5: Choosing Your New Home

Work Out What You Want

What sort of property do you want? Would you like an apartment or a unit or a house? Is this going to be your “forever home” or your “starter home”?

A forever home is the place you plan to stay, well, forever. It will be comfortable and suit your lifestyle, and your family’s (or your future family’s) lifestyle for many years to come.

> *After we got married my parents helped us buy the sort of house we wouldn’t be able to afford by ourselves for another 10 years. It’ll be big enough for our 3 children when they’re teenagers and we have a spare room for Mum and Dad when they come down to the city.” Liz, 28*

A starter home will start you off in the real estate market.

Once you’ve paid off some of the principal of the home loan you’ll own a part of the property. This is known as equity. With a certain percentage of equity you may be able to borrow more money to buy another property.

Many people choose to buy a home unit or apartment with a plan to sell it in the near future. In Australia, for many years, property prices have been rising and it could be a matter of waiting for interest rates to fall or property prices to go up to make a profit from selling a starter home. There is, however, no guarantee whatsoever that this will happen!

Others may buy a place in poor condition, do it up and sell it for a profit. As Josh and Jane did.

> *“Jane and I made a pact we’d buy a place we could afford, which at the time wasn’t a real lot, do it up and sell it in 5 years. It’d be our entry into the property market. We bought a house where everything was 30 years out of date with some land around it - you couldn’t call it a garden! We worked on it 7 days a week, as well as our regular jobs and finally 5 years and 4 months of grind later we were able to sell it as a nice contemporary home with a landscaped garden. We’ve used our profit to buy a larger house that will suit us at least til we retire. It needs a bit of work but this time we’re not in a hurry and we’re doing it up for us.” Josh, 38*

This isn't the case for everyone.

> *"We bought a run-down 1880s house in a great suburb. We started to renovate but one thing after another went wrong. We had a nightmare with our tradespeople. We were both working full time so the project management of the renovation was out of control. When we found massive cracks under the wallpaper in the kitchen, we decided to cut our losses and buy something established that we liked" Graeme,37 and Michelle, 36*

I've put together a house hunting checklist. Look through it and check what you must have and what's not important to you. If you're buying with your partner, this is a good exercise to do together. Remember, some things can be added later, like a security system or ducted air-conditioning, and other things just won't change no matter what you do, like land size and property location.

Perhaps you won't find the things that you like in an established home and you may consider building your own home.

> *"In our new house I really want a walk in pantry. Thom wants a study and I want a walk in pantry. Non-negotiable" Sandra*

House Hunting Checklist						
Basic Requirement						
Property Type	House / Flat / Unit / Apartment / Townhouse / Other					
Minimum Bedrooms		1	2	3	4	5+
Minimum Bathrooms		1	2	3	4	5+
Minimum Car Spaces		1	2	3	4	5+
Minimum living areas			Square metre			
Minimum land size			Square metre			

Features ****Circle your must have *Tick your nice to have *Cross off things you don't want***		
Location	**Structural**	**Exterior Features**
Medical facilities	Single storey	Deck/Patio/Veranda
Education/School Zone	Multiple storey	Fenced in yard
Public transport	Double brick	In ground sprinkler
Food & Entertainment	Laundry Room	Landscaped front
Recreation	Basement	Landscaped rear
Beach	Other:	Lighting
Hills	Other:	Rain water tank
City		Shed
Cul-de-Sac	**Floors**	Solar panels
Views	Carpet	Swimming pool
Other:	Floorboards	Other:
Other:	Tiles	Other:
Heating and A/C	**Other:**	**Other:**
Energy efficient	Alarm/Security system	
Central A/C	Other:	
Fireplace	Other:	
Ducted	Other:	
Reverse cycle	Other:	
Other:		

Comments

Building Your First Home

The great pleasure of building your own home is choosing what you want to suit your lifestyle. Building your home gives you more control on how the house is laid out and all its finishing touches. You also have more control over the building materials used. A new home is considerably cheaper to maintain. With brand new appliances, plumbing, heating and air conditioning, you should be repair free for a good few years.

Building your own home can take significantly longer than finding an established home to purchase. Most builders offer a fixed price contract option and this can include a guaranteed build time. You'll also need to factor in weather related delays and the amount of time council approvals and design plans can take.

<u>First Home Owner Grant</u>

The current First Home Owner Grant applies to construction of a new house, unit or townhouse and to the purchase of a brand new established home that has not been lived in before.

At the time of writing, the current grant can be as high as $20,000 in certain states. The criteria vary from state to state and change regularly. Check your state's revenue office website for up to date information on the grant and the criteria (see page 23).

<u>Stamp Duty Cost</u>

If you build a new home, you only pay tax on the value of the vacant block which can be a significant saving.

If you buy an established or fully constructed residential home you will be required to pay Stamp Duty on the entire value.

Stamp duty also varies from state to state. These examples are for South Australia based on the current situation (June 2018)

> *If you buy an existing home for $400,000, you will be paying $16,330 worth of stamp duty.*
>
> *If you buy a 'house and land' package for $400,000 and the land value is $200,000, you will pay $6,830 of stamp duty. A difference of $9,500.*

If you decide to build your first home, you can buy a block of land and build, purchase a house and land package or buy off the plan.

1. Buy a Block of Land and Build

You can buy land months or even years before you plan to build on it. Land prices usually go up, so if you buy the land first it's likely to be cheaper than buying the land for a house and land package in the future. This can give you more time to save for a bigger deposit and to plan for the house you would like to build. If you already know what kind of home you want to build, you can look for a lot that will accommodate it.

When you buy land to build you will need to check if your bank has a minimum period in which you must begin building. You'll also need to ensure that the land is zoned for residential purposes and there is good road access and services like electricity and water connection and sewage. In addition you will need to get soil surveys done before buying land to ensure that the soil is not contaminated.

As a land owner you'll need to pay rates and other ongoing costs on the land.

> *"I found a block of land I really liked and I was in discussions with a builder about what kind of house I could build there. My Dad always said to read the fine print and when I was going through the paper work I read it all. I found that the land had been previously owned by the Highways Department and had been contaminated with various toxins including lead. I was shocked. I asked the builder about it and I couldn't believe it when he admitted he was aware of it. His suggestion was to minimize the size of the garden or just pave over everything. I really didn't feel comfortable with that, so I'm looking elsewhere and I'm reading all the fine print."*
> *Marie, 42*

2. Choosing a house and land package

House and land packages are usually offered as a total deal – you're buying the land and selecting the house design to be constructed on it. As it is a new home you can benefit from the First Home Owner's Grant and you will only pay stamp duty on the land.

The building company will assist with house plans that will suit the block with appropriate sun orientation and driveway placement, although there may be extra upgrades that you will have to pay for. The council approval process will also be much easier to navigate, and in many cases will already be in place.

A house and land package is usually part of a new community and may include new facilities like parks, medical centres and shopping areas. On the flip side, new estates are often constructed in the outer suburban areas, where employment opportunities and public transport may be limited.

3. Buying off the plan

Buying off the plan is buying a property based on the designs and plans provided by the developer before it is built. Most developers have a range of house designs that you can choose from and you may be able to choose the finishing touches such as wall tiles, flooring, paint colours and appliances.

Developers will often sell properties off the plan in order to fund construction. A minimum number of properties may need to be sold before building on your property will begin. Most contracts will also have special conditions that allow the developer to cancel the contract under certain conditions. This is often known as the “Sunset Clause”. It protects the developer if they run over time with construction of the development. If a developer does default on the sunset clause you will get your deposit back.

A deposit is normally paid when the contract has been signed and the balance becomes due when the property has been completed. Buying a property off the plan can be cheaper than buying an existing house but there are things that should be taken into consideration before you decide.

Buyers only have to pay a 10% deposit (sometimes even less) to secure the property and as it is a new building, you can benefit from the First Home Owner Grant.

Whilst you may be able to view what your new home will look like at a display property, be aware that these are usually the upgraded versions of the property, therefore it is a good idea to review the contract thoroughly to see what is included. Most off-the-plan properties are required by law to include some sort of structural warranty for the build.

Keep in mind that most new developments of apartments and townhouses come with higher Strata Levies. These are your portion of the fees to cover the cost of management of the common areas such as the lifts, gym, lobby and general building maintenance.

Buying an Established Home

There are some great resources available for house hunters. The online property websites like **Realestate.com** and **Domain** allow you to narrow your search to particular areas and within that you can select what features you'd like your home to have such as the number of bedrooms and bathrooms. You can set up alerts based on your preferences so that when a suitable property becomes available you'll get an email.

You can also look at the windows of real estate agent in the suburbs you're interested in and check out the local newspapers. You may even want to chat to a local real estate agent and let them know what kind of home you're looking for as they may know of some that have not yet been advertised.

Once you've found some properties that meet your criteria, check if there's a convenient time to view the property. Times for a general open inspection are often listed in the advertisement and anyone can view the property at that time. If no time is listed, or the open inspection isn't at a convenient time for you, phone the real estate agent and make an appointment to see the home.

Going to inspect homes can be time consuming so it's good to stick to the criteria you've set so that you're not overwhelmed.

"We'd relocated for work and our employer provided us with accommodation for 8 weeks. During that time we looked at over 100 houses. It was mid-summer and so hot and we'd have the kids in the car complaining. In those two months, only one real estate agent said "I think I've got something that would suit you." We talked through what we were looking for in a home with him and the next day we went to his open inspection and now we live there!" Adam, 34

Viewing a property is always interesting. Again, keep your criteria to hand so you don't get carried away by the beautiful water feature in the garden and don't notice the tiny bedroom size. It's nice to go to an open inspection with your partner or a friend. Having another pair of eyes to spot the positive and negatives is really helpful in making your decisions.

"We visited a darling flat. It was perfect. Then we noticed that everything was tiny. The bookshelf was only as wide as the phone book. The dining table was extra small. All those little things made the tiny flat seem spacious." Jade, 23

Allow about half an hour to view the property if you feel it meets your criteria. Walk through it all and if you like it walk through it again much more carefully. Check the structure of the building as well as looking for damp patches or cracks in the walls inside and out and be on your guard for the musty smell of damp.

Confirm the basics such as the taps, light switches and plug sockets are all in working order. Open and close the doors and windows to ensure they're functional. If you do find any faults, bear in mind you may be the one who has to pay to fix them.

Take notes about the property as you go around, or right after you visit, while it's still fresh in your mind. The real estate agent usually gives a flyer with a plan of the property. Use this to note the features of the home and the things you liked or didn't like, especially the things you didn't like that cannot be changed or are expensive to alter like the bathroom or kitchen. You can check with the real estate agent if it's ok to take photos or videos for your personal use.

Is it to your taste? Or can you easily redecorate?

Remember to check if your mobile phone has connection at the property.

Keep in mind the things that you already own. Do you need a lot of storage space? Check if the property has enough storage or space where cupboards can be built. Also, think about whether your current furniture will suit or even fit into the rooms. If you have some special furniture that you really want in your new home, you could measure it to be sure that it fits.

> *"My grandfather bequeathed his piano to me and it's been at Mum and Dad's house for years, waiting for me to get my own place. I envisage it having pride of place in my future living room."* Simon,30

You've probably already decided on the area where you'd like to live in terms of proximity to your work, local shops, schools and medical facilities. When you're at the open inspection look around at the neighbouring area. Does the suburb seem well kept? Do the neighbouring properties look nice? Listen for the traffic noise or a railway or tram or noisy neighbours. If you like a house and are considering buying it, then it's a good idea to view it two or three times at different times of day, just to check you didn't miss anything crucial, to find out how the light, traffic and surrounding noises change and to ensure you actually like it as much as you think you do.

House-Viewing checklist

It is essential that you make the most of a property viewing to ensure that you're as informed as you possibly can be when it comes to making an offer. Take this checklist with you on property viewings so you remember to check the essentials. Below is a list of questions to ask yourself or the real estate agent when you look around a property.

Viewing the Property:

- Have you viewed the property more than once at different times of the day?
- Have you spent 20 to 30 minutes looking around the property and at least half an hour walking around the general area?
- Have you checked what the area is like at rush hour and when the pubs close, at weekends and on a weekday?
- Have you travelled from the property to work or school during rush hour to check the commute?

Brickwork:

- Is it worn or cracked?
- Is there any render or specific finish?
- How old is it?

Roof:

- Are there any tiles missing?
- Are the chimneys straight?
- Is the flashing (makes external joins waterproof) secure?
- Are the drains and guttering fairly new?
- If it’s raining are they leaking?
- Are the wooden sections under the roof in good condition?

Windows

- Are they double glazed?
- Do the frames look secure?
- Do they need painting?

Security

- Are there good doors and locks?
- Are there good window locks?
- Is there a working alarm system?

What to test

- Do the taps work?
- How long does it take for hot water to come through?
- Do the light switches work?
- Do the windows open and close easily?
- How is the water pressure?

For the Bathroom

- Does it have power and is it earth bonded?
- Is there a shaver socket?
- Is there any mould?

Inside the house (In each room):

- Is there any damp that you can see or smell?
- Is there any condensation?
- Are there any exposed wires?
- Are there any cracks big enough to put a coin in?
- Would you want to redecorate any of the rooms?
- Do any rooms need new flooring?
- Are there enough power sockets?
- Are the phone points in a convenient location?
- Is there enough storage?
- Can the neighbours see in to any of the rooms?
- Does your mobile phone have coverage inside the property?
- Are there smoke alarms?

In the garden:

- Is the garden easy to maintain?
- Is the garden overlooked by the neighbours?
- Which direction is it facing?

Extra questions for Units/Apartments:

- What access is there to the garden?
- What services are shared, eg drainage?
- If there are flats above, what are the noise levels like?
- How much is the annual management/strata fee?

Other Questions to ask

- How old is the hot water system?
- Is there loft access and can I see the loft?
- Do any chimneys work?
- When was the electrical fuse box last checked?
- Has any work been done on the property?
- If yes, what guarantees are there on the work?

Buyer’s Advocate

A buyer’s advocate, or buyer’s agent, is a licensed professional who specialises in searching for and evaluating a property for you and then negotiating the purchase of a property on your behalf. You can also engage a buyer’s advocate to bid for you at the auction of a property.

Some buyer’s advocates have access to a wide range of properties, some of which may not even be advertised. They have knowledge of the market and experience in negotiating.

Having a professional seek out a property that meets your needs can save you time.

Bidding at auction can be an intimidating, and it can help to have someone without emotional attachment to the property to represent you in the heat of the moment.

> *“I totally fell in love with the house and I was afraid I’d bid way more than I could afford at auction, so I got a buyer’s advocate to bid for me. I was a nervous wreck throughout, but my advocate was so clear headed and calm. The price was just, just, within my range in the end and now I have a lovely little cottage in a great suburb.” Jill, 40*

For private sales, where negotiation is involved, a buyer’s advocate may help you secure a better deal.

> *“I’m terrible at negotiating and the thought of haggling over a price makes me feel ill. I told my buyer’s advocate my upper limit price and he negotiated with the real estate agent on my behalf. All up, I think we saved the buyers advocate’s fee plus another $7,000 or so and a lot of mental anguish.” Chrissie, 33*

Buyer's advocates are required to hold a real estate licence to practise. It’s worthwhile asking how long they have been in the industry and asking to speak to some of their previous clients about their experience.

Some people posing as buyer's advocates receive kickbacks or commissions from developers who want to sell off their property stock. Similarly, free property advisors or free buyer’s agents or free property mentors may actually make a big commission from the developer on the properties that they’re selling. Ask your prospective advocate if they accept sales commission from vendors or developers. This isn’t common, but it’s important to know if they are acting in your best interest and not the developer’s or vendor’s.

A buyer’s agent should only be paid by you. You either pay them based on the percentage of the purchase price, which is usually around 1-3% of the purchase price or a fixed-fee structure.

Stage 6: Buy Your First Home

Make an offer and negotiate

When you find a property that you like, make an offer to the seller of how much you're willing to pay for it.

Determining the amount to offer is a tricky business. To start with, work out the maximum amount you are willing to offer and remember that sometimes it is better to walk away rather than go above the budget you have set, as other opportunities will present themselves.

Once you have decided on the maximum amount you are willing to offer, you need to consider what your initial offer on the property will be. Offer too low and you risk alienating the seller or being outbid. Offer too high and you could end up paying too much for the property.

To determine your initial offer amount, it's helpful to obtain as much information as you can about the house itself, the sellers and the prices other places in the area have sold for. As a starting point, compare the property with other properties in the same neighbourhood with the same characteristics - including number of bedrooms, age, and land size. A Google search of the property may turn up recent sales around the area. Your mortgage broker may also be able to help you get data. This gives you a good indication of a fair price for the property.

There are other factors that may affect the value of a property. You may like to ask the real estate agent:

- How long has the property been on the market?
- Why are the owners selling?
- Have the owners bought another property yet?
- When are the owners planning to move?
- What is and isn't included in the property?
- Have any offers been made? If so, why were they withdrawn or not accepted? If no offers have been made, why not?

Once you've gathered this information, you should have an idea of how much you would be comfortable to pay for the property.

It may be worth offering the asking price if you need to move quickly, the property meets all your needs and you're confident that it's fairly priced.

This is also true when you are making an offer in a competitive market. In this market, properties are snapped up quickly and buyers are regularly outbid. If a lot of other buyers are interested in the property, it can be worth offering the asking price or even slightly higher to avoid missing out. However, make sure you're not paying way above the market price. Do your market comparison and stick to the range you've identified.

When making an offer, it is also important to consider the advantages you offer as a buyer. Having a loan pre-approval gives a lot of certainty to the seller and gives you the ability to proceed with settlement as soon as your offer on the property is accepted. In addition, as a first home owner, you don't have any property to sell, and so presumably you're able to move quickly. This will be looked upon favourably by any seller who has already purchased another property and is ready to move.

Put your offer in writing and send it to the real estate agent. The real estate agent will talk to the seller and decide whether it is satisfactory. They are likely to come back with a counter offer, that is a higher price, which the owner would accept. You can agree to this or make another offer of your own at a price that you think is reasonable. Sometimes the estate agent may give you an indication of the price the owner will accept. Remember the estate agent is working to try to get the highest price for the seller.

When you enter into a negotiation, keep in mind:

- Be coy about your finances. Revealing how much you're willing to spend may prompt the agent to push the price to the top end of your price range.
- Play it cool, even if you fall in love with a property. Showing too much enthusiasm may make the agent think you'd be willing to pay any amount.
- Show you're serious by having your loan pre-approval in place so the seller knows you'd be able to follow through on your offer.
- Don't be overly influenced by 'sweeteners'. Sometimes owners offer to throw in white goods, or other perks, to push up your offer. But usually these goods aren't worth the extra you'd pay on your mortgage.
- Think about what else you have to offer. Are you buying in cash or with a large deposit? Are you happy with a long – or short – settlement time? These sorts of things can be appealing to sellers and are worth emphasising in your offer.
- Take your time to consider your options. While the agent may push you to finalise the deal, think it over carefully before you make a higher bid.

While negotiating with the real estate agent the seller is free to take expressions of interest from other potential buyers, and even exchange contracts with them. If there is another serious buyer, the real estate agent will probably ask you to increase your offer, especially if the other buyer has made a higher offer.

Exchange and Sign Contracts

Once you've agreed on the purchase price, you'll exchange and sign the contract of sale. It's important that you check the contract carefully to ensure that everything about the property is understood and that there will be no legal surprises after you have purchased it. Here are some tips that you may find useful during the exchange of contract stage:

Settlement date:

This is the date on which all legal documentation is transferred from the seller's name into yours. The adjustment of rates and taxes are calculated, and the balance of the price of the property is paid to the seller. This is a complex legal process and it is strongly recommended that you engage a conveyancer or solicitor to represent you. After this date, you will be given the keys to your new property and you can take possession.

You can negotiate a settlement date with the seller. A 60 day settlement is most common. A shorter period may be possible if you already have loan pre-approval. However, you may want to consider a longer period – for example 90 days if you have not started the loan application process.

Contract Conditions:

For a first home buyer, it is also important that you include conditions of sale in your contract. They help protect you in the event that the property does not meet your expectations or you are unable to obtain enough funds to complete the purchase. It's important that you use a solicitor or licensed conveyancer who understands offer conditions when buying a home. Don't rely on the agent to write the offer conditions for you. They're acting in the seller's best interests, not yours.

The three common conditions in sales contract are:

- Finance approval – that is, you are able to get the money to buy the property
- Valuation – the institution lending you the money to buy the property does an independent valuation of the property (at your expense) and agrees that the price you are paying is suitable
- Satisfactory building and pest inspections – after a thorough building and pest inspection you are satisfied with the condition of the property and willing to purchase it.

You may also include any other conditions for the sale in the contract although, if your conditions are too complicated, the seller could reject your offer.

Deposits:

Once you and the vendor have signed the contracts of sale, you are legally bound to proceed with the purchase of the property, unless one of the conditions listed in the terms and conditions of the contract is breached. You also need to pay a deposit –

typically 5-10% of the purchase price – at the end of the cooling-off period, which in South Australia is two working days after the contracts are signed. If you are buying a property at auction you will be expected to pay the deposit as soon as the auction finishes.

Conveyancer or solicitor:

For first home buyer, I strongly encourage you to consider engaging the services of a conveyancer or solicitor to help you with this process. The key role of your conveyancer or solicitor is to prepare and certify the legal documents that will shift the title of the property from the vendor over to you. The earlier you speak to a conveyancer, the better they can help you look over the contracts and give you advice.

A conveyancer will communicate the terms and conditions of the purchase to you in plain English to help you understand exactly what's involved and what documentation you are signing. This includes:

- References to the zoning of the property
- Any special conditions for the purchase. They can also help you add to the contract conditions if you need to.
- Purchase price and settlement date
- Deposit and payment date
- Matters relating to title (references to covenants, restrictions, easements and the like)
- Owners' corporation matters

Cooling Off Period

A cooling-off period is the period of time in which a property buyer can change their mind and can walk away from a legal agreement to purchase a residential property. Details of a cooling-off period will be included in the sales contract. The rules vary between states and territories. In South Australia, the cooling off period is 2 working days. If you do change your mind and decide not to buy after all, you will pay a termination fee, but apart from that the rest of your deposit is usually refunded.

The person selling the property, however, is not entitled to a cooling-off period. Once they sign the sales contract, they are obliged to go through with the sale, subject to the conditions of the contract.

As a buyer you can waive your rights to cooling off period but before you do this make sure you seek professional advice from your conveyancer or solicitor.

Buying at an Auction

A little preparation can go a long way in improving your chances of being successful at an auction.

Organise your loan pre-approval before you go to an auction and know the maximum you can bid.

An auction contract is not subject to finance. That means, if you buy at auction you need to be certain you can get the money. A 10% deposit is usually required for auction buys. You will also need to have a personal cheque, bank cheque or deposit bond (if acceptable) to pay on the auction day.

If you win the auction, there's no backing out and there is no cooling off period. If you can't produce the balance of the purchase price at settlement, you could lose your deposit. Emotions can run high at an auction, so it's important not to get carried away.

Auctions only state an expected selling range, so do some research. Check the recent sold prices for similar properties in the area, look on-line and check with real estate agents. Your mortgage broker can also help with this information.

If you're serious about bidding, arrange building and pest inspections before auction day. The reports can estimate how much you might need to spend on repairs. That gives you a clearer idea of how much you would be willing to bid. If the inspections uncover serious problems, you may choose not to bid at all.

Consider making an offer on the property before it goes to auction. If your offer is above the reserve price the seller may choose to accept it. After all, the vendor will be nervous before the auction too and may be tempted to accept a reasonable offer and avoid the uncertainty.

If you're serious about buying the property, you can ask the real estate agent to give you a copy of the contracts, so your solicitor or conveyancer can identify any legal issues right away.

To get a feeling for the auction atmosphere, go to other auctions in the area before going to bid at the property you want. You'll see how the auctioneers operate and be able to observe the bidding strategies of the buyers. Giving yourself some experience of the real thing will help make things less imposing when you decide to bid.

Depending on which state you're bidding in, you may need to register your intention to bid with the agent. Usually it is before the auction, although sometimes you can even register during an auction. Check with the agent beforehand to confirm the requirements in your state. Arrive at the auction well in advance and be ready to bid when proceedings commence. Also, remember that registering doesn't mean you're obligated to bid.

Remember that you have three opportunities to buy your property – before, on, or even after auction day if the auction is unsuccessful. Keep this in mind throughout the auction process to ensure you don't pay a price well above your limits. Taking a friend or family member along can be a good way of remaining calm and remembering your priorities.

Be prepared with a game plan for bidding. Know when you'd like to begin bidding, what the sale price is likely to be, and what your price limit is.

Positive body language and strong, firm bidding are essential to being successful on auction day. Strong bids can be used to intimidate other bidders and shut down the auction process sooner rather than later. Generally, if a prospective buyer looks or acts weakly, a stronger bidder will secure the property, so be confident and decisive.

If you don't want the pressure of bidding, you can nominate someone else to bid on your behalf. You could pay a buyers' advocate to do this. As experienced professionals they'll stick to your limit and won't be intimidated by other bidders' tactics. Alternatively, you could ask a family member or friend to help. Make sure it's someone you can trust to bid within your budget because if they make the winning bid, you'll be obliged to buy the property.

House Inspections

Before you buy, have the property inspected for faults to make sure that it isn't a dud. It is vital that you find out about any hidden issues like damp, shifting foundations, faulty wiring and plumbing and it's good to know upfront what sort of maintenance and repairs you may be up for in the near future. Here's some of what qualified building inspectors look for:

Inside

- Look for cracks in the wall, they may be hidden by wallpaper
- Check walls and floors for dampness
- Confirm ceilings are clear of mould or leak stains
- Check windows/blinds are in working order
- Check plumbing systems – look for leaks, check drainage is working including outside drains
- Test the electrical systems including all power points, air conditioning, heating, ceiling and extraction fans
- Find any rusting framework
- Check doors are functional
- Check the level of traffic noise
- Check phone lines and TV aerial points
- Check mobile phone reception

Outside

- Check condition of gates and fences to ensure bases are sound
- Check the garden for poisonous plants
- Check for large trees close to the house as their roots could cause structural damage
- Look for any rotting timber on the outside
- Inspect external structures like pergolas and granny flats and confirm extensions are legal and council approved
- Keep an eye out for fire hazards such as external cables or power points
- Ensure external walls are straight
- Test water pressure of external taps
- Check the roofs condition including frames and tiles and gutters
- Look for signs of pests. You may need a separate pest inspection if this is identified as an issue.

Once a report has been complied on the condition of the property, you can then make a knowledgeable decision based on the findings. Then you can factor in the cost of repairs to the purchase price, decide to drop the deal altogether or use the information to negotiate on the price.

Catch Up with Your Conveyancer or Solicitor

After your offer has been accepted, you need to get in touch with your conveyancer or solicitor. Your conveyancer or solicitor will review your contract of sale and also undertake:

Title search and certificates check

Although the vendor conducts these checks as part of preparation for the Vendor's Statement, your conveyancer or solicitor may need to ensure that all of the information included is correct. The search and certificates provide information such as the latest owners corporation fees, a Water Information Statement, disclosures about any unregistered easements, indications from the relevant road authority showing whether the property has been acquired for road widening, building information regarding works undertaken during the previous 10 years, as well as reference to final inspections, outstanding orders and flood levels.

Draw up a Transfer of Land

The purchaser or the purchaser's conveyancer or solicitor is responsible for the preparation of the transfer document to ensure all pertinent information is included in the Certificate of Title of your new property. These details could include the manner of holding of a property, such as what percentage each party will be holding if more than one purchaser is involved. You can review them before signing the documents, which are sent to the vendor at least 10 days before settlement date.

Supplying copies of signed documents to the financier:

This includes the contract of sale, transfer of land and title search, which allow the mortgage to be arranged.

Arranging payment

Your conveyancer will calculate the difference between the sum provided by your lender and the total cost of purchase and will organise for you to provide the difference by a bank cheque or a bank transfer into the conveyancer's trust bank account.

Preparing a statement of adjustment

Your conveyancer or solicitor will also prepare a settlement statement. This is a document that includes details of any adjustments that are made for the purchase. For example, the seller may have already paid the council rates for three months and during the second month you will become the new owner. So, the seller will need to be reimbursed for those two months. Typical adjustments are water rates, council rates, body corporate fees, and so on. These statements will be prepared by your solicitor or conveyancer and submitted to the vendor for verification.

Arranging settlement with all parties

Your conveyancer represents you at the settlement with your lender and the vendor.

Notice of Acquisition

It is a legal requirement that you lodge a notice of acquisition with relevant authorities when you acquire land. Your conveyancer will do this on your behalf.

There are no set fees for engaging a conveyancer or solicitor as not all property transactions are the same. It is a good idea to obtain a number of quotes or a service recommendation. As part of the process, a solicitor or conveyancer will provide you with a **Costs Disclosure Statement**. This is confirmation of the fee for standard conveyancing procedures, and fees for any variations. It may also include references to other expenses which you will need to pay for, such as title searches, obtaining certificates and meter readings.

Organise Property Insurance

Technically, you are the owner of the property from the date the contract is exchanged, so it's important you put in place some sort of home insurance cover to protect it. This is also a requirement of the home loan approval process, so your lender will require proof of building insurance. If you're buying a strata unit, you need to arrange a Certificate of Currency from the Body Corporate's insurer.

Finalise Finance

Once you've made an offer and it's been accepted, contact your mortgage broker or your bank so that they can finalise your home loan application. You will need to provide them with a range of documentation such as:

- Contract of Sale
- Insurance certificate of currency
- Updated pay slips
- Updated bank statements.

As part of this process, your lender may organise an independent valuation of the property to make sure that the contract price is reasonable.

Get Ready to Move

Moving into your very first home can be an exciting and stressful experience. There are so many things that you need to do. You can get a head start by starting a to do list once you have finalised your finances and you're while waiting for the settlement day. Here are some things to include:

Connect the internet

How long could you survive without the internet? Internet service providers are often booked weeks in advance so set this up as soon as possible.

Connect your utilities – Gas and Electricity

Contact your utility service providers to let them know about your move. Schedule your gas and electricity disconnect date for your current place and the connect dates for your new home. While you have them on the phone, go ahead and negotiate for a better deal for your gas and electricity contract for your new home. If they are not interested, shop around.

> *"As I said, I can't stand negotiating but when I was talking to the electricity provider I was asking about the different plans they had and I said "Is any discount available?" That's all I said and just like that they gave me 4% off." Chrissie*

Organise a Removalist

Book your removalist and get packing. If you don't have time to do the packing yourself, consider hiring the professionals to pack for you. This is also a good time to clear out old stuff that you no longer want. Moving to a new house is a chance for a fresh start!

Organise time off from work

The first week or two in your new home will be an adrenaline-fueled flurry of phone calls, unpacking, and waiting for deliveries, contractors, and internet installers. Make sure you take some time off from work to ensure that you are not rushing to get things done and be able to do your move properly. Some contracts even include a day off for moving.

Cancel regular deliveries and services

Redirect or cancel your regular food, milk and newspapers deliveries. If you're lucky enough to have a cleaner or gardener, check if they will be able to work at your new home too.

Update friends & family with your new contact information

Let your friends and family know you've moved. Send around a text message or email notifying people of your new address and phone number.

Make list of organisations to contact

I've made a check list of important organisations, business and services you need to notify of your change of address:

Financial Institutions	**Insurance Providers**
• Banks • Accountant and Lawyer • Credit card companies • Investment funds • Superannuation fund • Stockbroker	• Car insurance • Home and contents insurance • Mobile phone insurance • Health Insurance • Life insurance • Income protection insurance
Government Bodies	**Regular Bills**
• Driver's License • Electoral Roll • Medicare • Australian Tax Office • Centrelink • Pet registration • Car registration	• Home Phone • Internet • Cable TV • Mobile phone • Newspaper • Magazine subscriptions
Health Services	**Leisure and Family Activity**
• Doctor • Dentist • Other health professionals	• Gym • Charities • Social and sporting clubs
Work and Education	**Other**
• Schools • Childcare • Other educational institutions • Work • Professional associations	• Political Party Membership • Rewards programs • PayPal and EBay • Automobile associations • Airline clubs/Frequent Flyers

Redirect your mail

You can use the Post Office's change-of-address service, which redirects all mail to your new address. It takes up to 10 days to come into effect. Keep this service for six to 12 months after moving into your new home to avoid post going astray.

Pack a first night box

Make of box of things that you'll probably need on your first night in your new home containing a change of clothing, basic toiletries, toilet paper, pyjamas, towels, bed linen, phone charger and any other essentials you may require like your kettle and a coffee plunger.

Change the locks and have spare keys

There's no way of knowing how many copies of the keys of your new house are floating around – or who has them. Installing new locks will give you peace of mind. Remember to give one key to someone you trust, in case of emergency.

Final inspection

The day before, or the morning of, the settlement you'll have the opportunity to do a final inspection of the property. Contact the agent to arrange this.

The seller must hand over the property in the same condition as when it was sold. When you view the property for the final time you should check:

- Appliances, the hot water system, heating and cooling are in working order
- Structure, walls, light fittings, window and floor coverings are in the same condition as when you first saw the property.
- Locks, keys and automatic garage door controls are supplied and working.
- Items listed as included in the sale are in place e.g. curtains, blinds, light fittings

If you're buying a new home, make sure all the work is finished and that the appliances are installed and working. You can organise a defects inspection by a building inspector, if you don't feel confident checking these things yourself.

If you find damage or deterioration, it doesn't necessarily give you the right to withhold on settlement. You need to prove that the damage breaches the conditions stated in the contract of sale. Deterioration could be the result of fair wear and tear or may have existed before you signed the contract and just failed to see it.

However, if there is substantial new damage the vendor may be in breach of the contract and you may request that it be repaired before settlement.

Occasionally, disputes do arise as a result of a final inspection. If this happens, try and work out an agreeable compromise with your buyer - it works in both your interests if you can resolve things amicably. If an agreement can't be met, you may want to seek legal advice.

Settlement Day

On Settlement day a number of exchanges occur between your conveyancer and the vendor's conveyancer and your lender, (you don't need to be present), which culminate in you receiving the keys to your new home.

Here is a rough outline of what happens:

- The vendor collects the deposit money from the estate agent where it has been held in trust.
- Your lender pays the balance of the purchase price to the vendor.
- You pay adjustments for expenses such as taxes, council rates and water rates to the vendor
- You receive title of the property. The mortgage will be noted on the title until the term of the home loan is completed. When you've paid off your mortgage you get to keep the title, until then it belongs to your lender.
- Your conveyancer or bank will arrange to register the transfer and the home loan.
- You conveyancer and the vendor's conveyancer advise in writing to the agent that settlement has occurred, and that the agent can release the keys to you. It can take a couple of hours after settlement has occurred before the correct notices have been received so it is always best to ring and check if the keys are ready for you to pick up.

Be warned, that it is not unusual for settlements to be delayed by a few hours, or even a day or so due to a variety of factors like a missed signature, a cheque being delayed or incorrect paperwork.

Although it is an extremely frustrating, everybody will be working to effect settlement as soon as possible for you. Just to be safe, set your moving in date to be a few days after Settlement Day, so if things don't go according to plan you still have somewhere to stay.

Stage 7: Where to From Here

Update Your Home Budget & Continue Saving

You've done a great job with your budget! You've successfully saved a deposit and bought a property. Now that you're a home owner, your budget will still be important, just a little different.

With your own home comes new expenses. You are now responsible for your council rates, water bills and if you are in a unit, you will have body corporate fees too, so include these in your updated budget.

Repairs and home maintenance are another area to include in your budget. You may want to consider setting aside 1% of the purchase price for repairs and maintenance. If your home cost $350,000, plan to put away $3,500. You may not need to use that money from one year to the next, but it is good to have it there just in case you need it.

Keep saving! It's so important to have savings there in case of some kind of emergency. You can keep your savings in a redraw account or an offset account so your savings are working on your mortgage.

> *"My husband's elderly parents live overseas, so we always make sure we have enough money in our savings just in case we need to suddenly visit them."* Deidre

> *"When our car just died and wasn't worth repairing we were able to use our savings to buy a good quality second hand car for $6000. Otherwise, we would've had to take out a personal loan for $6000 which would've ended up costing $7650 with the cost of the loan plus interest. The other alternative being a car loan for a new vehicle which would've been thousands."* Hayley

Make extra repayments

Making extra repayments on your loan is hugely worthwhile:

If you have a loan 30 year loan of $350,000 with an interest rate of 4%, an additional repayment of $200 per month will save you around $ 52,243 in interest repayments and reduce your loan term by about 5.5 years.

Extra repayments reduce the principal amount of your loan and so that decreases the amount of interest you need to pay. Not only that, because you're paying more, the time period of your loan will also decrease and you'll fully own your home sooner.

Most lenders allow extra repayments on home loans and they also let you access those funds if you ever need them. This can be using a redraw facility or an offset account.

It also gives you a buffer in case you may accidentally make a late repayment.

If your earning situation doesn't change after you buy your first home, you will probably be able to make some extra repayments. This is because when the lender was calculating how much to lend you they included a buffer of about 3% just to be certain that you could meet your repayments if interest rates were to go up.

Be strong when facing the temptation to use your credit cards to buy new furniture! Enjoy shopping around.

"Choosing our furniture is something that Jonathon and I really enjoy doing. We look around for things that would really suit our house and things that we can do up. We saw a beautiful dining table with a huge price tag, but after looking in second hand stores we found one that we were able to do up and it's gorgeous. It's the centre piece of our home. I honestly think it's made our marriage stronger." Maddison

Avoid New Debt

Avoid taking on new debt, if you can help it. Think very carefully before you take on any new debt like a new credit card or a personal loan. Make sure you can afford it and that it is for something really worthwhile.

Not long after someone buys their first home, they often come in to see me about getting a loan for a new car.

I do my best to talk them out of it!

It makes sense to borrow money to buy a home. It's an investment. Property prices usually ago up and you'll always need somewhere to live.

A car, on the other hand is a depreciating asset. It's losing value every single day you have it. To be honest with you, if you can't afford the car you want, a car loan is a bad financial decision. You'll be paying interest on the loan and the car will be losing value. You're losing money in two directions.

You may want to consider buying a second hand car that will do the job in the interim while you save to buy the car you really want with cash. You've successfully saved a deposit for your first home, so what can stop you?

Personal Insurance

There's no telling what the future holds and it pays to be prepared.

How would you pay your household bills and your mortgage if you could no longer work? Do you have the right protection in place?

There is no set amount of cover that you should have. You need to make a sound estimate of your current financial situation and imagine what you and your family will need if you can no longer provide regular income.

Given the complexity of the matter, you should speak to a financial adviser to make sure you've covered everything important and have the right cover for you and your family.

Here's a snapshot of what you should consider:

Life Insurance

Life insurance is a lump sum paid to your family (or your estate) when you die.

Consider a life insurance policy that, at a minimum, accounts for the value of the home loan. That way if tragedy strikes, you know that whoever is left behind doesn't have the additional worry of how they are going to pay off the home.

If you a have a superannuation fund, it will have a life insurance component or a death benefit. The amount will be adequate in some situations, but it is well below the needs of families with dependent children. You may be able to increase the amount by paying extra into your super fund, or you may think about taking out a separate life insurance policy.

Take into account your partner's working capacity. If you have insufficient life insurance, chances are they will have to work to help make ends meet.

Stay-at-home partners also should have some level of cover. If the stay-at-home parent were to pass away, the current income earner may need to spend more time at home with children and have less capacity to earn.

Total and Permanent Disability (TPD) Insurance

Total and permanent disability (TPD) insurance covers the costs of rehabilitation, debt repayments and the future cost of living if you are totally and permanently disabled. It is usually bundled together with life insurance. Check if your super fund offers TPD cover and whether this amount would realistically cover your family's needs if you were unable to work again. Often you can opt to increase the TPD and life insurance benefit in your super fund by paying extra.

Income Protection Insurance

Income protection insurance covers up to 75% of your usual income if you can't work for an extended period due to injury or illness. It is more comprehensive than workers compensation which only covers injuries that are work related.

Premiums vary, depending how much cover you need and are generally tax deductible (please confirm with your accountant). As with most insurance products, premiums increase with age because you are more likely to make a claim. Some products, however, offer level premiums where you always pay the same amount.

Many policy holders reduce their premiums when their children get older and need less support. You can also save on premiums by taking out a policy with a six-month waiting period before you can claim.

> *"My partner cancelled his income protection insurance when our youngest child was 16. A year later he had a stroke. We didn't see it coming. He was 55 and healthy. He can't work and he lives in assisted care. It's been a nightmare." Antoinette*

> *"I've got my own business and it's been very successful. As a self-employed person I never really thought about income protection. I've been diagnosed with Parkinson's and it's affecting my ability to work. We're going to have to sell our house." Matthew*

Trauma Cover

Also known as critical illness cover, this provides a lump sum payment if you are diagnosed with a specific serious illness, such as cancer or stroke. There are about 45 diseases that fall into this category for insurance purposes depending on the insurance company. If you have a family history of a serious illness, it would be worthwhile getting trauma cover.

Prepare your estate plan

Like insurance, estate planning is about preparing for the worst while hoping for the best.

It's a responsibility you have to your family. If you become incapacitated or die, you need to have plans in place.

Making a Will is one of the key tasks of estate planning. It is about deciding what will happen to your assets, like your home, when you die. Your will provides instructions on how your estate is to be distributed amongst your nominated beneficiaries.

With regards to your home, if you own your property as tenants in common, you are able to pass on your share in the property in your will.

If you own the property as joint tenants, on your death, the surviving co-owner will automatically become the sole owner of the property. However, if both you and your co-owner die at the same time the property can be passed on according to your will.

A thorough estate plan includes a will and:

<u>Power of attorney</u>

Where you appoint someone else to conduct your affairs if you are unable to do so.

<u>Power of guardianship</u>

Where you give someone else the power to make personal and lifestyle decisions for you if you lose your mental capacity.

<u>Advance health care directive</u>

Which are Instructions on your wishes regarding medical treatment if you're unable to communicate.

The key when making your estate plan is to be as specific as possible about your intentions. It may be uncomfortable contemplating your own passing, but it ensures legal battles are not part of your legacy.

Speak with a lawyer so that your estate plan is tailored specifically to your needs, your goals, and your family situation. General strategies, such as do it yourself will kits can be very helpful as springboards to a tailored plan, but they may not cover everything in your situation.

About the Author

I am a Mortgage Broker and an accountant.

I hope you've found the information in this booklet helpful and you're on track to becoming a home owner.

Finding a loan that is suitable for you is just the start of what I do. My passion is helping people to become ***financially well organised*.**

The key to a financially well organised life is to carry the right kind of debt, like a sensible mortgage, but not too much. Other key aspects of your financial affairs that need to be addressed and reviewed regularly are: tax, insurance, planning for your retirement, estate planning and investment. No matter what stage of life you're at, you need to have a plan in place for each one of these key areas. If you successfully implement a plan in these areas, your financial future will fall into place.

I cannot guarantee that you are going to be super rich, but you will be financially well organised, and secure in the knowledge of being in control of your financial well-being.

There are ways to strengthen each aspect of your financial affairs and there are plenty of resources available that can guide you. If you would like the benefit of my knowledge and years of experience, I'm here to help.

My goal is to help you become financially well organised and secure in your financial future.

Kind Regards,

Fairuz Azli

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