Buying a Home

Buying a home is exciting but nerve-racking because this will probably be the most important and expensive purchase you will ever make. Understanding the process will help you avoid problems and rely less on luck to make the right decisions. It takes time to find and buy a home so don't try to rush it or you may be caught out!

Renting vs. Buying

Owning your own home is the great Australian dream but it's not always the most economical route. Renting may work out cheaper than buying if:

- You are buying in an area where there is limited potential for capital growth, such as in a heavy industrial area
- You are buying at the top of the property market because property values usually fall soon after
- You are renting in an area where home prices are expensive

Making extra repayments saves you thousands

If you owe $300,000 on your home loan at 4.5% and are paying it back over 30 years at $1,520 a month, paying an extra $88 each calendar month ($20 a week) will slash the term to 26 years and 5 months and save $34,000 interest. Once the term of the loan has dropped to five years there may be better ways to invest surplus cash, such as superannuation, trusts, term deposits or shares.

Ten steps to buying a home

1. Plan and research properties and loans

2. Save a deposit (aim for 10-20 per cent)

3. Arrange possible finance (loan pre-approval)

4. Start looking - check out the market

5. Choose a property but don't fall in love with it yet!

6. Check the condition of the property

7. Formal loan application and approval

8. Legal checks and requirements

9. Exchange of contracts (deposit cheque required)

10. Settlement and moving in!

Finding the right home loan

These days there are almost as many loans to choose from as there are homes to buy, so finding the right one for your needs can be confusing. Many borrowers mistakenly believe that the best mortgage is the one with the most added features, such as credit cards and offset accounts.

Traditionally, this type of mortgage will have a slightly higher interest rate or set-up charge, so if you don't really need those features, why pay for them? A "no frills" mortgage with a simpler structure and lower fees may be a better option for you.

The key to finding the "best" mortgage is defining your own needs to determine the type of loan you should be looking for - finding it is the easy part.

Home loan checklist

Answer the following questions and make a simple checklist of the lifestyle needs your mortgage must satisfy. You could save thousands of dollars over the life of your loan:

- Do you want the flexibility to make additional repayments or pay out your loan early?
- Would you prefer the predictability of fixed loan repayments?
- Would you like a redraw facility or the ability to suspend payments on your loan while you start a family?
- Will you be making weekly, fortnightly or monthly repayments?
- How much deposit do you have? Will you need mortgage insurance?
- Can you use an existing property as security for a home-equity loan?

Types of home loans

Standard variable interest rate	a loan where your repayments may rise or fall at the discretion of the lender. May include special features such as a redraw facility
Fixed rate interest rate	a loan where the interest rate and repayments are fixed for a pre-arranged term
Basic variable interest rate	Like a standard variable rate loan but without extra features
Discounted variable loans	the standard interest rate is reduced or 'discounted' for an agreed initial period
Honeymoon rate	a loan offering an attractive introductory interest rate for a fixed period, usually twelve months. Find out what interest rate your loan reverts to when the 'honeymoon is over' and if any restrictions apply during the honeymoon
Mortgage offset	Up to 100% of the daily balance of the Mortgage Offset Account is offset against your home loan, reducing the balance used in calculating

	interest on your home loan. You also have access to your funds 24 hours a day, 7 days a week
Line of Credit	a type of home loan that lets you access a line of credit using the equity you already have in your home as security
Principal and interest loan	a standard type of loan where your repayments are calculated to include the amount of money borrowed plus interest

Note: more complex mortgages sometimes have an establishment or application fee levied to cover the cost of setting up the loan. Some lenders may waive application fees for some customers - be sure to ask if you are eligible for a fee waiver.

What can you afford?

Before you can calculate how much you can afford to pay for your home, you first need to work out the total cost of the purchase. As a general rule, the total cost of purchase is around five per cent of the price of the home, and includes legal and government charges, loan establishment and administration fees and mortgage insurance if you are borrowing more than 80 per cent of the property's value. Stamp duty is calculated as a percentage of the purchase price, so the more expensive the home, the higher the total purchase cost will be.

Purchase Costs

On top of your deposit, you will need to have an additional five or six per cent of the price of the home to cover purchase costs such as:

Legal Costs	- solicitor or conveyance fees - inquiries or disbursements ie. title and other searches
Inspections	- property and pest inspection - identification survey - strata records inspection (if applicable)
Government charges	- stamp duty on transfer - stamp duty on mortgage
Financial costs	- lender's application or establishment fee - valuation fee - mortgage insurance, if applicable
Miscellaneous charges	- adjustment of council rates - insurance - fire and perils, contents
Moving costs	- removalists - connection fees for services - carpet cleaning - changing locks - urgent repairs

The four things lenders look for before approving a loan

1. Capacity - can you afford to repay the loan?
2. Character - are you a good financial risk? Do you have a history of repaying your debts?
3. Collateral - is the property you are buying adequate security for the money you are borrowing?
4. Capital - what you already own.

How much deposit do you need?

The 'usual' deposit is 10 per cent of the purchase price, but the more deposit you can save:

- the better property you can afford
- the less you need to borrow
- the less your mortgage repayments
- the less likely you are to incur mortgage insurance premiums

Mortgage Insurance

Mortgage insurance protects the lender NOT the borrower against losses incurred if you default on your loan. Mortgage insurance is usually charged when the loan to value ration (LVR) is greater than 80 per cent, i.e. when you are borrowing more than 80 per cent of the value of the home.

Income Protection Insurance

Income protection insurance offers optional cover for the borrower. Policies are tailored to meet your specific needs and are designed to meet your mortgage repayments if you are unable to, for example if you lose your job or are ill for an extended period.

The 25 per cent rule

Most lenders won't allow your loan repayments to be more than 25 per cent of your total income, although this rule may be relaxed for higher income earners. So if your total monthly income is $2,400 your loan repayments must be no more than $600.

Tip >>	**Avoid over-extending yourself financially. It is far better to be in a position where you can still borrow a few extra thousand dollars if something unexpected happens - which it often does**

Did you know?

- It takes most people 2-5 years to save a deposit
- Finding the right people to lend you the money may take at least three months
- If possible, start researching loans and property prices a year before you want to buy. ^

What to buy

Your new home doesn't have to be a house, in fact in many cities around Australia living in smaller properties - apartments, townhouses or studios - is becoming popular because they can be more affordable, newer and better located than some more traditional homes. Before choosing the type of home you want to buy, consider your lifestyle and budget then ask yourself these questions:

- Does the area and community suit my lifestyle?
- Does it have easy access to facilities such as schools, transport, workplace, shops, parks and recreational facilities?
- Does it have the outlook I want - water, trees, a city view or a sunny garden?

If the answer to these questions is yes then consider proceeding with legal and structural checks of the property. If not, tell the agent what it is you dislike about the property so they can steer you towards more suitable homes next time.

When to buy

Like most other markets, the property market has its ups and downs. If you know when and why property prices are on the move you will have a better idea of when is the best time to buy your home. The ideal time to buy is:

- Just as interest rates begin to fall. Prices are likely to rise soon after as more buyers enter the market and take advantage of lower interest rates
- When home prices are low i.e. in a 'depressed' market
- When inflation is high or rising as prices are likely to increase faster

Tip >>	**Look for properties that have been 'passed in' at auction. This means that bidding did not reach the vendor's minimum (reserve) price for the property. You may be able to negotiate down on price and avoid an auction bidding war.**

Where to buy

Ask any real estate agent what most buyers are looking for in a home and the answer you will hear is: 'location, location, location'. The best way to find a home in your ideal location is to draw up a list of facilities and features that meet your needs.

Beware!

- Are property prices rising or falling in the area?
  - Hint: Check property price trends in the area with the Real Estate Institute of Australia.
- Are there negative factors such as jails, factories, sewerage works, proposed major construction, new road developments?
  - Hint: Call the local council for more information and recent sale prices of homes in the same street.
- Is the area noisy?
  - Hint: Investigate flight paths, railways, busy streets and intersections, fire or ambulance stations, bars and sportsgrounds in the vicinity. Visit the property at different times of day and night and ask neighbours if they are bothered by noise in the area.
- Caveat emptor - 'let the buyer beware'

Inspections and Legalities

There are no warranties for home buyers so to protect yourself have the property checked out before you finalise the purchase. Get specialist advice from a legal consultant or conveyancing service and a building consultant before you sign any contracts. Store this information in a fireproof container or safety deposit box - it will make it easier to resell your home later on.

Hint: To keep legal costs to a minimum, get property inspections done before proceeding past the first basic legal steps.

What to inspect

Property inspections should assess all accessible parts of the property, reporting on problems in these areas:

- hazards (e.g. loose handrails)
- dampness (e.g. leaking roof)
- movement (e.g. cracks in walls)
- pests (e.g. timber pests)
- finishes (e.g. deteriorating paint)
- services (e.g. old water pipes)
- compliance (e.g. unapproved building work)
- amenity (e.g. steep driveway)

New or old, inspections are a must

New properties and properties that have been renovated recently are just as likely to have serious problems as old homes so don't skip the property inspection. A building consultant can detect incomplete or defective work on new homes and locate relevant documents verifying council approval and quality of workmanship.

Also obtain the following information about your builder:

- licence number
- insurance
- defects liability period
- details of any warranties and guarantees for equipment and materials used in the home, including appliances.

Buying a unit? Check this out first

- Body corporate records, including the history of maintenance and provision for future expenditure. Compare this information with the actual property inspection report for an accurate indication of expenses you may have to share in the future
- Fire-rating, particularly in older apartments as it may be inadequate and is expensive to fix
- That noise minimisation between properties is adequate
- Building conditions against council requirements if it is an older property that is being converted to strata title
- Surveyor's reports if unsure about the ownership of a unit, garage, car space or store room.

Need further help?

For free unbiased advise please call one of our friendly home loan experts on 1300 553 583