

FIRST HOME BUYER GUIDE

FEEL GOOD FINANCIAL SERVICES



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The information provided in this e-book is General Advice only and does not take into consideration your personal circumstances.

Welcome

Buying your first home can be a daunting experience. It's often the single biggest purchase you'll make in your lifetime, yet we don't learn about it in school.

A lot has changed since our parents' generation bought their homes, so where do you turn to for advice?

This guide is designed to teach you the fundamentals of buying your first home in the current climate, which includes the schemes that are currently available and hot tips for surviving a housing crisis.

It is general advice and not designed or expected to replace personal advice from your mortgage broker, so please don't hesitate to reach out with any questions you still have after reading the guide.

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"THE ACHE FOR "HOME" LIVES IN ALL OF US, THE SAFE PLACE WHERE WE CAN GO AS WE ARE AND NOT BE QUESTIONED."

~Maya Angelou


YOU
DON'T KNOW
WHAT
YOU
DON'T KNOW


KNOW
YOUR
NUMBERS



KNOW. YOUR. NUMBERS.

The very first step in your home buying journey must be to understand your budget. Part of a Broker's role is to advise clients on their maximum loan amount (a.k.a borrowing power) and how that translates into their maximum purchase price (a.k.a purchasing power). Those figures provide the guidance my clients need to confidently house hunt and find a realistic property.



BORROWING POWER

Your borrowing power, also called your borrowing capacity or serviceability, is a calculation of your ability to make repayments on a loan. Your borrowing power is then added to your savings or equity to calculate your purchase power, i.e. what is the actual maximum price you can purchase a property.



In its simplest form, your borrowing power is calculated by deducting your expenses from your income. The remaining income is then used to cover repayments. However, there are many variables built into the equation that vary between lenders.

Responsible lending guidelines suggest lenders add a 3% buffer to their actual interest rate. We call this an 'assessment rate'. The assessment rate is used to ensure there is a healthy buffer built into the borrowing power to cover any rising interest rates or changes to your financial circumstances. Lower interest rates may be available for loans with a lower loan-to-value ratio (LVR), and higher interest rates may apply to higher risk loans like those with high LVR or borrowers with poor credit history. Different loan products can also have different rates, such as basic variable, offset loans, or fixed loans.



Each lender may consider different types of income differently. Most lenders will take 100% of your standard hours for your PAYG job. Some will only take 80% of casual income, overtime, or second jobs. And not all lenders will consider income from Centrelink, or short contract employment.

Your expenses include any repayments on existing loans, like car loans and personal loans. It includes repayments on credit cards, and assumes they are fully drawn to their limit despite your actual balance.

It also includes your monthly living expenses across a broad range of categories. It is important to estimate your living expenses as accurately as possible to ensure that you're not missing any essential expenses, and that you allow for expenses that you will incur on a new purchase (e.g. Water and Land Rates, insurance). If you estimate your expenses are lower than the minimum Household Expenditure Measure (HEM – a statistical average) then the lender will adopt the higher figure of the HEM.

As you can see, the simple equation of income minus expenses quickly becomes complicated. This is where a Broker's expertise comes into play.

PURCHASING POWER

Now we have your borrowing power, we can calculate your purchasing power! Sometimes it's as easy as adding your borrowing power to your savings contribution. Sometimes, it's much more complicated.

Your purchasing power will be limited by either your borrowing power, your savings contribution (or equity), or lender policy. As a general rule, the most you can borrow is 95% of a property's value.

We need to allow for expenses that are applicable to your circumstances, such as stamp duty and government transfer fees, which differ from state to state. Other fees like conveyancing, pest and building, and rates adjustments also need to be considered. If you are paying Lender's Mortgage Insurance (LMI) this can be a significant cost that can be added to the loan, but will affect your purchasing power.

3 QUICK TIPS

TIP #1

Know where your money goes

TIP #2

Have a separate account for savings

TIP #3

Allow for future expenses like rates and insurance



FINANCIAL SERVICES
FeelGood
- Feel the Difference -

EXAMPLE

You have a borrowing capacity of $500,000 and $100,000 in savings – this doesn't mean you can buy a house for $600,000. Firstly, we need to deduct stamp duty and fees from your savings, and then consider the overall LVR and LMI. If you're not eligible for any schemes or concessions, this could reduce your purchasing power to $575,000.

Keep in mind that different property types can attract different LVRs. For example, a studio apartment in an inner city area, or a 50ha rural property, could both be limited to lower LVRs than a standard residential block.

The best time to speak with your Broker about your Borrowing Power and Purchasing Power is up to 12 months prior to your intention to buy. This might seem like a long way off, but the insights that you can learn from this exercise will help guide your budget and savings goals, as well as set up realistic property expectations.

QUICK RECAP

Borrowing Power is your maximum loan amount based on your income minus your expenses, plus a few variables.

Purchasing Power is your maximum purchase price based on your maximum loan and contribution.





STEP *by* STEP

STEP ONE: Discovery

A quick phone call to get to know you and then we send through an Information Request to gather the documents and information we need to make an assessment and provide advice.

STEP TWO: Strategy

We meet to discuss your options and a strategy moving forward. We present lender options and advice about product suitability, and then lodge a pre-approval application for you.

STEP THREE: Pre-approval

House hunting! Your pre-approval is valid for 90 days so you have the confidence to get out, find the property that fits your budget and lifestyle and negotiate a price.

STEP FOUR: Formal Approval

Once you've had your offer accepted, we order a valuation and convert your application to formal approval. You review contracts with your conveyancer and order a Pest & Building report (if applicable)

STEP FIVE: Settlement

Your Conveyancer will act on your behalf on settlement day, transferring your loan funds and savings contribution to the seller and transferring the title into your name. Pick up the keys and celebrate!

PRE-APPROVAL

A pre-approval is a kind of half-approval that gives you a ticket to go shopping. It is not mandatory to have a pre-approval, but in some cases (like bidding at Auction) it's highly recommended.

A pre-approval application is just like an ordinary application except you're leaving one party out - the security. The bank will assess your income and expenses and confirm your maximum loan amount, subject only to the security being satisfactory.

PROS

- Gives you the confidence to go house hunting and know your limits
- Saves time when you find the right property
- Sanity check before bidding at auction

CONS

- Not all lenders fully assess pre-approvals
- Only last for 90 days
- Might not still be the best loan option by the time you find the right property

TO PRE-APPROVAL, OR NOT TO PRE-APPROVAL

That is the question...

The answer: Check with your Broker first.

If your application is considered very vanilla and safe, then you may not feel the need to have a pre-approval. However, if there is some grey area in policy, or you're pushing towards your upper limit, then a pre-approval will help give you peace of mind.

If you're intending on going to Auction, a pre-approval is advisable. If you're working with a Buyer's Agent, they will sometimes require you to have one to avoid time wasting.

If you're making offers in a hot market and find things keep moving really quickly, having a pre-approval can save you time because your application is already half assessed. If you've already got a pre-approval then it's a simple matter of ordering a valuation and having the valuation assessed and approved by the lender.


BUYING
property
NSW

HOW TO

BUY IN NSW

Each state and territory has different processes and timelines for purchasing property. Here we will walk you through buying property in NSW.



If you have a pre-approval, it is usually valid for 90 days. This allows you to shop around for the property that suits your needs and fits your budget. You do not have to have a pre-approval to make an offer, but be sure you have spoken to your Broker and you are confident of your limits.



When you find the property you like, and have conducted your research (including requesting a free Property Report from us), you will approach the real estate agent with a written offer. This can be in the form of an email or a text message. The real estate agent will discuss your offer with the Vendor (the seller). Once you have negotiated a price that is satisfactory to both the seller and you, the real estate agent will ask for your personal details to prepare a Contract of Sale (COS).

CONTRACT

The Contract of Sale will be sent to you and your chosen Conveyancer or Solicitor. Your Conveyancer's role is to review the Contract and explain it to you, negotiating any terms of the condition that are unsatisfactory. A standard Contract will include a 42 day settlement timeline and require a 10% deposit, however both of these things may be negotiated.



The Real Estate Agent will request you to transfer your deposit to their Trust account. The deposit is 10% of the final sale price, unless otherwise agreed. If you are not contributing a full 10% to the purchase, the Vendor may agree to a 5% deposit or a Deposit Bond.

Your Broker will use the Contract of Sale to order a valuation and request the bank to convert your pre-approval to a formal approval. If you do not have a pre-approval, your broker will submit a full application for formal approval. The valuation is undertaken by an independent third party, they will contact the selling agent to arrange an inspection time if access is required.



When you have Formal Approval from your lender, you can officially exchange contracts. This means your signed contract is exchanged with the vendors signed contract, and the contract is now binding.



PEST & BUILDING

It is recommended that you order a Pest and Building Report, however it is not mandatory. A professional pest and building inspector will provide a written report to you that includes structural and cosmetic elements of the property, and note any concerns.

FUN FACT

In NSW, you can be GAZUMPED. This means that your offer was verbally accepted but the seller accepts a higher offer from another buyer. This can occur at any time until Contracts are officially exchanged.

SETTLEMENT

Between exchange of contracts and settlement, usually 6 weeks, you will receive your loan documents to sign and return to the bank. Prior to settlement, you will need to provide a copy of your Certificate of Insurance to prove you have Building Insurance on the property. You will also need to transfer any additional funds that you are contributing to your Conveyancer's Trust Account, or another account nominated by you in your loan documents. Finally, shortly before settlement, you should complete a 'final inspection' to ensure the property is in the standard you expect to receive it – for example, it is vacant, clean of rubbish, undamaged, etc.

On settlement day, your Conveyancer will act on your behalf using the digital platform PEXA. They will combine your contribution with your loan funds to pay the seller. The bank will register a mortgage over the property. You will be notified when it is completed so that you can pick up the key from the seller's agent.

HOME BUYING PROCESS

1

Make an Offer

Make your offer and any negotiations in writing. Once you've agreed on a price, provide your details for the Contract

2

Cooling Off

You can choose to pay a 0.25% non-refundable deposit while you get your ducks in a row.

3

Finance

We order a valuation on the property and request formal approval from the lender

4

Exchange

Once formal approval is received, you can pay the remainder of the 10% deposit and officially exchange contracts

5

Settlement

Usually 6 weeks after exchange, funds are transferred by your conveyancer and keys are received from real estate.







FINDING THE RIGHT PROPERTY



When you're looking for a home to live in, it's important that you have an understanding of your needs and wants. Make a list of what are the features that are non-negotiable for you, and others that are nice to have. This can include certain locations, number of bedrooms, yard size, etc.

You can pair this information with your maximum purchase price, that your Broker will help you to calculate, to narrow down your search into what is achievable.

If you find that your budget isn't allowing you to get what you want, you may be able to cut away some of the nice-to-have features. Or perhaps you would rather wait until you have more savings to contribute.

Attending open homes is a great way to get a feel for what you really want. Remember, everything looks different in the daylight compared to online. Open homes allow you to walk through, imagine yourself living in the space, and also check out the competition.

Agents will take your name and number and call you later that day or the following business day. They are seeking your feedback on the property so they can inform their client, the seller. Be honest with the Agent, tell them what you're looking for, what you liked or didn't like. If you form a good relationship with the Agents they may think of you when a new property comes onto their books that suits your needs.

Utilise free Property Reports to gain insights into the history of that property, and also the suburb. Information such as how long the property has been on the market might shed some light on potential problems, or may give you a bargaining chip to negotiate.

When you think you've found 'the one', ask for another inspection. Take a friend or family member with you who you can trust for their unbiased opinion. It is easy to be besotted with a property and see it through rose-coloured glasses, missing the obvious defects. If the property is in a street you're not familiar with, drive by at different times of the day. Is there awful traffic or unruly neighbours that deter you? If it's in a different suburb, do your grocery shop at the local store and see what it feels like.

How long do you expect to keep the property for? Is it just a stepping stone, or could you see yourself living in it long-term? If you have, or are planning to have children, is the school zoning important to you?

Consider the risks of natural disasters such as flooding and bushfires. An online insurance comparison is the quickest way to detect any potential risk factors, including high crime areas.

From the lenders' point of view, the property needs to be habitable and in reasonable condition. If there is obvious structural damage (holes in the wall, sagging ceiling, mould, no kitchen or bathroom) then they will mark this is 'essential repairs' and won't accept the security unless you have the funds to fix it. Remember that the property is being held as security for the lender, so if you don't make your repayments they need to be able to sell the property quickly to make their money back. Additionally, if the property is very unique, or in a remote area, and the valuer marks it as a property that could take longer than 12 months to sell, it may fall outside the lenders' risk appetite.

Different lenders have different policies for different securities, so a small apartment or a large parcel of land, may be limited to certain lenders or a lower LVR.





CHECKLIST

·Bedrooms
·Yard size
·Distance to work
·School zone
·Storage
·Ceiling fans
·Built-in Wardrobes
·Solar
·Fenced yard
·Cul-de-sac
·Hot water
·Ensuite bathroom
·Car parking
·Ducted air con
·North-facing aspect
·Flood/bushfire zone
·Pool
·Strata/Freestanding
·Internet speed
·Phone service
·Cost to insure
·Public Transport
·Noise pollution

Which features are non-negotiable, and which ones are flexible for you?



HOUSE
HUNTING

1. BE REALISTIC ABOUT YOUR BUDGET AND YOUR TIME FOR MAINTENANCE OR RENOVATIONS

2. MAKE A LIST OF NON-NEGOTIABLES; FEATURES, SIZE, LOCATION, ETC.

3. DO YOUR RESEARCH; GET A FREE PROPERTY REPORT FROM YOUR BROKER

4. KEEP AGENTS ON YOUR SIDE, REPLY TO THEIR CALLS OR EMAILS

AUCTION

Auctions can be action-packed and overwhelming, so it's important that you are comfortable with your finances and understand the potential risks involved. It is highly recommended that you have a strong pre-approval in place prior to purchasing at auction, as the winning bidder is immediately expected to exchange contracts without any cooling off period.

You will need to conduct your review of the property before the auction, including a pest and building report if you choose. You should receive a copy of the marketing Contract of Sale from the selling Agent for your Conveyancer to review and discuss with you any potential risks. You should also enquire about the terms of the deposit for the winning bidder.

A bank valuation cannot be ordered prior to an auction. This means that if the valuation is under the auction price, you may have to reduce your loan amount thus requiring a higher savings contribution. It is not common for valuations to be under the purchase price, however it is a very real risk that you need to consider and have a contingency plan.

On the day of auction, you will need to arrive early to register with the selling Agent. You will need to show photo identification and follow the instructions of the Auctioneer in regards to bidding. If you are the highest bidder, and the Auctioneer declares you have won the auction, you will sign the Contract of Sale immediately. A 10% deposit will be required to be paid, sometimes on the spot and sometimes the following business day. A Deposit Bond may also be acceptable.

The remainder of the process is exactly the same as a normal purchase. The exchanged Contract will be used to order a valuation, and sent to your lender to convert your pre-approval to formal approval. Loan documents will be issued for you to sign and return, Building Insurance will be required, and your Conveyancer will act on your behalf for settlement.



Hot Tip: Attend a few auctions without bidding to help you feel confident and comfortable with the environment.


FHB
SCHEMES
NSW



NSW GRANTS & SCHEMES

First Home Buyers Assistance Scheme (FHBAS)

To be eligible for this scheme, you must never have owned, or had interest in, residential property in Australia. You must be purchasing it with the intent to live in it for at least 12 months, commencing within the first 12 months after settlement. There is an exception for members of the ADF who do not have to meet the requirements for living in the property so long as all purchasers are on the NSW electoral role when Contracts are exchanged.

If you're purchasing an established property, you will pay no stamp duty for purchases up to $800,000. For purchases between $800,00 – $1,000,000 you will receive a discount. For purchases over $1,000,000 you pay the normal rate.

If you're purchasing vacant land, you will pay no stamp duty for purchases up to $350,000. For purchases between $350,00 – $450,000 you will receive a discount. For purchases over $450,000 you pay the normal rate.

Here is the link to the official First Home Buyer Assistance Scheme website.

First Home Owners Grant (FHOG)

This scheme provides a $10,000 one-off payment for eligible first home buyers who purchase a new or substantially renovated home, or build a new home.

If you purchase a newly built property, it must be under $600,000. If you are purchasing land and building, the end value cannot exceed $750,000.

The FHOG can be used as part of your contribution of funds, as long as the FHOG application is submitted to the lender with your loan application. The FHOG is then paid directly to the lender after construction has begun if you're building, or at settlement if you're purchasing a newly completed or renovated building.

Here is the link to the official First Home Owners Grant website.

Current as of March 2026

AUSTRALIA-WIDE SCHEMES

5% Deposit Scheme and the 2% Deposit Scheme

The 5% Deposit Scheme is for first home buyers, and those who have not owned property for more than 10 years.

The 2% Deposit Scheme applies to eligible single parents with at least one dependent child in their care who don't currently own a home.

These schemes have different eligibility criteria but the premise is the same, the government will provide a guarantee for a portion of the equity and you won't need to pay Lenders Mortgage Insurance (LMI). Only certain lenders are participating in this scheme.

Here is the link to the official Home Guarantee Scheme website.

First Home Super Saver Scheme (FHSSS)

It can be difficult to save for your deposit, and the FHSSS was designed to give first home buyers a better chance. Under this scheme, you can make additional contributions to your superannuation fund to be later withdrawn as part of your savings contribution. You can deposit up to $15,000 per year, and can apply to withdraw up to $50,000 once it has been accumulated.

It is important to understand that only voluntary additional payments to your superannuation count towards the FHSSS, this does not include mandatory contributions from your employer. You cannot withdraw from your superannuation for your deposit unless you meet these requirements.

Here is the link to the official First Home Super Saver website.

Current as of March 2026

Scheme information can be overwhelming and it might be hard to understand your eligibility, or if it's worthwhile. Chat to your Broker to find out more. We deal with these Schemes on a regular basis and know the ins and outs.

CASE STUDY

A quick example of how the schemes can be used in conjunction to provide some serious benefit to first home buyers in NSW.

Ash is purchasing a brand new property in regional NSW for $600,000.

Ash has saved a 5% deposit of $30,000.

Ash meets the eligibility criteria for the 5% Deposit Scheme, the First Home Buyers Assistance Scheme and the First Home Owners Grant.

The combination of these three schemes in this scenario will save Ash a total of almost $50,000.

Stamp duty: $21,735
LMI: $17,000 (approx.)
FHOG: $10,000

3 QUICK TIPS

TIP #1

Chat to your Broker

TIP #2

Confirm your eligibility early

TIP #3

Keep an eye on the deadlines




SAVING
your
DEPOSIT

COSTS
TO CONSIDER

Your contribution of savings will include your deposit, which is a percentage of your purchase price, as well as additional fees and costs.

The additional costs will vary region by region but here's a breakdown and some estimates.

- Conveyancer $1,500-$2,500
- Pest & Building $500-$1,000 - Not mandatory but recommended
- Insurance $ Varies - Building insurance is mandatory for freestanding homes, but if you're buying a unit it will be covered under the strata
- Stamp Duty $ Varies - Stamp duty is dependent on the purchase price but you may be eligible for a discount or waiver
- Government Fees $560
- Rates Adjustment up to $1,000 - Your Conveyancer will calculate any adjustments payable the week before settlement

As a general rule, it is wise to have a $3,000 - $5,000 buffer to account for these costs or unexpected items that pop up. It is important not to leave yourself with zero in your bank account to prepare for any urgent maintenance or bills that can occur as a homeowner.

The minimum deposit you need will depend on your eligibility for first home buyer schemes, your borrowing capacity, and your purchase price so it's best to seek advice from your Broker who can factor in all of the variables.











START AT THE

END

What is your goal? What are you aiming for?

Without this number, you're just flapping in the breeze.

Chat with your Broker to find out what you need and then develop a timetable. How long are you giving yourself to achieve this goal?

Then do the simple maths.

I want $30,000 in 3 years time.
I need to save $10,000 per year.
Or $830 per month.
Or $190 per week.



SEPARATE

ACCOUNTS

You need a separate savings account so that you can see the difference. If your savings is just willy nilly thrown in with your spendings you can't keep a track and you can't keep yourself accountable.

If you are committing to saving $200 per week from your take home pay, then do it. Don't just think about it. You may be able to ask your employer to pay a portion of your salary directly into your dedicated savings account. If not, set up an automatic transfer so the same day your pay is credited to your account, your savings commitment is transferred to your special account, without you even thinking about it!



HAVE A

BUDGET

Budgets are boring but necessary.

You can use a fancy budgeting app, or a scrap of paper.

Find out what you earn.
Find out what you spend.
Find out what the difference is.

If you can, and it aligns with your values, find out where you can decrease your spending to increase your savings.

Saving is hard. Especially in this economy. But saving is important. Especially in this economy.





ACCOUNTABILITY

CHECK-IN

It is too easy to veer off track, particularly over a longer term like 3 years.

Set up accountability check ins with your Partner, Parent, Bestie or Broker.

Every 3 months check your progress.

If you're not where you want to be, ask yourself why and learn from the information.

Is your goal unrealistic? Are you not allowing enough for emergency funds, or cost of living increases? Or are you being too lax with your discretionary spending?





GIFTED FUNDS

40% of Aussie First Home Buyers are getting help from the Bank of Mum & Dad

Some people are lucky enough to have family that are able and willing to help them with their dream of home ownership. With the dire state of the economy, it's becoming a common theme. Latest stats from the 2023-2024 financial year show up to 40% of first home buyers are receiving some kind of financial help from family.

Family pledge is one way, covered off in the next chapter, and Gifted Funds are another.

When family is providing money to help you with your deposit, we call this Gifted funds and there are some rules around it:

1. Funds must be gifted from a suitable person such as a direct family member. Most banks will not accept gifted funds from friends or employers.
2. A Statutory Declaration or signed Gift Letter may be required, which states the gift is non-repayable
3. Some lenders require the Gifted funds to be deposited to your account before they will provide Formal Approval

If the funds are not a "gift", i.e. they are expected to be repaid, then lenders can look at this as a loan and will need to include the repayments in your expenses.

LIVING INHERITANCE

Some parents and grandparents are choosing to give their inheritance away before they pass away. That way their kids and grandkids are getting the benefit when they need it most, and everyone gets to enjoy the gift.


YOU CAN MAKE
MONEY TWO WAYS
MAKE MORE
OR
SPEND LESS
~ John Hope Bryant


LEARN
ABOUT
LOANS



TYPES & FEATURES

There is a huge variety of loan types and features which can seem confusing if you're not familiar with the terminology.

You may receive well meaning advice from friends or family about what you *should* choose but it really depends on your lifestyle and values.

We'll cover off the key points you need to understand to make decisions about what suits you.



VARIABLE RATE

A variable rate means that the interest rate is variable and could fluctuate, either up or down, depending on the banks' decision. A variable rate loan is usually more flexible, allowing you to make unlimited additional repayments, access redraw, connect an Offset, refinance or pay out the loan whenever you like.



FIXED RATE

A fixed rate loan means the interest rate is locked in for a set period of time, usually between 1-5 years. The interest rate will not change during that time. There are often limits around how much additional repayments you can make each year, and you may not have redraw or an Offset. If you pay out the loan during the fixed term you may be slugged with break costs which can be considerable.

OFFSET

An Offset account is a separate bank account that is connected to your home loan. Any money in the Offset is deducted from the balance of the loan when the bank calculates how much interest is payable. The account is fully transactional and you can have your wages deposited to it and even have a card for everyday expenses.



REDRAW

Redraw is a feature of a loan that allows you to withdraw additional repayments you have made over the minimum repayment. It is not a separate account and is not transactional like an Offset, but has exactly the same financial benefit. Any money in your redraw reduces the amount of interest that is payble.



SPLIT LOAN

You have the option to split your total loan into part variable and part fixed if you choose. This allows you to hedge your bets if you're unsure which option to choose, you can have the best of both worlds. You simply end up with two (or more) splits, which have their own repayment rules.



PRINCIPAL & INTEREST

This refers to the repayment which is calculated to pay off the principal (loan balance) as well as the interest and any fees. The repayment gradually chips away at the loan until it is paid down to zero.

INTEREST ONLY

Interest Only is self explanatory, it is a repayment type where only the interest is paid. The loan balance does not reduce. This type of repayment is favoured by investors, or when you're building a new home. They can also be useful in times of financial hardship to provide temporary cashflow relief.



LENDERS MORTGAGE INSURANCE (LMI)

LMI is usually payable if you borrow more than 80% of the value of the property being held as security. LMI is an insurance policy which covers the lender if they have to sell your home to repay the loan and there is a shortfall. LMI is paid by you, but protects the bank.



CONSTRUCTION LOANS

If you're building your home, you will need a special construction loan. Each time your build progresses to another stage, a progress payment is drawn down and the loan (and your repayment) increases. This means that you are not paying the full loan and interest until the funds are actually used, saving you interest.

SECURITY *GUARANTEE*

If you have not saved the minimum deposit required to apply for a loan, or perhaps you are ineligible for the 5% and 2% Deposit Schemes, you may consider using a guarantor to avoid Lenders Mortgage Insurance (LMI).

Firstly, let's get an understanding of what LMI is and why we might like to avoid it.

Normally when you borrow more than 80% of a property's value you are expected to pay LMI. If you do not make repayments on your loan, and the lender is forced to sell your property to recoup their loss, and that sale results in a shortfall (i.e. the sale price is lower than the debt), the lender's insurance policy provides cover to the bank to make up the difference. It's important to understand that the insurance company will still chase you to recoup the loss as well.

The cost of Lenders' Mortgage Insurance varies depending on the risk profile and the loan amount. LMI will be cheaper on a loan which is just over 80%, and considerably more expensive on a loan closer to 95%. The LMI is usually added to your loan amount so that it's not eating into your savings contribution, although this means you are borrowing more and paying more interest.

In addition, the lender's often charge a higher interest rate for loans over 80% - so it has a snowball effect. The loan application is also considered to be riskier, so it is more heavily scrutinised before approval is considered.
When you use a guarantor, you are promising that if you default on your loan the bank can recoup part of their losses from the guarantor's property – instead of via the insurance policy.

If you default on your loan and sale of your property does not cover the debt, the lender has the legal right to pursue the guarantor for their guaranteed portion. If your guarantor is unable to make loan repayments, they may be expected to use their savings, or even sell their property.



SECURITY *GUARANTEE*

A security guarantee, also known as family guarantee, is when a family member (usually parent) agrees to provide a legal assurance that if you don't meet your repayments they will pay back the guaranteed portion of the loan. The assurance is given by allowing the bank to register a mortgage over their own property, or sometimes a term deposit. The guarantee is released when the loan is paid down to no more than 80% of the value of the property.

PROS

- Buy sooner as you do not need to save a full 20% deposit
- Save money if you do not need to pay LMI
- Not restricted to lenders participating in FHB schemes

CONS

- Need to include guarantor in the process
- May need financial or legal advice
- Not all banks allow guarantors
- Awkward conversation with your folks

ELIGIBILITY

For a guarantor to be eligible, they need to have sufficient equity in their property. They also need to demonstrate how they could repay the guarantee without selling their family home if the debt was called up. That could be other property, savings, or income.

The bank has a responsibility to ensure they are not putting the guarantor at risk of hardship. For example, if your guarantor is on an Aged Pension and only owns their home but no other assets, they may be deemed unsuitable. Further to this, the security policy must meet the banks' criteria. So a 100ha cattle farm or a 20sqm inner city studio apartment might not be considered acceptable.

Finally, you want to be sure that you're guarantor isn't going to sell their property any time soon as that can impact your loan and you may be forced to pay LMI or sell.

JARGON BREAKDOWN

EQUITY

Equity is the value of the property, less any debt owing. If a property is worth $500,000 and has a loan of $200,000 then the equity is $300,000

LVR

Loan-to-value-ratio (LVR) is a common calculation used to assess the risk to the lender. It is calculated by dividing the loan amount by the security value. E.g. Loan of $400,000 on a property worth $500,000 has an LVR of 80%

OWNER OCCUPIED

Owner occupied (OO) is also called your Primary Place of Residence (PPR). It simply refers to the fact that you reside in the home and it is not an investment property.

MORTGAGE

The word mortgage is used interchangeably with the word home loan, but mortgage also refers to the legal right that the bank has to the property if you don't pay your loan.

PRINCIPAL

Principal means the loan balance. A typical repayment will pay a part of the principal as well as the interest payable that month.




YOUR
"A"
TEAM

Like most things in life, it matters who you surround yourself with. The same rule applies when you're buying your first home.

Finding the right team members for you can be a hard task, particularly when you're unlikely to have these contacts in your phone already.

As a general rule, you'll be looking for a Mortgage Broker, a Conveyancer and a Pest & Building Inspector.

Here's some tips for finding your team;

- Ask for recommendations from friends and family that have bought property recently. Find out the good, the bad and the ugly, and take notes so you can avoid their mistakes or copy their success.
- Check out the business reviews and look for recent entries.
- Give them a call and have a chat about what you're looking for and what you expect. This is the easiest way to get a feeling for their level of support and service.
- Compare costs but don't let that be the only deciding factor. It can be a case of you get what you pay for.
- Find out if they have experience in your region, industry and with first home buyers.



"Alone we can do so little; together we can do so much." - Helen Keller

WHO'S ON YOUR TEAM







1

BROKER

Help you with advice and guidance on the finance aspect, which includes saving your deposit, how much you can afford, what schemes you're eligible for, finding a suitable lender, submitting your application and holding your hand through settlement and after.

2

CONVEYANCER

Provides advice on the legal aspects of the transaction. A Conveyancer will review the Contract of Sale and educate you on its contents. They will help you negotiate terms if needed. And they are responsible for executing settlement.

3

INSPECTOR

A pest and building inspection is not mandatory but is highly recommended. You are responsible for ordering and paying for the report. The report will provide insights into the property such as any concerning damage or maintenance, structural or cosmetic defects as well as any pest issues like termites.





WHY
USE A BROKER

1. UNLIKE BANKS, BROKERS ARE LEGALLY OBLIGATED TO WORK IN YOUR BEST INTEREST

2. IN MOST CASES, BROKERS DO NOT CHARGE A FEE FOR THEIR SERVICE AS THEY ARE PAID A COMMISSION FROM THE BANK

3. BROKERS HAVE THE ABILITY TO COMPARE MULTIPLE OPTIONS AND SAVE YOU TIME AND MONEY

4. BROKERS GIVE VALUABLE ADVICE AND STRATEGIES TO HELP YOU ACHIEVE SHORT AND LONG-TERM GOALS

FAQ

WHAT DO MORTGAGE BROKERS DO?

Mortgage Brokers provide advice relating to mortgages. Mortgage Brokers can compare a range of lenders and find you a suitable and competitive option, saving you money.

WHY USE A BROKER OVER A BANK?

Mortgage Brokers are legally obliged to act in your best interest, banks are not. When you go directly to a bank, they can only offer you their products which may not be the most suitable for your circumstances, or the most competitive in the market.

CAN BROKERS GET BETTER RATES?

Mortgage brokers can get better rates by requesting a rate discount with most lenders. Major banks won't always offer their best rate without being asked. Mortgage brokers know how to navigate this system and apply the best available discount to your interest rate.

HOW DO BROKERS GET PAID?

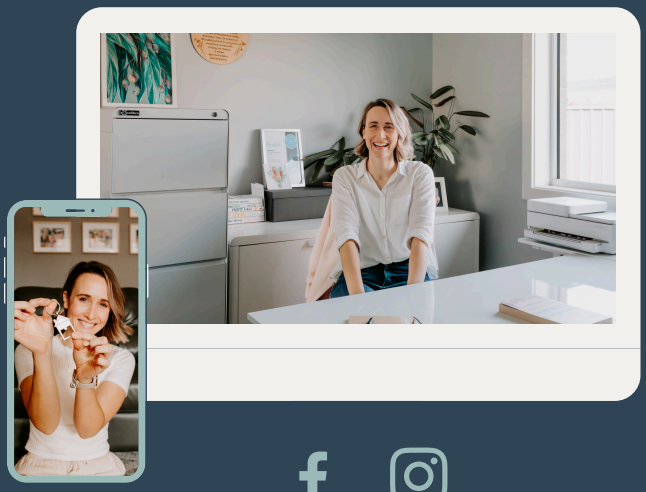
Brokers receive an upfront commission which is a percentage of the settled loan amount, minus any funds in the offset. Trail commission can also be received each month if the loan is not in arrears.

ARE MORTGAGE BROKERS FREE?

In most cases, we do not charge a fee for our services as we are paid the commission from the lender. A fee may be charged for complex or short-term loans, but that is declared upfront before work begins.



NEXT *steps*



FOLLOW OUR SOCIALS FOR NEWS AND TIPS, OR REACH OUT TO WORK WITH US - HELLO@FEELGOODFS.COM.AU

FINANCIAL SERVICES
FeelGood
- Feel the Difference -



THANK YOU

I hope you've found this information helpful. We invite you to share this e-book with your friends, family or colleagues that could benefit from the knowledge too.

There is so much to learn, and each person's financial story is so unique that it's impossible to cover it all in one go.

Please don't be shy to reach out with any questions, we'd love to work with you and help you achieve your home ownership goals.

Ellen

Ellen Thornthwaite holds Credit Representative Number 490189 under Australian Credit Licence 387856.
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