FIRST HOME
BUYERS CLUB

INFORMATION PACK

Let's talk about renting vs owning....

Buying your first home may seem out of reach, but nothing is impossible!
Let's weigh up renting VS owning

The **pros** of owning your own home:

- You can do whatever you like to the property, no rental restrictions and no double checking with anyone!
- Property is a valuable asset, you are building up equity in your home everyday, meaning no matter what - it's an investment!
- Freedom!! This is your own space and you choose what happens.
- No rental inspections
- Paying your own home loan, not someone else's
- Certainty and stability

The **cons** of owning your own home:

- There are more costs involved, such as your own repairs, maintenance, rates etc...
- A long term commitment
- Higher upfront costs
- The equity you build in your property depends on the market

And now onto renting...

As you can see, there are pros and cons to owning a property, and this guide is here to ensure you begin your home buying journey with confidence.

The **pros** of renting:

- No maintenance costs, your landlord pays for any repairs or maintenance
- Allows you to move around with ease
- You might be able to rent in an area you cannot afford to purchase in
- No major overheads - you just pay utilities
- Lower upfront costs

The **cons** of renting:

- You have to ask for any minor alterations and your landlord can say no (even to a picture hanger)
- The landlord has the right not to renew your tenancy
- The rent you pay build up equity in someone else's property
- You are committed to a property for a fixed period

Now what do you think?

The **pros** of owning your own home:

The **cons** of owning your own home:

Where to begin...

There are so many advantages of owning your own home, but it can be a daunting process, where do you even begin?

Here is a simple guide to Home Owning Journey

1. Get some advice...

As much as I would love to say that everything you need is in this portal, that just isn't possible - so speak to a mortgage broker to find out your budget and what your options are...

2. Get a Pre-Approval

Not only will this make your Home Buying Journey simpler but it will also make you more confident

3. Start your property search...

This is a really fun part, and can be started after step 1 - it is like shopping online but less impulsive (and more expensive)

4. Finance approval

Loan approved, yay!

5. It's moving day

The day your financial settlement is due is also the day you get your keys - possibly the best feeling in the world is opening your front door and realising this is your home - you did it!

Saving for a deposit

This is what a lot of people see as the first step towards becoming a homeowner and they are right because the sooner you start thinking about this, the sooner you will be moving into your first home!

Paying off all your debt can be one of the best places to start when looking to save. It seems like the opposite of what you should be doing but starting your saving with a clean slate can really help you focus on your deposit savings with no other debt hanging over your head.

After setting yourself up with no debt, something as simple as saving 10% from each pay check and loading it into a high interest savings account can really build up your savings quick.

When saving it is ESSENTIAL to be realistic. Don't put too much into your savings and need to dip in because its like eating chips, once you have one you will probably go back for more!

Simply being smart with your spending is so important. PayPass can make it seem like you are never spending your money, but really try get yourself into the habit of thinking about all your purchases and making sacrifices where they can be made.

Super Saver Scheme

The First Home Super Saver Scheme (FHSS) allows you to save money for your first home inside your super fund. This can help a first home buyer save faster with the concessional tax treatment of superannuation.

The way it works is, you can make voluntary concessional (before-tax) and voluntary non-concessional (before tax) contributions into your super fund to save for your first home.

You can then apply to release your voluntary contributions, along with associated earnings, to help you purchase your first home. You must meet the eligibility requirements to apply for the release of these amounts.

You can use this scheme if you are a first home buyer AND both of the following apply:

- You either live in the premises you are buying, or intent to as soon as practicable
- You intend to live in the propety for at least six months within the first 12 months you own it, after it is practical to move in

Head here to find out more:

https://www.ato.gov.au/Individuals/Super/Withdrawing-and-using-your-super/First-Home-Super-Saver-Scheme/

Stamp Duty

Stamp Duty is simply the tax associated with purchasing a property and the legal costs associated with transferring the land. It will vary depending on your state and depending on the property so its important to include this in your calculations!

Most states have BIG discounts for first home buyers so check out your State Revenue Office. In Victoria, there is no Stamp Duty for properties under $600k and then betweem $600k and $700k there is a discount.

Calculate your Stamp Duty here:
https://www.e-business.sro.vic.gov.au/calculators/land-transfer-duty

First Home Owners Grant

The First Home Owners Grant (FHOG) is a government initiative to help first home owners get into the property market. It will never have to be repaid, its simply to help give you that boost you might need to make your purchase! The awesome thing about the FHOG is that it can be used as part of your funds to complete the purchase. If you are building, it is usually paid at SLAB stage, and if it is a new home, it is usually paid at settlement.

Each state has different criteria for the FHOG, but here is some of the Australia wide criteria:

- Must be over 18 years old
- An Australian Citizen or permanent resident
- Intend of living in the home for a continuous period of at least 6 months within 12 months of the settlement
- This must be your first residential property in Australia
- It must be your first time receiving the FHOG
- Must be a new home (never lived in before)

First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme (FHLDS) is a government initiative to help first home buyers save on LMI. This can be used in conjunction with other schemes and initiatives. If you secure a FHLDS place, the National Housing Finance and Investment Corporation (NHFIC) will guarantee up to 15% of your property price.

For existing homes, a FHLDS spot can be secured once you have signed a contract and you will be on a waitlist until then. There are currently 10,000 spots available during the 2021 / 2022 financial year.

For new homes, a NHG (New Home gaurantee) spot can be secured by a pre-approval with the bank and will last 90 days. There are an additional 10,000 spots being released on the 2021 / 2022 financial year.

The eligibility requirements are similar to FHOG - Double check your eligibility here;

https://www.nhfic.gov.au/what-we-do/fhlds/eligibility/

Single Parent Guarantee

The Single Parent Family Home Guarantee (also known as FHG) is an Australian Government initiative very similar to the first home loan deposit scheme. The aim of this is to help single parents with dependent/s purchase a home while avoiding LMI. From the 1st of July 2021 there will be 10,000 Family Home Guarantee Spots available over 4 financial years.
The Guarantee can be used to purchase a new or existing home. If you secure a FHG place, the National Housing Finance and Investment Corporation (NHFIC) will guarantee up to 18% of your property price.

There are a few requirements for the guarantee, these include;

- Must be over 18 years old and an Australian Citizen
- Intend to occupy the property - this doesn't have to be your first home, but you cannot currently own a home
- You must be the only one listed on title and on the loan
- You must have at least a 2% deposit (plus costs) of the home but less that 20% (plus costs)
- Applicant must be able to prove they are legally responsible for the dependent (can have shared custody)
- Must not have a taxable income of more than $125,000 (child support not included)
- Must not be currently married.

For more information - https://www.nhfic.gov.au/media-resources/media-releases/family-home-guarantee-fact-sheet/

Victorian Home Buyers Fund

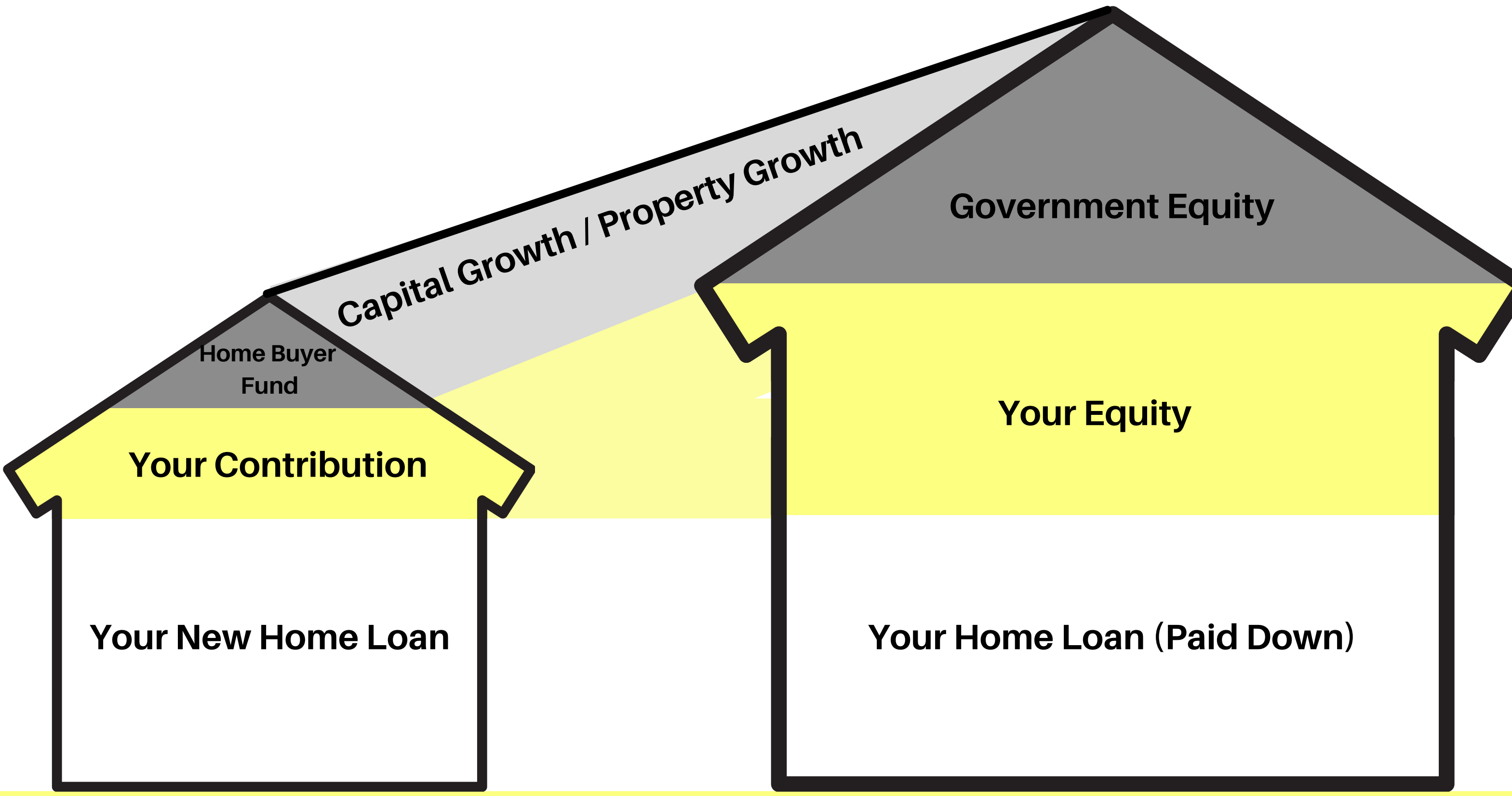
Eligible homebuyers can now receive a contribution towards the purchase of their property, the homebuyers can be either permanent residents of citizens. The Homebuyer fund is only available in Victoria

The contribution from the government can be up to 25% with your minimum contribution at 5%, of the property value and 35% if you are Aboriginal or a Torres Strait Islander your minimum contribution at 3.5% of the property value. This means you avoid paying Lenders Mortgage Insurance which is a potentially huge saving as well as a potential increase to your maximum purchase price.

The Victorian Homebuyer Fund is a shared equity scheme, meaning that the State's financial contribution is made in exchange for a share, or proportional interest in the property.

Repayments can be made by refinancing, using savings, and from proceeds when the property is sold.

Check your Eligibility here: https://www.sro.vic.gov.au/homebuyer



Saving made simple

Starting your savings journey is a little confusing... some simple ways to save money are:

- Set up a savings account that is separate to your everyday transaction account (in a completely different bank)
- Round-up transactions, this is usually set up in your banking app
- Set goals for each big milestone
- Change one spending habit to a savings habit (like your daily coffee)
- Avoid debt.... NO credit cards, AfterPay etc. DO NOT give you a better credit rating
- Avoid bank fees for any accounts
- Try food prepping for the week
- Track your spending
- Use our workbook to change your relationship with money: https://www.cloverfinancial.com.au/shop/p/happy-money-journey-workbook

Savings made simple

It takes 21 days to create a habit, so I challenge you to take one purchase out each day, weather it is a coffee, take away or a drink, in the next month I want you to save $465 just like this....

Day	Save	Total	Day	Save	Total
1	$ 1	$ 1	16	$ 16	$ 136
2	$ 2	$ 3	17	$ 17	$ 153
3	$ 3	$ 6	18	$ 18	$ 171
4	$ 4	$ 10	19	$ 19	$ 190
5	$ 5	$ 15	20	$ 20	$ 210
6	$ 6	$ 21	21	$ 21	$ 231
7	$ 7	$ 28	22	$ 22	$ 253
8	$ 8	$ 36	23	$ 23	$ 276
9	$ 9	$ 45	24	$ 24	$ 301
10	$ 10	$ 55	25	$ 25	$ 325
11	$ 11	$ 66	26	$ 26	$ 351
12	$ 12	$ 78	27	$ 27	$ 378
13	$ 13	$ 91	28	$ 28	$ 406
14	$ 14	$ 105	29	$ 29	$ 435
15	$ 15	$ 120	30	$ 30	**$ 465**

Now, you've created the habit, it feels so good to open your account and see savings! Let's try putting a little extra in with each pay cycle.

Lender's Mortgage Insurance

Lender’s Mortgage Insurance (LMI) can help you get into the property market sooner! It simply allows you to borrow a higher percentage of the properties value. Saving for a deposit can be tough, and for first home buyers particularly it can be a struggle even if they would be able to make repayments (for example if you are paying rent when you could be paying off a mortgage and break free from the rental trap!)

If a lender is going to lend a higher percentage of the properties value to you, it comes at a much higher risk to them, this is where LMI comes in! The insurance is paid to you to insure your lender against loss should you not make your repayments.

Remember, the LMI only covers your lender, NOT you!

The higher the percentage of the properties price you borrow, the greater the amount you’re likely to pay on insurance. For example, if your deposit is less than 20% + Costs of the value of the property, you can factor Mortgage Insurance into your home loan.

In some cases, lenders will require LMI if they are to make such a high percentage loan and depending on the type and style of the property.

The insurance is usually paid as a one-off lump sum at the time of settlement but in many cases, it can also be added to the loan amount and paid off over the life of the loan.

Cost of Buying a Home

There is no doubt that there are a lot of extra costs that come with buying a home on top of the purchase price,

Your savings usually need to be around 5% plus costs... this is what those costs look like

This is a property purchase with no LMI

Purchase Price **$650,000**

Adjustments (rates, water etc) **$600**

Conveyancing **$900**

Mortgage Registration **$295**

Stamp Duty - **$11,356** (this is the stamp duty of a First Home Buyer with the concession applied, otherwise the stamp duty for a next home buyer would be $35,200)

Loan Amount **$520,000**

Your contributions = **$143,151**

If we were going to add on LMI - this would be paid as part of your loan, so your loan amount would be **$612,006** and your contribution would be **$62,848**

Your team and your supporters

As we can see, there are so many parts to home ownership, so gather a great team that will be on your side, and help you be a successful home owner!

Mortgage Broker

Your Mortgage Broker is the starting point for your journey, from borrowing capacity, to advice on what to do, they always have your best interest as the very top priority.

Conveyancer

A conveyancer will go through contracts of sale to make sure you are entering into the right home, liaise with the seller, complete settlement and organise the legal side to home ownership - most importantly, they make sure you get your keys to your property!

Buyers Advocate

A buyers advocate can help you find the property of your dreams for the right price, they will go to auctions with you to bid on your behalf and some have access to properties being sold off-market. They are not essential, but something to consider!

Family & Friends

From a couch to sleep while you wait for settlement to a hand to hold at an auction - friends and family will support you through this!

Family Guarantee

Are you wanting to move out of your parents' place but struggling to save up for a deposit? Loan assistance from family members may be a good option for you!

Family support is very common, and there are many flexible home loan options which allow first home buyers to enter the property market sooner. You may receive assistance from family members to secure your first home, most commonly, family can provide a gift or a guarantee.

The benefits:

- Borrow up to 110% of the property by using your family members property as second security.
- Enjoy a sense of independence and financial security, having purchased your own property
- Purchase the property you want rather than having to settle for a cheaper alternative
- Choose from a wide range of home loan options
- Avoid Lender's Mortgage Insurance (LMI)
- No impact to your family member, imagine the bank holds a mortgage over your family members loungeroom.

Parents can also help guarantee your property with their property. If you are ready to enter the property marker but you don't have savings, or less than 20% of your purchase price in your savings account, your parents can use the equity in there home to add extra security to your mortgage. This is called a 'family guarantee' or 'family pledge' loan, with a family guarantee you are able to get a home loan for up to 110% of the property which means you can cover the purchase plus costs.

Who can provide the security guarantee?

This is normally an immediate family member such as parents, siblings, children, grandparents, aunts and uncles, legal guardians, and includes relationships via blended families. There must be enough equity in the home to support the guarantee property.

What type of loan can I have?

You can have a fixed, variable or line of credit loan. Most lenders do not allow the family guarantee in combination with Low Documentation or Reverse Mortgages.

What happens if the guarantor wants to sell their home?

This will change depending on your circumstances, if there is enough equity in your home we can just release the security. If there is not enough equity there may be Lenders Mortgage Insurance (LMI) applied to the loan. If they are buying a new home the guarantee might be able to move with them!

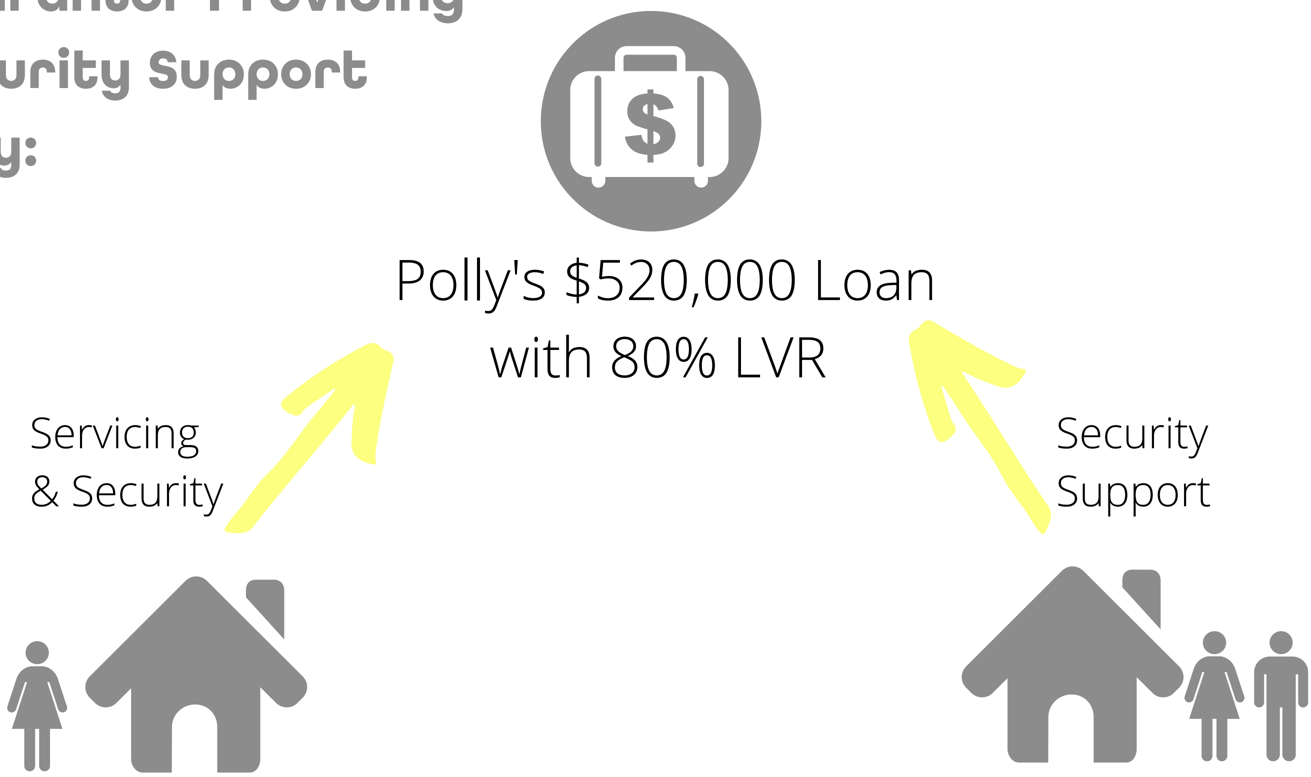
How does this work?

In an example, Polly has a home worth $500,000 and has borrowed all of it to pay for the property. Her loan to value ratio is currently 104%, in most circumstances it would need to be 80% in order to purchase the security without paying mortgage insurance.

When can we release the guarantee?

Your home may have increased in value and you may have made extra repayments on the loan. This builds up your equity and reduces your reliance on the guarantee. We can review your loan and have your home revalued regularly to see how you are going.

Guarantor Providing Security Support Only:



Property Value = $500,000

Polly is able to purchase a new property and is able to meet the minimum repayments on the $520,000 loan (LVR 104%)

Security Support = $100,000

Polly's parents use their home as security to guarantee her $500,000 loan. As Pollys lender has a total of $600,000 security, the total lending is at 80% LVR

Choosing the right home loan

This is where your broker really steps in.

This is one of, if not the most important stage of purchasing your first home. Every lender offers something different and your broker will be an expert on tailoring the best home loan to fit you. From fixed rate loans to variable loans, there are a lot of factors to consider that your broker will navigate for you.

Different types of loans...

Fixed Home Loans

Just like the name suggests, this type of loan simply locks in your loan to an interest rate, usually at a rate above the current variable rate. Generally, fixed loans are great for borrowers who are on a budget or don't want the risk of a variable rate.

Because homeowners have a fixed amount to pay every month, there's less trouble thinking about whether or not you can afford to pay off the loan. On the other hand though, in addition to the higher mortgage rate, you can't enjoy the other benefits of a variable rate (such as extra payments) and it can be difficult to switch to another home loan as lenders will often charge a break cost fee.

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Variable Home Loans

This is the go-to option for most home buyers. The variable rate relies on the Reserve Bank of Australia's ever-changing cash rates, and the subsequent fluctuation of interest rates. This means that borrowers may have lower repayments in a certain month, but if the rates rise their payments will too.

This can seem like a gamble to some however many borrowers do go for this rate because it usually gives them the ability to pay the loan off faster through extra payments, a redraw facility and an offset account.

Basic Loans

For most people, purchasing a home wouldn't be possible without some help from banks and lenders - even multimillionaires use them to finance investments and properties. For anyone who doesn't have the entire purchase price up front, home loans are essential. As a result, there are a variety of mortgage loans available to home buyers. In fact, there are so many that consumers may have a hard time deciding which one is the best fit for them.

Basic loans may offer redraw and additional repayments on the variable rate type but the loan still is basic.

Package Loans

Product packaging can be good value on a long-term basis. Package banking involves combing your home loan and other commonly-used financial products into one bundle. Some of the products you can bundle are a standard variable mortgage, offset account, transaction or savings account, credit card and discounted insurance, risk insurance and financial planning.

The lender or bank will usually charge you an annual fee for packaging the products, but this can be less than paying for the products individually.

Here is a brief outline of these benefits:

- **Extra repayments facility**
  this allows you to pay more than your regular monthly repayments, saving you money on the interest of the loan and shortening the length of time you'll have to pay it off.

- **Redraw facility**
  Once you've made the additional payments to your loan, you can then borrow some of the money you've already repaid, which can be used in purchasing a new car, holiday or a home upgrade!

- **Offset account**
  Another backup payment option where you place a portion of you payback into an offset account to subtract from you home loan principal.

The Three C's of Lending...

Capacity

This is simply how much you can borrow based on how much you can pay the bank BACK for the loan. It is based on your income and living expenses

Collateral

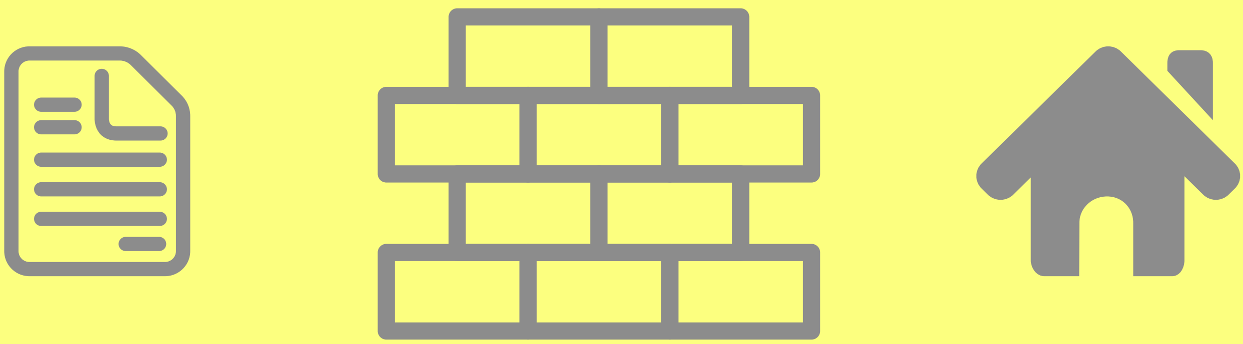
This is the security, basically the property you are purchasing is what the bank will hold as collateral against your loan

Character

This is where the bank looks at your history. Your past debts and how you have re-paid them, your spending habits and your credit history show this, it can include your utility payments and rental history

Land and Construction

This is where you chose land and the house that goes on to it. Normally, this is done as a private sale and you can make an offer subject to your finance. You will often find the land has a price set by the developer and there is no negotiation. You can choose the house that goes on the land and have it built just for you. There might also be incentives connected to the purchase like a First Home Buyers Grant, and as stamp duty is only payable on the land this may mean a further saving for you!



Buying off the plan

This is becoming more and more popular as apartment develops pop up all over the city. This is where a developer will sell an apartment or townhouse prior to it being built. While there might be significant savings doing this, but do keep in mind that you might be committing to something that is different that the plans of take longer than expected. Generally, you put a 10% deposit down and pay the rest on completion.

It can be hard to guarantee finance approval over several years so be mindful of keeping us close to any changes in your life!

Buying a house

Private sale offer

The most common way to buy property is by private sale through a real estate agent or directly from the owner. If a property isn't going to auction, you are saved from the stress of auction day, but are then faced with the daunting question of how much should you offer. If a home price tag says $500,000, this may not be how much the vendor (seller) really wants. Many agents say that it's usually wise to make a lower offer within 5 percent of the asking price, although this percentage can increase in a slow market. The most common tactic is a verbal offer to the seller's real estate agent.

Alternatively, a sales summary can be prepared by your solicitor and forwarded to the vendor. A sales summary contains the date of the offer, the address of the property, the offered purchase price, the deposit amount and the balance to be paid, details of your finance, any special conditions and the proposed settlement date. Once your offer is accepted and you've accepted the sale contract, it's time to pay the 10 per cent deposit. This is typically given to the real estate agent, who holds it on behalf of the vendor in a special trust fund until the sale is finalised.

Bidding at auction

If the home you crave is being sold via auction, it is critical that you have pre-approval finance. You also need enough of a deposit or a deposit bond.

While private sales allow a cooling-off period in which buyers can conduct inspections, auctions don't usually allow for a cooling off period. Your bid is binding, so make sure you really want the property before you raise your hand.

I have watched a house a few doors down from where I live go to auction, be purchased only to be up for sale a few months later as the purchaser had not organised finance before the auction – and did not speak to anyone about the property itself and the risks involved. The vendor was entitled to not just the 10% deposit but also the costs of resale and the difference between the original sale price and what is was sold for the second time.

Please get advice and understand the risks before you buy.

An auction is a deliberately competitive environment. Most important of all is to not exceed your maximum spending limit.

Inspections on homes up for auction need to be done prior to the bidding stage. Get a copy of the conditions of sale and the vendor's statement well in advance of the auction and have your legal representative check the terms and conditions.

There are usually two types of auctions:

On-site auctions and in-room auctions

To bid at either, either express interest to the auctioneer before the auction begins, or simply raise your hand, call a bid, or use any other type of gesture or signal to the auctioneer. The name which you give the auctioneer before the auction is the name which will go on the contract and it cannot be changed later.

When bidding for another person, advise the auctioneer in writing beforehand. Most properties for sale by auction have a reserve price, which is a minimum price the owners are prepared to accept for the property. The reserve price is not made public until the bidding exceeds it. Once the reserve is reached, the property will generally be sold to the highest bidder.

Notes

Notes

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What can your broker do for you?

Buying your first home can be one of the biggest decisions of your life! So, Clover Financial is here to hold your hand through the process and navigate and guide you through the sometimes overwhelming world of property! You want to make sure you make the most beneficial and realistic for your first home and having a broker is the way to do it!

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