All you need to know about purchasing your first home

Buying your first property is a real achievement. We don't want to take the shine off this exciting time but a property purchase can also be quite stressful. Not only because there's so much money involved, but because there are so many things to think about. For those who are considering pursuing the great Australian dream, here's a heads up.

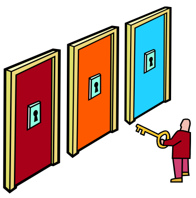
Organising finance

1. How much do you need for a deposit?

You generally need a **20% deposit** to purchase a property (this is after you take into account stamp duty and legal costs – see 'Buying costs' for more detail). You'll see ads from lenders saying that you can buy with 'only 5% deposit' but what they fail to tell you is that with anything under 20%, you will generally need Lenders Mortgage Insurance (LMI). LMI protects the bank (not you) if you default on your mortgage and the premium is payable by you.

To give you an idea of the LMI premium, for a $500,000 property with a 10% deposit, LMI would be approximately $8,000.

2. How to choose a lender



Choosing a lender can be as tricky as finding a property to buy. There are so many options out there and it's difficult to compare apples with apples because each lender offers different loan features with different fees and charges. It's important to remember that a home loan can be a 30 year commitment and the **cheapest option is not necessarily the best**.

Consider using an experienced mortgage broker who will do the leg work for you by evaluating a wide range of lenders and provide a recommendation based on your personal circumstances and long-term needs. It's worth noting that unless there is a high degree of complexity you don't usually pay for the services of a mortgage broker as they are compensated by the lender. There is no extra charge on your loan and so in effect it's a free service. At CA we operate our mortgage broking service in this way. Whoever you use, make sure they evaluate a wide range of lenders and most importantly really consider your needs and goals for the long-term.

3. A fixed or variable interest rate

A fixed interest rate is one that is locked in for a certain period of time. It cannot change in that time period no matter which way the official cash rate moves (e.g. a 3 year fixed rate of 5.65%). A variable rate is one which fluctuates at the bank's discretion. The million dollar question is, which rate do you go for? Unfortunately no one has a crystal ball and can say with certainty what interest rates are going to do in the future. Given this, **it may be worth splitting your loan between variable and fixed**. Again this depends on your personal circumstances and a mortgage broker can also assist you with this decision and provide advice.

4. What comes first…the loan or the property?

A lot of people get confused about the order in which to do things when buying a property. Do you find the property and then get finance sorted or finalise finance and then find your dream home?

The best option is to go through the loan application process and obtain **conditional approval before you begin your property search**. This way when you find your dream property you have the ability to make an offer or bid at the auction. By submitting loan application without a specific property in mind you can receive 'conditional approval' from the lender which means they have basically agreed to lend you a certain amount as long as the property valuation stacks up. The other benefits of having conditional approval (otherwise known as pre-approval) is that you know how much you can borrow, you won't waste your time looking at properties you can't afford and when you do see something you like, you can move quickly to purchase it.

When you have found your ideal property, the **lender will then order a valuation** to make sure they agree with the purchase price (the cost of carrying out the valuation is usually covered by the lender). From here the process moves to exchange and finally settlement (See 'The buying process').

If you have used a mortgage broker for the loan application process they should work with you from application right through to final settlement to guide you through the process and act as a conduit between you and the lender. This can be a great help particularly when purchasing your first property.

Grants and schemes (NSW)

1. First home owner grant (new homes) scheme

The first home buyers grants in NSW are complex and convoluted due to constant changes and revisions. As a quick summary, **the only benefit available to first home buyers in NSW at the moment is the First Home Owner Grant (New Homes) Scheme.**

First home owners who purchase or build a new home (with a contract date on or after 1 October 2012) will be eligible for the $15,000 grant. The grant only applies if the home has a value of less than $650,000. The grant will reduce to $10,000 on 1 January 2016. Purchasers of new homes or vacant land up to a certain value are also eligible for stamp duty concessions.

There are currently no stamp duty concessions or grants available to first home buyers purchasing established properties in NSW.

For more detail on this area refer to the Office of State Revenue site: http://www.osr.nsw.gov.au/benefits/first_home/stimulus/

2. First home savers account (FHSA)

The FHSA is for anyone who is committed to saving for their first home. It acts like a saving account whereby you contribute money and earn an interest rate (currently around 3%). The money cannot be withdrawn for a minimum period of 4 financial years. **As a financial incentive, the Government will make a co-contribution equal to 17% of your personal contributions up to a maximum of $1,020 pa. That's basically $1,020 for free to go toward your deposit.**

Additionally, the interest you earn on your savings is taxed at only 15% (unlike a traditional savings account which is taxed at your marginal tax rate).

This means that an FHSA can provide a return of 20% (3% earnings + 17% co contribution) - far greater than your standard savings account and it also has tax benefits.

We think the 'First Home Savers Account' (FHSA) is one of the Government's best kept secrets. If you are committed to saving for your first property then it is definitely worth talking to you Financial Advisor about setting up an account.

The buying process

1. Exchange of contracts

A property cannot be put on the market until a sale contract has been prepared. If a property interests you, get a copy of the sale contract as soon as possible so your solicitor or conveyancer can review it.

If you decide to proceed and have an offer accepted you should organise a building/pest inspection or strata report, ensure your finances are in order and have your solicitor finalise the contract with the vendor's legal representative. Your solicitor should also make all necessary inquiries.

Once you have done this you are ready to exchange contracts (it's called exchange because there will be two copies of the sale contract: one for you and one for the vendor. You each sign one copy before they are swapped or 'exchanged'). **This is the first formal and legal step in purchasing a property and at the time of exchange you will also be required to pay a deposit which is usually 10% of the purchase price** (but can be negotiated to be higher or lower). Up until exchange you have the right to change your mind even if your offer has been accepted.

Following exchange, you have a financial interest in the property so it's a good idea to consider getting it insured.

2. Cooling-off period

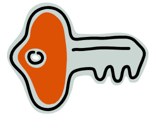
When you buy a residential property in NSW there **may be a five business-day cooling-off period after you exchange sale contracts** (this is called a conditional exchange and it applies unless you agreed to waive your cooling-off period before exchanging contracts by giving the vendor a '66W certificate'). During the cooling-off period you have the option to get out of the contract as long as you give written notice. If you maintain your cooling-off rights you only pay 0.25% on exchange and the balance at the end of the cooling-off period. If you withdraw from the purchase during the cooling-off period you will lose your 0.25%.

It is important to note that during the cooling-off period the vendor can continue to open the property to prospective purchasers but they cannot accept another offer unless you do not pay the balance of the deposit at the conclusion of the cooling-off period.

A cooling-off period does not apply if you buy a property at auction or exchange contracts on the same day as the auction after it is passed in. If buying at an auction it is therefore imperative to:

- have your solicitor or conveyancer examine the sale contract before the auction to make sure everything is in order
- have your finance arranged
- have pre-purchase inspections completed.

3. Settlement



Settlement usually takes place about six weeks after contracts are exchanged. This is when you become the legal owner of the property and get the keys in your hand. The **balance of the purchase price and other adjustments** (such as council and water rates) **are paid on settlement**. Your solicitor/conveyancer should organise these utility adjustments for you.

Buying costs

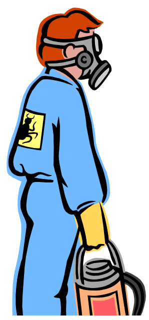
Apart from the obvious and most significant cost (your property) there are other unavoidable costs to factor into you budget. Here's a run-down:

1. Pre-purchase inspections

Building inspection report: **A building inspection report should be carried out before you buy a property** (either before you exchange contracts or during the cooling-off period). It is basically a written account of the condition of the property and should highlight any significant building defects such as rising damp, movement in the walls or roofing issues.

If the report does raise any issues you may withdraw from the purchase or negotiate a lower price to allow for the repair costs.

For an average size house a building inspection would cost around $300 - $700.



Pest report: A building report should highlight any visual damage that has been caused by termites but a **pest report will go further and detail the extent of the issue and will determine whether termites or other timber destroying pests still exist**.

A pest report costs around $200 - $350.

Strata report: If buying into a strata unit you will need to **look at the records of the owner's corporation** to know as much as you can about the maintenance of the building.

You can inspect these records yourself, have your solicitor review them or there are companies which specialise in inspecting the books and they know what to look for.

When buying a strata property, take note of the strata levies which are usually paid quarterly and should be factored into your monthly budget. In NSW they can range from around $600 - $1,800 per quarter.

Also look at whether there are any big expenses planned for in the future which may require a special levy. This should be picked up on in your strata report. *The approximate cost of a strata report and search is $300 - $500.*

2. Conveyancing

Conveyancing refers to the legal work involved in transferring the title of the property. This includes reviewing and negotiating changes to the sales contract and handling disbursements such as utility adjustments for water and council rates. There are three options available:

- using a licensed conveyancer
- using a solicitor
- doing it yourself.

While conveyancers and solicitors are equally qualified to do conveyancing work, solicitors can also give you legal advice about other matters. Solicitors and licensed conveyancers must have professional indemnity insurance for your protection.

While it offers a cost saving, **doing your own conveyancing can be risky** because it is a complex process and you can't get the same insurance available to a licensed conveyancer or solicitor. This means that if you make a mistake you are responsible and there's nowhere you can go for financial compensation.

Coneyancing costs vary depending on the complexity of the contract and other related issues.

It is advisable to get an estimate of costs before proceeding but as a rough guide we would suggest allowing $1,000 - $2,000 for legal/conveyancing fees.

3. Government charges

Stamp duty: This is likely to be the most significant additional cost. Stamp duty is calculated on a sliding scale and the table below will give you an indication:

Purchase Price	Stamp Duty (NSW)
$500,000	$17,990
$600,000	$22,490
$700,000	$26,990
$800,000	$31,490

As at August 2013

To do your own stamp duty calculations visit:
https://www.apps08.osr.nsw.gov.au/erevenue/calculators/landsalesimple.php#anc_calc

Mortgage registration fee: This is **a one-off fee** payable to the land titles office to register the mortgage. *In NSW this fee is currently $104.50.*

Transfer fee: This is a **single fee charged by the State Government** to cover the transfer of the title of your new property. *In NSW this fee is currently $209.*

4. Home building insurance

It is advised to **organise home building insurance once you have exchanged on your property as at this point you have ownership rights**. The cost of building insurance will depend on the age, size, location and type of construction (you generally do not need home building insurance if buying a strata property as this is organised by the body corporate and included in your strata fees. You will however need home contents insurance).

5. Removalist

Last but not least is the cost to move all your 'stuff' into your new property. **It's a cost that people seem to omit from their budget** but it can be significant and there is a huge range depending on the quality of the removalists, how much of the packing you do yourself and how organised you are on the day. It is definitely worth shopping around.

On average you can expect to pay anything from $80 - $200 per hour (it's often cheaper to move on a weekday rather than weekend). Make sure your removalist has insurance in case any of your property is damaged in the move.

Protect yourself

Ask yourself "**How would I pay the mortgage if I was sick or had an accident and couldn't work?"** - if this question makes you feel uneasy then you should put some personal insurances in place. We all think 'it won't happen to me' (and chances are it won't) but the reality is that life is unpredictable and you just never know - so why take the risk?

Income protection insurance basically provides you with 75% of your income should you be unable to work due to illness or injury. Personal Insurance is a complex area and it's worth chatting to a Financial Adviser to get some personal advice. We suggest getting your insurances in place before taking on a mortgage and factoring the cost into your monthly budget.

To do list

So you've moved in and you think you're home and hosed – well nearly but not quite. Here's a brief checklist to help you make sure life is your new abode is in order:

- ✓ Connect Pay TV
- ✓ Connect Internet
- ✓ Re-connect phone
- ✓ Re-connect electricity
- ✓ Re-direct mail from your old address
- ✓ Direct debits - change your direct debits and automatic credit card charges if your bank details have changed with your new mortgage.
- ✓ Direct deposits – inform your employer, and anyone else who pays money directly into your account, if your bank details have changed.
- ✓ Update address details – A good way of finalising a list for change of address details is to go through your wallet and use your cards as a prompt. Some examples are drivers licence, medicare and your private health fund. Don't forget the tax office – they always like to know where you are!
- ✓ Finalise personal and home insurances

Authors

Ken Batten, BBus MBA DipFS JP, Private Banker (Mortgage Broker), CA Financial Services Group

Thomas Cotter, Dip.FS (FP), BSpBus Financial Planner, CA Financial Services Group

About CA Financial Services Group

CA is a full service financial advice firm located in North Sydney. Founded in 1983, we offer over 30 years' experience in financial planning and wealth management.

In addition to mortgage broking and debt advice, we are experts in:

- ✓Superannuation - including SMSF's
- ✓Personal Insurances
- ✓Investment Planning
- ✓ Retirement Planning
- ✓ Budgeting & Taxation
- ✓ Estate Planning

At CA we value the long-term relationships we build with our clients as we help you plan for the future and achieve your long-term financial and lifestyle goals.

What mortgage services does CA provide?

At CA we take a strategic approach to mortgage advice whereby we take your long-terms goals and objectives into account and provide advice to fit into your overall plan. Our aim is to structure your loans and repayments to ensure you can reduce interest costs, minimise tax, achieve cash-flow objectives and ultimately achieve your goals.

At CA we are committed to working with you from loan application until you have the keys in your hand. Specific services include:

- ✓ Mortgage Analysis: Review your current situation, existing mortgages/structure and eligibility for concessions if applicable.
- ✓ Loan selection: Through Australian Finance Group (AFG), we can give you access to over 20 lenders ranging from the big banks to smaller institutions.
- ✓ Loan Application: Assistance with your loan application and administration.
- ✓ Settlement: Liaise with your conveyancer and additional parties from start to finish.

Please contact us if you would like further information on purchasing your first property or assistance in any other area of financial planning. We are happy to help.

Other useful resources

NSW Government Fair Trading Website:
http://www.fairtrading.nsw.gov.au/ftw/Tenants_and_home_owners/Buying_property.page?

A Guide to the Cost of Home Purchase, NSW Government Family & Community Services:
http://www.housing.nsw.gov.au/NR/rdonlyres/83D01A0E-9D74-4CB5-81AA-ED1F63B55C69/0/GuidetotheCostofHomePurchase.pdf

Please note that the information contained in this paper is specific to the home purchase process in New South Wales. Costs and processes may vary in other states.

7 Myrtle Street, North Sydney, 2060 p: (02) 9955 7288 www.cafsg.com.au info@cafsg.com.au