Hunter United
Customer Owned Banking

FIRST HOME BUYER GUIDE TO INDUSTRY JARGON

If you're a first home buyer then chances are you're not 100% sure what some of the stuff is that lenders talk about. So we've created this no-nonsense cheat sheet for what it all means.

Val. or Valuation Fee

A ***valuation*** is an assessment performed on the property being used as security for your loan - for 1st home buyers that's usually the property you want to buy. Lenders need the valuation before they can give the green light to you (unconditional approval) to purchase the property. The fee for the service of performing the valuation is commonly $200 - $500. This money is paid to your lender who then pays the valuer on your behalf. Sometimes this fee is waived as part of an offer/incentive to new purchasers.

App. or Application Fee

An ***application*** must be submitted to a lender for them to consider lending money to you for the purpose of buying a property. This can be done face-to-face, over the phone or online. An application typically doesn't require proof in the form of payslips or bank statements, it's just a written indication of your financial situation. Later in the process you'll then be asked to provide documentary evidence for what you included in your application. Many lenders attach an application fee to this part of the process due to the amount of administrative time associated with taking a loan from application stage, right through to the end at settlement. Sometimes this fee is waived as part of an offer/incentive to new purchasers.

Approval / Pre-Approval / Approval-In-Principle / Conditional Approval / Unconditional Approval

Approval is a bit of a catch-all phrase and can be represented in many different ways so be sure you know which kind of approval you have been given because they mean different things!

Pre-approval can also be described as ***approval-in-principle*** or ***conditional approval***. It refers to a decision by a lender that they would <u>probably</u> lend you a specific amount of money to purchase a property. It's usually enough for you to start looking seriously to find a property to purchase but it does come with a number of conditions, such as being able to back your application up with evidence of income and expenses.

Pre-approval is usually valid for around 3 to 4 months, at which time a lender will probably require you to provide them with any changes to your financial circumstances to re-issue a new conditional-approval to you.

Once you find a property you want to purchase, the lender will make sure they have all the documentation they need from you to support your application and then they will perform a valuation on the property. If it all stacks up, you will then have ***unconditional approval*** or simply ***approval*** to go ahead with the property purchase.

Offset Account

An **offset account** is a savings account that is sometimes offered with the home loan. It links to your home loan account and when you put money in the offset, it offsets or reduces the balance you pay interest on.

Put another way, every dollar you have in an offset can reduce the amount of interest you pay each day on your home loan, and something as simple as having your salary paid into your offset can start to reduce the effective interest rate you pay each day.

Look out for the 100% offset accounts as they are the most effective, offsetting every dollar every day. In the end, you could pay thousands less in interest over the life of your loan because you kept putting money into the offset account. With some lenders, offset accounts are add ons which increase the interest rate they give you. Others will simply offer a good rate upfront with a free 100% offset account - like our No Regrets 1st Home Buyers Loan!

Owner Occupied / Owner Occupier / OO

An **Owner Occupied** loan simply means that you intend to live in the property and that it is not an investment that you intend to rent to someone else.

Variable Rate & Fixed Rate

Perhaps the most common type of rate is a ***variable rate***. The rate is by nature subject to varying. That means while the rate may be advertised a X% today, the lender can change that rate by increasing it or decreasing it. Typically rate changes occur when the official economic cash rate determined by the RBA (Reserve Bank of Australia) changes, but a lender can change a variable rate at any time. Changes to your variable rate can sometimes be negotiated directly with your lender too, so don't be afraid to ask for a better rate occasionally.

Fixed rate loans lock in the advertised rate for a fixed period (typically between 1-5 yrs). This can be a good way to go if rates are trending upwards, but if rates are moving down then you won't be able to get a lower rate until the end of your fixed period. You can break the contract on a fixed loan but this will usually incur a break-fee which can be thousands of dollars.

Comparison Rate

The **comparison rate** helps you work out the true cost of a loan. It includes the advertised interest rate plus most fees and charges relating to a loan and reduces all of that to a single figure - the true rate of the loan. The comparison rate allows you to compare loans from different lenders to find out how much it will <u>really</u> cost you over the life of the loan.

Deposit / LVR and LMI

Sometimes you will see a lender advertising 90% **LVR (Loan to Value Ratio)**. This is the same as saying you only need 10% **deposit**. An 80% LVR means you need 20% deposit to be eligible for the loan. But be aware that in most cases you will need to pay **LMI** (Lenders Mortgage Insurance) on your loan if you have less than 20% deposit (even when you only needed 10% to get the loan)! LMI is used by the lender to protect themselves in the case where you may not be able to afford your loan anymore. LMI is typically charged by the lender at the time of settlement/funding the loan/ giving you the money to buy the property and will be rolled into the overall cost of the loan. The best way to avoid LMI is to save a bigger deposit and reach that magic 20%!

Guarantor / Parent Guarantee

A lender will need you to show that you have the ability to repay the loan yourself. You can however use a **guarantee** (typically from a parent) for your <u>deposit</u> if your savings history isn't particularly strong. Importantly, the lender looks at a guarantee as security against your loan. This kind of guarantee typically takes the form of the parent's property acting as security against your loan. In these cases the parent then becomes the **Guarantor** on the loan. Parent guarantees are a great way to get into the property market sooner but they also come with great responsibility as the Guarantor becomes responsible for the payments <u>if</u> you don't make them. That means <u>their</u> home could be repossessed (put up for sale by the lender) if your loan isn't paid over an extended period of time.

Borrowing Power/Capacity

Both you and your lender need to know just how much you can afford to borrow - this is your **borrowing capacity**. Each lender will have their own guidelines to determine what that amount will be (e.g. credit/lending criteria) but there are many online calculators that give you a simplistic view of what might be possible based on your income. Just be aware that the final figure may be a bit different from what the calculators say.

Required Documentation

You will find that all lenders need a bunch of **documentation** before they can approve your loan. Commonly requested docs include:

- 3 x monthly statements (originals, or statements obtained via Internet banking are acceptable) for all current savings accounts.
- 3 x monthly statements (originals, or statements obtained via Internet banking are acceptable) for all current loans, as well as details of current balances & repayment amounts.
- 3 x monthly statements (originals, or statements obtained via Internet banking are acceptable) for Credit Card/Store Accounts/Interest Free Accounts, with details of current balances & account limits.

They will also want to know about your living arrangements (e.g. proof of rent payments) and have copies of payslips and employment contracts. You will most probably also need to complete a history of your usual living expenses. It may sound like a lot but you'll probably find you have most of what is needed already and you can use the last 3-6 months of your Internet Banking transactions to guide you with your living expenses. Be aware, the documentation required may vary from lender to lender.

Loan Process and Conveyancing

The **loan process** typically starts with an Application and ends in Settlement. Settlement is when your chosen lender forwards the money for the house you are buying to the current home owner's bank. This is when the house becomes yours and you start taking responsibility for the home loan.

Once you find a property you want to buy, it's time to find a solicitor or property **conveyancer** to handle the legal aspects of the property sale on your behalf. If you cant get a recommendation, there will be a number of them available in your local area and they will guide you through the process, along with your lender, to ensure all your rights and responsibilities are taken care of.

First Home Owners Grant (FHOG)

While nationally recognised, each territory and state manage their own FHOG so your best bet to ensure you have access to the relevant information for you is to visit www.firsthome.gov.au, where you will find everything you need to know about the money the government could give you to assist in buying your first home.

HAPPY HOME HUNTING!!!

If you would like to talk to a member of our home loans team, give them a buzz on 1800 10 10 63 or email enquiry@hunterunited.com.au.