First Home Buyers

Finance Guide

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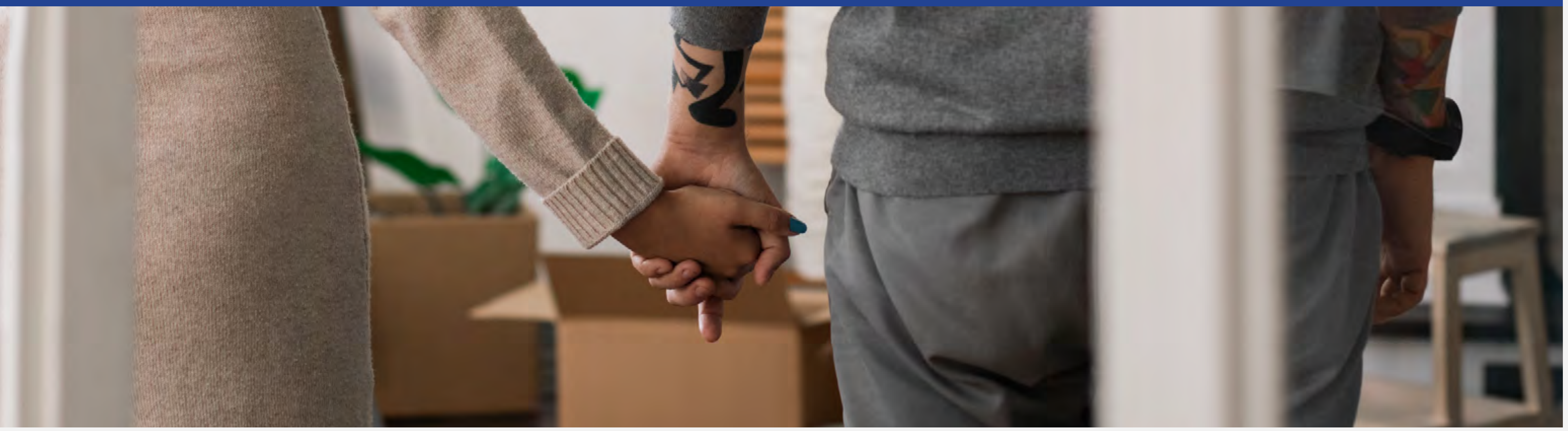
Buying your first home is an exciting step **– but it's also daunting.**



There's often some pretty stiff competition to break into the property market, the numbers seem big, the years ahead long, and the paperwork and legalities complicated.

But working with MyChoice Home Loans makes it really easy. We walk by your side and ensure you're comfortable every step of the way. We know buying your first home is a big leap of faith so we're always there with the right advice, the right answers and the right information – through the whole life of the loan.

Our team of lending specialists have the experience and expertise to source the perfect loan for you and make the road to finance simple. We want to make sure your loan is exactly what you want – the term, the interest rates and the flexibility to work in with your goals and dreams.

What's more, you'll find our rates are usually considerably lower than what's currently being offered in the marketplace.

And because we've been in the industry a long time we know how to make things happen – our systems are streamlined, our processes efficient and our service friendly and responsive.

A loan you are comfortable with is the key to bringing your dream of home ownership to life and we're with you every step of the way.

First Home Owners Grant

There's no denying it – buying a house is expensive! But the good news is there are various Government grants and concessions that are available to help you offset some of the expenses of buying your first home.

One of the big advantages for first home buyers is access to the Federal Government's First Home Owner Grant.

It's a one-off, tax-free sum that's available to most first-home buyers who are older than 18 and are Australian citizens or permanent residents.

Administered by each state, the grant can differ depending on respective legislation, so it's important you know what to expect. Your MyChoice Home Loans Consultant can guide you through this and you can also visit **www.firsthome.gov.au** for more information.

Every State Government has its own rules and packages to improve housing affordability for first home buyers. Depending on the state you are buying in, you may be eligible for a concession waiver of the stamp duty associated with your new home.

Stamp duty is a State Government tax that's applied when land is sold, transferred or leased. It's usually the buyer who is liable and payment must generally be made within three months of the purchase.

The amount you'll have to pay depends on which state you are purchasing in, and it's calculated on market value and the price you are paying for your home.

You may be eligible for a discount – or even a full waiver – of your stamp duty and this is something your MyChoice Consultant will be able to help you with.

Stamp duty breaks and concessions

If you need more information on the First Home Owner Grant or details on Stamp Duty concessions, visit your state's website:

ACT	revenue.act.gov.au	**SA**	revenuesa.sa.gov.au
NSW	osr.nsw.gov.au	**TAS**	sro.tas.gov.au
NT	nt.gov.au/ntt/revenue	**VIC**	sro.vic.gov.au
QLD	osr.qld.gov.au	**WA**	osr.wa.gov.au

Borrowing within your means – **you have to be comfortable**

It's easy to get caught up in the buzz of buying your first house but it's really important to be realistic about the money you feel comfortable borrowing to finance your dream. The MyChoice Home Loans team is here to open the door to your new life of home ownership, but we're also committed to making sure you do it in a way that protects your lifestyle and your future.

Your MyChoice Consultant is the expert when it comes to assessing your loan and affordability so you know what your maximum borrowing amount is. Over committing to a mortgage you'll find difficult to sustain can impact every aspect of your life, which is why working with your Consultant on a realistic budget makes a lot of sense.

Of course, the larger your deposit and the higher your income, the more you should be able to borrow so beginning with a healthy deposit is a great start.

In the first instance, your MyChoice Consultant will work with you to find you the very best loan at the lowest possible rates. We'll get to know you personally to ensure what we offer is going to suit your financial goals and dreams.

Once we've established what you can borrow, you need to think about what you actually want to borrow.

Ask yourself these questions:

How much debt can I realistically handle?

Overcommitting to a mortgage can bring you unnecessary stress. You're probably used to a certain way of life so you need to think hard about what you are actually willing to give up and what you aren't. Do you love eating out? Buying shoes? Travel? You need to account for these things as expenses if you know you'll find it difficult to cut back once you have a mortgage. You'll also need to consider new ongoing expenses such as council rates and utility bills.

What are my plans?

It's time to ask yourself some questions about how you see your future rolling out. Are you a two-income household? Will it always be that way? How long do you plan on being in your first home? Is it just a stepping stone to something bigger? Do you want to start small and move up?

How will interest rates affect me?

This is where the expertise of your MyChoice Consultant can help you. It's vital you consider how fluctuating interest rates will impact on your ability to pay your mortgage. Think worst and best-case scenario and don't forget to take into account additional expenses that come with home ownership, like stamp duty, mortgage duty, solicitors' fees and application costs.

A good rule of thumb

Use this as a rough guide to get an idea of how much you may be able to borrow:

Measure your income against your expenses, including your mortgage repayments. Everyone has different spending habits and commitments to cover, but a good rule of thumb is that no more than 35% of your gross monthly income should go towards servicing your mortgage.

The Power of Interest Rates

Interest rates move up and down with the economy and you need to factor this in right from the very early stages of shopping around for your home loan.

No-one can ever know exactly what interest rates are going to do, but planning for their highs and lows is important. Whatever loan product you eventually choose, you need to ensure you've considered the impact rate fluctuations will have on your payments and the life of your loan.

Your interest rate depends on a combination of factors including the Reserve Bank of Australia's (RBA) cash rate, your lender and the type of loan you have.

Your MyChoice Home Loans Consultant can help you through the different options to find the product that fits in with your objectives and dreams for your first home.

The decisions fall into two main categories – 'Loan Type' and 'Rate Type'.

Loan type

The first thing to keep in mind is that bells and whistles cost. So, if you want a loan that has a range of features – like a redraw facility, offsets and early repayment options – you'll usually pay a little more in interest.

Naturally, a basic loan often has a lower interest rate.

That's not to say a basic loan is always a better option. For example, if you want to pay your mortgage down quickly or want flexible repayments, it may well be worth paying a little more in interest for the convenience of these facilities.

These are the kind of conversations you can have with your MyChoice Consultant, who will be happy to sit down with you and work through exactly what you hope to achieve and the best way of going about it.

Rate type

There's no getting around the fact that interest rates are often on the move, but there are ways to move with them in order to save some money over time.

For example, if rates are forecast to rise, some borrowers choose to lock in a fixed rate for a set period of years to avoid big spikes in the variable rate.

If this is an option you'd like to consider, you need to keep in mind that a fixed interest rate is usually higher than the current variable rate. On the plus side, you'll have the comfort of knowing exactly what your payment will be each month, rather than riding the rollercoaster of the variable rate. But if rates go down, a fixed rate won't and you'll be paying your fixed amount until the end of the term, irrespective of the variable rate.

A good option is a split loan – partly fixed; and partly variable. This gives you the best of both worlds so if rates rise, you'll still have a portion that's protected from the hike. Conversely, if rates fall, the part that is variable will be well placed to save you money.

Minimise rate – increase impacts

There are ways to ease the effects of a rate rise on your finances. They include:

Giving yourself some wiggle room. When you are assessing the sum you are borrowing, think about whether or not you could afford the repayments after a couple of rate rises. If not, you may need to borrow a bit less to save yourself some stress – or even the possibility of having to sell – should interest rates go up.

Think about refinancing. If you are having problems with repayments after a rate rise because your situation has changed, maybe you need to refinance. Your MyChoice Consultant will be able to help you with this to ensure you switch to the most suitable finance product.

Lenders Mortgage Insurance
is your friend

You may be able to break free of the rental trap and buy your first home sooner than you think.

Lenders Mortgage Insurance (LMI) is a product that lets you borrow a higher percentage of a property's value because it insures the lender against loss if you default on your payments.

It's a good option for first home buyers, especially if you are struggling to save a deposit but have the income and means to comfortably cover mortgage repayments.

Financing a higher proportion of your dream property's purchase price means your lender is taking on more of a risk should you fail to make your mortgage repayments and the property has to be repossessed and resold. LMI gives your lender insurance against the loss if this happens. And remember, LMI only covers the lender – not you.

The cost of LMI is proportionate to the size of your mortgage – the more you borrow, the higher your premium will be. So, if your deposit is less than 20 percent, don't forget to factor the cost of LMI into your home loan. Depending on the property you are borrowing against, some lenders require LMI despite the size of your deposit. This is often the case with rural properties and inner-city apartments bought off the plan.

How you pay your LMI varies. It's usually paid as a one-off sum at the time of settlement, but in some cases it can be added into the loan amount and paid off over the life of the loan. This is known as capitalizing the LMI. This is something your MyChoice Consultant will talk to you about.

What's the best loan for you?

It may be confusing on the surface, but the availability of different home loans works in your favour – it means there's one there that's just right for you. And finding which one works for you is just a matter of doing a bit of research, being realistic about your budget, lifestyle and financial goals and then making a decision. And don't forget, your MyChoice Consultant is always there to help you with any questions you have.

Right is a quick guide to some of the most popular home loans and products.

Basic Home Loans

As its name suggests, this is a no-frills option. A standard interest and principal repayment loan, it's popular among first-home buyers because it's cost effective and simple. The interest rate can be up to half to one per cent of the standard variable rate and it often also has minimal ongoing fees.

But, as you'd expect, low cost means limited features, less flexibility and additional charges if you pay out your loan before the term is up or if you switch loans.

+ Cheap interest rates

– **Limited features**

Standard Variable Home Loans

This is another popular choice offering standard variable-rate interest and principal options. The loan is for a set period, during which time you make regular repayments.

The difference between this and a basic loan is the interest rate will vary depending on fluctuations to the official cash rate so your monthly payments will change with the market.

+ You pay less when interest rates are low

– **Your repayments rise when interest rates do**

Fixed-Rate Home Loans

A fixed-rate home loan lets you lock in an interest rate for a set period – usually between one and five years. This is a good option when interest rates are rising or when the economy is uncertain. The rate you pay will depend on how long you fix it for – usually the longer the period, the more expensive it becomes.

The risk with locking in to a fixed loan is that when interest rates drop, you'll still have to pay off your mortgage at the fixed-rate until the end of your period. You'll also be charged break costs for switching to another product.

+ You know what your regular payments are

– **You'll pay more if interest rates fall; potentially high break costs**

Split-Rate Loans

A split-rate loan lets you dip your toe into both ponds – the flexibility of a variable rate and the security of a fixed rate. It's a good way to hedge your bets against the market because you are spreading the risk of being stuck paying higher interest rates.

This is a good way to go because you can customise your loan's interest rate by fixing a portion for security should interest rates rise, while also giving yourself some flexibility in your variable-rate portion. Your MyChoice Consultant will help you ascertain the best way to split your loan for your circumstances.

+ You can customise your loan's certainty/flexibility

– **You'll pay a higher rate on your fixed portion if rates drop**

Interest-Only Loans

This type of loan makes buying your first home more affordable because while it maintains many of a traditional loan's features, your payments only cover the cost of your interest. It's important to know that you are not paying down any of the principal with this type of loan, but it does offer a good way to get a foothold on the property ladder.

Many first-home buyers take this option for the first few years before switching to a more traditional loan once their property has increased in value and their equity makes payments more affordable.

+ Only paying for the interest component

– **Your principal loan amount will not decrease**

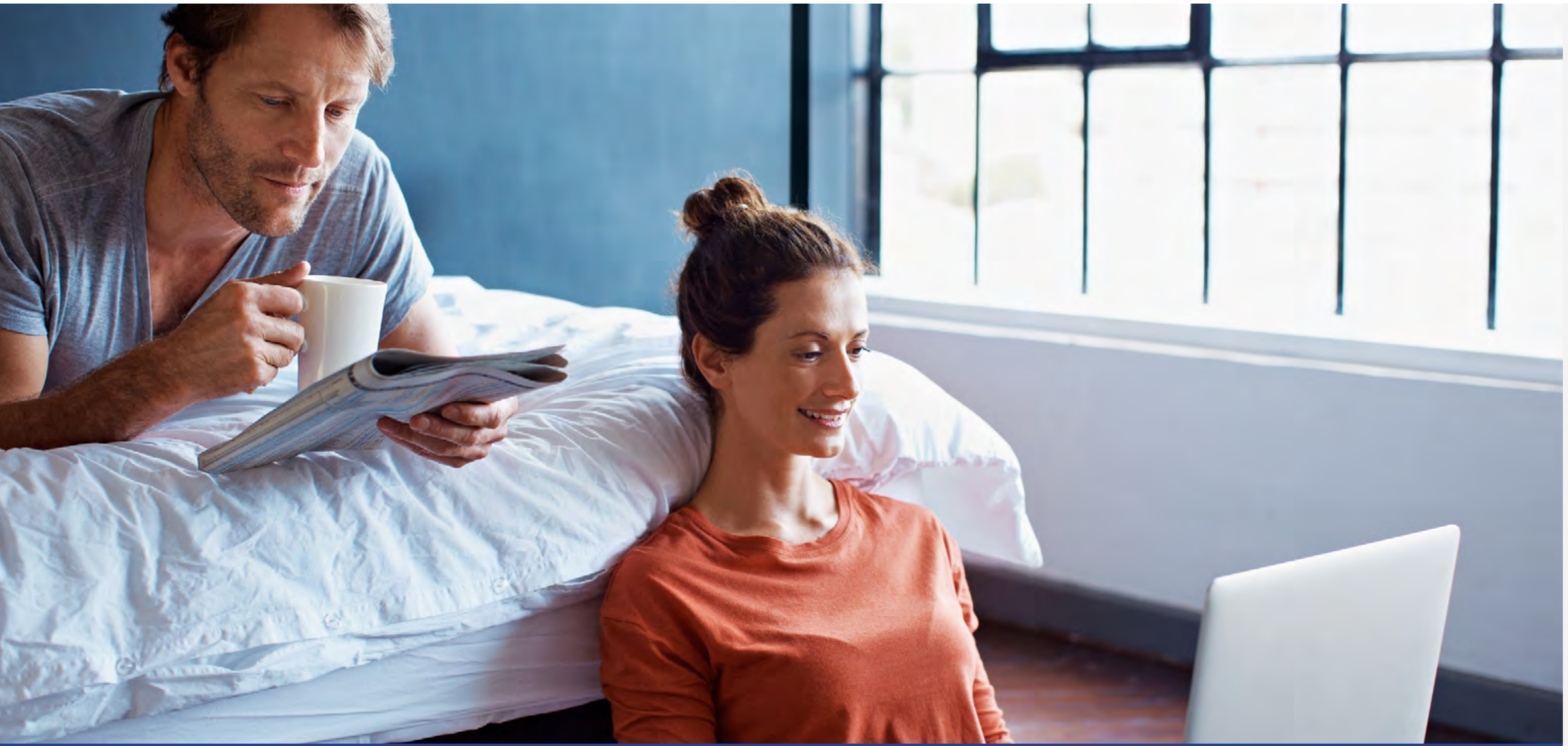
Low-Doc Home Loans

Even though low-doc home loans typically have higher interest rates, they make first-home ownership possible if you are a self-employed, contract or seasonal worker and do not have a regular income.

Low-doc home loans are a little more difficult to source and have more restrictions than traditional home loans, but your MyChoice Consultant will be able to help you find the solution that's right for your circumstance.

+ You can buy a home without a traditional, 'regular' income

– **Higher interest rates, limited providers in the marketplace**



Master your Mortage

Your mortgage isn't a life sentence!

Once you set your mind to it, start to establish good habits and fall into a rhythm, mastering your mortgage can be a breeze. Here are some tips from the MyChoice team that will stand you in good stead for the years ahead.

Have a Budget

Sit down and write down your expenses, either fortnightly or monthly. Be honest so you can get a real picture of where you are at. You'll be able to see where there are some areas you may be able to cut back on spending and redirect those funds into your mortgage. Keep a record of what you are spending, make your mortgage the priority and stick to your budget.

More is More

Fortnightly repayments – as opposed to monthly ones – can have a big impact on the interest you pay on your loan over the long term. Paying fortnightly means you pay 13 monthly repayments over the course of the year, rather than 12. It may not seem like much, but this extra repayment reduces your principal, which over the life of your loan can potentially save you thousands in interest repayments.

Whenever extra funds (like tax refunds or bonuses) come your way pay them straight off your mortgage for an extra boost. You may need to check whether you'll be charged a fee for making additional payments.

Downsize Debt

Cutting back on the number of credit cards you have is paramount – you may only need one. Reduce your credit limit and only use it in an emergency.

Direct Debit

Set up a direct debit from your account so your mortgage repayments are automatically deducted and transferred. This way you'll never forget to make a payment and you'll always be on time.

Communicate with your Lender

If you find yourself struggling with your repayments, talk to your MyChoice Consultant. This way, you may be able to restructure your repayments or consolidate other debt to help you manage.

MY CHOICE
HOME LOANS

Talk to a construction loan expert today.

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