Common Questions First Home Buyers Ask



Forget, cricket, and forget AFL, rugby, union and soccer. Australia's national sport is home ownership. So, as property prices continue to rise and auction action is fierce, first home buyers are increasingly frustrated in their attempts to enter the property market.

Buying your first home can prove to be stressful, confusing, frustrating and even intimidating experience. Potential first home buyers encounter a strange new world of unfamiliar terms and seemingly endless paper-intense processes.

Cutting Through The Cloud Of Complexity

However, by coming to grips with the practical aspects of buying a home, you can avoid much of the stress associated with buying your own dream home. To assist you master the process, we have answered the five key questions most first home buyers ask.

Armed with these answers, you can fast-forward your home purchase, putting you one up on the rest of the property pack.

1. How Much Can I Borrow?

This the most frequently asked question by first time buyers. Sadly, there is no universal answer when it comes to determining your borrowing ability. It depends on your regular income, the value of the property you are looking to buy and the size of your deposit.

At the end of the day, it comes down to how much you can comfortably afford to repay each month for the duration of your loan.

Lenders assess your income and your existing commitments. While interest rates may be currently at historical lows, borrowers need to demonstrate their capacity to make their home loan repayments if rates rise by at least two percent points from where they typically are today.

Your broker will work with you and help you to calculate these numbers to establish what amount you can comfortably afford to borrow.

However, there are some simple means to increase your borrowing power. By reducing your expenses and regular commitments, you can increase your borrowing power.



Create and stick to a monthly budget. Look for options to shop for lower-priced car, home contents, health and life insurance cover, consider paying off any car loans, personal loans or other debts and think about reducing your credit card limit.

Consider increasing your saving power by using public transport more and by taking your lunch to work. These tips will also help you to save for your deposit.

2. What Deposit Do I Need?

As with your borrowing capacity, a deposit varies according to several factors such as the purchase price of the property and your borrowing capacity.

The general rule of thumb is prospective first home buyers should be able to provide a 20 percent deposit together with covering all the associated purchase costs. This will help potential first home buyers avoid the need for expensive Lenders Mortgage Insurance (LMI), which further adds to your costs.

Some potential borrowers with a track record of well-paying professional jobs may qualify with certain lenders conditional on the property being purchased and thus avoid the need for LMI with just a 10 percent deposit, particularly if you are an ‘owner occupier’.

Another option is to have your parents act as guarantors. In this scenario, you may not need to make a deposit depending on the lender you approach.

3. What Up-Front Costs Are Involved In Buying A Home?

Having a clear picture of the range of costs associated in buying a home upfront is crucial in making sensible borrowing decisions. All first home buyers should clarify these potential costs early on in their discussion with their broker.

Overall, the costs of buying a home will differ by state or by territory and also across service providers such as conveyancers. It's a good idea to compare costs before proceeding with the first insurance provider or conveyancing firm you encounter.

Typically, up-front costs to consider when buying your first home include:

- Stamp duty
- Mortgage or loan application fees
- LMI premium
- Legal fees
- Conveyancing fees
- Building and pest inspection report costs
- Strata search for apartments
- Utility connection costs
- Property Insurance premiums

Your broker can assist you in clarifying what costs to provide for in your budget based on your proposed suburb, the type of home you're planning on purchasing, the form of home loan you are seeking and what deposit you provide.

While these costs may sound complicated and even daunting, they don't have to be. Your broker can assist you in finding a result that meets your individual needs and circumstances.

The key to successfully buying your first home is to assemble all the data you require to make an informed choice as early in the process as possible.

4. What Is Lender's Mortgage Insurance (LMI)?

LMI is another term first home buyers will become all too familiar with as they go through the process of buying their first home.

Previously, if you weren't in a position to provide a 20 percent deposit the banks simply would not consider lending you the funds to buy a home. However, market competition saw the banks realise the relationship value in attracting a new group of customers who were cash flow rich but savings poor.

These customers were able to make home loan repayments but struggled to save enough for a deposit. So, lenders introduced Lender's Mortgage Insurance (LMI) to reduce their risk, making lending in these situations attractive and sustainable.

If you purchase a home for $500,000, the lender provided a loan of $480,000, and twelve months later, the market dipped and your home is only worth $450,000.

If you can't afford to continue the repayments and your property has to be sold, the lender can recover their $30,000 loss from their mortgage insurer. While the borrower pays for the LMI, the insurance is to protect the lender against any potential losses.

There are several ways to further protect you can a savvy mortgage broker can walk you through your options during your home loan discussion.

5. Can I Negotiate?

As you progress through the process of buying your first home, you may also discover some terms are negotiable with lenders thanks to the pressure of competition.

Look to negotiate a reduction in the lender's advertised interest rate and see if they will waive early termination fees as part of your loan agreement. Remember, your broker is there to assist you and can help you identify other negotiable benefits such as a redraw capability and an offset facility.



Final Observation

First home buyers should not be intimidated by what can be a complex, confusing and often frustrating process. Remember, your lender or mortgage broker is there to assist you to understand the process and how it reflects on your

personal situation. Don’t be afraid to ask questions and always look for additional quotes from your potential service providers during the process.