



Buying Your First Home

Welcome to Option Home Loans

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Your First Home is within Reach!

So you have decided to buy your first home.

This decision will probably be one of the most significant steps in your life. It's exciting, its daunting and navigating the process of finding the right home loan, can be overwhelming.

Let us find you a better home loan.

Talk to an Option Lending Specialist on 1300 848 848.

Visit option.com.au

We have created this useful guide that illustrates out the most important steps in your journey of becoming a first home owner. The Option Guide to "Buying Your First Home" leverages our extensive industry experience and is intended to save you time and money when looking to find the best loan deal.

For most people, getting a mortgage is the most significant financial decision they have made to date. Purchasing a property requires a financial commitment, but the journey doesn't end there. You're not just paying for a roof over your head, you're building equity in an asset that is likely to grow in value over the years.

Moreover, as long as your home is your principal place of residence, it is a tax-free asset. No other investment offers this complete absence of tax.

Most of our clients need a lot more help to work out how they can best allocate their resources to ensure their investment is protected. That's why we organise a free consultation with one of our lending specialists to assist you with your home loan application process. At Option, our Lending Specialists navigate the entire process, saving you valuable time by searching and comparing hundreds of loans from over 30 leading lenders.

The cost of this consultation is 100% covered by us. Why? Because your future is important to us.

Every client we serve, we want to go above and beyond for. We want to make sure your financial future is secure – and if we do that well, you'll be able to get your next property sooner.

Step By Step Guide from Saving to Settlement

1 Budget and Save

Plan your budget to see how much you can afford to repay, and set a plan to start saving for a deposit

2 Find a broker & Lender

Getting the right people on your side from the get go, can really help as you try to navigate the process. There are thousands of loans out there. Finding the right one can make all the difference. And having the right broker by your side can help you negotiate a great deal too.

3 Get pre-approval

This will give you a real idea of how much you can borrow, so you know where you stand as you begin to look for the right place.

11 It's yours, woo-hoo!

10 Settlement

This is where you officially buy the property, paying the balance as well as Stamp Duty.

9 Exchange of contracts

This is a formal agreement that the sale will go ahead.

8 Make your offer

Whether you're making an offer or buying at auction, this is the moment you're really committing. Often, you may need to pay a deposit at this point also.

7 Look at the contract

Your conveyancer will help you understand what you are committing to and can help amend or negotiate terms on your behalf.

4 Find a property

5 Doing your homework

It's important to have your place examined by an expert. They can tell you what sort of state the place is in, before you commit to buying it.

We're talking things like pest inspections, building reports, strata reports and professional valuations. You'd be surprised what a lick of paint and some interior decorating can cover up. The right expert can help you be better informed at this stage.

6 Find a conveyancer

Essentially, their job is to help you through the legal processes required to transfer the ownership of your new property. They will look after the preparation, execution, verification and lodgement of the numerous documents needed.



What to expect when you meet with us

At Option, our mission is simple. We want to make the process of finding the home loan that will work hard for you as pain-free and straight forward as possible. To do that, your local lending specialist will first take the time to get to know you and get a clear picture of where you're at now and where you want to be in the future. Your first meetings at our office, your place, or anywhere else that suits you usually takes about an hour. All Option Lending specialists are fully accredited and industry qualified, so you'll know you're receiving the right advice.

To help you plan a pathway to home ownership your experienced Option Broker will:

- ✓ Ask questions that will help you or us understand your current situation; such as your income, debts and how much of a deposit you've saved
- ✓ Show you how much you may be able to borrow and what your repayments would be. This will help you know what sort of price range you can buy in
- ✓ Discuss the different types of loans and loan features that might match your needs
- ✓ Explain what's involved in applying for a loan and what fees (if any) and associated costs you can expect to pay
- ✓ Make sure you know what's ahead by stepping you through the home buying process – from making an offer on your first home right through to settlement and beyond
- ✓ Let you know if you might qualify for the government's First Home Owner Grant and any other State or Federal government concessions or financial assistance.

Consider a pre-approved loan before you go house-hunting

Some lenders will provide a loan pre-approval that's valid for an agreed time, usually around three to six months. Knowing exactly how much you can afford to borrow and knowing part of the process is already done (provided your circumstances don't change) gives you the flexibility to make a firm offer fast when you find your dream home.

Ask your local Option Lending specialist how a pre-approved loan could help you make your move. With the confidence of knowing you're 'good to go', you can concentrate on your search.

Government support for first home buyers.

Your home purchase could be boosted by a government grant or other concessions available to first home buyers. These vary in each state or territory and your Lending specialist will let you know what you may be entitled to. The main support you've probably heard of is the First Home Owner Grant which could provide a one-off, tax-free payment to you. In most — but not all — states and territories, the main conditions of the Grant are:

- ✓ You must be an Australian citizen or permanent resident buying a new, or building your first, home in Australia.
- ✓ The property you buy must be a recognised house or unit specifically designed for people to live in.
- ✓ You or your partner must not have purchased in Australia before.
- ✓ You must occupy the home for a period of at least 6 months within 12 months of settlement or within 12 months of building completion if it's a new build.
- ✓ You must apply for the grant within 12 months of settlement or building completion. The grant will be paid at the time of settlement or building completion or where you apply after this time subsequent to your application.



Find out more about the First Home Owner Grant at firsthome.gov.au or the revenue office website for your state or territory listed below.

NSW	Office of State Revenue	osr.nsw.gov.au	(02) 9689 6200
VIC	State Revenue Office of Victoria	sro.vic.gov.au	13 21 61
QLD	Queensland Treasury	osr.qld.gov.au	1300 300 734
NT	Department of Treasury and Finance	treasury.nt.gov.au	(08) 8999 7406
WA	State Revenue	osr.wa.gov.au	(08) 9262 1400 or 1300 368 364 (country callers)
SA	Revenue	revenueSA.sa.gov.au	(08) 8226 3750 or 1800 637 778
TAS	State Revenue Office of Tasmania	sro.tas.gov.au	(03) 6166 4400
ACT	Revenue Office	revenue.act.gov.au	(02) 6207 0028

Your credit record.

One of the first things lenders will look at is how you've managed debt in the past. Your personal credit file is a record held in a database accessed by anyone who's ever provided you credit – from buying a TV on hire purchase to signing up with your mobile provider, finance to buy a car, store and credit cards, or a personal loan. If you've responsibly looked after all your past financial agreements, you'll have nothing to worry about. But if you're not sure, it could be worth checking to ensure there are no defaults or infringements on your record which could impact your loan approval. Credit records are updated and deleted over time – defaults disappear after five years, and serious infringements and bankruptcies go after seven years. These days there are a number of ways to access and check your credit score online and for free, including creditsavvy.com.au



It all starts with your deposit.

Maybe you've been living back at home with Mum and Dad. Or you haven't had a big night out for years. At Option, we understand that saving for a deposit can be one of the toughest parts of getting into home ownership. But it's also the key to how much you might be able to borrow and the type of property you can afford. The more you have as a deposit, the more it can do for you. Here's how:

More loans to choose from.

There was a time when it was possible to borrow 100% of funds for a property purchase, but this is rare today. Most lenders now expect you to put down at least 5% of the purchase price, possibly more. The balance — generally up to 95% — may be financed with a home loan.

A bigger deposit will give you a wider choice of loans and may mean a better deal upfront with more long-term savings.

A bigger deposit could reward you with a lower interest rate.

A larger deposit means there's less risk for the lender and could put you in the position to negotiate a lower interest rate. Your local Broker would be happy to do this for you.

Understanding Lender's Mortgage Insurance.

Lender's Mortgage Insurance provides protection to the lender if, for any reason, you default on your loan. While it's the borrower (that's you) who pays the costs, it doesn't give you any protection so it's worth avoiding. If you can put down a deposit of 20% or more, you usually won't have to pay Lender's Mortgage Insurance.

Pay less in the long run.

Depending, of course, on the property you've got your heart set on, a larger deposit could mean you need to borrow less. Lower repayments mean you'll pay less interest over the life of your loan. Check out our Loan Repayment Calculator at option.com.au to see how your deposit affects your borrowing capacity and your repayments.



Choosing the home loan you'll be at home with.

Buying a home is an exciting time for anyone, but when it's your first home... well, that takes excitement to a whole new level. Just as you'll take the time to find the property that's right for you, it's worth taking the time to find the loan that's right for you too.

And that's where your Lending specialist can help ensure you end up with a loan that has a competitive rate and features you'll be comfortable with in the years ahead. With so many home loan options out there, it can be confusing. In this section we explain some of the important things it's worth knowing to help you make informed decisions. All home loans, and the repayments that you make are fundamentally based on two things:

Principal:

The amount of money you borrow

Interest:

How much you pay to borrow the money, which is calculated on your outstanding principal

Interest loans

While 'Principal' speaks for itself, 'Interest' comes in many shapes and sizes and it's important to understand your choices:

Variable rate loans

This is the most popular type of loan in Australia. The interest rate you pay is linked to (but not the same as) the Reserve Bank of Australia's official cash rate. As the cash rate moves and the market responds, you can expect your repayments to vary (up and down) over the course of your loan.

Fixed loans

With this type of loan, the interest rate you pay — and your loan repayments — are fixed for a set period, usually between one and five years. Knowing exactly what your repayments are going to be makes budgeting easier and you're also protected from rising rates. On the downside, you could end up paying more than necessary if rates fall.

Split loans

Get the best of both worlds. With one part of your loan fixed and the other with a variable rate you get some protection from rising rates while you'll still get some benefit from any rate cuts.



Your choices at a glance.

So which loan type might work for you?
Let's look at some of the pros and cons of each.

Fixed

The interest rate is fixed for the term you choose — usually from 1-5 years. It may be higher or lower than the prevailing variable rate at the time and may vary depending on the fixed term you select.

Your repayments will stay the same for the fixed period.

Fixed repayments make it easier to budget though may limit the opportunities to pay more off your loan.

If you want to switch to a variable rate or refinance, you could be asked to pay 'break charges'.

Some, but not all, fixed rate loans will allow extra repayments up to a set amount each year. Some also offer redraw.

Variable

The interest rate can vary as factors such as the official cash rate can have an impact. It can be higher or lower than fixed rates.

As interest rates change, your repayments may fluctuate up or down. You need to be sure you could cope with rising rates and higher repayments.

You can usually make extra payments to help pay off your loan sooner.

Since 1 July 2011, exit fees have been banned on variable loans taken out after that date.

There is usually no limit to the extra payments you can make and typically no extra charges.

Split

One part of your loan will have a fixed interest rate while the other may fluctuate with the market.

Only the variable part of your loan will be impacted by any rate rises or falls. Your fixed rate repayments remain the same throughout the fixed term.

You generally have some flexibility to make extra repayments, balanced with the reassurance of fixed repayments. Most lenders provide flexibility in setting the fixed and variable portions to best suit your needs.

You can access loan features like redraws and extra payments while the fixed portion gives you a little more certainty around your long-term budget.

Other loan types to understand.

Your choices aren't just limited to the interest rate. In addition to those choices, here are some other loan types you are likely to come across.

Basic vs Standard

'Basic' home loans come with a lower rate by giving you fewer features (and maybe less flexibility) than a 'standard' loan.

The definition of 'basic' varies between lenders, so it's worth checking that a basic loan won't limit your ability to make extra repayments and pay off your home loan sooner.

You only want to pay for features you're actually going to use, but keep in mind that the cheapest loan isn't necessarily the one that's right for you. Your Lending specialist can tell you more.

Offset

If you have some extra cash or 'rainy day' savings, you may be able to put that money to work for you.

A savings or transaction account can be linked to your home loan and a positive balance can offset your outstanding loan balance to help reduce your interest. For example, say you have \$20,000 in your linked offset account and an outstanding loan amount of \$350,000. Instead of receiving interest on your savings, your monthly interest repayment will be calculated on a loan balance of \$330,000. It can be a powerful way to lower your repayments and pay off your home loan sooner.

Package loan

Also known as an 'ongoing discount' loan, a package loan bundles your home loan with other financial products such as a transaction account and a credit card, often with fee waivers or discounts.

Packages may also offer a discount on the interest rate that usually applies for the life of your loan. An annual package fee may apply so you need to be confident that any fee waivers and the rate discount outweigh the cost of the package fee. Your local lending specialists will show you how a package loan could work for you.

Line of credit

When you have some equity in your home, a line of credit could let you tap into that equity.

Unlike a traditional home loan, a line of credit doesn't provide you with funds in one lump sum payment. It gives you access to funds up to your approved limit with the freedom to withdraw the money when you need it – for home improvements, investing or even a holiday. Think of it like a credit card with a big limit with your home as the security. You only pay interest on the funds you actually use but keep in mind that at some point you'll need to repay the principal amount, too.

Low-doc loans

If you're self-employed or don't have all the documents normally required as proof of your income, a low-doc loan offers a solution for you. Rates – either fixed or variable – are generally higher than standard loans but may be reduced over time if you make all the required repayments on time.

It's not necessarily your only option if you're self-employed. Many lenders will consider self-employed borrowers just like regular borrowers provided you have good records (including tax returns) for your personal income.

With so many choices to think about, your Lending specialists can help streamline the process by comparing a wide range of loans from a wide range of lenders*.

Visit option.com.au or call

1300 848 848



Other costs you'll need to factor in.

When you're working out your budget, as well as what and where you can afford to buy, there are some other upfront and ongoing costs you'll need to consider. Your Broker can give you a clear picture of what to expect so you can plan your budget with confidence.

Buying costs

There are a variety of costs involved with buying a property. You'll need to budget for:

- Stamp duty
- Pre-purchase pest and building reports
- A strata search if you're buying an apartment
- Conveyancing costs (legal fees)
- A loan application fee
- Insurance which may be required as a condition of your loan. Ask your Lending specialist for details.

Stamp duty

Stamp duty is a tax charged by the state and territory governments on the purchase value of your home.

What you pay will depend on where you live and what you are purchasing. The good news is that as a first home buyer, you could qualify for concessions on stamp duty.

Your Lending specialist will let you know what concessions may apply.

You can find out more on the website of the revenue office in your state or territory and work out what stamp duty fees are payable on your purchase.



Lender's Mortgage Insurance.

If your home loan is worth more than 80% of the purchase price, your lender will usually ask you to pay Lender's Mortgage Insurance (LMI). This insurance provides protection to lenders in case you default on your payments. The amount you will be required to pay will depend on the size of your loan, the type of property and your chosen lender. It's typically charged as a one-off premium, which you may be able to include in your overall loan amount.

The ongoing costs of home ownership.

Needless to say, you need to know how much you can afford to repay each month. That's why it's essential to consider all your current and future outgoings to be sure you're not over-committing.

Thinking about these costs means thinking about the dreaded B word. Yes... budgeting. If you've been saving for your deposit, you and your budget are probably very well acquainted by now. But because no one wants to be overstretched it's important to consider everything.

We'll help make this as painless as possible. First, add up all your current financial obligations.

These may include:

- Personal loans or car loans
- HECS debts
- Credit card repayments
- Store cards or hire purchase agreements.

And now include all your everyday living expenses, such as food, entertainment, clothing, transport, petrol, phone bills and so on. It's important to be realistic.

Becoming a homeowner comes with a whole new set of responsibilities and expenses, too. Don't forget to allow for:

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- Council rates
 - Electricity, gas and water charges
 - Strata fees if you buy an apartment
 - Furniture for your new home
 - General maintenance
 - Home and contents insurance.

When you deduct all of these expenses from your take home pay, you're looking for a figure that will comfortably cover your repayments and give you some room to move too. There are always unexpected costs down the track and your lender may even want to see that if interest rates go up, you could comfortably meet the higher repayments.

If you've considered all of the costs above, you've now got a budget. It is important that you find the loan that will be right for you. You can also use our online Borrowing and Loan Repayments calculators to see how much you may be able to borrow and what your repayments will be at option.com.au





If you require more help, try reading our other useful guides.

[**www.option.com.au/needhelp**](http://www.option.com.au/needhelp)



Becoming a
Property Investor



The Option Guide
to Refinancing





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