



FIRST HOME BUYERS INFORMATION -MISCONCEPTIONS

Over the last fiscal year at 000 Home Loans, First Home Buyers have represented in excess of 65% of all loans funded. Despite a tightening in monetary policy and increasing official interest rates, momentum in this market does not appear to be slowing. With a view to this, we have collated points that cover the most common questions that are asked when First Home Buyers are initially enquiring about purchasing a home. Further, a number of common misconceptions are clarified in attempt to promote awareness and educate First Home Buyers.

Call it advice, tips or a condensation of the information relating to our experiences with First Home Buyers, here at 000 Home Loans we believe the following presentation to be a valuable reference for any person(s) who is looking to finance their first residential purchase.

Personal debts can be rolled into a new home loan.

This is one of the most frequent misconceptions encountered by our loan writers, not only with First Home Buyers but clients looking to finance their second and third homes. For this situation to occur you must have sufficient equity in your home. With so many First Home Buyers relying on a deposit of less than 5% (in many cases, no deposit), this does not leave a lot of equity to fund the consolidation of debts. It can take a few years for the value of your property to increase which may mean that equity exists to facilitate this loan structure.

100 per cent loans = no money upfront.

This is another common misconception with the advent of this immensely popular product. A no deposit home loan means that a client may borrow up to 100% of the purchase price of the property. Other costs such as legal fees, stamp duty and lenders mortgage insurance are payable, in many cases, equaling thousands of dollars. These costs are not able to be capitalized (or put on top of the loan amount) and have to be funded at settlement by the borrower. The First Home Owners Grant can greatly assist, however a shortfall can exist. 000 Home Loans will provide you with a spread sheet outlined approximate associated costs and the amount of funds required to complete a purchase.

Mortgage insurance protects the borrower.

More commonly known as Lender's Mortgage Insurance, this form of insurance protects the lender, not the borrower. The Lenders Mortgage Insurance is paid by the borrower. The less deposit you are able to pay at application, the higher the premium you pay to compensate the risk. Premiums are paid by the insurer to the lender/funder if you as the borrower default on your loan. Generally, if you have more than a 20 per cent deposit, which is quite rare now days, you are not required to pay Lender's Mortgage Insurance.

A bad credit history doesn't matter if you eventually pay it off.

It is very much the case that we see more loans fall over due to poor credit history than any other reason. A consumer's credit history is kept on file and may be accessed by credit providers with consent of clients who are applying for credit. The following gives you an understanding of what is kept on that file and what lenders make determinations on based on that information. The information that is most crucial to lenders is:

- The number of credit 'enquiries' and the amount regarding same - Note that the word 'enquiries' has been highlighted. This means that a consumer may apply for credit for a TV from three different retail outlets on their interest free terms. Despite obtaining the TV say from the third outlet, all 3 enquiries will be marked on the consumers credit file. Lenders will look at the number of enquiries and may make an assumption of a client's spending habits which may be taken into account when making a decision on loan approval.
- Unpaid Defaults - A default is where a consumer has failed to make a payment as per a credit agreement they have undertaken. The credit provider has then notified the credit agency of the default, which is then added to the credit file. This can be in relation to non payment of a credit card, personal loan, telephone bill, council rates or home loan. The chances of a home loan being approved is greatly diminished if an unpaid default appears on a clients credit file.
- Paid Defaults - As suggested, these are defaults that have come to the consumers notice and have been subsequently paid. Despite payment, these will still be assessed and can be looked at adversely by lenders.

Diligent, responsible and ultimately "clean" credit history is what funders, especially home loan providers, want to see when they access the credit file of individual(s) making application for a home loan. Applicants will always have an opportunity to explain any adverse findings that are discovered on their credit file, however the old adage, "prevention is better than cure", is a pertinent one in this situation.

Other types of loans and credit - what it means for a Home Loan approval and how much can I borrow question? - borrowing capacity.

Personal Loans, credit cards, store cards and "Interest Free – 48 months to Pay" Loans will all go toward the "servicing" calculations of your home loan application. By servicing, we mean the ability to repay your home loan having taken into account all other loan repayments. Ultimately it will also determine the answer to the most commonly asked question, "How much can I borrow"? Another fact that is not commonly known, is that the credit card limits and not the balances are what is taken into account in servicing calculations. In reality, the less credit you have on your home loan application, such as credit cards and other loans, the better.

How do we make application for the First Home Owners Grant?

Good mortgage providers will always assist First Home Buyers with processing their application for the applicable grant and other concessions. At 000 Home loans, we can assist with this process every step of the way with a view to have the \$7000, Federal Government grant available when it is most needed - at settlement of your new home.

How long will it be until I know if my loan is approved?

The answer can be quite different for each and every loan application. This, due to a number of varied and complex situations. The following is a general time line of the application process

- 1) Application submission (day 1)
- 2) Credit checks of applicants (day 2)
- 3) Employment and Income Verification of applicants (day 2)
- 4) Conditional Approval (end of day 2) based on valuation and Mortgage Insurance acceptance
- 5) Submission to Mortgage Insurer (day 3)
- 6) Valuation of property ordered to be undertaken by a registered and licensed valuer (day 3)
- 7) Valuation report returned (day 6)
- 8) Mortgage Insurance acceptance. Policy issued (end of day 6)
- 9) Collation of existing information by funder (start of day 7)
- 10) Unconditional and outright approval (end of day 7)
- 11) Mortgage Documents drawn up and issued to clients conveyancing solicitor/agent for perusal and clients signatures (day 10)

This is a basic and generic overview of the process from application to approval. Normally applicants will have a good indication of the status of the application after credit checks and income verification (48 hours), with the application approved in principal.

This may not always be the case. Some may take longer and on many occasions, it may be quicker. With most settlements generally taking place 30 to 42 days after the Contract to Purchase being signed, this is normally ample time for approval.

My contract of Sale stipulates that I have to put down a 10% deposit.

Most standard Contract's of Sale will usually have 10% as the figure required as a deposit when contracts are exchanged. As alluded to earlier, many loans in this day and age are secured on a deposit of 5% and less. In this case clients will have access to what is known as a Deposit Bond. This is a guarantee that is underwritten by some of the country's largest insurance organisations. These guarantees are now more widely used and accepted rather than cash deposits in most instances.

A Deposit Bond allows those clients that do not have the required deposit to secure property and exchange contracts (a vital part of the purchase procedure). They are only issued after full, unconditional finance has been approved from the lender, thus protecting the purchaser from having the draw down the guarantee amount if the contract is breached or exited after exchange.

At 000 Home Loans we have assisted hundreds of clients in securing deposit bonds as we are accredited with three of the largest distributors in the country. We are the first to be informed when unconditional loan approval is received and can usually organise a bond straight away.

CONCLUSION:

With many years in the industry, nothing is more gratifying than being able to help clients purchase their first home. Whilst acknowledging that for many people, this will be one of the biggest commitments they will make. The sad fact still remains people pay more attention to detail when purchasing a plasma TV then finding the right home loan to suit their situation. At 000 Home Loans we believe that honest, accurate and efficient levels of advice and subsequent loan processing can assist the First Home Buyers experience to be unstressful and hassle free and without prejudice. As a member of COSL (credit ombudsman) and the FBAA (Finance Brokers Association of Australia) we at 000 Home Loans have a strict code of conduct which at all times is upheld.

To expand on any of the information provided or to enquire about our extensive product suite, please don't hesitate to contact one of our experienced loan professionals.

Telephone: 1300 786 683

Email: info@000homeloans.com.au

Website: www.000homeloans.com.au

Regards from all the team at 000 Home Loans.

