

First Home Buyer Guide

Buying your first home is a significant event and one of the biggest investment decision that you will make. It requires planning, research and budgeting. Here are some tips that we have developed to help you get started.

What are the acquisition costs of purchasing a home?

Acquisition costs include stamp duty, mortgage registration fee, title transfer fee, legal and conveyancing cost.

How much deposit do I need?

Depending on the price of the property, ideally you should have enough funds for about 20% of the property value plus acquisition cost. Lenders can usually lend you about 80% of the property value without charging you Lender Mortgage Insurance (LMI) premium.

However, if you do not have 20% deposit and do not mind paying the LMI premium, you can potentially borrow up to 95% of the property value, subject to eligibility conditions. In this case, you will need enough funds for 5% of the property value for deposit plus the LMI premium plus acquisition costs.

What is Lender Mortgage Insurance (LMI)?

LMI protects your lender in the unfortunate event of you defaulting on your home loan. This is a one-off insurance payment that can be added (or capitalised) into your loan instead paying it upfront, subject to maximum loan restrictions by the lender. The amount of LMI premium varies between lenders and it is usually influenced by the size of the loan, Loan-to-Value Ratio (LVR), your existing loan balance and the purpose of the loan. LMI premium is roughly about 2% to 3% of the loan amount.

How much can I borrow?

Your borrowing capacity is determined by your current financial situation, mainly your income, expenses and current commitments. As each lender has their own credit policies and calculations, the amount of loan you can get from different lenders will vary.

Do I need loan pre-approval?

We recommend that you consider getting loan pre-approval as this will provide you with more certainty of the amount of loan that the lender will provide to you. This is especially important if you are going to purchase your property through an auction as you are not allowed to put any condition (such as subject to finance approval) along with your bid in the property auction, or if you want to make an unconditional offer in a private sale. Loan pre-approval is generally valid for about 90 days and some lenders will allow extension with updated documents.

A fully assessed loan pre-approval is generally provided by the lender in writing after the lender's credit team has gone through a loan application you submitted. It is important for you to be aware that each time you apply for a loan, your credit file will be marked with the lender's enquiry and having too many credit enquiries on your credit file may negatively impact the lender's assessment of your credit rating.

First Home Owner Grant (FHOG) and First Home Buyer Stamp Duty Concession

The amount of FHOG and stamp duty concession will depend on the state in which you intend to purchase your home. In Victoria, if you are buying or building a new home valued up to \$750,000, you may be eligible for FHOG of \$10,000 or \$20,000 if you are buying in regional Victoria.

In addition to the FHOG, from 1 July 2017, first home buyers will be exempted from paying stamp duty if the purchase price of the home is not more than \$600,000. First home purchases valued between \$600,000 and \$750,000 will receive a concession applied on a sliding scale. This exemption will be available to both new and established home purchases.

You can find more details about the FHOG and Stamp Duty Concession on <http://www.sro.vic.gov.au/first-home-owner>

Example 1

Jim (single) is a first home buyer, has savings balance of \$75,000 and earns \$70,000 p.a. plus super from his PAYG employment. He is currently living in his parents' home and his monthly expenses amount to \$1,800 per month. Jim does not have any other loans / debts but he has credit card with a credit limit of \$2,000. He wants to purchase a newly built apartment in the Melbourne CBD off-the-plan from the developer which he intends to use for his own stay.

Based on his financial position, Jim's maximum borrowing capacity is around \$385,000. As both his savings level and borrowing capacity need to be considered together, his maximum budget for this first home is \$400,000 if he does not want to incur the LMI premium. As Jim will be purchasing a new property under \$750,000, he will be entitled to the FHOG of \$10,000. In addition, because the property is less than \$600,000, he is eligible for the full stamp duty exemption as a first home buyer. In Jim's situation, the \$10,000 FHOG plus his savings of \$75,000 will be sufficient to provide for the 20% deposit of the property price plus acquisition costs. Jim can then apply for \$320,000 of loan to fund the remaining purchase price. The mortgage registration and transfer fee on a \$400,000 purchase is \$115 and \$1,031 respectively.

If he is willing to incur the LMI premium and increase his loan amount in excess of 80% of the property value, he can potentially have a higher budget for the property.

Example 2

Sarah and her partner are looking to buy their first home. Sarah works full time and earns PAYG salary of \$60,000 p.a. plus super. Her partner works part time and earns \$30,000 p.a. plus super. They both spend about \$2,200 per month excluding the rental cost of their current residence. Both Sarah and her partner do not have any other loans / debts or credit cards. Currently, they have savings of \$150,000 combined and are looking to buy an established unit of \$650,000 for own stay.

If Sarah and her partner purchase an established property, they will not be eligible for the FHOG as the grant is only applicable for new property. However, they are still eligible to receive the first home buyer stamp duty concession on a sliding scale. The reduced stamp duty amount for a first home buyer on a \$650,000 property is \$11,356 compared to the full stamp duty cost of \$34,070 without the concession. Other acquisition costs will include mortgage registration fee of \$115 and transfer fee of \$1,616.

Sarah and her partner can use their savings of \$150,000 to fund the 20% deposit plus the acquisition costs. They can apply for a \$520,000 loan to fund the remaining amount.

Disclaimer: the examples above should not be used as a guide for estimating borrowing capacity. They are provided to assist in understanding that FHOG, first home buyer stamp duty concession, borrowing capacity, loan amount and savings amount all need to be considered to determine one's property budget. We highly encourage you to discuss with us in more detail to determine the property budget appropriate for you.