



Ten Easy Steps to Home Ownership

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Overview

The following, "The Ten Steps to Home Ownership", was kindly provided by "Your Mortgage" magazine. It provides a brief but informative outline of the events you are likely to encounter on the road to purchasing your home. As you will see there are many things to consider and much work to be done and for that reason we thought that it may be useful to you. We have taken the liberty to include some commentary throughout the article in the ways that we are able to assist you through this, most often, onerous journey.

1. Determine your budget

The first step towards home ownership involves a little introspection. You need to take a long, hard look at yourself and determine what you are planning in the years ahead and how much you can afford to repay.

Begin with your total monthly income. Use the after-tax income of both you and your spouse (if applicable), regular income you get from term deposits, cash management accounts, share dividend or property investment. This becomes your total monthly income.

The next step is to determine your monthly expenditure. This is a little trickier than determining your income, because your cash is likely to go towards a number of different places over the course of a month. Obvious categories of expenditure include food, clothing, electricity, phone, gas, medical, insurance, entertainment, personal, car, transport, childcare, credit cards - the list goes on. Don't include your current rent if you are purchasing a home to live in, if things go well, you won't have to pay rent for much longer.

Subtract your total monthly expenses from your total monthly income and (hopefully) you will have a healthy positive number that is roughly what you can afford to repay each month on a loan. Now if the figure you arrive at is suspiciously high, look carefully at your expenses. If the figure suggests you can save \$2,000 a month, and you've only ever been able to save \$1,000 then clearly you've left a few expenses out. People are creatures of habit - if you haven't saved before, you're going to find it difficult to save now. Be honest with yourself from the outset. There are no prizes for having the biggest house and then not being able to afford to live in it.

With the numbers under control, you also need to consider more abstract thoughts, such as where you think your career is headed financially, whether you or your spouse are considering raising a family and what impact this might have on your ability to service your loan.

Now that you know the total amount you can devote to mortgage repayments each month, you can determine roughly how much you will be able to borrow. This amount will vary from lender to lender, and many now have

handy calculators on their web sites that allow you to determine the amount of money they are prepared to part with. There is also an affordability calculator on the Your Mortgage web site that calculates a very conservative estimate of the amount you will be able to borrow and the costs you will face depending on the State you are purchasing in.

Our Comments

As a professional mortgage broker we are kept abreast of both the lending criteria and the maximum lending calculations used by the banks. These calculations, which vary from one lending institution to another, are the method used when working out if they will firstly lend to you and secondly how much they will lend to you. As we deal with most of the major lending institutions across Australia we are able to calculate the specific maximum loan amount from a variety of lenders.

2. How much bang for your buck

Now that you know your budget, it's time to determine how much 'home' it's likely to buy you - and the suburbs you can afford to live in. The real estate section in newspapers, local papers and real estate agents themselves are all useful sources of pricing information, but when it comes to getting comprehensive comparative sales information, it's hard to go past Australian Property Monitors (APM), a joint venture between the publishers of Your Mortgage and John Fairfax & Sons.

APM publishes Sydney, Victorian, Canberra and Perth Home Price Guides. Expanding the service even further, the Home Prices Guide will soon be expanded to cover all of Queensland from the distant outback of Mount Isa through to the high-rise apartments of the Gold Coast.

APM systematically tracks residential property activity from a variety of sources including government and semi-government agencies, real estate advertising, real estate agents and the company's own researchers. This vast base ensures APM's databases contain the latest and most detailed property information available.

Each Home Price Guide lists recorded residential sales in the previous 12 months and details the full address of the property, the type of property, descriptive features of the home and exact sales date and sales price paid by the buyer.

If the home of your dreams in your desired suburb is too pricey, it's time to either lower your expectations or save some more money. However, remember that while you are saving more money, prices can often increase at a similar (or faster) pace.

It's important to remain flexible with your housing demands because it's simply impossible for everyone to purchase their dream home immediately. Sometimes it is better to settle for something that isn't perfect, pay it off quickly and then step up to a better home down the track.

3. Good Loan Hunting

Determining the type of loan that suits your needs is the best way to begin.

It's important to consider which loan features are appropriate to your lifestyle. If you'd like the security of knowing exactly how much your regular repayments are going to be for a given period, then a fixed loan may be for you. If you want to make additional repayments, then a variable rate could be more suitable. Should you have surplus disposable income, then an all-in-one loan or 100 per cent offset account might be the ticket.

Once you've determined the type of loan that best suits your needs, it's time to get your affairs in order and go mortgage shopping. You will need the income and expenditure calculations you did in Step One, some proof of income such as pay slips or recent tax returns, proof of your genuine savings history and other documents that may be required by specific lenders.

Our Comments

Here in Australia we are very lucky in that we have loans, which are very feature rich, but unfortunately all these features and how they relate to you can get very confusing. As we transact with the majority of the major lending institutions in Australia it is our business to be aware and conversant with all the different loan features available. We even have software programs which help us identify the loans available which have the features that you're looking for.

4. Shop for the Best Deal

The next important step in obtaining a competitive deal from your lender is to know what's out there. Television and radio advertisements, newspapers and magazines such as Your Mortgage are great places to find out what deal are currently on offer. Be proactive and contact lenders directly if the advertisement details aren't clear.

Whether it's a lower interest rate, zero establishment fees, frequent flyer points or other value-adds, the more you know about the current home loan market, the better your negotiation skills will be when it comes to talking turkey with your lender of choice.

With over 3,000 lending products in the market, it's nearly impossible to keep track of every one that is being offered. Lenders continue to add new features, honeymoon rates and an endless array of 'bells and whistles' to their loans. Simply asking your lender of choice if they have any new products or special offers available could result in significant interest savings. Asking them to check with head office is probably a good idea as well, as loan officers are sometimes the last to hear about these things!

While bouts of closing branches and record profits might suggest otherwise, financial institutions do take customer loyalty seriously. The cost of acquiring a single customer, through snappy advertising and marketing campaigns has been estimate to cost upwards of \$1,000. This can be used to your advantage when it comes to negotiating your loan. If you've been with one institution for a long time and have multiple accounts with it, your position improves further. Ideally, you own your own business and have your company accounts with a particular institution. Start making noises about moving all of your accounts to the lender that offers you the best home loan, and just watch the reaction.

Our Comments

As you can see, getting a suitable loan with the right conditions is a very confusing task and that is why the mortgage broking industry now accounts for a large portion of all new loans. In the US mortgage broking is the predominant method of securing your home loan. As professional mortgage brokers we are reliably kept abreast of all the new rates, specials and product enhancements by the lenders, as they know we represent to our clients the products of many lending institutions. We shop for a competitive deal for you!

5. Get the Application Approved

Having found a suitable deal, it's time to find out if your lender of choice wants you as badly as you want them! Find out exactly what hoops you are required to jump through in order to get home loan approval and ensure that you have the required documentation.

Procedures vary from lender to lender but it is likely you will be issued with either a 'home loan guarantee certificate' or a 'pre-approval certificate'. These are very handy pieces of paper that says that (subject to a few conditions) your home loan either has been, or will be approved when you have found the property you want to purchase. One of the typical conditions attached to these certificates is 'subject to valuation' which makes sense - if you pay way too much for a home, you're likely to scare your lender and they won't advance you the cash.

Loan approvals don't last forever, and are typically from two to four months. If you find your pre-approval has expired or is about to, contact the lender and see if it can be extended or if you have to re-apply.

Our Comments

It is human nature to want to buy the best house that is available to you in your price range. That usually means that people want to borrow up to their maximum limit and sometimes beyond. Of course, borrowing at your maximum limit is the loan that is the hardest to get approved. Therefore, it is very important to present the application to the lending institution complete and in the manner in which they expect to see it. This eliminates much frustrating time going back and forth but may also improve the chances of getting it approved. You have to remember that the credit officers in the banks are only human and therefore making a good first impression is very important.

As professional mortgage brokers we are trained, by the lending institutions, in loan preparation and presentation. Secondly, we are experienced in this area as we submit applications every day.

6. Legal Legwork

With your finances under control, it's time to find a suitable partner to perform the eventual transfer of property from one person to another, through the process of conveyancing.

Once you've found the property you want to purchase, the agent looking after the sale (or vendor themselves) will provide you with a contract of sale. It's important that this document be looked at carefully to ensure that everything about the property is understood and that there will be no legal surprise after you have purchased it. Signing a contract without having an experienced person look at it first is madness - and if you want to make any changes to the contract, now is the time to speak up.

While the legwork is typically performed by solicitors or professional conveyancers, you can also conduct your own conveyancing, although you need to be aware of the risks involved.

The most obvious consideration when determining how to choose the method of conveyancing is the cost. While most solicitors and conveyancers offer a fixed price, you need to determine exactly what is included in the price, and what isn't. Some people simply want the appropriate forms completed and lodged, while others require a more comprehensive service, such as assisting in negotiations for a private sale. With additional services come additional fees and it pays to know what these are likely to be.

One of the key benefits of using a solicitor or conveyancer is the peace of mind that they provide. Both should have sufficient indemnity insurance to cover them if something goes wrong with the transfer. Another benefit of using a professional is that they provide this service on a regular basis. Experience is an added bonus, and you should ensure that if a junior clerk is assisting with your conveyance, the person who signs off on the process knows what they are doing.

Some people prefer to complete their own conveyancing. A number of do-it-yourself kits exist for this very purpose. The main reason for performing your own conveyance is to save money, but there are a number of important issues that should be considered first.

These issues can arise regardless of the method of conveyancing you choose, but can be time consuming and difficult to resolve without professional help. The most common are:

- Caveats and covenants attached to the property,
- Illegal extensions which have not been approved by local council,
- Actual property size differing from the measurements in the title, and
- Finding the property is damaged (or something is missing) when you conduct the final inspection.

Most conveyances are performed without any difficulty, but like insurance, using a professional conveyancer could save you heartache if difficulties are encountered. Remember - the professionals carry indemnity insurance while you, as an individual, do not.

7. Time to buy

Having put all of the pieces together, it's finally time to buy. While the preparation up to this point may seem like over-kill, once you find the property you want, the last thing you need is to be rushing around tracking down a lender, waiting for a loan approval, negotiating with solicitors and determining whether the property is a bargain or not. You're going to have your hands full with the next three steps, so don't proceed until you've caught up.

After being taken on the real estate merry-go-round by a number of agents, eventually you will find the property that you want to buy. Before breaking out the chequebook, it's time for a quick reality check. How much are you prepared to part with to make this home your very own? No, don't look at the asking price or believe what the real estate agent tells you the property will probably reach at auction, use your own research (from step Two) to determine a reasonable price.

If the home you crave is being sold via auctions, it is critical that you have a pre-auction meeting with your lender. It's also important to note that any pre-approval you have received from your lender is often subject to their own, independent value of the property - so if you are borrowing right up to hilt and pay too much at auction, that pre-approval is not worth the paper it is printed on.

Having enough of a deposit on the day is a good start, but it's the remaining 25 years that often gets people into trouble. Bidding more than you have been provided by your lender is purely madness and could leave you in a mess of debt. If in doubt, have a friend beside you, to stop you bidding once you have reached your agreed upon limit.

8. Deposit Time

Once your bid on the property has been accepted and you're given the green light on the contract, it's time to break out the chequebook and pay the pre-requisite ten per cent deposit. This is typically given to the real estate agent, who holds it on behalf of the vendor until the sale is finalised. Note that this ten per cent isn't going to help you with stamp duties and other costs associated with your loan, so ensure you have ready access to these funds as well.

Contracts are formally exchanged between the buyer and the seller. In most cases, the solicitor or conveyancer representing each side does the exchanging, although when you are performing your own conveyance, this will have to be done personally. Once this has occurred, you are legally bound to proceed with the purchase of the property, unless a special condition is breached that is listed in the terms and conditions of the contract.

9. The Waiting Game

Take a deep breath and relax, you've earned it. The pace slows a little now as you wait for your legal team to do some tyre kicking. For the next six weeks, sometimes less and sometimes more, enquiries will be made about the property. Survey and drainage will be examined, government departments will be written to, heritage orders will be inspected and council checks will be performed.

In other words, the work is (hopefully) out of your hands, but someone still had to do it. A kind vendor may grant you additional time if you are having difficulty meeting the agreed deadline but don't count on it. The chances are that the property is also costing them money (through their own mortgage repayments or lost interest) and they are under no obligation to give you more time.

This is the time when buyers (and vendors) get an attack of the jitters. Buyers keep their fingers crossed that everything about the property will be fine and run according to schedule and the vendor is praying that the sale goes ahead and they can get their hands on some cold, hard cash.

A good way to pass the time (and raise your spirits) is to start assembling quotes from removalists and renovators, preparing a list of people that will need to be notified of your change of address and the like. You may also be granted access to the property so that you can measure up curtains, white-goods and rugs, but again, the vendor is well within their right to say 'no'.

There's not much left that can go wrong, but don't go ordering that customised kitchen just yet - there's still one step left.

10. Settlement At Last

Settlement day is the day that you (or your representative) meet with the vendor to swap your cheque with their title of ownership. Cherish this moment, because with most people this certificate will quickly go to your lender, unless you are lucky enough to purchase the property outright.

Government departments need to be notified of the change in ownership, and this is typically taken care of by your solicitor or conveyancer. Now the drudgery begins.

Telephones, electricity, gas, water, pay TV and insurance all needs to be in place now that the property is will and truly yours. Little things like food in the fridge is probably a good idea as well!

Congratulations, you are now the proud owner of your new home. It's only taken you ten steps to get here, and now you are a property owning veteran. What will be next? A newer, larger, better home in five years time? Maybe this will be the first purchase in your property investment portfolio?

Regardless of your future movements, there is probably nothing more stressful than making your first purchase. Mistakes will be made and lessons will be learnt, but isn't that what life is all about?