The Home Finance Handbook!

Accessing the Finance You Need!

Carlo Colangelo

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The Residential Finance Challenge!

Purchasing a new or first home is an exciting time!

For the majority of people, it is one of the largest and most emotional decisions they will make!

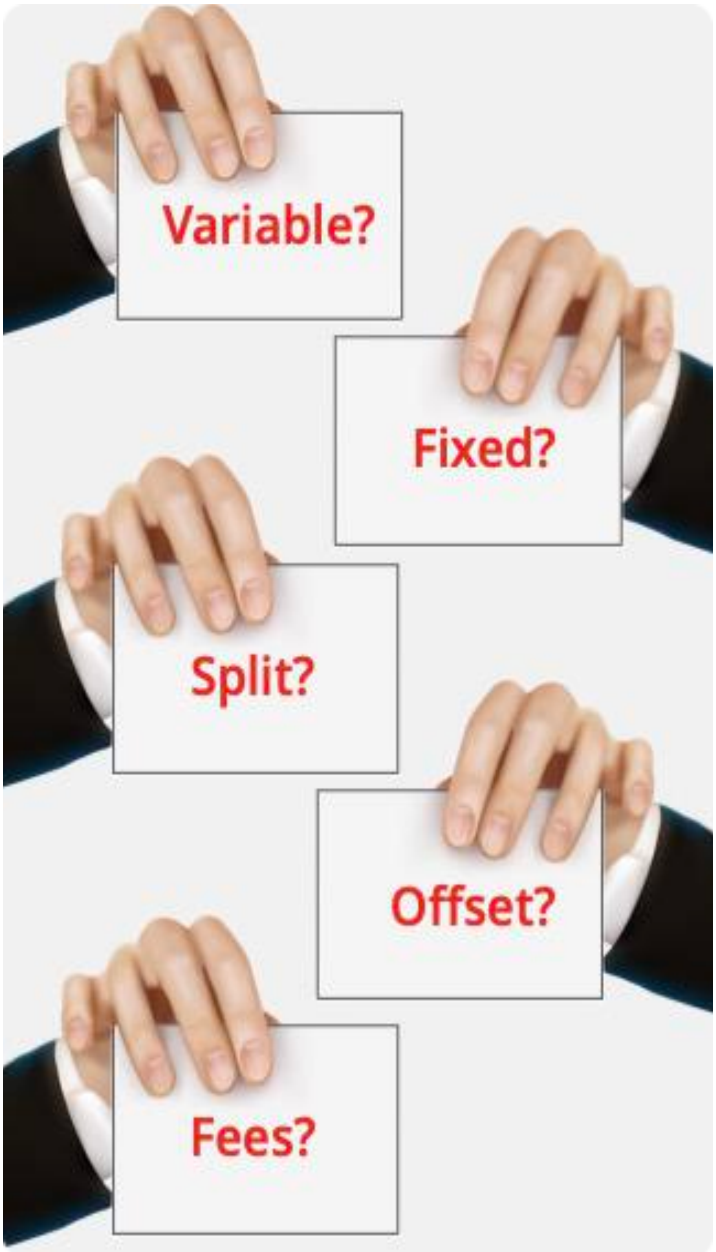
Finding the right home involves a lot of research and can consume an enormous amount of time. But it is worth it!

However, navigating the finance process can be challenging. You need to ensure:

- You understand all the options available & their implications
- The finance is tailored to your circumstances
- That the finance package is market competitive

To avoid stress and wasted time, you need to know how to navigate through the process!

That is why we created the eBook!



Residential Finance - What has changed?

Home buyers and investors are facing a "perfect storm" of rapidly accelerating property prices, the uncertainty of COVID-19 and greater scrutiny by Lenders of loan applications. All have combined to make it harder for applicants to quickly source needed finance!

That said, by planning ahead you can avoid many of the common pitfalls and access the finance you need.

Home Finance - Key Requirements

Deposit

Minimum 10% - ideally 20%

Costs

In addition to the Deposit, you need funds to cover:

- Stamp Duty on both the Land Transfer and Mortgage
- Establishment, Settlement, & Documentation Fees

Mortgage Insurance

If less than 20% deposit is available, Mortgage Insurance will likely be required.

This costs between 1% and 4% of loan value.

Mortgage Insurance protects the Bank in the event of default. *It does not protect the borrower.*

If a borrower defaults, the insurance protects the Lender against loss - the borrower remains responsible for repayment of the loan.

The cost of Mortgage Insurance can be capitalised - that is; it can be included in the amount borrowed.

What can you afford to borrow?

A good starting point for Home Finance is to work out, based on your current income, what you can afford to borrow.

Once you know this, you can determine the deposit you will need to accumulate to obtain the finance.

To establish your borrowing capacity, use our free online Borrowing Power Calculator:

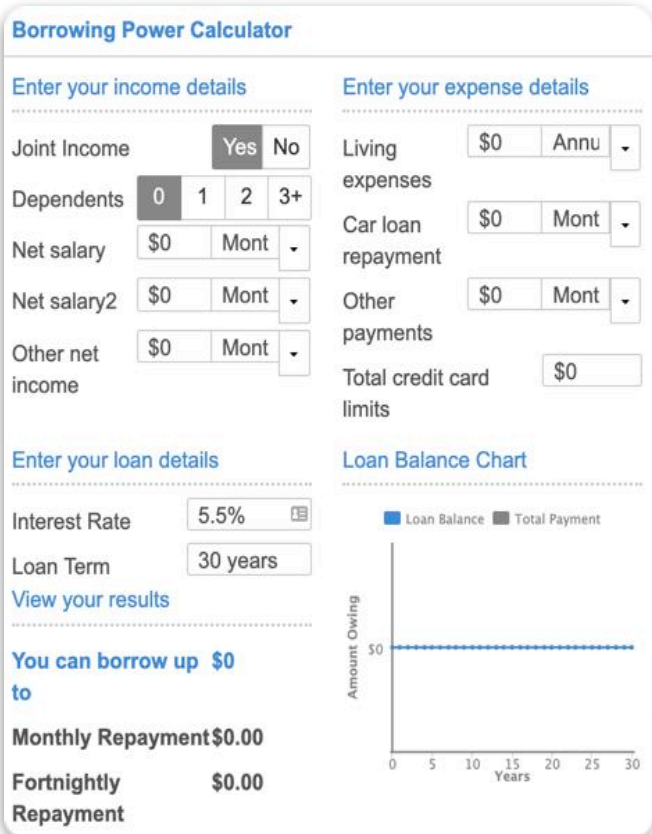
Borrowing Power Calculator

Alternatively, give me a call **0412 085 075**

The Finance Broker Advantage

When you use a Finance Broker - instead of seeking quotes from just one or two Banks, you will have access to our panel of Lenders - which includes all the major Banks!

This market access provides you far more choice and delivers the benefits that comes from Banks competing for your business!



Saving Your Deposit

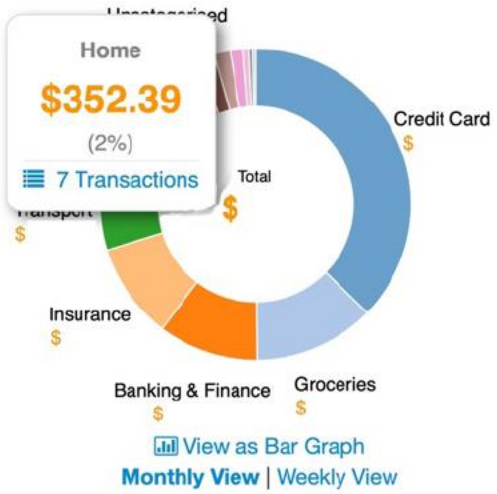
Once you know what you will need in the form of a deposit - the next step is to formulate a savings plan to accumulate the funds you need to cover not only the Deposit, but also:

- The Stamp Duty on both the Land Transfer and Mortgage
- Establishment Settlement and Documentation Fees!

You can get a guide as to these additional costs by using our

Stamp Duty Calculator

PocketBook



A free Australian App to track your spending and create a budget is Pocketbook

Start with your current reality!

When creating a Savings Plan, it is a good idea to review your current commitments and spending patterns. Often our perception is quite different to our "lived reality".

Go through your Bank and Credit Card Statements and make a list of all your current bills and spending. This will then give you the information you need to create a savings plan.

If you are looking for ideas as to where you might be able to find some savings read our blog post:

Saving for a Home Deposit

Ways parents can help

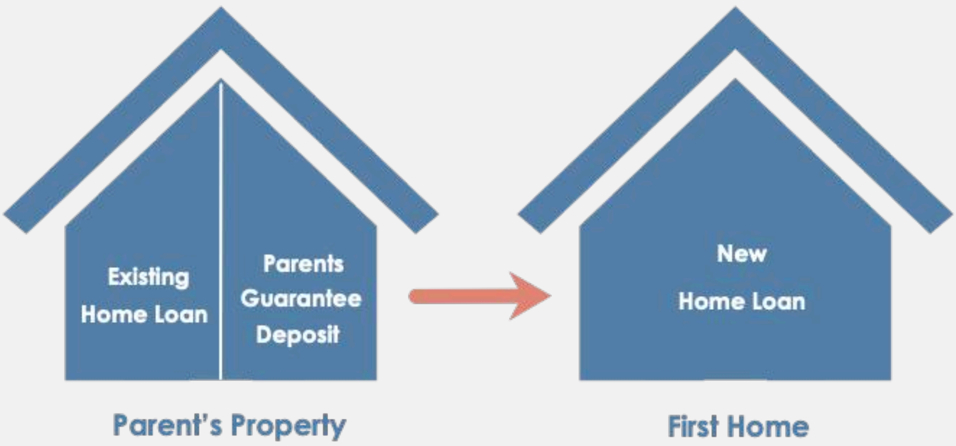
Over the past few years we have seen an increasing number of parents offering to assist their children get a foothold in the property market.

This may be by way of:

Providing a Guarantee

This would usually be a limited Guarantee where they accept responsibility for part of the loan.

The parents would need to demonstrate they can service and/or repay this portion of the debt if called upon. They may also need to provide a mortgage over property they own to support the guarantee.



Provide a Loan

Another option is to provide a loan to the children. If pursuing this path it is important a solicitor is used to document the loan terms.

If the loan is to be secured by a mortgage over home being purchased, the terms of the loan will need to be acceptable to the Bank. The mortgage will also rank behind the Bank mortgage.

Ways parents can help - continued

Take Equity in the Property

An alternate option is for the parents is to take part ownership of the property.

This can provide greater control around the future of the property, however downsides include the likelihood they will share responsibility for the debt and the repayment.

Plus there may also be Capital Gains Tax implications and potentially, Stamp Duty costs, if one party is to buy out the other.

Taking equity may also affect eligibility for the first Home Buyers Grant/ Concessions.

Non Repayable Gift

Another option is to provide funds as a non-repayable gift. In this way, parents can assist their children without assuming any responsibility for the loan.

Most Banks will require a Statutory Declaration that the gift is non-repayable.

Monies given as a gift are generally not taxable, providing the gift given out of love is not part of a business transaction.

Important

If considering this option, seek professional advice to ensure no tax liability accrues, or there are other unintended consequences such as reducing the parents access to things like the Age Pension, Health Care Cards etc.

Ways parents can help - continued

Place Funds into a Mortgage Offset Account

A further alternative is to place funds into a Mortgage Offset Account, and through this, reduce the interest paid on the loan.

The potential downsides include:

- As the funds will be in the children's name, they would be free to use them for other purposes
- In the event of default the Bank may take control of the funds
- Should a relationship break down, the funds may be considered part of the joint assets

More Information

Important!

Always seek professional legal advice to ensure the ramifications are fully understood and any agreements are properly documented

Mortgage Offset Accounts

Mortgage Offset Accounts are a practical way Home Owners can reduce interest payable and pay off their Home Loan faster.

In simple terms monies held in Offset Accounts are deducted from the loan balance and thereby reduce the amount of interest charged.

Some Lenders also allow you to link other accounts (sub accounts) to your Offset Account thereby increasing the amount offset against your loan.

Borrowers can arrange for their salary credited direct to the Offset Account. Then providing you are highly disciplined pay your bills via Credit Card, clearing the full balance before the interest only period expires.

This means the amount offset against the mortgage is higher - but it takes discipline to ensure the Credit Card is fully paid off each month.

Variable, Fixed, or Split Loans

When you take out a mortgage, you will usually have the option of choosing a variable rate loan, a fixed rate loan, or even a split of fixed and variable.

Variable Interest Rates

These are adjusted with the market, if interest rates increases then you will pay more, if they decrease the reverse applies. (Although we suggest maintaining your repayments at the pre-existing level to pay your home loan off sooner.)

One benefit of Variable Rate Loans is that you can attach a Mortgage Offset Account to the Loan - which is not possible for Fixed Rate Loans.

Fixed Interest Rates

As the name suggests, in this instance the rate is fixed for an agreed period. If rates move up or down you are not effected until the fixed term expires.

Fixed rates are normally higher than variable rates but can provide certainty.

However, if you want to break the fixed rate contract before expiry and/or make additional repayments, there are usually additional costs involved.

Split Loans

In this case you can choose to have part of your loan fixed (which provides peace of mind re rates) and the balance variable.

Choosing the right option will very much depend on your personal circumstances, income and goals.

Home Loan Redraw

Many Lenders offer a Home Loan Redraw with their variable rate Home Loans. The terms and costs can vary so it is important to do your research.

The advantage of Redraws is that if you have surplus funds and/or make extra payments you pay them off your Home Loan and:

- Reduce your average balance and interest costs
- Potentially pay the Home Loan off sooner

If down the track you need the funds, providing you have met your contractual payments and are not in default, you can take the surplus monies you have credited back out.

For most Lenders you will be able to see how much you can redraw online.

If this is not the case, a quick phone call or visit to your Lender will confirm what is available.

The process of accessing the monies is relatively straight forward - but bear in mind some Lenders will charge a fee and it may take a day to two to be processed

Helping you explore, compare and understand all the options available with Home Finance, is a key part of the service we provide!

First Home Buyers Super Saver Scheme

Since 2017 first home buyers can use their superannuation to save a home deposit.

Using superannuation offers tax advantages compared to traditional savings accounts.

Individuals can withdraw up to $15,000 of voluntary contributions made in any one financial year up to an overall total $30,000 (plus earnings that have accumulated on those funds)

Couples, if both qualify for the scheme, can withdraw a combined $60,000 plus earnings.

More Information

Important!

As the Scheme involves both superannuation and tax, it is critical to seek professional independent advice.

First Home Buyers Loan Deposit Scheme

The First Home Buyers Loan Deposit Scheme is a Federal Government initiative to help first home buyers purchase their first home.

It allows first home buyers purchase a home with as little as a 5% deposit.

The Scheme is available to first home buyers earning up to:

- Singles $125,000
- Couples $200,000

Key elements of the scheme include:

- Applicants need to demonstrate they have saved 5% of the purchase price and then the government will guarantee 15%.
- This guarantee allows successful applicants to borrow 95% of the purchase price and as such negates the need for Mortgage Insurance
- The scheme is for both existing dwellings and new homes however property price caps apply
- Applicants will need to demonstrate to the Banks they can service the total amount borrowed

More Information

Debt Serviceability - The Key!

Whilst having sufficient equity is important, debt serviceability is the key to getting a loan approved.

Borrowers need to demonstrate they can service the proposed borrowings, not only at todays rate, but also in the event of future interest rate increases.

Although loading the rate is designed to avoid future problems, for some, it can present a challenge!

In addition to the serviceability test, Banks now also vet all aspects of an applicants stated income *and* expenses in detail!

Debt Serviceability Test

Currently Banks load interest rates with an **additional margin** to confirm borrowers will have the ability to repay their borrowings should interest rates increase in the future.

Credit Card Serviceability

When assessing serviceability, Banks assume the Credit Card will be fully drawn and use circa 3.80% as the monthly commitment - even if the balance is zero!

Does your Home Loan rate have a 3 in front of it?

You could be paying too much!

Serviceability - Information needed

PAYG Applicants

The information PAYG applicants need to provide includes:

- Group Certificates for the past two years
- Two recent Payslips
- A breakdown of income, salary, overtime, commissions, allowances and bonuses - with supporting evidence of same
- A copy of Bank Statements confirming crediting of salary
- Last three months Bank and Credit Card Statements
- Statement of Assets and Liabilities (including Credit Cards limits and balance, Loan details - balance & monthly repayments, Hire Purchase details, etc.)

Self Employed Applicants

The information Self Employed applicants need to provide includes:

- Business, Trust and personal Tax Returns for the past 2 years
- Tax Office Notice of Assessment for the past two years
- Copy of Trust Deeds (if applicable) to confirm distributions
- Explanation for any significant variances in income
- Last 3 months Bank and Credit Card Statements
- Statement of Assets and Liabilities (include Credit Cards limits and balance, Loan details - balance & monthly repayments, Hire Purchase details , etc.)

Important!
Ensure projected income and expenses in your Monthly Budget align with "lived reality" as shown in Bank and Credit Statements.

Property Valuations

Both Bank and external Property Valuers, are conservative when it comes to Property Valuations.

For Construction Loans and "Off the Plan" purchases our experience has been the valuations can come in below the Contract Price.

Due to supply and quality issues, Banks also tend to dislike:

- High density greater than 3 stories
- More than 30 apartments in a complex
- Apartments smaller than 50 square metres

Whilst it is still possible to obtain finance for such properties, the equity contribution may need to be a lot higher to mitigate the potential risks.

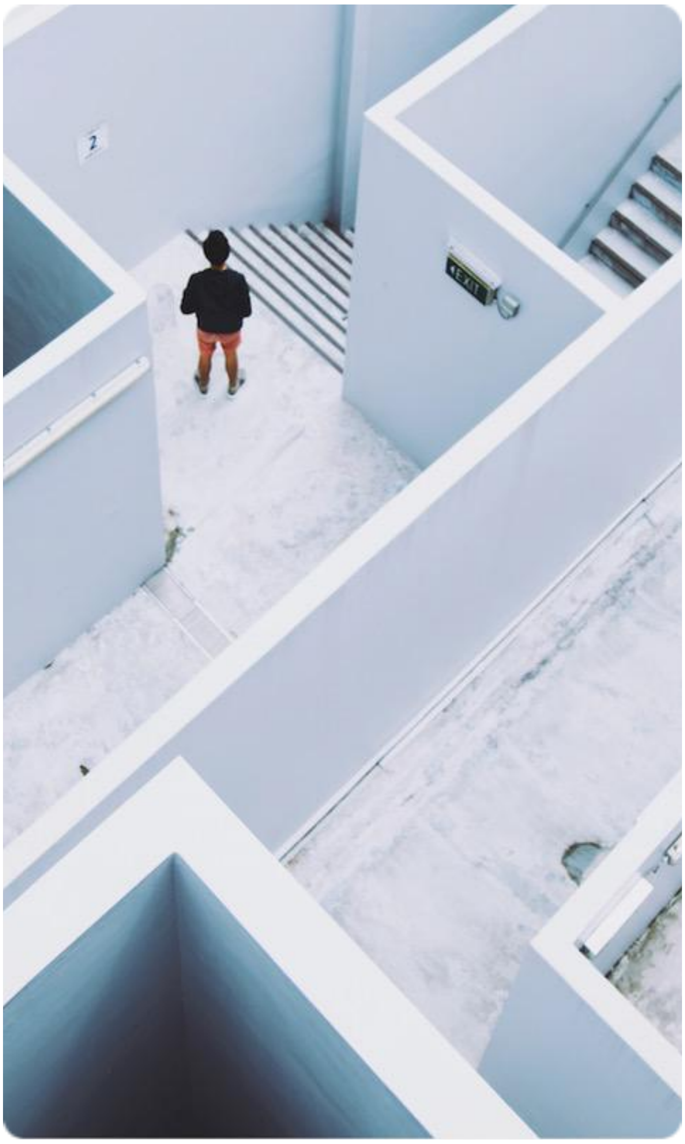
Note - Even when the valuation is provided, Banks will usually shave it further to determine what they are prepared to lend!

Successfully Navigating the Maze!

There are practical steps applicants can take to successfully navigate the finance maze:

- Plan ahead - ideally at least 3 to 6 months
- Ensure your Monthly Budget aligns with information in Bank & Credit Card Statements
- If self-employed, engage your Accountant early to ensure all necessary financial information is available before submitting the Loan Application

Get in touch early so I can get you "home loan ready"!



Tip!

If you need to curtail your spending to meet the Banks serviceability requirements, do so at least 3 months before submitting the application for finance.

Important - Gather all needed documentation well before submitting the Loan Application. This will save a lot of time and unnecessary frustration!

Why The 500 Group

As a Mortgage Finance Specialist, I can help you get organised and navigate the complexity associated with Home Finance.

All Banks have slightly different policies, structures and appetites to lend. To avoid disappointment and frustrating delays, planning and attention to detail are critical - both areas in which I excel!

By using a Mortgage Finance Specialist, you can tap into the best the market has to offer in terms of both interest rates and structures.

Through our panel of Lenders, which includes all the major Banks, I offer choice, and leverage you are unlikely to enjoy if you were to approach a Bank direct.

Together
creating opportunities and building wealth!

Carlo Colangelo

I have a background in Mortgage Broking, Senior Relationship Management and Private Banking of more than 30 years.

I was attracted to Mortgage Broking by the ability to offer clients greater choice and through this deliver better outcomes.

I enjoy working closely with my clients to understand their needs, undertaking research and delivering solutions that will work both in the short and long term

Finance can be complex. Headline interest rates are just the "tip of the iceberg" - Assisting clients deal with this complexity is something I truly enjoy!

I strive to build long-term relationships with my clients and be there for them as their needs change and evolve.

Mobile

0412 085 075

Email

carlo@the500group.com.au