



 **HOME BUYER GUIDE**

# The Home Buyer & Investors Guide ▶

---

# Contents

<b>Benefits of Pre-Approval</b>	<b>3</b>
<b>Getting Pre-Approved - The Main Criteria</b>	<b>4</b>
a. Cash/Equity Contribution	
b. Income vs Expenses/Liabilities	
c. Bank Policy Requirements	
d. Suitability of the Loan	
<b>Costs Associated with Buying a Home</b>	<b>5</b>
a. Purchasing Costs	
b. Lender's Mortgage Insurance	
<b>Purchase Contract Tips</b>	<b>7</b>
<b>Application Process</b>	<b>8</b>



## Benefits of Pre-Approval

The Australian property market can be a tough nut to crack. Depending on your price range and location, you may find that you are consistently outbid or have difficulties even getting an offer to the agent before your dream property is snapped up by someone else.

This is where a pre-approval can be a significant boost to your chances!

A pre-approval is a formal document provided to the borrower by their chosen financier that means you are considered a strong enough applicant to obtain finance up to a set dollar amount.



### Getting pre-approved can have significant advantages:

▶ You can shop for a property confidently knowing your exact budget and borrowing power.

▶ You can potentially offer better terms on a purchase contract, which increases your chance of securing a property.

▶ Saves you time by focussing your property search on properties you know are within your budget.

▶ Real Estate Agents and sellers will likely look at your offer much more seriously if they know you are pre-approved.

If you are a pre-approved buyer, you are beginning the process from an informed position and may well be ahead of the couple standing next to you at the open home!

Pre-approvals will generally be valid for a period of 3-6 months, depending on the lender. They can also generally be extended relatively simply if that perfect home eludes you!

# Getting Pre-Approved - The Main Criteria

**Speaking to a Mortgage Broker can make getting pre-approved fast and simple.**

We have access to many different lenders and are experts at matching your personal financial situation to the appropriate loan. Not every bank is for every customer, and lenders have differing policies which can be very difficult to make sense of!

**At its core, any finance application has four main criteria to satisfy:**

## 01. Cash/Equity Contribution

You will usually need to have a minimum of 5% of the purchase price in cash or equity, in addition to the associated costs of buying a property (more on that below). As a general rule, the higher the deposit or equity you have, the better the rate, fees and terms you can obtain for your finance. The exception to this is when you have access to a family guarantee (contact us for more information).

## 02. Income vs Expenses/Debts

Can you afford the proposed loan? This is a key consideration for any application for finance. We will obtain a detailed account of your income, expenses, assets and liabilities and calculate how much you can afford to repay. Generally, lenders will place a buffer on any calculations to ensure should interest rates rise, you can still safely meet the repayments.

## 03. Bank Policy

This is where a lot of borrowers can run into trouble when approaching a lender directly. Each bank has its own credit policy which defines what type of borrowers and transactions are acceptable to the bank. These policies are not available to the general public, and as a result borrowers can apply with a bank that they are not eligible with!

### Common issues arise with:

1. Self-employed clients
2. Casual/contract employees
3. Applicants with new jobs (even if permanent positions)
4. Deposit requirements varying across lenders

So while you may love the low interest rate available with a certain lender, it is crucial to know whether you are even eligible for a loan with that lender.

## 04. Suitability of the Loan

This is probably the most important factor that your Broker will consider for you. Does the loan meet your requirements and future needs?

For example, if you intend to sell a property inside a certain period, there is a strong chance you should not opt for a fixed rate loan that may incur break costs on payout of the loan.

We will go through a detailed interview process with you to ensure you are getting the most appropriate loan for your personal situation.

# Costs Associated with Buying a Home

## Purchasing Costs

When looking at purchasing a property, there is far more to consider than just the ticket price of the property. Below are some common costs that need to be taken into account to ensure you have sufficient funds to go through with a property purchase and aren't caught short.

### 01 . Stamp Duty, Transfer Duty & Mortgage Registration

These are essentially the government costs associated with the purchase of a property, transferring the property into your name and registering the bank's charge, or mortgage, over the property. This can often be the largest fee associated with a purchase, however there are relevant exemptions or reductions for first home buyers and people purchasing their main residence.

### 02 . Legal costs

You will need to engage a conveyancer to act on your behalf in the property transaction. They will be responsible for attending loan settlement, preparing the ownership transfer papers, conducting relevant checks and searches on your property and much more.

### 03 . Rates, Water & Body Corporate Adjustments

The person/s you are buying the property off will generally have paid rates, water and/or body corporate charges in advance. As the buyer of the property, you will likely have to reimburse them for these, pro-rata.

### 04 . Property Insurance

In Queensland, you are legally liable for a property as soon as you sign a purchase contract on it. It is crucial that you obtain building insurance immediately to minimise any risk to yourself. The cost of this insurance varies by provider but can be paid as a lump sum, or month-by-month in most cases.

These are just some of the costs to take into account but they can be missed which may result in a shortfall of funds at settlement. As part of the pre-approval process, we will account for these costs in the figures we calculate with you and ensure you have sufficient funds for the purchase.





## Lenders Mortgage Insurance

---

**One of the biggest challenges consumers face when trying to enter the property market is to come up with the funds required for the deposit for their home purchase.**

If you have 20% of the property value in cash or equity, Lender's Mortgage Insurance (LMI) is almost always not payable.

If you do not have a minimum of 20% of the purchase price plus associated costs in cash or equity, you will be asked to pay LMI by your financier.

LMI can be a fantastic way to access the property market without the need to save for an even longer amount of time, however it is a cost that must be taken into account when purchasing a property with a low deposit.

This insurance can be a significant cost, and increases the more you borrow over 80% of the property's value.

LMI insures the lender in the scenario where you cannot pay your loan, and upon selling your property, the bank does not recover the full amount borrowed. The LMI insurer will cover the shortfall for the bank.

# Purchase Contract Tips

---

Once you are pre-approved and have found the perfect property, the next step is to agree to terms with the agent and seller of the property.

---

## ▶ Finance Clause

This is the most important clause on any purchase contract. It essentially makes the purchase contract conditional on the buyer being able to obtain finance approval sufficient to complete the purchase. A finance clause of 7-21 days is quite standard. This is the timeframe that the buyer has to obtain formal finance approval. Should the buyer be unable to secure finance, they can exit the contract inside this period without penalty.

---

## ▶ Building and Pest Clause

This clause is also a very common clause- it gives the buyer a set timeframe, usually 7-14 days, to obtain a building and pest inspection on the property. Should there be anything seriously wrong with the property i.e. structural issues, termite infestation, exposed asbestos etc., the buyer can again look to exit the contract without penalty.

---

## ▶ Deposit

Buyers need to be aware that they can negotiate the amount of deposit they give in the contract- both at initial signing and at a later date (finance approval for example).

---

## ▶ Due Diligence Clause

This is a lesser-used clause that is far more discretionary for the buyer. The buyer has a period nominated under this clause in which time they can do any searches/checks on the property they wish. Generally speaking, if anything is not to the buyer's satisfaction in this period, they can terminate the contract. It should be noted that this clause is far less frequent as it is much less attractive to a seller.

---

## ▶ A Note on Auctions

It is important to know that purchasing at an auction does not allow you the opportunity to insert any clauses into the contract. This element of risk should always be taken into account. Usually an auction purchase is an unconditional contract with a 30 day settlement set.

---

## ▶ Settlement Date

A settlement date is generally set at 30 days from contract signing, however in some cases it may be beneficial to negotiate a longer settlement period. For example, where you have a current lease or the seller would like additional time.

---

# Application Process

---

Using a Mortgage Broker can take a lot of the hassle out of obtaining finance for your purchase. With very few exceptions, we are a free service. Whichever bank you end up proceeding with will pay us a commission following settlement.

Below is a run-down of the process a borrower would go through:

- ▶ **Initial Phone Call:** We will go through your basic details and ask some questions to enable tailored, specific information to be presented at the appointment. At the end of the call, we will generally book a meeting to discuss your options face to face.
- ▶ **Provide Supporting Documents:** We will email you the specific documents we require to support your application. This will enable a solution to be presented to you at the Client Interview stage.
- ▶ **Client Interview:** We will meet and discuss your available finance options including lenders, rates, fees etc. Provided you are satisfied with the solution, we will sign the appropriate paperwork.
- ▶ **Submit Application:** We package up and submit your application with your chosen lender. The lender will assess the application, and if successful, you obtain pre-approval.
- ▶ **Find Your Property:** You can go house hunting! When you locate the property, provide us with the contract of sale and we will organise a valuation and submit for formal approval of the application.
- ▶ **Formal Approval/Loan Documents:** Provided everything is in order, the bank will approve your application and issue loan documents. We will organise a time to sign these with you, and the documents are returned to the bank.
- ▶ **Ready for Settlement:** The bank will certify your documents and let your solicitor know that the file is ready to be booked. Your solicitor calls up and books in settlement for the appropriate day.
- ▶ **Settlement:** Your settlement takes place and you take formal ownership of the property.

**Congratulations!**

## Next steps!

If you are ready to look at purchasing, or simply want to put in place a plan to get you there, call us today to have an obligation free chat. We will make the process smooth, fast and simple for you!



**GLEN ATKINS**

Principal Broker

0411 601 328

[glen@simplifilending.com.au](mailto:glen@simplifilending.com.au)

