

Home Buying Know How

A step-by-step guide to buying your first home and finding your way around the Home Loan process.



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Buying your first home? Here's some help to get you moving.

The joys of buying your first home. It's the start of a whole new life for yourself: no more rent; freedom to renovate the way you want; the knowledge that you're really getting ahead. It's a really liberating feeling.

Unfortunately, the process of actually buying your first place can also be an incredibly stressful and confusing one.

That's why the Commonwealth Bank has put Home Buyer's Know How together.

It's a guide that will answer many of your questions and give you some clues on the in's and out's of looking for the right place, understanding the Home Loan market and dealing with the buying process – so you can approach the situation with more confidence.

Happy home hunting!

Looking around

Remember, your first home may not be your dream home. However, if you buy right the first time round, this will springboard you into a better place further down the track.

Look at location first, property second. That means buying with capital growth in mind and avoiding areas that could devalue.

The average performance of an area can be found by subscribing to property research reports and checking out property guides.

Check out the prices of different properties in the area so that you can spot good value when you see it.

Also look at prices in real estate windows and magazines, newspaper classifieds and real estate sites online.

Get to know all the real estate agents in the area and provide them with a wish list of what you're after. (It's easier for them to phone a prospect than it is to advertise a property when it comes onto the market.)

If you're buying a unit or townhouse off the plan, make sure you have a solicitor or conveyancer thoroughly check the contract before you pay your deposit.

When looking around, make sure you take your current and future lifestyle into account. Think about being near schools and parks if you plan on having kids. Is easy access to public transport important? Would you prefer to live near cafes and shops?

Remember, it's better to wait for the right place than to rush in and buy something you'll regret soon after.

Making decisions

When considering a mortgage you'll need to look at effective ways of getting a deposit together quickly.

Most mortgage lenders will recommend that you save as much as you can – if possible, 20% of the cost of the property you buy.

A regular savings plan and high interest account, such as a Term Deposit Account or an Online Savings Account are good ways to build your deposit.

The Federal Government's First Home Owners' Grant will give your financials a boost if you haven't bought a property before.

There are a range of other rebates and exemptions available to first time home buyers which vary from state to state - just ask your Home Loan Lender, Mortgage Broker, conveyancer or solicitor about what assistance you may be eligible to receive.

To work out your mortgage affordability, you'll need to look at your existing expenses and income.

- How much do your household bills generally cost?
- What do you spend on weekly shopping?
- How much money do you need to put away for holidays or the unexpected?
- How much is there owing on other loans and credit cards?

Keep in mind, the less money you owe elsewhere, the better position you'll be in for a Home Loan. It's also important to be sure you'll be able to meet your repayments without too much trouble. Don't over commit yourself and hope that it'll all work out for the best.

To calculate an estimate of your borrowing and repayment power, go to www.commbank.com.au/knowhow and simply enter your details into the mortgage calculator. Also, experiment with a few different types of interest rates, deposit size and loan term – you'll be surprised at the repayment differences.

Remember, it's recommended that you build a buffer zone into your interest rate calculations – to ensure you'll always be prepared, should the rates rise.

When calculating the true cost of buying a home, you'll also need to include all the additional fees and expenses:

- **Stamp duty** is the most expensive of these - and the cost varies from state to state - but generally, the larger your mortgage, the higher the stamp duty.
- **Mortgage rates duty**
- **Mortgage registration** and establishment fees,
- **Possible Lenders' Mortgage Insurance**, if your deposit is under 20% of the property value.
- **Legal fees** for conveyancing,
- **Title search fees**,
- **Building and pest** inspection fees,
- **Registration fee** for the transfer of land
- **Removalists**.

If all your money is tied up in a Term Deposit Account or an expensive asset, a Deposit Bond (or Deposit Guarantee) will provide you with a deposit while you are waiting to retrieve the money you have tied up. This facility is relatively low in cost, simply ask your Lender or Mortgage Broker for more details.

Buying with family or friends can also help you get a deposit together quickly and reduce your loan repayments.

Actively looking

Finding that home, sweet home.

Sometimes properties can sell for less than the asking price.

Therefore, if the property you like is not up for auction, adopt a bargaining frame of mind. You may be pleasantly surprised.

Be prepared to look at a lot of places to gauge the quality and price.

To avoid getting addresses confused with one another, take a criteria check-list with you and attach it to any advertising material you have. There is a basic check list available for download at www.commbank.com.au/knowhow - which can be adapted to meet your criteria. Alternatively, if you draft your own check-list, be sure to include your wish list and a 'pro's and con's' table.

It can also help to take digital photos of the property. If the owner and real estate agent agree, this can help to jog your memory of what it looked like.

If you're in the market for a unit or townhouse, make sure you examine the minutes from the body corporate meetings. If there are any issues with people or infrastructure, they should be addressed in these minutes.

Consider common walls, the noise from the neighbours (if possible); whether the grounds and the complex are kept clean and tidy; if security doors are operational; if there are restrictions on pets, parking and how the common areas are used; and the cost of body corporate fees.

Check with the Local Council, State Government and Department of Main Roads as to whether there are any future plans for the neighbourhood you'll be buying into - in case a free way or supermarket are planned for development outside your door.

Searching for a mortgage

When looking for the best Home Loan to suit your lifestyle, there are two options: talk to a reputable mortgage lender or do the research yourself.



There are 6 broad categories in which they fall:

- **Honeymoon Home Loans** will give you a low Fixed or Variable Rate for the first few years to get ahead, followed by a Standard Variable Rate.
- **A Base Variable Rate Home Loan** has a lower variable rate (but normally not as low as a honeymoon rate), yet will give you repayment flexibility throughout the loan.

A Standard Variable Rate Loan is similar – but offers greater flexibility and more bells and whistles.

Fixed Rate Home Loans will enable you to fix the interest rate from the onset of the loan for a fixed period to protect you from rate rises. These loans can save you money (if they are locked in while rates are low) but they tend to be less flexible than variable Home Loans. However, there are some Fixed Rate loans that allow additional payments to be made into them

Lines of Credit enable you to reduce your interest, use your equity and enjoy a revolving line of credit at Home Loan interest rates.

All Home Loans can have a life-span of up to 30 years.

If you're a first home buyer, you may find that a 'basic' style of Home Loan or a 'honeymoon' Home Loan offers some of the cheapest and easiest ways to get ahead. However, it is recommended you discuss all the Home Loan options with your lender.

Make sure you enquire about any exit or deferred establishment fees. These can stretch to 5 years and sometimes equate to 5 months of repayments. Also remember to check out the conditions of the loan so there are no surprises.

Most repayments can be made in weekly, fortnightly or monthly installments. But, as a rule, fortnightly or weekly repayments can help shave more interest off your loan overall.

Consider your future lifestyle when looking at Home Loans. Will you need to transfer your loan to a new property 5 or 10 years down the track? Would you like to take a break from repayments? What about borrowing from your repayments – or even off-setting your income against your mortgage to keep interest down? However, keep in mind that additional benefits - such as these - will generally cost you more in fees.

Get your Home Loan pre-approved before you become serious about buying. This will ensure you won't be beaten to your perfect property by someone else who has the go-ahead.

Taking the big step.

What to expect when applying for a Home Loan.

Home Loan application forms will enquire about your earning ability versus your on-going debts - and how good you are at servicing them. They also want to know what your savings ability is. You'll be asked to produce things like:

- Your last 3 months of credit card statements;
- Your last 3 months of savings and investment statements;
- Recent pay slips and details of your employment
- Details of any additional earnings
- Details of regular outgoings
- Outstanding loans, tax payments and other debts.

Don't forget that the Home Loan lender will do a credit check on you - so be sure to keep all your bills and payments up to date, even the minor ones.

The legal deal.

Conveyancing is the process where contracts are checked and properties are transferred from one party to another.

The sales contracts will be prepared by the seller's solicitor or conveyancer and then given to your solicitor or conveyancer to ensure everyone agrees with it. If there are any issues, it will be amended between the two parties until everyone's happy.

It's a good idea to start looking for a solicitor or conveyancer at the same time you start looking at Home Loans.

Solicitors, in general, will cost the most out of these options - however, can also give you additional legal advice, if you want it.

Going through a conveyancer, won't cost as much, but you will only have conveyancing procedures available to you.

A range of DIY conveyancing kits are also available - but these require spare time and confidence in legal matters to use one.

Building insurance also needs to be factored in at the Home Loan stage - as many lenders won't give you a Home Loan without it and the insurance will need to take effect from the date of settlement.

No turning back.

Private sales.

Private Treaties (or sold privately) are the usual way that properties are sold. These sales are sometimes conducted directly with the owner and buyer, but generally they involve a real estate agent.

Remember, the agent's priority is to get as much money for the vendor as possible, so their asking price can often be quite high. This can often be negotiated down, particularly if your inspections show up any problems.

Before making any offers, check with your mortgage lender to ensure all your finances (including your loan approval) are in order.

Once the contracts have been checked by your solicitor or conveyancer, you'll need to sign the contracts and pay your deposit.

A couple of weeks for 'cooling off' will then occur, in case you change your mind. If both parties agree, this cooling off period can be waived... in order to speed up the sale

Auctions.

Auctions can be exciting and stressful all at the same time and it's important not to get carried away and bid too much for fear of missing out on the sale.

During the auction process, you'll need to register with the agent selling the property and, often, obtain a bidder number on a paddle – which is held up to bid. In some states auctions can run on body gestures – such as a nod.

The auctioneer will start by talking about the features and details of the property itself. He or she will then request an opening bid to start the proceedings – which can come from the vendor themselves.

Bidding usually starts in large increments of thousands and then reduces to the hundreds as it proceeds.

If bidding stalls, the auctioneer will ask the vendor if the reserve price has been reached. This is the minimal price the vendor wants to get for the property.

If the reserve price has been reached, the auctioneer will announce the property as being "on the market" and bidding will continue until final bids are called for.

If the reserve hasn't been reached, the property will be "passed in" - which means the highest bidder will have the first opportunity to negotiate with the seller and agent.

If your bid is successful, you'll be expected to sign the contract and pay a deposit on the spot – so take your cheque book.

At an auction, there is no cooling off period. So if you change your mind about buying the property, you will lose your deposit.

Once the contracts are exchanged, conveyancing is the next step.

Just before the day of settlement, visit the property for a final inspection, to make sure all the fittings and fixtures are still in place. If these haven't been covered in the contract, don't assume that they will remain at the property. If there are any issues with what should or shouldn't be left, you will need to talk it through with your solicitor or conveyancer.

Final steps.

Settlement is the final step in the buying process. This ranges from 4-6 weeks, but is negotiable with the seller and your mortgage lender.

On settlement day, any adjustment to rates and other repayments for switching property ownership are discussed and, on handing over a cheque, you become the new owners.

The relevant authorities will then be notified by your solicitor or conveyancer about the change of ownership and you will be handed the keys.

Removalists are the last thing you'll need to arrange.

Remember to let everyone know about your change of address.

Celebrate!

If you would like to talk to one of our Home Loan experts about applying for the most appropriate Home Loan for you, drop into a branch or we can come to you. Or you can call us on 13 2224, 365 days a year. We're here to help, every step of the way.

Happy home hunting!

Applications for finance are subject to the Bank's normal credit approval. Full terms and conditions will be included in the Bank's loan offer. Fees and charges are payable

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