THE FIRST HOME
BUYER'S GUIDE

A step-by-step guide to buying your first home

Ray White

WELCOME TO THE START OF
YOUR PROPERTY JOURNEY

Ray White Whitsunday have prepared this First Home Buyer's Guide for all those new to the property journey. This guide is designed to equip you with everything you need to know about buying your first home. We'll give you a checklist which includes every step from search to settlement. We've broken down the three main phases into 'look, learn, loan'.

Finding a complete step-by-step guide to walk you through the first home buying process can be tricky. We've made the research process easy. Complete our 'look, learn, loan' checklist to go from novice to know-it-all.

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LOOK

Tick off each of these steps in the buying process to upskill yourself.

1. YOUR FINANCES

Do you have savings?

As you begin planning to buy, the first step is to think about how much of a deposit you will need for the cost of your future home.

- It's good to aim for a 20% deposit otherwise it's likely you'll need to pay Lenders Mortgage Insurance - which we will cover in more detail under the 'learn' phase
- Genuine savings are important - a lender will consider regular savings as money you've had in your bank account for at least three months. Lenders typically require five per cent of your deposit to be made up of savings. In most cases, lenders may use your rental payment history in lieu of genuine savings.

Do you know how much you save currently?

Follow these steps to understand your monthly savings capacity:

1. Calculate your monthly net income
2. Multiply this by 12 months to determine your annual potential savings amount

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Have you considered how discretionary spending may impact your loan eligibility?

Discretionary spending can be defined as a non-essential expense and may be looked at by a lender before a loan is granted. A broker can help you create a plan to manage your discretionary spending in the pre-application process. This will help you reduce the total declared living expenses required to be assessed by your lender and give you a better chance to have your loan approved.

Do you know what price bracket you can afford to buy in?

As you begin thinking about what sort of property you can afford, use a borrowing calculator to determine your borrowing capacity.

Have you checked your credit score?

Your credit score or credit rating is determined by your repayment and credit enquiry history, to provide a lender with an indication of how reliable a client you are. There are a variety of services that can provide you with your credit score within 10 days. Credit Savvy is one such provider.

It's worth checking your score early in the process, an average Australian credit score is anything between 500-700. Anything less than 500 means it's worth checking your options with a broker. If you want to know more or have any questions, the best place to start is by contacting a broker.

Have you considered buying with a partner, family or friends?

As house prices have increased over time, it is now more common than ever to buy with a partner or receive assistance from a family member or friend.

Advantages:

- Sharing the purchase price and fees may mean you're able to meet the 20 per cent deposit threshold to avoid paying Lenders Mortgage Insurance
- Sharing ongoing costs like loan repayments, maintenance and upkeep, and property management fees (if it's an investment property)

Disadvantages:

- Concessions for first home buyers only apply once, so when two first home buyers split the deposit, both home owners forgo these concessions to purchase the one home
- Complications could arise within relationships over the long term

2. RESEARCH THE PROPERTY MARKET

Using your price bracket guide, do you know where you'd be able to buy?

Look around at the potential suburbs that are of interest within your price range and narrow your focus between an apartment, house, townhouse or any other options of interest.

Have you considered your ideal property features?

When comparing properties and their prices, consider key features like land size, number of bedrooms, bathrooms, car spaces etc. and begin to form a picture in your mind of what sort of property you could realistically purchase within your price bracket.

Do you know your deal breakers?

Understanding your deal breakers will make narrowing your focus even easier. What are the things you couldn't buy a property without? Filter them into your property search.

Have you looked at the area's recent comparable sale prices?

Advertised property pricing can be difficult to navigate. One source of truth is local recent sales to give you the best indication of what the property market is doing right now. Contact your local preferred Ray White Whitsunday agent to receive a complimentary property report of recently sold properties in the area, or reach out to a broker.

Have you looked at the surrounding suburbs and their market growth trajectory?

The property market undergoes price variations every year, with some suburbs experiencing faster growth than others. It's worth requesting a suburb report to better understand the price changes, volume of sales etc. over time. Ray White Whitsunday can provide you with one on request.

3. YOUR LIFESTYLE

Do you know if you're buying an investment property or a place of residence?

Determining whether you'll live in the property you purchase, or buy an investment which you rent out, is an important consideration which will help you determine other lifestyle factors and could impact your final decision.

As an investment, you have the option of renting the property to help you cover the mortgage while you live elsewhere. Speak to one of our friendly property managers about the estimated weekly rent for comparable properties, to set your own expectations before buying.

If you intend on living in the home, consider the personal factors that are important to you that make one home better than another, and allow this to play into your decision when evaluating the properties on the market.

Have you checked the area's access to shops, transport, schools etc.?

As well as adding value to a property, access to shops, transport, schools and walkability will have an impact on how appealing they are to you personally. For some people, access to particular local services will be more important than others. Consider which are more important to you.

LEARN

Tick off each of these steps in the buying process to upskill yourself.

1. THE PROPERTY BUYING PROCESS

Have you learnt the fundamentals of buying a property?

The more you learn about the buying process, the better your chance of getting a good result in the sale. Education aside, the practical steps of buying a home are:

- Find out how much you can borrow
- Determine your budget
- Hunt for a home loan
- Get approval
- Find your home
- Don't forget building and pest reports
- Make an offer
- Conveyancing
- Settlement

Do you know the two main methods of sale; auction versus private treaty?

Once you've decided that you want to make an offer for a property there are two main methods to purchasing: auction and private treaty.

At auctions, you'll be bidding against other potential buyers publically, will have to make fast decisions, and will generally know if you own the property as soon as the auction concludes. If you're negotiating through a private treaty, you're negotiating the sale price with the seller, and the initial price is set by the market value of the property, not a price reserve. The process can take days or weeks longer than an auction.

There's also a third not-so-common sale method, which is an off-market property sale. It's best to introduce yourself to your preferred Ray White Whitsunday agent early, so when you're ready to buy you can find out if there are any other properties available that aren't listed online. This puts you ahead of the buyer competition as these properties are not advertised for all to see.

Do you know the auction process and key tips for auction day?

Tips for the lead-up to auction day:

1. Pre-set your budget
2. Go in with a bid strategy
3. Limit the number of decision-makers

Tips for 'the big day':

1. Arrive early, get familiar with the environment and register if you plan on bidding
2. Introduce yourself to the auctioneer on the day
3. Stick to your pre-prepared strategy

Do you know when to start considering making an offer on a property?

You can always start searching for properties before you apply for pre-approval, however, it's highly recommended that you get pre-approval before making an offer.

Do you know what questions to ask when inspecting a home?

Inspecting a property is about more than just the house. It's a chance to see the rest of the street, explore the neighbourhood and check out the competition.

As you're walking through and around the property, take note of the following:

- Does everything open and shut?
- Do doors close smoothly or do they stick?
- Do lights turn on and off without flickering?
- Do taps work and is the water flow adequate?
- Are there signs of water damage (i.e. peeling or bubbled paint work, mould, stained ceilings)?
- Do the floors slope or bounce? This may mean stumps need replacing
- Are there cracks in the walls, which could be an indication of subsidence?
- Is there any fretting (cracked) brickwork that could indicate a major structural problem?
- Don't forget to walk around the outside of the property to check fences and the condition of the building's exterior including gutters and downpipes

At the end of the inspection, ask the real estate agent whether any other offers have been made/how much buyer interest there is in the property. This will give you an idea on the actual price guide of the property.

It's worth taking a drive after the inspection around the area to see whether everything you need is local or determine how far you're willing to travel for your nearest supermarket, public transport locations etc.

Do you know what happens when your offer/bid is accepted?

Your purchase now begins the conveyancing process which is formalised into two parts:

- The exchange of the **contract of sale**
- The settlement of the **contract of sale**

At this point it's highly recommended to employ the services of a professional conveyancer or conveyance solicitor to ensure the process goes as smooth as possible.

2. LEARN ABOUT MORTGAGES

Do you know what a mortgage is?

A mortgage is a loan to buy a property or land. The lender is usually listed on the title of the property until the borrower repays the entire loan. There are a number of different loan types and features to choose from, including fixed rates, variable rates and principal and interest to interest only (just to name a few). The average home loan runs for a minimum of 25 years but the term can be shorter or longer, depending on your circumstances. A mortgage broker can help you find a suitable solution.

Do you know how much you're allowed to borrow?

The amount of money you can borrow will depend on what you can reasonably afford and, most importantly, the market value of the home, determined through a valuation.

A broker will help you ask the right questions to make sure you maximise your borrowing capacity and present the right loan options for you. To gain a quick insight into how much you're allowed to borrow, use a borrowing capacity calculator online.

Do you know how much deposit you'll need?

Lenders have different criteria for assessing deposits, but as a guide, the more you've saved, the better the chance that a mortgage broker can negotiate a lower interest rate.

If you are buying a home that you plan to live in, typically the standard deposit required is 20% of the value, which is what you'll need to put down to avoid paying Lenders Mortgage Insurance (LMI).

There are options that will allow you to pay a smaller deposit however these may require you to pay higher fees, so it's best to understand your options before committing to anything. A broker can help you make an educated decision.

Have you looked into using a mortgage broker?

Ultimately it's up to you but there are a number of benefits to using a mortgage broker. As a first home buyer, entering the property market can seem overwhelming but it's important to remember that you're not doing it alone. Mortgage brokers are there to help you and are legally obliged to work in your best interest (banks and lenders are not). Talking to an expert will help you understand your options and will work with you from discovery, through the application process and continue to support you after you've settled.

Do you know what questions to ask a mortgage broker?

Asking your mortgage broker the right questions will help give you confidence in the lending process, here are some important questions to raise to your broker:

- What are my options?
- How much can I borrow?
- What fees and charges should I expect?
- What first home buyer grants or schemes are available to me as a first home buyer?
- What are the differences between buying an owner occupied property versus an investment?

Do you know what your mortgage payments will be and how long it will take to pay off?

The repayment total and the length of time it will take to pay off will depend on the property value, the deposit amount, the interest rate, and the elected loan period.

Do you understand the difference between a fixed and a variable interest rate?

Variable rate: an interest rate that goes up or down usually in line with the official interest rate set by the Reserve Bank of Australia. Although some lenders raise interest rates not in line with the Reserve Bank of Australia.

Fixed rate: this is the opposite of a variable rate loan. Your interest rate and repayments stay the same for a set period of time, typically between one to five years. No matter what. No surprises.

Do you know what lenders look for?

As well as an acceptable deposit, lenders look for several other criteria when assessing you for a mortgage including:

- **Stable employment** - How long have you been employed for?
- **Good income** - Are you earning sufficient income to be able to comfortably service the loan?
- **Clean credit history** - Do you have any black marks on your credit file and have you paid all your bills on time for the last six months?
- **Minimal debts** - Do you have more than seven per cent of the property's value tied up in unsecured debts such as personal loans and credit cards?

Typically, for your application you will need to provide at least three months of bank statements for all accounts, three months proof of income as well as any statements or balance confirmations for any other loans or current debt you have - this might change between lenders.

3. EXTRA COSTS AND TAX CHANGES

Have you contacted a conveyancer and requested a quote on what they will charge?

A conveyancer or solicitor will undertake a good portion of the legal legwork needed to help you make the right decisions and navigate this process successfully.

They will help you with:
- Undertaking title searches to determine if there are any liens, restrictions, encumbrances, or taxes against the property
- Meeting all special conditions in the contract of sale
- Ensuring that council and water rates are up to date in payment, and that any other rates are simply paid and adjusted as needed
- Paying any other fees or charges, including registration fees and stamp duty
- Preparing all legal documents required to transfer the property's title from the seller to the buyer
- Arranging settlement of the property

The average conveyancing cost ranges between $500 to $3,000. Some conveyancers charge a sliding fee depending on the cost of the property, but most charge a flat rate.

Do you have to pay stamp duty?

Stamp duty is a tax imposed on numerous acquisitions, including selling real estate, cars and assets belonging to a business.

In the case of real estate, the purchaser is the one who pays the tax. It's a legal requirement for stamp duty to be paid within 30 days of the settlement date. All transfers of land, or sales of property, including gifts of property attract a duty, but there are a few exceptions to this including:

- Pensioners
- Deceased estates
- First home buyers
- Family farms and young farmers
- Principal place of residence
- Off-the-plan sales

As stamp duty isn't a tax levied by the Federal Government, the amount of stamp duty paid changes from state to state. It's worth researching the rate in your state. Find out more at www.business.gov.au/finance/taxation/stamp-duty

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Do you know what Lenders Mortgage Insurance (LMI) is?

If your deposit is less than 20% of the property's value, you'll incur a fee called Lenders Mortgage Insurance (LMI). This protects the lender if you're unable to repay your loan and the sale of the property doesn't cover the outstanding loan balance.

Lenders Mortgage Insurance can be included either in your upfront costs or absorbed into your repayments and spread out over the term of the loan. The cost of Lenders Mortgage Insurance can be up to 3% of your home loan amount, which is a sizable chunk, so it's easy to see why borrowers would want to avoid this charge by having a deposit of at least 20%.

Do you know how to organise a building and pest inspection and how much they cost?

A building inspection will give you an expert's view on the property, alerting you to any issues before you buy. A pest inspection on the other hand, will let you know if the property has any costly pest problems to resolve. They're indispensable tools for any property buyer. These reports could cost around $300 to $1,000 each respectively, but if they alert you to issues with the property, they could save you 100 times that.

How do you organise one? Speak to your conveyancer or your real estate agent, they've been through this plenty of times before and can put you in contact with the necessary service providers.

Have you organised home and contents insurance?

Most lenders ask if you have arranged home and contents insurance before settlement.

Buildings insurance is designed to protect the physical structures and fixtures that make up your home buildings: from the house itself, to your garage, fences and paved driveways - even built-in appliances like hot water systems, air conditioners and more.

Contents insurance protects the belongings you have at the insured address: from your furniture, carpet and appliances to your BBQ and even your clothes, shoes and handbags.

Get a quote from Ray White Insurance - www.raywhiteinsurance.com.au

4. GOVERNMENT GRANTS AND PROPERTY FEES

What benefits are there for first home buyers in Queensland?

What's available: $30,000
Conditions: When buying or building a new home valued less than $750,000 (including land and any contract variations)
Other concessions: Stamp duty concessions are available for first home buyers of properties valued up to $800,000
More info: Queensland Government

Do you know what council rates you'll have to pay?

Council rates vary from council to council. They are paid by all property owners within a municipality to help pay for more than 100 services, maintain local roads, council facilities and public open spaces such as parks and gardens. Councils use statutory land value as the basis for calculating how much each property owner pays in rates.

Do you know what strata fees you'll have to pay?

A strata scheme is the system that's put in place to deal with the legal ownership of a portion of a building. It essentially means that you share ownership of a building with other tenants while owning your own apartment. Buildings can include apartments, villas, townhouses, duplexes etc.

5. LEARN ABOUT THE 'IFS'

Have you thought about using a home loan guarantor?

Using a home loan guarantor means that you don't need to put a deposit up front yourself. How does that work? The equity from your guarantor is used as the deposit, with their assets becoming the collateral to cover the loan. You may be able to have a parent or immediate family member use the equity in their property as security for a loan, making them your guarantor. You would then be able to borrow up to 105 per cent of the property's value without the need for a deposit (other than the 5 per cent genuine savings which may still be required).

If you are considering using a home loan guarantor (i.e. your parents), you will need to first find out some basic information. Ask yourself these questions:

- Do they own their property outright?
- What is the amount owing on their mortgage?
- What is the value of their property today?
- Is the equity (gap between the above two points) enough to cover 20 per cent of my loan?

Do you know what happens if you wish to sell the property before you've paid the mortgage?

If you wish to sell your property before your loan has been fully repaid, the lender also loses its right to sell it. In exchange for this, the lender will expect to be repaid the money they've lent you. This is called a 'discharge of mortgage', so you'll be required to repay the value of the remaining loan to your lender at the point of sale.

LOAN

Tick off each of these steps in the buying process to upskill yourself.

1. SHOP AROUND FOR A LOAN PACKAGE

Do you know how to shop around for a loan?

There are many different loans available so it's important to find one that suits your specific needs. There are some big ticket items to look out for if you're searching for a loan yourself:

- Interest rates
- Fixed versus variable rate loan
- Approval/application timelines (how long does it take for them to get back to you?) A broker can generally give you a good idea of this from the regular applications they process.

Keep in mind that sometimes loyalty to your current bank doesn't always pay off.

With a broker, they'll take care of all of this for you and more. They surf through many different lenders and their many different loan packages and provide you with suitable options based on your current situation. Once you've chosen the product you'd like to move forward with, your broker can start working on your application for you.

Have you assessed all of your loan options?

You've already found out what you need to borrow in "look" and now it's about choosing the loan.

You know how much you can borrow based on your deposit amount and financial position, but you don't need to borrow it in full.

Ask yourself some important questions:

- Do you want to be spending $X per month on your mortgage?
- Will you still have enough savings in case of an emergency?
- What other long term goals do you have that require large financial commitments?

Remember, you don't have to spend the 'maximum amount' you get approved for.

2. APPLY FOR LOAN PRE-APPROVAL

Do you know the difference between conditional and unconditional pre-approval?

Firstly, pre-approvals can be called different things, (depending on the lender) such as indicative approval, conditional approval or approval in principle. They all pretty much mean the same thing - you are not yet guaranteed finance as there are still 'conditions' that need to be met before receiving formal approval and being assured finance from the lender. Always ask for a 'fully assessed' pre-approval, as computer generated 'auto approval' does not actually guarantee you the funds or provide you a lot of security without having a credit assessor take a look at it. Working with a broker to secure your pre-approval will give you confidence that you have what you need.

Unconditional approval (also known as formal approval) is when the lender has everything they need and confirms in writing that they are willing to lend you the money.

Do you know whether you need to find a property before applying for pre-approval?

You don't need to find the property to apply for pre-approval. In fact, it's better to apply for the pre-approval before you start searching for your property so that you can get in quickly with an offer if you're really interested.

Do you know how long a pre-approval will take?

Pre-approval timelines depend on the individual lender. Sometimes this might be the differentiating factor when it comes down to choosing your lender. Generally, pre-approvals can take three to five business days for the appropriate due diligence to be followed by the lender, but it's worth checking with your broker/bank to know more.

Do you understand how long your pre-approval will last?

Pre-approvals usually last around 90 days, sometimes up to six months. Within that period you can search and put an offer in for a property. If your pre-approval expires, you can submit your up-to-date information again to renew the pre-approval (e.g. proof of income, living expenses, bank statements).

3. BUY THE PROPERTY

Do you know how to make an offer on the property?

The way to make an offer is simpler than you may think. All you have to do is speak to the real estate agent at the end of the inspection if you're trying to get ahead of the competition, or give them a call/send them a text with the details of your offer, the property address, and your name. Don't be disheartened if your first offer is rejected, start negotiating and see how much further you can go with your offer.

Do you know what holding deposit/cash you'll need upfront?

Though not mandatory, a holding deposit is a sum of money that a buyer pays to a seller, as part of an offer to buy. The amount can vary. This deposit will be requested before any paperwork is signed and signifies how serious a buyer is about purchasing a property.

Do you know what a 'cooling off' period is?

A cooling off period is a time period after contracts are exchanged in which either party may choose to walk away from the offer. It's important to note that separate conditions apply when a property is sold at auction.

Has a conveyancer read the fine print?

It's important to have your conveyancer read over the contracts so you don't have any unexpected conditions pop up in the fine print. Conveyancing involves three stages - before (pre-contract), during (pre-completion) and after (post-completion). Their job is to represent your interests to the seller and agent, and review and lodge any legal documents required in the process of transferring ownership of a legal title of land to you as the new owner. Your conveyancer is critical in ensuring the contract is what was agreed in person.

4. APPLY FOR FULL APPROVAL

Have you thought about how long your unconditional approval will take?

When applying for a loan, unconditional approval can only take place once a bank has verified all of your outstanding information, including the property valuation. Processing times can vary by lender. Speak to your mortgage broker to understand more.

5. FINALISE SALE OF PROPERTY

Do you have the remainder of the deposit ready?

You may have already paid a holding deposit, now is the time to transfer the remainder of the deposit amount.

Have you spoken with your bank about your daily transfer limit?

For security purposes your bank will likely have limits on withdrawals that can be made from your account. Involve them in the process to ensure you don't run into any snags when transferring funds before settlement.

Have you contacted your broker/conveyancer to prepare banks for settlement?

Your lender will send you an offer letter and a contract to sign. Work with your broker/conveyancer to finalise this document.

6. SETTLEMENT

Do you know what to do on settlement day?

- Before settlement day: Conduct a final inspection the week before or on settlement day
- On settlement day: At settlement your conveyancer will attend to any outstanding matters and will arrange settlement directly with your lender
- After settlement day: After settlement, you can pick up your keys from the real estate agent and start moving in

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Do you know what costs are involved in settlement?

- Conveyancing and legal fees
- Stamp duty
- Building and pest inspection
- Mortgage insurance
- Mortgage registration fee
- Transfer fee ($43.56 for each $10,000 or part of $10,000 more than $180,000)
- Loan application fees
- Council and utility rates

Do you know what 'shortfall' is?

A shortfall occurs when the value of a seller's remaining mortgage is greater than the sale price of their property, forcing the seller to pay the difference in order to discharge the mortgage.

Do you know when you'll receive your house keys?

You can expect to pick up your house keys after settlement day. Sometimes if you're lucky enough that settlement occurs early in the day, you could arrange same day pick up!

7. MORTGAGE REPAYMENTS BEGIN

Ray White®