

# Home Buying Guide



What's involved in buying a home?













The steps in the buying process.



How do I apply for a loan and what do I need to provide?

## Steps in the Buying Process

-  Research the area you are buying into
-  Calculate how much you can afford to spend and repay
  - Ask Equitimax
-  Obtain pre-approval for how much you can borrow
  - Ask Equitimax
-  Make an offer
-  Apply for formal loan approval & get Contract checked
  - Ask Equitimax
-  Organise building insurance
  - Ask for an Alliance Quote
-  Arrange pest and building inspections
-  Exchange contracts
-  Decide whether you want a 'cooling off' period
-  Settlement takes place

## 10 Steps to Buying a Home

### 1. Research the area you are buying into



Do your homework and research the area you are buying into by browsing newspaper and Internet property listings and speaking to local real estate agents.

Attend plenty of property viewings and auctions, each time asking yourself: Does it suit my needs? What are its faults? What are its features? How does its price compare with other properties seen? The more informed your decision, the better chance the property you buy is the right one in terms of price, location, value, size and lifestyle.

#### How Equitimax can help

Property Reports – let Equitimax know and we can help by providing you with property reports and appraisals



### 2. Calculate how much you can afford and repay



Once you have an idea of the property market, you need to know what you can afford to spend and repay. Your borrowing power is determined by your income and financial commitments, as well as your current savings and credit history. Equitimax can help you work out how much you can borrow and what type of loan will suit your budget and lifestyle.

Equitimax can advise you of the true costs involved in taking out a mortgage (e.g., stamp duty, taxes, legal costs and insurance) as well as how to build in a buffer to interest rate calculations so that you are prepared should rates rise. To save leg work, we can help you apply for the First Home Owners Grant and check your eligibility for stamp duty discounts.

## How Equitimax can help

This is what we do every day of the week. Talk to us about your needs and we can provide you with a Preliminary Assessment of your borrowing capacity.



## 3. Obtain a Pre-Approval

Now you know how much you can borrow, make an appointment with Equitimax to have your finance pre-approved. While you can always leave this step until after you find a property, pre-approval is recommended because it gives you a realistic budget to go house hunting with and it ensures you are treated as a serious buyer by agents.

## How Equitimax can help

Equitimax is accredited with over 30 lenders and we can obtain a pre-approval with any number of lenders on your behalf



## 4. Make an offer

When you make an offer, the vendor may accept it straight away or negotiate on the price or other aspects of the sale. If you cannot agree on a price, you can withdraw your offer. If you buy a home at auction, you are required to pay a deposit (usually 5% or 10% of the purchase price) immediately.

If you buy privately, you are usually required to pay a holding deposit and then pay the 10% deposit when you exchange contracts.

This down payment shows that you are serious about buying but it is not until you sign and exchange contracts that the property is secured. Up until this time the seller can still decide to sell to another buyer who manages to exchange contracts before you (another reason to have finance pre-approved: it speeds up the time taken to gain formal loan approval).

Another option that has become increasingly common is for you to exchange contracts with the real estate agent upon acceptance of your offer and pay a 0.25% deposit. The property is off the market from the time of signing and you can use this time to obtain finance approval and arrange inspections. If there is a problem with the property you can elect to rescind within the legal cooling off period, in which case you could forfeit your deposit.

## How Equitimax can help

Give us a ring if you have any questions. We also have a fact sheet on property deposits if you require additional information.



## 5. Get a Formal (Unconditional) Approval

Contact Equitimax with the details of the property you want to buy (1<sup>st</sup> page of the contract) so we can get the ball rolling on obtaining formal loan approval. As part of this process the lender may organise an independent valuation of the property, to make sure the amount you're offering for it is reasonable. You will need to provide Equitimax with a range of documentation – see 'what you need' on "Applying for a Loan Section of this document.

Around this time the seller will make the Contract of Sale available to your solicitor or conveyancer for review. The contract is a legal document that outlines your offer, the date of settlement, and any conditions that must be met before the sale goes ahead (e.g., subject to bank finance). Take the opportunity to do another inspection on the property, checking all fittings and fixtures are in place.

## 6. Organise your insurance



Proof of building insurance is often required by your lender as part of the home loan process. Equitimax can help arrange this. The insurance can take effect from the date of settlement, however we recommend you obtain insurance before settlement as you are not 100% sure that the seller has a current insurance policy. If you're purchasing a Strata Title unit, villa or townhouse you may need to obtain a Certificate of Currency from the body corporate insurer.

### How Equitimax can help

Equitimax can help you obtain a quote from Allianz. For more information please go to our website or let us know.



## 7. Arrange Inspections



As the seller won't provide you with any guarantees about the structural soundness of the home, it is wise to have a building inspection undertaken before you exchange contracts. In most cases your solicitor will have a contact or a respected Building or Pest Inspector.

You should also have the property inspected for pests because the building inspection doesn't include the detection of termites and other timber destroying pests.

Also check with the local council and the state government roads and traffic authority about whether there are any future developments planned that may affect your home.

If you're buying a Strata Title property, arrange for an inspection of the books and records of the owner's corporation.

## 8. Exchange Contracts

A property sale isn't signed, sealed and delivered until the exchange of contracts. Once you and the vendor have both signed the contract and the purchaser has paid the deposit, the agreement is legally binding. It generally takes four to twelve weeks from exchange of contracts until settlement (depends on your contract and your state/territory).

## 9. Cooling Off

If you exchange contracts in a private treaty sale, some States of Australia entitle you to a legal cooling-off period, which gives you the opportunity to withdraw from the contract to buy the property (the length of the cooling off varies from state to state). If you are absolutely certain the property is perfect for you, you can waive the cooling-off period with the agreement of the seller. Your solicitor or conveyancer will advise you through this process.

## 10. Settlement Takes Place

Stamp duty, which is calculated on the purchase price of the property, must be paid prior to or at settlement. The First Home Buyers scheme provides full or partial exemption on duty to first home buyers – we can advise you of your eligibility.

At settlement, the balance of the purchase price is paid to the seller and you become the legal owner of the property. Your solicitor or conveyancer will book in settlement with your lender and the vendor.

In most cases the real estate agent will be advised by the solicitors and release you the keys to your new home. Congratulations.

\* The process of buying a house will differ depending on whether the house is sold by private treaty or at auction. Rules may also vary in each state or territory.

## Which Loan Is Right for Me



Don't know where to start when it comes to choosing the right home loan? With features and fees varying from one loan to the next it might seem like a bewildering array of options, but the good news is that you don't have to go it alone. Equitimax's role is to work with you to assess which of these loans will prove the best match to your income, goals, budget and lifestyle.

### Fixed Rate (Principal and Interest)



Fixed rate loans are priced according to a pre-determined interest rate and therefore have fixed loan repayments. The time period of these loans can vary, but you can usually "lock in" your repayments for between one and five years. When the fixed term expires, you can decide whether to fix the loan again for another period of time at the current market rates or convert the loan to a variable interest rate.

### Variable (Principal and Interest)



The rate charged on variable loans moves up or down in accordance with interest rate changes. A basic variable has fewer features and flexibility than a standard variable, which may typically offer low introductory rates and the ability to make additional payments (redraw).

### Split Rate (Principal and Interest)



You can divide split rate loans between fixed and variable interest rates, selecting yourself how much to allocate to each.

### Interest-Only



You repay interest only on the loan principal for a period of between one and five years. At the end of this period, you revert to making both principal and interest repayments.

## Line of Credit



A line of credit allows you to access additional funds by drawing on the equity value of your home. After fixing a limit on how much you can borrow, you direct income from all sources into your loan account and then draw down funds as required.

\*These are only some of the most common types of home loans. Contact Equitimax for details about the full range of loans available.

### How Equitimax can help

Equitimax can help simplify this process. We have access to state of the art loan comparison software to help you through this complicated choice.



## Applying For a Loan

### What do you need?

To apply for a home loan you should fill out a mortgage application form that will ask you for details about your income, credit and savings. In many cases Equitimax will complete this online and arrange for your to sign a lenders privacy form. The application helps determine if you qualify for a loan and measures your debt ratio, an important part of working out how much of a house you can afford.

#### The type of documents you need for your application include:

- **Personal identification:**  
e.g., passport, drivers licence, birth certificate.
- **Property information:**  
e.g., Contract of Sale.
- **Financial information:**  
e.g., cheque account and savings statements.
- **Liabilities:**  
e.g., loan and credit card statements.
- **Income:**  
e.g., group certificates, payslips, tax returns.
- **Expenses:**  
e.g., rent payments, electricity bills.

\*Equitimax will provide you with a list of requirements

## What happens next?

Equitimax will submit your application for assessment and then notify you as soon as we hear back from the lender. When your loan is approved, you will receive a letter of offer, which is a legal contract outlining the terms and conditions of your loan.

Once the exchange of contracts is complete, your loan will be drawn down, paying out the previous owner and any taxes and fees. Loan repayments begin on the chosen repayment date after settlement, according to whether you have selected weekly, fortnightly or monthly repayments.



Think About

When choosing a home loan, keep in mind that interest rates and your financial situation will change over time. Make sure your loan is flexible enough to change with you. Features you might want to consider include:

- The option to move from variable to fixed interest rates, or split the loan between both.
- An offset or line of credit account to help you use your income and savings to reduce the balance of your loan.
- The ability to make additional repayments without penalty
- A redraw facility that gives you the flexibility to use your additional repayments as required.
- The choice of making repayments on a weekly, fortnightly or monthly basis.
- The ability to transfer your loan if you buy another property.

## Frequently Asked Questions

# FAQs

**Q: How much deposit do I need to buy my first home?**

A: This varies according to the type of loan you are taking out, the amount you are borrowing and the lender's policy, but in general you should aim to save a deposit of between 10 to 20 per cent of the purchase price. The more deposit you have saved, the less you'll need to borrow, which means you make lower repayments and pay less interest.

**Q: What are deposit bonds?**

A: Deposit Bonds act as a substitute for the cash deposit between signing a contract and settlement of a property, they are issued by insurance companies

for a modest fee. At settlement the purchaser is required to pay the full purchase price including the deposit. Contact your Vow Financial broker to determine if a Deposit Bond will be required for your scenario and we can advise the costs involved.

## **Q: How much can I borrow?**

A: Depends on factors like the size of your income and deposit, but many lenders require a maximum of 90 per cent Loan-to-Valuation Ratio (LVR), which means that you can borrow up to 90 per cent of the purchase price, but you will have to supply evidence of your ability to save at least 5 per cent of the value of the property ('genuine savings').

## **Q What about the First Home Owners Grant?**

A: This government assistance program provides you with a one-off payment to use towards the deposit for your first home. The grant amount varies from state to state, so check with Equitimax who can help you apply for the grant as well as arrange for prompt payment. (usually on settlement)

## **Q: Does my credit rating affect my borrowing ability?**

A: Your credit will be checked as part of the loan process, so you may find it harder to secure a loan if you haven't paid your bills, skipped payments or exceeded credit card limits. Contact Equitimax for assistance in accessing your credit history, as you might be able to improve your rating before you apply for a loan.

## **Q: How do I know which type of mortgage is best for me?**

A: There are a number of factors to consider, including your current financial situation, your goals and how long you intend to keep your house. Equitimax can work with you to help evaluate your choices and find a solution that meets your needs both now and in the future.

## Glossary - Mortgage Terms

A quick guide to understand the terms used in the finance industry. This is by no means a complete list of terms and acronyms used, but it will give you a good start.

### **Application fee:**

Also called an establishment fee, it's paid to set up your loan and usually includes legal fees and valuation charges.

### **Appreciation:**

An increase in the value of a property due to changes in market conditions or other causes. The opposite of depreciation.

### **Arrears:**

To be behind in a repayment.

### **Body corporate:**

An administrative body made up of all the owners within a group of units or apartments of a strata building. The owners elect a committee which handles administration and upkeep of the areas shared by the owners.

### **Break costs:**

Also known as economic costs or exit fees. They are charged by an institution to recoup interest lost through a borrower refinancing with another institution or paying their loan out early. Break costs are normally only charged on fixed rate loans where the amount of interest the institution would receive is easily calculable. It can also be charged well into the variable portion of a honeymoon or introductory rate home loan. Some institutions also charge a flat fee on top of their break cost charge. They may refer to this fee as a "deferred establishment fee".

### **Bridging loan:**

Finance to buy a new property before an existing property has been sold.

### **Building insurance:**

Insurance which covers the cost of rebuilding or repairing a property following structural damage, for example by flood, fire, storm and subsidence.

### **Certificate of title:**

The certificate detailing the ownership and land dimensions of a property.

**Certificate of currency:**

A document issued by an Insurance company indicating that a formal policy is currently in place for the insured property.

**Company title:** A property title that applies when owners of units in an apartment block form a company. Each has shares in the company that owns the land and buildings. The owner of the shares is entitled to exclusive occupation of a flat. However, if you want to alter occupancy in any way, you must have the company's approval to do so.

**Contents insurance:**

A policy insuring household contents against theft and damage.

**Comparison rate:**

An attempt to express some of the costs of a loan into a single interest rate. These 'costs' include the nominal interest rate, some 'up-front' fees and on-going charges. It does not include fees and charges based on future events which may not occur e.g. redraw fees, progress payments etc which are not typical of all loans. The aim of the comparison rate is to help consumers make a more informed judgement of the costs of a loan, and in so doing, help them to compare various like loan products and services offered by the various lending institutions.

**Contract of sale:**

A legal document that details the conditions relating to the sale/purchase of the property. This document is legally binding when signed by both the vendor and buyer.

**Conveyancer:**

A person qualified and licensed to handle all documentation for the sale and or purchase of a property.

**Conveyancing:**

The legal process where ownership of a property is transferred from the vendor to the buyer.

**Credit History:**

A record of an individual's open and fully repaid debts. A credit history helps a lender to determine whether a potential borrower has a history of repaying debts in a timely manner.

**Life Assurance:**

A form of insurance by which someone's life is insured. Life assurance policies can run parallel with a principal and interest home loan, so the loan will be repaid if you die before the end of the term.

**Line of Credit:**

This loan lets you free up the equity you have in your home for other purposes. It provides you with a revolving line of credit through a convenient single account that you can use daily.

**LMI – Lenders Mortgage Insurance:**

Insurance written by an independent mortgage insurance company protecting the mortgage lender against loss incurred by a mortgage default. Usually required for loans with an LVR over 80%.

**Low Doc Loan:**

Are a flexible financing solution for self-employed people who have income and assets, but may not have the usual paperwork at the time of application.

**LVR – Loan to Value Ratio:**

The ratio of the amount of your loan to the appraised value. The LVR will affect products available to the borrower and generally, the lower the LVR the more favourable the terms of the products offered by lenders.

**Mortgage term:**

The length of time over which you agree to pay back your mortgage, usually up to a maximum of 30 years.

**Negative gearing:**

See Gearing.

**No doc loan:**

No-document home loan (or no-doc loan for short), applicants simply fill out an application form stating their income and assets.

**Off The Plan:**

When you buy a property from the Plans only and not the finished building. The Purchaser will not be able to inspect the property or see the standard of finishes, the practical layout,

the size and dimensions or the outlook. However the Purchaser may be able to view a display unit and sample finishes.

**Offset Account:**

An account linked to a mortgage account so that the interest earned is applied to reduce the interest on the mortgage.

**Pre-Approval:**

A home loan pre-approval confirms how much you can borrow from your lender. It is conditional upon the property you wish to purchase being acceptable security, and your lender confirming your income and other information provided in your application.

**Private treaty:**

A sale of a property at an advertised price that can be negotiated.

**Redraw facility:**

This allows you to access any additional payments you have made on your mortgage. It is not a feature of all loans and may attract a fee, and also have a limit.

**Reverse Mortgage:**

Is a flexible financing solution for seniors who are retired and are generally aged 60 and over. It allows you to access the equity in your home without limiting your lifestyle. This loan for seniors enables you to access the equity in your home for such things as home improvements, the purchase of a new car, payment of medical expenses, taking a holiday or simply to supplement your income. A reverse mortgage does not require repayment until the applicant moves out of the home on a permanent basis (e.g. moves into permanent age care or dies).

**Settlement:**

The finalisation of the property purchase where your solicitor/conveyancer and the lending institution exchange money and documents so that you become the legal owner of the property.

**Serviceability:**

The one key aspect that all Lenders look at. They need to know if you can afford to keep up the monthly repayments to your loan. Lenders vary in the way they calculate serviceability, so the amount you can borrow will vary from Lender to Lender.

**Stamp Duty:**

A mortgage may attract government duty depending on the purpose of the loan; this varies from state to state. Contact us to confirm if duty applies to your situation.

**Strata title:**

A strata title is the most common title associated with townhouses and apartments and is proof of ownership of a unit. Individuals each own a portion, known as a 'lot'. They share common property, which can comprise: external walls, roof, foyers, fences, lawns or a pool. All owners contribute to the maintenance of these facilities.

**Utilities:**

Electricity, gas and phone supplies.

**Valuation:**

A written assessment of how much a property is worth by a registered valuer.

**Variable rate:**

The opposite of fixed rates, variable rates go up and down as interest rates rise and fall.

## Why use Equitimax?

**Because they can save you time and money.**

As the Home Loan market becomes increasingly complex, more people are turning to mortgage brokers. The quickest way to understand the lending and property market conditions and the most appropriate loan for you is through talking to a Vow Financial mortgage broker. Here are some other reasons:

### **Equitimax can save you time**

The choices now available in the mortgage market can seem limitless and completely overwhelming. You can choose to research the subject, the lenders and their products yourself, or work with a mortgage broker who already has that knowledge.

### **Equitimax give you choice**

All mortgage brokers have a panel of lenders from which they recommend a loan. They have to become accredited with the lender to offer their product, and are required to keep up-to-date with their latest offers.

### **Equitimax can help find the right loan**

The best deal is not necessarily the cheapest rate. A good mortgage broker will examine your circumstances and future plans to recommend a loan that is right for you.

### **Equitimax take the fuss out of setting up a mortgage**

There are a number of processes once deciding to apply for a home loan. Mortgage brokers deal with the loan at every stage of the process making contact with real estate agents, solicitors and lenders. You don't have to worry about anything!

### **Equitimax can help you avoid pitfalls**

A mortgage broker will navigate through the penalties, fees and charges to help you avoid taking out a loan you might regret later.

## Contact Details

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