

TAKE CONTROL

Bricks & Mortar

A practical guide to buying property



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Mutual financial institutions are credit unions and building societies that are focused on providing benefits for our members, not shareholders. Profits are returned to members through fairer fees, better rates and better service.

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Here are some other important facts about mutual financial institutions:

- We are run for the benefit of members with the aim of returning profits to members through fairer fees and better service.
- We are complete financial services providers, offering a full range of products and services.
- Deposits with credit unions and mutual building societies are guaranteed by the Federal Government.
- Our members choose us because they receive excellent, personal service and our customer satisfaction is the highest in the market.
- We are built on community involvement; it is what makes us different. We committed to supporting our communities long before it became fashionable.
- We are committed to educating consumers and improving financial literacy through practical actions.
- Despite our different approach, we are regulated to the same high prudential standards as the banks.

Over 4.5 million Australians across metropolitan and regional Australia are already members, so come and join us now.



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Introduction

It's the great Australian dream - owning your own home. You're excited and enthusiastic and you just want to get on with finding your ideal property.

But before you do, spend some time reading through this booklet. It outlines the basic steps of buying residential property and will help you to work out what you can afford, the best way to finance your purchase and what up-front costs you'll need to cover. It will help you to take control of the purchase process and other topics you should consider once you've bought your home.

This booklet also contains a separate section tailored to the specific needs of property investors.

Buying a property will probably be the largest financial decision you'll ever make, so it's important to do your research and planning. This booklet will start the ball rolling, but remember to talk to your accountant, solicitor, credit union or building society for professional advice.



Getting Started

Why are you buying?

Before you rush out looking at different properties, you should be clear about why you are buying a property. Are you buying it to live in? Or are you buying it as an investment? Having a clear objective will help you to make decisions along the way.

You also need to consider the practical aspects, such as whether you want a freestanding house, a townhouse or a unit. How many bedrooms do you need? Or do you want a renovated or unrenovated property? Then, you need to think about all the extras, such as a pool, a second bathroom, off-street parking – which of these features are essential, which would you like if you can afford it and which of these are you willing to trade off to save money? You should also think about how the property can grow with your lifestyle. By having a clear objective, these questions will be easier to answer.

What can you afford?

Few of us can buy a property without borrowing money for at least some of the purchase price. So, to start with, you will need to have a deposit. Most lenders, including credit unions and building societies, require that you have a deposit of at least 10% of the purchase price, usually they prefer 20% or more.

Buying property has long-term impacts on your financial situation. If you haven't already done so, you need to work out your budget and how your home loan repayments will fit into the budget. You also need to factor in additional costs associated with owning a home of your own including council and water rates, home and contents insurance and ongoing repairs. You may need to adjust your budget so that you can cover these extra items when they arise.

The amount you can borrow comes down to what you can afford to repay. As a guide, your monthly repayments should not exceed 25% - 30% of your monthly income before tax. If your monthly loan repayments are higher than this, your loan could be unaffordable.

TIP: Your credit union or building society can assist you to work out a budget, help to calculate the deposit you'll need and repayments you can afford.

Finding the Right Home

Once you have decided on your goals and have an idea of the right kind of property for you, it's time to start looking.

Many people start their search by looking through the advertisements in the real estate section of their local newspaper. Another popular method is to search online - there are many reliable real estate websites for you to choose from.

Both newspaper and online advertisements will give you a description of the property, will advise whether it is for sale or auction, will tell you when the property is open for inspection and provide the agent's details. Online advertisements have the added benefits of providing more detailed information plus photos and some online adverts also give you a 360° virtual tour of each room in the house.

Real estate agents use unique terminology to describe various property features. Some terms are relatively straightforward, but others can be confusing if you are new to the property market. For example, rundown properties become 'renovator delights' and tiny becomes 'cosy'. You should always keep in mind that the real estate agent is working for the seller.



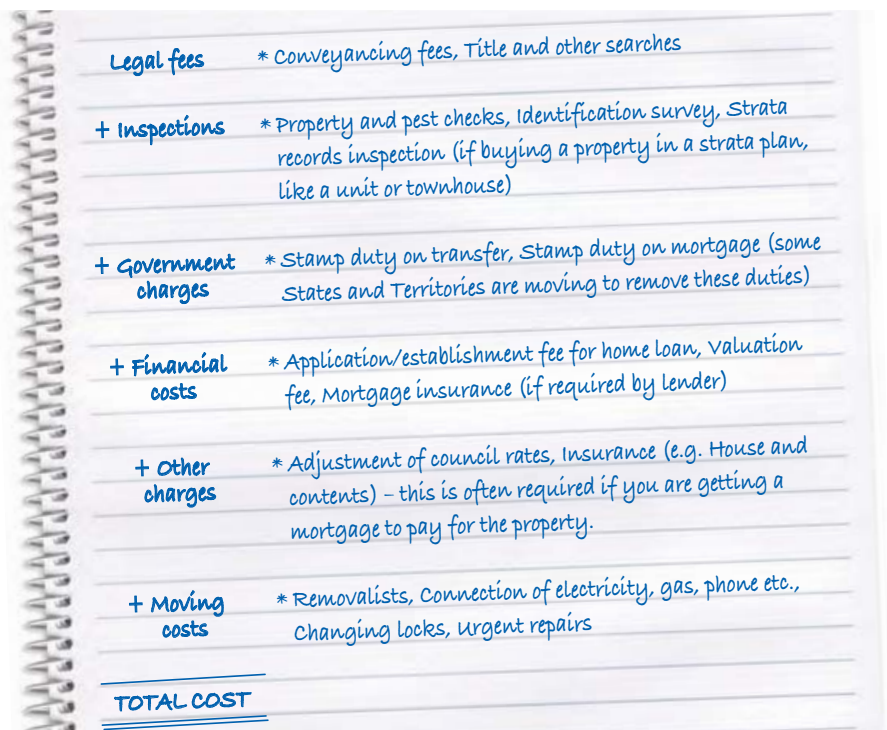
Once you've looked through the advertisements, make a shortlist of properties you'd like to inspect based on the 'must-haves' you decided on earlier. Saturday is the most popular day for inspections, but the agent will often arrange for you to view the property at another time if you ask.

A common mistake made by first home buyers is not looking at enough properties. The more properties you look at, which could mean 20 or more, the better you are able to judge the properties on offer in your preferred area and what price they are fetching. This may take you several weeks, if not months, but remember that this up-front research could help you to avoid a costly mistake. Buying property is a big, long-term investment and research is the key to being confident that you've made the right decision.

Some basic house-hunting tips:

- As the old saying goes, location is important. A property in a pleasant street in a popular suburb with good access to transport, shops and schools is always likely to be in demand.
- Consider a property's aspect – if it has a nice outlook, looks good from the street or has lots of natural light, it will probably be easier to sell when the time comes.
- When you've found a property you really like, inspect it at different times of the day to get an idea of how different factors, such as morning sun or peak hour traffic, affect its appeal.
- If you find that you cannot afford to buy your dream home in your preferred location, keep an open mind to adjacent suburbs, which may just be that little bit more affordable.

What does it really cost? There are additional costs associated with buying the property that you need to budget for. These costs are about 5% of the purchase price. For example, if you pay \$400,000 for a property, the additional costs will be about \$20,000 and can include:



Legal fees	* Conveyancing fees, Title and other searches
+ Inspections	* Property and pest checks, Identification survey, Strata records inspection (if buying a property in a strata plan, like a unit or townhouse)
+ Government charges	* Stamp duty on transfer, Stamp duty on mortgage (some States and Territories are moving to remove these duties)
+ Financial costs	* Application/establishment fee for home loan, valuation fee, Mortgage insurance (if required by lender)
+ Other charges	* Adjustment of council rates, Insurance (e.g. House and contents) - this is often required if you are getting a mortgage to pay for the property.
+ Moving costs	* Removalists, Connection of electricity, gas, phone etc., Changing locks, Urgent repairs
<u>TOTAL COST</u>	

Borrowing

The first step to getting a home loan is saving enough money for a deposit. Most lenders will require a deposit of at least 10% of the purchase price and some prefer that you have 20% or more. The more deposit you have, the greater the likelihood that your loan will be approved and the less you need to repay.

Saving a Deposit

Saving for a deposit can be a daunting thought, particularly if you are paying rent while saving. It won't come without sacrifices, but it is possible to achieve and it will be worth it in the long run.

The best way to save for a goal is to prepare a detailed and realistic budget. Know where your money goes, identify areas where you can cut your expenses, but also allow yourself the occasional treat.

Your credit union or building society can help you to prepare a budgeting and savings plan. Visit your nearest branch and get a copy of *"Money & Cents - a practical guide to budgeting and saving"*.

You also need to have enough cash on hand to cover the additional costs associated with buying a property.

The next step is to investigate your home loan options carefully. The home loan market is very competitive and there are many different products for you to choose from. Again, it's important to take control so do your research - choose a lender that gives you a competitive deal and offers you a flexible product that can easily be adjusted to suit your changing needs. Read on for more information about the different loan types.

Choosing a Lender

There are many different home loan options and many different lenders to choose from these days, and much of your research can be done online. You'll find detailed information on each lender's website.

With so many options, how do you find the right one for you? Do you go to a traditional lender (like a credit union or building society), or an unregulated lender, or do you use a mortgage broker? No matter where you go, it's important to compare the features of the loan and know what it's going to cost in terms of interest rates and other fees and charges.

Ask some basic questions of your lender:

- What deposit is required?
- How much can I afford to borrow and what will my repayments be?
- What loan options are available?
- What are the fees and charges?
- Are there any loan conditions to be aware of?



FACT: The Case for Credit Unions & Building Societies

Your local credit union or building society is a good place to start when looking for a home loan. Credit unions and building societies offer similar products to other lenders, but they deliver other important benefits too. With no external shareholders demanding dividends, credit unions and building societies can lend money on very reasonable terms with competitive rates and low or no account-keeping fees.

What Lenders Want

The keys to getting approval for a home loan are:

Capacity

Can you afford to repay the loan? Your repayments will be assessed against your income and your existing commitments will also be considered. Most lenders will limit your monthly repayments to 25% - 30% of your monthly income before tax.

Collateral

Is the value of the property you are buying adequate security for the money you are borrowing? Do you own more than you owe? Your existing assets (such as savings, investments, car and jewellery) and liabilities (money you already owe to others) will also be taken into account.

Credit

Are you a good financial risk? Lenders will be interested in your history of repaying other loans and debts and will use this to determine whether you are likely to default on this loan. Other factors such as your occupation and a history of stable employment and residence will be used to build a credit profile.

CHECKLIST - documents needed

When applying for a loan, make sure you have the following documents at hand:

- Proof of salary** - recent pay slips, or your last 2 tax returns if you are self-employed
- Proof of other income** - e.g. dividends
- Proof of any assets** - e.g. investments, shares or car
- A fair estimate of your monthly living expenses**
- Honest details of other debts** - e.g. loans, car lease, credit cards and store finance

Talk to your lender first to make sure you have everything you need.

Your Credit Rating

Before approving a loan, lenders will check your credit rating. If you have a history of being late with repayments, your credit rating might be affected. Information stays on your credit rating for at least 5 years, so it's important to tidy up your credit file before you apply for a home loan.

- Step 1:** Check that your credit file is accurate. Sometimes records are not updated and you are entitled to correct them.
- Step 2:** Repair your record by paying any outstanding debts. You may be able to negotiate a longer repayment period or part-payment arrangement.
- Step 3:** If you think your credit rating is borderline, raise this issue with your potential lender. Honesty about the situation shows you are responsible, and ensures that you stress the problems have been resolved.
- Step 4:** If your credit rating is very poor, consider delaying your application and focusing on repairing your credit file and saving for your deposit.

FACT: Some lenders specialize in non-conforming loans, for example for borrowers with a poor credit history. Be aware that when considering these loans, lenders will price the loan according to the perceived higher risk.

Mortgage Insurance

If you borrow more than 80% of the value of the property, you will almost certainly be required to pay the lender's mortgage insurance.

Mortgage insurance covers the lender, not the borrower. If you default on your mortgage repayments, the lender has the right to sell your property – although this is generally the last resort. Mortgage insurance protects the lender if you don't make your loan repayments and the amount you owe the lender is higher than the amount they receive from selling the property.

The cost of mortgage insurance varies with the value of the property, but it can cost thousands of dollars. You can usually avoid paying for this insurance by having a deposit of 20% or more.

Assistance for First Home Owners

Good news for first home buyers is that you may be eligible to take advantage of the First Home Owner Grant from the Federal government.

The eligibility criteria include:

- You or your partner must be an Australian citizen and over 18 years of age.
- This is the first time either you or your partner has owned residential property in Australia.
- Your new property must be in the name of a natural person, not a company or trust.
- You or your partner must live in the property as your principal place of residence for at least 6 months, starting within one year of settlement.

You can apply for the First Home Owner Grant through your credit union or building society at the same time as applying for your loan. The grant can be accessed quickly and you can use it to help pay your purchasing costs.

Your State or Territory government may also provide additional grants and benefits for first home buyers from time to time, such as discounted stamp duty. Your credit union or building society can give you up-to-date information, or check the website of the Revenue Office in your State or Territory.

The Federal Government now offers assistance to prospective home buyers through the new First Home Saver Account scheme. Under the scheme, the Government makes co-contributions to special accounts offered by institutions such as credit unions and mutual building societies. So by putting your deposit savings into a First Home Saver Account, you can be eligible for Government assistance. In addition, interest earnings on First Home Saver Accounts are taxed at a lower rate than other interest earnings.

Your local credit union or building society can give you more information on this account, help you decide whether this product is right for you and assist in setting up the account.

Pre-approval

It can be convenient and reassuring to know exactly how much money your lender is willing to loan you before you make an offer on your new home. By obtaining pre-approval, also called approval in-principle, you have the peace of mind knowing that you have been approved to a certain amount. This shows real estate agents that you are a serious buyer and will allow you to move quickly if you see your dream home. It's also helpful when buying a home at auction. Knowing your pre-approved limit will also assist you to stay within your budget.

To obtain pre-approval, you will be required to submit your loan documentation for your lender to assess against their loan criteria. If you are approved, you will receive a 'letter of offer' or 'pre-approval certificate' indicating the maximum loan amount available to you. Once you have been pre-approved, you have about 3 months to buy your home before the pre-approval expires. You can seek another pre-approval if you need more time to find the right home.



Choosing a Home Loan

When it comes to home loans, there are many different options to choose from. You should be looking for a competitive interest rate and reasonable conditions and charges. Monthly or annual administration fees can add to the total cost of the loan over the long-term. Credit unions and building societies offer a range of home loans with competitive rate, fees and charges that may suit your circumstances. So, good legwork and a visit to your credit union or building society can save you money.

The golden rule with a home loan is that the faster you pay it off, the more you will save on interest. Making additional payments when you have the money or even paying fortnightly rather than monthly can save you thousands of dollars over the term of the loan.

Additional features can be very helpful depending on your situation. For example, a redraw facility is a popular option because it allows you to draw on any extra repayments you've made on the loan. You save on interest charges by making additional repayments and then you can re-draw some of this money when you need it, say to buy a car or make improvements on your home.

Researching and comparing different loan options to find one that suits your needs is worthwhile. Talk to your credit union or building society about the pros and cons of the different options. They're sure to help you find one to suit your needs.

On the following pages, you'll find a brief description of the different loan types. Most lenders will offer these types of loans, and they will have their own unique name for them.

CASE STUDY

Luke and Megan borrowed \$300,000 to buy their dream home. After 2 years, Megan got a new job that paid a higher wage and she decided to put some of the extra money towards their mortgage. Luke and Megan now paid \$50 extra per fortnight towards their home loan. While it seems like a small amount, it saved them over \$40,000 in interest charges over the entire term of their loan and they paid off their home two and half years sooner.

LOAN TYPE	DETAILS
Basic Variable	A variable interest rate loan with a simple structure. This loan is cheaper than others because it usually doesn't offer many additional features or much flexibility.
Standard Variable	The standard home loan rate offered by credit unions and building societies. It has a variable interest rate and offers repayment flexibility and additional product features.
Fixed Rate	Interest rate and your repayments are fixed over a specified period, usually 1-5 years.
Split Loan	A combination of fixed and variable loans. You may choose a loan that is 50% fixed and 50% variable, or another combination as allowed by your lender.
Equity Loan (Line of Credit)	Your income is paid directly into your loan account and living expenses are withdrawn from the account when needed.
Mortgage Offset Account	A savings account linked to a home loan account. It's similar to an equity loan without having to combine your savings and loan.
Low-doc / No-doc	A loan for people who don't have the normal supporting paperwork to prove income from recent years and asset ownership.

ADVANTAGES	DISADVANTAGES
<p>This loan is generally 0.5% cheaper than the standard rate, because you're not paying for extra features. With a lower rate, you pay less interest over the life of the loan.</p>	<p>A variable interest rate means that your repayments will be higher when interest rates go up. There is little flexibility with this loan and usually few additional features, so it may not meet your needs exactly. For example, you may not be able to make additional repayments.</p>
<p>Interest rates, and therefore your repayments, decrease in times of lower interest rates. Additional repayments can be made without penalty and it usually offers additional features, such as redraw facility.</p>	<p>This loan also has a variable interest rate, so your repayments will increase if interest rates rise. You pay a slightly higher interest rate overall to cover the various options and benefits available.</p>
<p>The interest rate will not rise above the agreed rate. Your repayments remain constant, so budgeting is easier. In times of rising interest rates, you may fix a rate that is lower than the variable rate.</p>	<p>If interest rates fall, your rate remains unchanged and you will not benefit. In times of falling interest rates, the fixed rate may be higher than the variable rate. Additional repayments are normally not allowed and there may be additional cost for paying out the loan early.</p>
<p>Allows you to take an "each way" bet on interest rate movements. You can fix a percentage of your home loan for easier budgeting, plus take advantage of a decrease in interest rates with the variable portion of your loan. Additional repayments are generally allowed on the variable portion, so you can pay off your loan sooner.</p>	<p>The disadvantages of fixed and variable rate loans still apply, but in proportion to the split between fixed and variable that you decide.</p>
<p>The longer you leave the money in the account before withdrawing it, the less interest you pay over the life of the loan. It offers flexibility and quick access to your funds.</p>	<p>If you are undisciplined, it is easy to fall into the trap of spending more than you should and drawing down on your equity. This type of loan generally has higher fees or higher interest rates. This is definitely a loan only for the disciplined and needs to be carefully managed.</p>
<p>The balance in your savings account is deducted from the balance in your loan account, and you pay interest on the remaining balance. You benefit from lower interest charges, and can pay off your loan sooner, plus you have easy access to your savings.</p>	<p>No interest is paid on your savings balance, but you do benefit from lower interest on your loan. You normally have to pay a higher fee for this type of account.</p>
<p>Ideal for self-employed people and others without necessary documentation.</p>	<p>A higher interest rate is charged, and additional establishment and ongoing fees normally apply.</p>

Comparison Rate

In the past, calculating the real cost of a loan has been complicated and difficult. The interest rate is only one factor in the overall cost of the loan – fees and charges must also be taken into account.

Comparison rates were introduced so that consumers could easily compare loans from different lenders. The comparison rate includes the interest rate, any establishment fees and other upfront or ongoing fees for a particular loan and reduces it to a single percentage figure.

All home loan advertising must show the comparison rate. For example, a home loan may be advertised with an interest rate of 8.49% p.a. but the comparison rate is 9.75% p.a. when all the other fees and charges are considered.

A word of warning when using comparison rates – they do not take into account the various additional features offered by some loan types. For example, the benefits of making additional repayments or accessing a redraw facility are not calculated in the comparison rate. You may have to pay a little more for these benefits, but it may be worth it in the long run if these features better suit your needs.

CASE STUDY

Matt is busy at work and doesn't have time to shop around for a home loan. He figures that a percent here or there on interest rates won't make much of a difference to his loan.

A visit to his credit union reveals otherwise. On Matt's \$250,000 loan, a saving of half a percent on his interest rate translates to a saving of almost \$24,000 over the life of the loan.

His repayments are also almost \$40 less per fortnight, making it easier for Matt to manage his budget.

Buying the Property

The property market works in cycles and many people will tell you that it's best to buy property when prices and interest rates are low. However, this doesn't always coincide with your readiness to buy a home, so the best time is when you've taken control by doing your research and you're prepared to buy.

There is rarely a wrong time to buy property, because over the long term, property prices generally go up. However, it's important that you pay the right price for your property and that's why research and planning are vital.



Real Estate Agents

Most properties in Australia are sold via a real estate agent. It's helpful to build a constructive relationship with agents in your preferred area because, in most cases, you will be negotiating with them, not the seller directly.

But remember the real estate agent is working for the seller. It is the agent's role to get the highest price possible for the property. This is why it's important for you to do your research and know the market. The real estate agent is paid by the seller and usually receives a percentage of the final selling price.

You can get help from a buyer's agent. Their services usually cover everything from finding a suitable property through to negotiating the sale price. Importantly, the buyer's agent works for you, but you will have to pay for their services, which is normally a commission on the final purchase price. Weigh up the benefits of using a buyer's agent with the cost incurred.

For Sale

You can buy property by private treaty or at auction. Private treaty means that you agree to pay the asking price or you negotiate a lower price with the seller. A private treaty may be done through a real estate agent or directly with the seller (also known as a private sale), in which case the seller does not have to pay a commission to the agent.

TIP: The cooling off period for private sale can be waived as part of the negotiation. You should be careful waiving the cooling off period as this protects your rights.

When you buy a property by private treaty, there are a number of important steps that you will need to follow. The diagram on pages 22 and 23 sets out these steps and gives an explanation of what is involved at each point along the way.

Tips for Negotiating

If the thought of negotiating the purchase of your new home makes you anxious, here are some tips to help you through:

1. Knowledge is key – do your research and know what the property is worth. The selling price of similar properties in the area is a good guide.
2. When making an offer, don't put your best offer first. You can always raise your offer if the seller doesn't accept your first offer.
3. If your first offer is rejected, ask the seller to put a counter-offer on the table to get them involved in the negotiations.
4. Be prepared to bargain – the asking price is the seller's ideal price, but they may be prepared to sell for less.
5. Keep your emotions out of the negotiations – you'll achieve a better result if you put forward a fair and logical argument.
6. Know when to walk away. If you have clear goals and limits you won't buy beyond your means.



Buying at Auction

There is little doubt that auctions can be exciting, but some people find the excitement of auctions stressful. If you find the right home and it is for sale by auction, it helps to be prepared.

Make sure you have done all your homework:

- Have your loan pre-approved and know your price limit.
- Complete all the necessary pest and building inspections, title searches and strata searches (if applicable).
- Obtain a copy of the contract ahead of the auction day and have it checked by your solicitor or conveyancer.

On auction day, you will need to register prior to the auction beginning to be allowed to bid. Some people ask a trusted friend or representative to bid for them at auction and this is possible provided that they have a letter authorising them to do so.

TIP: Before buying a property, it's vital to undertake building and pest inspections to ensure that the building is sound. It's also wise to check that council has approved any previous housing extensions. If the property is a strata unit, you can also review the meeting records to check if there are any issues in the building.

Once the property reaches the reserve price, which is the price at which the seller agrees to sell the property, the auctioneer will say "the property is now on the market".

If a property fails to reach the reserve price, it is passed in and usually, under the rules of auctions, the last highest bidder is given the first opportunity to negotiate directly with the seller.

FACT: Sellers and their real estate agents are not allowed to stack the auction with friends making dummy bids to raise the price, but in some States and Territories sellers can make one vendor bid, which is made by the auctioneer and is normally announced as the vendor bid.

If the property reaches the reserve price and you are the highest bidder, you are obliged to purchase the property. The property is sold at the fall of the hammer. There is no cooling off period for an auction and much of the paperwork will be done on auction day. You will also need to provide the auctioneer with a 10% deposit.

Be aware that it's possible to pay an inflated price at auction. There is also no guarantee that you'll be the successful bidder and you may miss out on the property after paying for inspections and searches.

After you have purchased the property and the cooling off period (if applicable) has passed, you are not allowed to go back on the deal. If you cannot complete the transaction or you cancel the contract, you are in breach and are likely to lose your deposit. In some situations you may be able to recover some of the deposit but that will depend on things like whether the seller was able to resell, for how much and any additional expenses they incurred.

TIP: To familiarise yourself with the auction process, it's helpful to attend a number of other property auctions. This will help you to feel in control and more relaxed on your auction day. It is possible to make an offer on a property prior to the auction. The seller is not obliged to accept the offer or negotiate with you and may prefer to proceed with the auction.



Important steps in buying property

Some other important steps in the buying process are explained below.

PRE-EXCHANGE

The contract of sale is prepared by the seller and given to interested buyers.
You should have the contract independently reviewed by a solicitor or conveyancer.
You can undertake building and pest inspections.
Searches can also be done on the title to the property.
You should arrange finance approval.



EXCHANGE CONTRACTS

After you make an offer that is accepted by the seller, the two parties "exchange contracts".
At exchange, you pay a deposit, normally 10%.
Note: if buying at auction, exchange happens immediately.
There is usually a cooling-off period of 5 working days. During this time you can change your mind and withdraw from the contract.



PRE-SETTLEMENT

You must pay stamp duty on the purchase price of the property.
Some States and Territories offer concessions for first homeowners.
You should include an estimate in your budget.
Generally, you have 3 months from exchange to pay stamp duty.
You can do further inspections and searches, which might cover local zoning and property surveys.



SETTLEMENT

If you require finance, your loan is made available by your lender so that you can pay the balance of the purchase price.

At settlement, you get the keys to your new home and you can move in.

Don't forget to organise your basic utilities, such as electricity, gas and phone.

Title and mortgage documents are registered.

Some other important steps in the buying process are explained below.



POST-SETTLEMENT

Begin regular mortgage repayments.

Stamp duty (if not already paid).

After settlement, you will also be responsible for paying other bills associated with your property, such as council rates, water rates and strata levies (if applicable).



Buying a Unit

Units and townhouses are usually more affordable than free-standing houses, and so often suit first home owners.

Most units and townhouses are part of a strata plan, which has its own set of rules governed by State and Territory laws. While you own the space within your apartment, the strata plan owns the building and other common areas. As a member of the strata plan, you are obliged to share the responsibility and cost of maintaining the building and common areas.

You must contribute levies to the Owners Corporation, which are used to pay for maintenance, repairs, insurance and other items as required. You should confirm what the levies are for

the unit or townhouse you want to buy and ensure you include these ongoing fees in your budget. Extra features, such as a pool or lift, can add significantly to your levies because they need extra maintenance.

You can also inspect the records of the strata plan. This is useful as it may highlight costly building maintenance issues planned for the future or disputes between different residents.



Buying Off the Plan

An off-the-plan purchase means you buy a property, usually a unit or townhouse, before it is complete and often before construction has begun. You agree to buy the property after seeing only the architectural plans and an artist's impression.

The benefit of buying off-the-plan means that you buy a property at today's prices but don't have to settle the contract until months or even years later. During this time, the market may have picked up and your property may then be worth more than what you paid for it. An added benefit is stamp duty is only payable on the value of the property at the time of contract, not when you settle, so you may make a significant saving.

There are risks associated with off-the-plan purchases. If the market goes down, your property may be valued less at settlement time than what you agreed to pay for it. Construction delays are possible and you may be disappointed if the finished product isn't as you expected. Dealing with a reputable developer or builder is important.

TIP: It is sensible to arrange insurance on the property to protect your own interests. This might also be a requirement of your finance arrangements. Your insurance cover can commence from exchange, because your interest in the property starts at this time.

After Settlement

Once you've settled on your property it is now yours and you can move into your new home.

It won't take long for your first home loan repayment to fall due – usually about a month after settlement.

Most repayments are now made by direct debit, so your lender will ask for your account details. Confirm the date the first payment will be deducted and ensure that you have enough money in your account to cover it.

TIP: Your lender may be able to align your repayment schedule with your payday, so ask about that too.

Protecting Yourself & Your Home

Now that you own your own home, it is important to protect it and yourself.

Building and Contents Insurance

Your home is probably your biggest asset and it's important to protect it and the contents in it against fire, theft, flood and other disasters. Many people in Australia don't have adequate insurance for their home and contents and they don't realise it until it is too late.

Building insurance is likely to be a condition of your home loan. It will also be necessary for your lender to be included in the policy to protect their interests.

Life and Trauma Insurance

These insurances provide financial security for you and your family in the case of your death or serious illness, such as cancer or heart attack. The amount paid by these insurance policies means that you and your family aren't burdened by financial worries at these difficult times.

TIP: Your local credit union or building society can organise most of these insurances for you. For more information, see your credit union or building society or get a copy of *"Lock & Key - a practical guide to protecting yourself and your assets"*.

Income Protection Insurance

Along with your home, your capacity to earn a living is your biggest asset. If you are unable to work for a long period of time due to illness or disability, this insurance pays you an income, usually up to about 75% - 80% of your normal earnings. Income protection insurance premiums are normally tax-deductible.

Considerations for the future

Reducing your Mortgage

The sooner you pay off your mortgage, the less it will cost you overall. Every extra dollar you repay on your home loan helps you to pay it off faster. Consider:

- Making your loan repayments fortnightly, instead of monthly. Over the course of a year, you'll make two more payments and shorten the life of your loan overall.
- If your budget allows, pay more than the minimum loan repayment.
- If your minimum repayment amount falls because of lower interest rates, maintaining the old repayment amount means you'll save lots in interest charges. You also won't have to adjust it if interest rates go back up again.
- If you receive a pay rise, try to put most of the increase towards your home loan. It will be worth it in the long run.



Difficult Circumstances

Owning property is a long-term investment and circumstances can change along the way. If you find your situation has changed, due to illness or unemployment for example, it's vital that you talk to your lender.

If you take control and communicate openly with your lender, they can help you through difficult times. They may reduce your minimum repayments for a period of time or give you a payment holiday.

You may feel anxious about telling your lender about your problems but it is definitely worse to miss repayments and not be contactable.

Responsible lenders will be sympathetic to your circumstances, appreciate your honesty and be willing to help. From their point of view, they are more likely to get the loan repaid in full if they help you through a hard patch. A word of caution, there is no legal obligation on lenders to enter such arrangements. So the sooner you begin a genuine discussion with your lender the more likely the chance of coming to an arrangement.

Credit unions and building societies are particularly helpful because they exist for the benefit of their members, who are their customers, and not shareholders.

Refinancing your Loan

After several years, you may decide to refinance your mortgage, particularly if you were on a fixed-rate mortgage or if you decide to move house. You may also choose to refinance to consolidate debt from credit cards and other loans, or you may need a loan with more flexibility.

Before you refinance, you should do your research and consider the following:

- Ensure that you know what you are signing up for. A lower interest rate is generally good, but are you paying higher fees instead? Have you traded off extra features that meet your needs, such as redraw facility or extra repayment options?
- Ensure you are aware of all the costs of refinancing, including new loan application fees, mortgage insurance costs and discharge fees from your existing lender.

Using your Equity

You have been paying off your mortgage for a few years, made extra repayments when possible and the value of your home has also increased during this period. You've now built up some equity in your home.

Equity is the value of the property, minus any amount you owe on it. So, for a property worth \$400,000 with a loan of \$150,000, the equity is \$250,000.

Once you have built up equity in your property, you may use this equity to fund other activities. You may decide to upgrade the bathroom or kitchen (which may add even more to the value of your property) or use it to help buy an investment property (discussed below), a new car or overseas holiday.

But beware, if you use your equity for these lifestyle perks, you may have little to show for what had been a major financial asset.



Buying for investment

Property is a popular choice of investment for many Australians and generally offers a good return and capital growth, however, it is not without risks. If you are considering property as an investment choice, here are some topics you should consider. Of course, you should also obtain professional investment, accounting and legal advice before making any decisions.

Capital Growth or Cash Flow

Property offers the prospect of considerable capital growth. Capital growth occurs when the value of your property increases over time. While the property market goes up and down from time to time, in general, housing prices rise over the long term. As with all property, it is important to do your research when thinking about buying an investment property. Calculate how much it will cost you and how much you could earn. Remember, these costs are the purchase price plus a number of legal and associated costs.

In a low-inflation climate, when there is little capital growth, property investors will look for higher income. This is also known as yield and is the rental return from your investment property stated as a percentage of the purchase price. When stated as a percentage figure, it makes it easier to compare returns from different investment propositions.

Calculating Yield To calculate gross yield (which doesn't take into account maintenance, interest and other costs), follow these steps:

1. Calculate annual income by multiplying the expected weekly rent by 52.
2. Then, calculate the annual income as a percentage of the purchase price.
This percentage is your gross yield.

For example, calculate the gross yield on an investment property on sale for \$280,000 with an expected rental return of \$250 per week.

1. $\$250 \text{ per week} \times 52 \text{ weeks} = \$13,000 \text{ annual income}$
2. $\$13,000 \div \$280,000 \text{ purchase price} \times 100 = 4.64\%$

A gross yield of about 4% - 5% is average for all Australian property, although it does vary from area to area.

Depreciation

Depreciation lets you write off part of the cost of your investment property as it ages, making it a valuable source of cash flow. The two main depreciation allowances are building allowance and the depreciation on fixtures and fittings.

Ask your accountant for information specific to your circumstances.

Land tax

This is a State and Territory tax levied on the value of the land alone. The land values are assessed each year by the revenue office in each state, and the land tax is calculated on this value. The tax rules and amount vary between the states, but the tax is usually not applicable to a person's main place of residence.

Investment properties are subject to land tax although land tax on investment properties is normally tax deductible.

Capital Gains Tax

A capital gain occurs when you sell your property for a profit. That is, when you sell it for more than what you paid for it. Capital Gains Tax (CGT) is generally payable on the profit, although it does not apply to your principal place of residence.

The tax laws in this area are complex, so it's important to seek expert advice from your accountant about this matter.

Landlord insurance

If you have purchased a new property for investment purposes, it is wise to consider Landlord insurance. It protects you against malicious acts, such as damage and theft, by your tenants and loss of rental income caused by payment defaults, abandonment or eviction.

Fixtures and fittings such as carpets, curtains and light fittings are normally not covered by your building insurance. If your tenant damages these items, you may be left with the bill and Landlord insurance can help in these circumstances.

Separating lending accounts

If you borrow against your equity in your home to buy an investment property, to assist your portfolio management it can be useful to maintain a distinction between the two lending accounts because the interest and expenses in relation to your home loan is not tax deductible while the investment loan can be deductible.

Practical guidance

Your local credit union or building society can give you lots of practical advice when it comes to taking control and buying your own property.

If you want to save for a deposit, they can help you with budgeting and saving.

Credit unions and building societies also have a range of loans; and can help you choose the right loan for your needs and ensure that your repayments are manageable. They lend money on reasonable terms with competitive rates and fairer fees.

Insurance is an important part of owning property; and your credit union or building society can arrange insurance for you. Through their network of insurance partners, most credit unions and building societies can organise the following types of insurance:

- Home and contents insurance.
- Loan repayment insurance.
- Life and trauma insurance.
- Landlord insurance.

More information

For more information on real estate practices and procedures, contact the Real Estate Institute of Australia or the Real Estate Institute in your State or Territory.
www.reiaustralia.com.au

For more information about your credit file, contact Veda Advantage.
www.mycreditfile.com.au

GLOSSARY

Here is a list of many of the terms you'll commonly hear when you are researching and buying your property.

Breach of contract – when the conditions of a contract are broken.

Bridging finance – short-term finance (usually at a higher interest rate) while waiting for a loan or for your existing property to sell.

Certificate of title (CT) – a document identifying ownership of land showing dimensions of land, name of owner, details of mortgages, easements or encumbrances.

Chattels – movable possessions that may be included in the sale (e.g. furniture).

Common property – areas in a strata property that are not included in any of the owner's individual lots.

Contract of Sale – usually referred to as 'the contract', this legal document is prepared by the seller's solicitor. It describes the property, price, identifies the seller and buyer and sets out the conditions of the transaction. It is legally binding when signed by both buyer and seller and after a deposit has been paid.

Conveyance – the transfer of ownership of property from the seller's to buyer's name.

Covenant – terms, conditions and restrictions noted on a property's certificate of title. The covenant may affect future plans or resale.

Deposit – is the percentage of purchase price paid by a buyer at exchange of contract (usually 10%).

Easement – a right over a property to use or prevent the use of the property in a particular way.

Fittings – items such as light fittings that can be removed without causing damage to a property. They are usually not included in the sale unless specified in the contract.

Fixtures – built-in items actually fixed in position (e.g. Kitchen cupboards, storage cupboards).

Mortgage – a legal document expressing the terms and conditions that apply to the lending of money for purchase of property.

Mortgagee – a person or legal entity who lends the money.

Mortgagor – a person or legal entity who borrows the money.

Passed in – when a property is withdrawn from sale at auction because the bids do not reach the reserve price.

Power of Sale – the right for a mortgagee to sell a property, held as security, where the borrower is in default in terms of repayment.

Reserve price – the minimum price a seller will accept when selling a property at auction.

Settlement – completion of a conveyance in which the balance of the contract price is paid and ownership of the property passes from seller to buyer.

Stamp duty – state tax paid by the purchaser, calculated as a percentage of the sale price of a property.

Strata title – a system for sub-dividing ownership of a building and the land on which it is situated into lots and common property.

Torrens title – a system of land title where a register of land holdings on a single certificate of title guarantees ownership.

Transfer – a document registered at the Land Titles Office and noted on the certificate of title, which verifies change of ownership of a property.

Valuation – a report by a registered valuer giving their opinion of the value of a property.

Vendor – a person who offers a property for sale (the seller).

NOTE

This booklet has been written to assist Australians to improve their financial literacy. Information within the booklet is generic in nature, not intended as advice and was compiled without taking into account any individual circumstances of the reader. It is recommended that you consult with appropriately qualified professionals, such as accountants, solicitors and financial planners, before making major financial decisions.

While all published information has been checked and was correct at time of publication, you should not rely on the contents without first making your own inquiries, and/or obtaining professional advice tailored to your specific personal circumstances.

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