Apt. INFORM SERIES

Getting a Foot on the Property Ladder

Part One: Your Home Loan Deposit

Welcome

At Apt Wealth Partners, we are often asked for advice when it comes to buying property, particularly by first home buyers keen to get a foot on the ladder despite tough market conditions. Today, with the market (finally!) softening in many areas, home ownership is starting to feel more like a reality for many Australians.

Now, alongside our partners at Apt Wealth Home Loans, and property agency 1Group Property Advisory, we are sharing our collective knowledge, built over decades in our respective industries, to help you get a foot on the property ladder. From saving your deposit to making a purchase, this is the guide all first home buyers and property investors should have on hand.

There is a great deal of information to process when it comes to buying a home, so we've broken this guide into three parts. This document, part one, is all about your home loan deposit. Parts two and three cover everything from securing finance to making an offer on your property. If you downloaded the guide yourself, you'll receive the remaining parts in the coming days. If you received this document via another channel, you can request the remaining parts by emailing info@aptwealth.com.au.

You're about to embark on one of the most exciting adventures in life, but it can also be one of the most stressful; our advice is to arm yourself with as much knowledge as possible (you've taken a great first step today!) and professional advice from a financial planner and a mortgage broker to ensure you have a smooth transition to property ownership.
If you are ready to get professional advice from a financial planner, mortgage broker, property expert or insurance specialist, www.aptwealth.com.au can help.

In the meantime, we hope you find this guide beneficial in your search – whether that is the search for your forever home or a starter property to begin your journey.

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How much will you need?

In general, you'll need 20% of the contract sale price, plus costs as a deposit to secure a home loan and avoid paying Lender's Mortgage Insurance (LMI). If you are looking at properties worth $750,000, you'll need a deposit of $150,000 plus costs which can amount to anywhere between $20,000 - $40,000 depending on where you are buying, and can borrow up to $600,000, or 80% of the sale price. Some lenders will lend up to 90%, and a few even up to 95%, but qualifying criteria differ from lender to lender and they will require you to pay Lender's Mortgage Insurance (LMI).

From the start of 2020, The Liberal Coalition Government has pledged to offer a 5% deposit home loan option for singles who earn under $125,000 per annum (p.a.) or couples who earn under $200,000 p.a. As at the time of writing, this is yet to come into effect but you'll find more information on the proposed scheme on page 5.

Saving the deposit is possible without sacrificing your lifestyle. Professional advice can help.

Genuine savings

You'll often hear that lenders are looking for evidence of genuine savings. Essentially, this means they'll want you to demonstrate savings behaviour over time, generally reflecting savings of at least 5% of the purchase price over a minimum of 3-6 months.

All lenders will assess your application based on your saving and spending behaviour, although assessment policies differ between lenders. Some may consider financial gifts as part of genuine savings, others may not require genuine savings, if you have sufficient cash for your property deposit. A mortgage broker can help you navigate the lender landscape and apply for the loan best suited to your situation.

Additional costs to consider

When it comes to property purchase, there are many costs to consider beyond the sale price and your deposit. Some are payable at settlement and may be covered by borrowing additional funds, but others will need to be paid upfront, prior to property settlement. Others will be ongoing property costs.

You should factor in having extra cash aside for:

- **Building and pest inspection reports:** These upfront costs usually range from $300 - $600, and they are necessary to arrange before you make an offer. After the inspections are conducted, you may decide not to make an offer based on the findings, or, if your offer is subject to satisfactory reports, it may be withdrawn. You may have to fork out this cost for more than one property.
- **Legal fees:** You should allow for around $900 - $1600 depending on your state, and whether you use a solicitor or a conveyancer. Fees are commonly split into part upfront (especially if legal advice is sought) and part payable at property settlement.
- **Council rates and strata fees:** These ongoing costs are dependent on the specific property, but are often listed on online listings, so you can get indicative costs for your search area and likely property type.
- **Moving costs:** This should include removalists, and, if you are renting and will still be in a Lease Agreement, the costs of breaking it, which vary and should be outlined in your lease document.
- **Insurances:** As a homeowner, you need to insure your home from the outset, and lenders will require that you have, at a minimum, home buildings insurance in place prior to property settlement. Insurance premiums vary based on numerous factors including the value of your home, risks associated with the area, such as flood or fire, and even what the property is made of. You are taking on significant debt, so it's also important to consider other insurances that will protect your income and ensure the mortgage can be paid. We'll talk more about these in part two.
- **Stamp duty and fees:** These are charged at property settlement, are calculated on the contract price of your home and vary state to state. Some states offer Stamp Duty concessions or exemptions, depending on the property contract price, whether you or your partner are first home buyers or have previously held an interest in a property, and other factors including if the home is established, newly built or pre-construction.

Stamp duty and fees by State or Territory

For example, on a $750,000 established home based on settlement on 1 July 2019*

	NSW	VIC	QLD	WA	SA	TAS	ACT	NT
Stamp Duty	$20,990	$40,070	$19,600	$29,740.50	$35,080	$28,935	$22,200	$37,125
Mortgage Registration Fees	$141.60	$116.18	$187	$171.20	$170	$138.51	$153	$149
Transfer Fees	$141.60	$1,366	$2,125	$324.70	$6,438	$212.22	$409	$149
Total	**$21,273.20**	**$41,552.18**	**$21,812**	**$30,236.40**	**$41,598**	**$29,285.73**	**$22,762**	**$37,423**

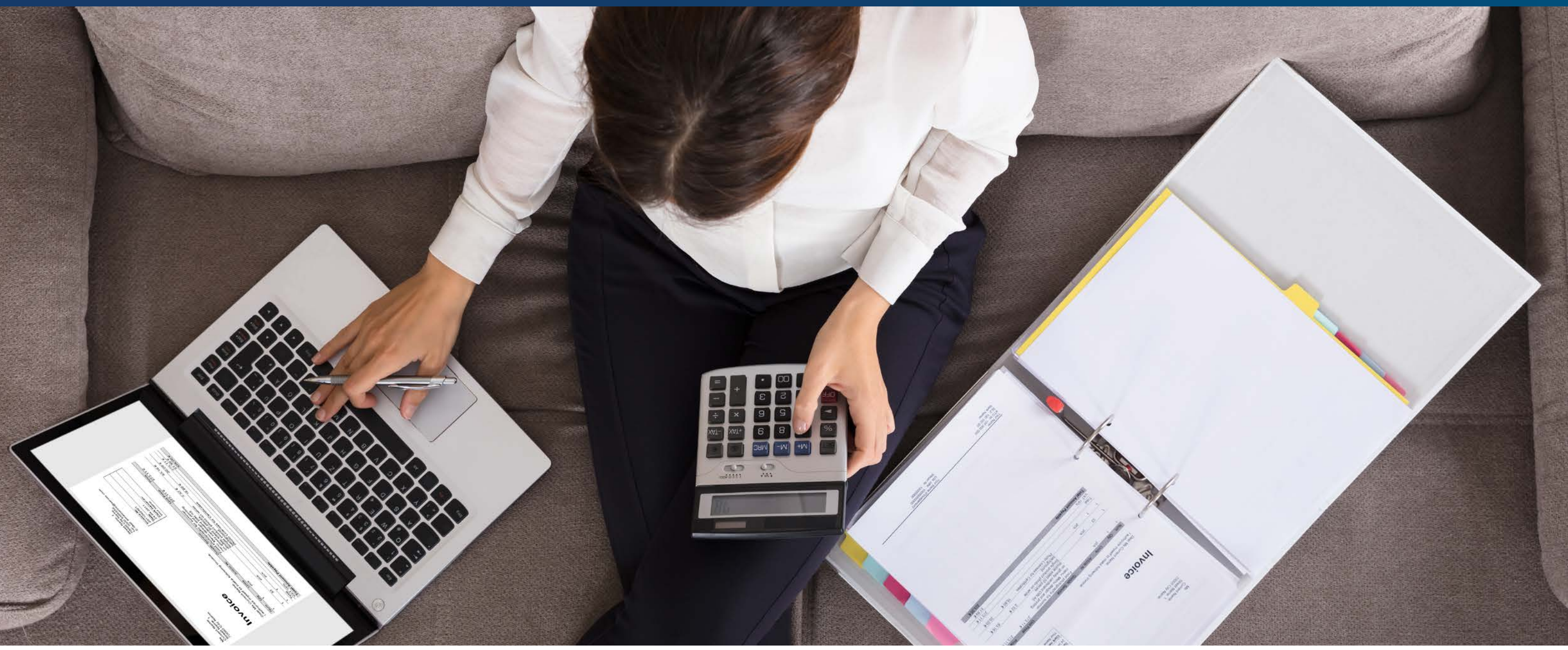
*Every attempt is made to provide accurate figures at the time of printing, but these can change and we recommend that you check with the relevant department in your state prior to purchase.

Lender's Mortgage Insurance

Lender's Mortgage Insurance (LMI) is a form of insurance your lender takes out to protect themselves, typically when they are lending you above 80% of the contract sale price. The premium is calculated on the contract purchase price and percentile value that your loan increases above 80% of the contract price. The LMI premium is a one-off charge, typically passed on at cost to you, the buyer, for payment at settlement. Most lenders will "capitalise", or add the LMI premium into your total loan, thereby allowing you to absorb the cost in your ongoing loan repayments.

The ability to utilise LMI can be seen as something of a double-edged sword, as on the one hand, by paying LMI you are able to increase your maximum loan size and property purchase price, but on the other hand, LMI can become expensive as loan size and purchase price increase. LMI premiums also vary based on the type and location of the property. As the premium is capitalised and increases your total loan, it is necessary to consider the end result of LMI on your loan to property value (remembering most lenders cap at 90%, and some at 95%). A mortgage broker can help you determine how much your LMI premium is likely to be, and how it will affect loan funds that you can use toward the property purchase.

Coming into effect January 2020, the First Home Loan Deposit Scheme may be a way to remove the requirement to pay LMI.



The First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme was announced by the government during the Federal Election 2019. While details of the scheme are yet to be finalised, it will allow eligible first home buyers to purchase a property with as little as 5% deposit. Qualifying criteria will include property purchase price and the annual income of first home buyers, with guidelines currently indicating that the scheme will be offered to singles earning under $125,000 or couples under $200,000. The government has stipulated that the scheme may save first home buyers up to $10,000 in LMI premiums.

Expected to come into effect from 1 January 2020, the scheme is designed to make the property market more accessible, and while it might reach that goal, experts are warning that it could add around $53,000 to the cost of the loan overall. It is also important to note that the funds provided under the scheme will take the form of a government-guaranteed loan, and is not a grant or concession to your purchase price. That said, it still might be right for you and result in overall savings, particularly if you are currently paying rent and are itching to get into the property market. It's worth getting professional advice that takes into account your situation and goals to determine whether this will be a win for you.

Other financial support

Government grants

There are various concessions and grants available to first home buyers, ranging from the cash incentive under the First Home Owner Grant (FHOG) to stamp duty concessions or exemptions. These vary state by state, and are determined by numerous factors, including type of property, contract sale price and whether any purchaser has previously made a grant, concession or exemption claim or previously held an interest in property.

Your financial planner and mortgage broker can help you navigate your options with an understanding of your situation and goals.

Guarantor arrangements

In some cases, you may have a family member who is willing to go security guarantor for part of your loan. A security guarantee is used to increase the available property value, or equity that you are able to borrow against, and some lenders will allow this in lieu of borrowing over 80% of your purchase price, thereby avoiding the LMI premium. The guarantor, often a parent, is required to show that they could pay back the portion of the loan they are guaranteeing without entering financial hardship or having to sell the family home.

This is a big ask of anyone, so approach it carefully if you decide to have this discussion with a family member. It's important to be aware that you are asking them to take a big risk, particularly if they are nearing retirement and have less time to earn back any losses.

You should also encourage them to get independent financial and legal advice before committing, and not let emotions get in the way of making the best decision for everyone involved.

The role of a financial planner

Many of us associate financial planning with retirement, and while it is true that older Australians are more likely to have a financial planner, the reality is that it's beneficial for everyone – particularly if you have big financial goals or life events, such as buying a house, a redundancy, or even getting married.

A financial planner simply acts as your money coach, who is there to help you achieve your goals. By building a deep understanding of your personal situation and your long and short-term goals, a financial planner can help you live for today while planning for tomorrow. Apt Wealth Partners offers both traditional financial planning options as well as BeApt, a digital financial planning tool that puts the power of a financial planner in your hands.

When it comes to buying a first home, Apt advisers have the experience, connections, and wealth of knowledge to help you:

- Implement strategies to save and grow your deposit amount
- Maximise your borrowing power
- Investigate grants and subsidies that you may be able to access
- Set your long-term property and financial goals

For more information, please read the remaining two parts in Apt Getting a Foot on the Property Ladder whitepaper series. If you downloaded this guide, these will be sent to you over the coming days. If you received this via another channel, you can request copies of the remaining parts by emailing us at info@aptwealth.com.au

Part 2: **Getting Finance**
Part 3: **Finding and Buying Your Property**

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