MORTGAGE BASE
FINANCE

The Ultimate Guide to Getting Your First Mortgage

Introduction

Welcome! I'm Mishelle Jewell, your dedicated mortgage broker, here to help you find the best mortgage solutions tailored to your needs. With a focus on personalised service, I proudly assist clients across Australia in securing the perfect home loan.

Being a first-home buyer, navigating the mortgage landscape can feel overwhelming. But here's the good news: you don't have to do it alone.

At Mortgage Base Finance, we'll take care of the hard work for you, guiding you through the process and helping you understand what's important.

This guide is designed to explain the ins and outs of mortgage finance in Australia —from choosing the right lender to settling on your dream home. By the end, you'll feel confident and informed about the decisions ahead.

Understanding the basics

Mortgages aren't as daunting as they seem once you break them down into manageable parts. Here's a comprehensive overview.

What is a Mortgage?

In simple terms, a mortgage is a loan used to buy property. The property itself acts as collateral, meaning the bank can reclaim it if you're unable to make repayments. That sounds scarier than it is—Our role is to ensure that doesn't happen by helping you choose a loan that fits your lifestyle and budget.

Why Do People Get Mortgages?

Very few people can pay for a property outright. A mortgage allows you to purchase a home by borrowing most of the purchase price and paying it back over time, usually 20 to 30 years. You make monthly repayments that cover both the principal (the amount you borrowed) and the interest (the lender's charge for borrowing their money).

Why Should You Use a Mortgage Broker?

As brokers, we can compare a vast range of loans across many lenders, something that would take you many hours of research and paperwork if you were to do it on your own. We'll not only find the best loan for your situation, but we'll also handle all the back-and-forth with the lender, ensuring you get approved with as little stress as possible. And the best bit? It's at no cost to you!

We get paid by the lender only if you decide to make the application and settlement has occurred.

Types of Home Loans

There's no "one-size-fits-all" when it comes to home loans, which is why it's important to choose one that matches your financial goals. Let's break down your options:

Fixed-Rate Loans; A fixed-rate loan locks in your interest rate for a certain period, typically 1 to 5 years. This provides peace of mind because your repayments won't change during the fixed period, even if interest rates rise. However, if rates drop, you won't benefit from the reduction. Fixed loans are great for clients who prefer stability and want to avoid fluctuations. Pros: Predictable payments, security against rate increases. Cons: No benefit if rates fall, limited flexibility for extra repayments.

Variable-Rate Loans; With a variable-rate loan, your interest rate fluctuates depending on the market. This means your repayments can go up or down. If rates decrease, you'll pay less interest, but if they increase, your repayments will rise. Pros: Flexibility to make extra repayments, potential to benefit from lower rates. Cons: Less certainty, repayments can increase if rates rise.

Split Loans; A split loan is a combination of fixed and variable rates. You can "fix" part of your loan and leave the rest on a variable rate. This provides a balance between stability and flexibility. Pros: A mix of predictable repayments and potential rate savings. Cons: Still subject to rate fluctuations on the variable portion.

Types of Home Loans cont...

Interest-Only Loans

For an interest-only loan, you only pay the interest (not the principal) for a set period, usually between 1-5 years. After that, repayments switch to principal and interest. These loans are common for investors who want lower repayments initially.

- Pros: Lower repayments during the interest-only period.
- Cons: You’re not reducing the principal debt during the interest-only term.

Low-Doc Loans

These are designed for people who have trouble proving their income, such as self-employed individuals. I can help ensure you meet the requirements for a low-doc loan, which usually involve providing bank statements and other financial documents instead of traditional payslips.

- Pros: Suitable for self-employed or those with irregular income.
- Cons: Often come with higher interest rates or larger deposits.

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SWOT Analisys

S Strengths

These are the advantages or positive aspects of your financial situation that support your decision to take a home loan.

- Stable income: You have a steady job or consistent income stream.
- Good credit score: A strong credit score can help secure a loan with favorable terms.
- Savings for a deposit: You have adequate savings for the down payment and associated costs.
- Low existing debt: Minimal current liabilities increase your borrowing capacity.
- Loan pre-approval: You've already been pre-approved, giving you confidence in moving forward.

W Weaknesses

Weaknesses are areas of concern or potential challenges in your financial profile that could hinder the loan process. For instance, limited savings might make it difficult to cover the deposit or leave little for emergency reserves. A poor credit history could lead to higher interest rates or limited loan options, while irregular income might make repayments challenging. A high debt-to-income ratio or a lack of financial literacy about loan processes or terms could further complicate your decision-making.

O Opportunity

Opportunities are external conditions or trends that could work in your favor when taking a home loan. These might include low interest rates, which reduce borrowing costs, or government schemes and grants for first-home buyers that make purchasing more accessible. A growing property market may present an investment opportunity in areas with increasing property values. Flexible loan products, such as those with offset accounts or redraw facilities, might better suit your financial goals. Additionally, there may be tax benefits, especially for investment properties, that can reduce overall expenses.

T Threat

Threats represent external risks or challenges that could negatively impact your decision to take a home loan. Rising interest rates are a potential concern as they could increase repayment costs. Economic uncertainty, such as job loss or downturns, might affect your ability to repay the loan. Unforeseen expenses, including maintenance, repairs, or other emergencies, could stretch your finances. Property market volatility could pose the risk of depreciation, affecting the value of your investment. Tightened lending criteria from banks might also present challenges if you fail to meet their requirements.

How much can I borrow?

Determining how much you can borrow is essential in setting your property goals. I'll work closely with you to calculate the best loan amount based on several factors:

→ Income

Your gross and net income is the first thing lenders will look at. This includes salaries, rental income, bonuses, and any other regular earnings. We'll collect your financial data and provide an accurate estimate of what lenders will likely offer.

→ Deposit

Most lenders require a deposit of at least 5-20% of the property price. If you can save more, you'll have access to better loans and may avoid paying Lender's Mortgage Insurance (LMI). I can guide you on how to maximize your deposit savings.

→ Expenses

We'll help you assess your living expenses, including regular bills, grocery costs, childcare, entertainment, and other recurring commitments. We'll ensure that your loan doesn't stretch your budget too thin.

→ DTI (Debt to Income Ratio)

Lenders will also assess how much debt you already have compared to your income. If you have significant car loans, credit cards, or personal loans, it can impact how much you can borrow. We'll help you manage this ratio and advise on whether paying down debt beforehand will increase your borrowing power.

→ Credit Score

Your credit score plays a significant role in the borrowing process. A high score means better interest rates and higher borrowing power. Don't worry if your credit isn't perfect—We'll work with you to find lenders who are more flexible or suggest ways to improve your score before applying.

The Loan Process

Step-by-Step

Here's an in-depth look at the steps we'll go through together. The great thing is that we'll be doing most of the heavy lifting for you!

Step 1: Pre-Approval

Before you start looking at homes, we'll get pre-approval. This is a commitment from a lender that they're willing to lend you a certain amount, pending final checks. We'll gather your financial information—payslips, bank statements, tax returns, and more—and submit them to the lender on your behalf.

- Why Pre-Approval is Important: It shows sellers you're serious and gives you a clear budget to work with.

Step 2: Comparing Loans

Once we have pre-approval, we'll dive deep into researching the best loan options for you. We have access to many lenders and products, so we'll present you with a few tailored options that meet your goals. We'll talk through the interest rates, loan features, and any potential fees, so you're completely comfortable with your choice.

Step 3: Submitting the Application

Once we've chosen the right loan, we'll complete the full application on your behalf. This involves finalising all the details, submitting additional documents, and liaising with the lender to ensure everything is on track.

- What we Do Here: We handle every aspect of the paperwork and follow up with the lender to make sure your application is processed smoothly.

Step 4: Approval and Settlement

After the lender approves your loan, we move to the settlement stage. We'll review the loan documents with you to ensure you understand everything before you sign. On settlement day, the funds are transferred from the lender to the seller, and you officially become a homeowner!

- Post-Settlement Support: Even after settlement, we'll still be available to answer any questions or help with refinancing down the track.

INTEREST RATES EXPLAINED

Variable Rates

- **Fluctuation:** Variable rates fluctuate depending on market conditions.
- **RBA:** They're influenced by the Reserve Bank of Australia's (RBA) cash rate, economic conditions and competition between lenders.
- **Resource Allocation:** While rates can drop and save you money, they can also rise, increasing your payments.

Fixed Rates

- **Stability:** Fixed rates, on the other hand, lock in your interest rate for a set period. While you won't benefit from a rate drop, you'll also be protected if rates rise. We can help you decide which option suits your financial situation and long-term goals.

How Interest Rates Affect Your Loan;

A small change in interest rates can make a big difference in what you pay over the life of your loan. We'll do the calculations for you, showing exactly how different rates will affect your repayments and total loan cost.

The Role of the RBA

The Reserve Bank sets the cash rate, which influences the interest rates lenders charge. Every month, the RBA announces its decision on the cash rate, which can either stay the same, increase, or decrease. We stay on top of these changes and will keep you informed about how they might affect your mortgage.

LOAN FEATURES AND ADD-ON'S

Today's home loans come with a range of extra features that can make managing your mortgage easier. We'll explain the pros and cons of these options so we can decide what works best for you.

Offset Accounts

An offset account is a savings or transaction account linked to your mortgage. The money in this account is used to reduce the interest charged on your loan balance. For example, if you owe $400,000 but have $50,000 in your offset account, you'll only be charged interest on $350,000.

- Pros: Can significantly reduce the interest you pay.
- Cons: Some offset accounts charge fees, so it's important to weigh the costs.

Redraw Facilities

A redraw facility allows you to access extra repayments you've made on your loan. If you've paid more than the required monthly amount, you can "redraw" that extra money when needed, providing flexibility.

- Pros: Acts like a savings buffer.
- Cons: Redrawing reduces the benefit of making extra repayments in the first place.

Loan Portability

Loan portability lets you transfer your mortgage to a new property without needing to refinance. If you're selling your home and buying another, this feature can save time and costs.

- Pros: Avoids early termination fees and new loan application fees.
- Cons: Some restrictions may apply.

First Home Buyer Guarantee (FHBG)

The First Home Guarantee (FHBG) helps eligible first-time buyers enter the market with just a 5% deposit and no need for Lenders Mortgage Insurance (LMI). The government guarantees up to 15% of the loan, saving you money and helping you secure your home sooner.

Key Features

- Low Deposit: Purchase with as little as 5%.
- Avoid LMI Costs: Save thousands with the government's 15% guarantee.
- Limited Places: Act quickly—35,000 places are available annually.

Eligibility Criteria

1. Citizenship: Australian citizens only.
2. Age: Must be 18 or older.
3. Income Limits: Individuals earning $125,000 or less; couples earning $200,000 or less.
4. First Home Status: You and your partner cannot have owned property in the past 10 years.
5. Owner-Occupier: The home must be your primary residence.

Property Price Caps in Victoria

- Melbourne/Regional Centres: $800,000
- Rest of Victoria: $650,000

Eligible Properties

- New or existing houses, townhouses, or apartments
- House and land packages
- Land with separate building contracts
- Off-the-plan apartments or townhouses

How I Can Help

As your broker, I'll:

- Check your eligibility and explain the process.
- Guide you through the paperwork and submit your application.
- Ensure you take advantage of other grants like the $10,000 First Home Owner Grant (FHOG) and stamp duty concessions.

Application Process

- Confirm eligibility.
- Prepare documents like proof of income and ID.
- Submit your application through an approved lender.
- Move into your new home!

Additional Benefits

- FHOG: $10,000 for new homes up to $750,000.
- Stamp Duty Savings: Exemptions for homes up to $600,000; concessions up to $750,000.

As your broker, I'll make the process simple and stress-free, helping you find the right lender and maximise your benefits. Let's discuss how we can turn your homeownership dream into a reality.

The Victorian Homebuyer Fund (Shared Equity Scheme)

The Victorian Homebuyer Fund is a shared equity scheme, making it easier for Victorians to enter home ownership.

If you have a 5% deposit, the Victorian Government could contribute up to 25% of the purchase price in exchange for an equivalent share in the property. This will save you money by reducing your mortgage and removing the need for Lenders Mortgage Insurance.

Aboriginal and Torres Strait Islander participants only require a 3.5% deposit and are eligible for up to a 35% shared equity contribution.

Participants are required to buy back the government's share in their property over time through refinancing, using savings, or upon sale of the property. The Victorian Government does not charge interest on its investment in participants' homes, but shares in any capital gains or losses proportionate to its share in the property.

As part of a $700 million expansion of the Victorian Homebuyer Fund, the following eligibility requirements change from 1 June 2024:

- Increasing the regional purchase price cap from $600,000 to $700,000, and
- Including single parent applicants in the joint applicant income threshold of $216,245.

There is also a cap on the number of applications accepted from 1 June 2024 to 30 June 2025.

To be eligible to participate in the Victorian Homebuyer Fund, you need to:

- be an Australian or New Zealand citizen, or permanent Australian resident
- be at least 18 years of age at settlement
- have saved the required minimum deposit (at least 5% or 3.5% for Aboriginal and Torres Strait Islander participants) of your property price
- earn $135,155 or less per annum for individuals (excluding single parents), or $216,245 or less per annum for single parents or joint applicants. This refers to your gross annual income
- occupy the purchased property as your principal place of residence
- be a natural person (that is, not an organisation, company, trust or other body or entity)
- not purchase your property from a vendor who is a related person
- not own an interest in any land in Australia or overseas at the time of purchase (including as trustee of a trust or beneficiary under a trust)
- not be a shareholder in any corporation (other than a public company) that owns any land in Australia or overseas
- have an approved loan from a participating lender and have sufficient funds to pay all acquisition costs associated with the purchase.

You must meet all of the above eligibility requirements. Eligible participants must become registered owners of the property they buy.

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UNDERSTANDING FEES AND CHARGES

There are several costs involved in taking out a mortgage. We'll guide you through them so there are no surprises.

Lender's Mortgage Insurance (LMI)

LMI is required if you're borrowing more than 80% of the property's value. It protects the lender in case you default on the loan, but we'll work with you to minimise this cost where possible.

Stamp Duty

Stamp duty is a tax on property transactions. The amount varies depending on the state or territory and the value of the property. First-time buyers may be eligible for exemptions or concessions, and we'll help you navigate these.

Miscellaneous Fees

There are a variety of other fees that may apply, including application fees, settlement fees, and discharge fees if you refinance. We'll ensure you understand all the costs upfront.

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Let us do the hard work for you

The mortgage process can be complex, but you don't have to navigate it alone. Our role is to make it as straightforward as possible for you, handling the heavy lifting and keeping you informed every step of the way.

From pre-approval to settlement, we'll be here to guide you and answer any questions you have.

Reach out to me at Mortgage Base Finance when you're ready to get started, and together, we'll find the perfect loan for your needs.

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