

# INSIGHTS

## First Home Buying...

It is tough out there as we know for all Property buyers. Some hope for the First Home Buyers' (FHB) market segment though, with the recent legislation changes making an impact.

Over 10,000 FHB's have committed to breaking into the market with their first property purchase, many utilising the concessions available, including the First Home Owner Grant and Stamp Duty savings throughout Victoria and New South Wales in particular.

Data from CoreLogic confirmed the highest level of FHB participation since December 2009, representing 17.2% of all owner occupier housing finance commitments - its highest proportion since July 2013."

The FHB incentives, effective July 1 2017, has given these participants a distinct arbitrage when buying property. For example, FHB purchasing properties below \$650,000 in NSW and \$600,000 in Victoria, do not have to pay stamp duty. With duty concessions available up to a purchase price of \$800,000 and \$750,000 in NSW and Victoria respectively.

The First Home Owners' Grant remains in place too under limited conditions.

Whilst outside of NSW and Victoria, FHB's are generally larger proportions of the owner occupier segment, suggesting easier housing affordability outside of Sydney and Melbourne in particular.

## TIPS FOR FIRST HOME BUYERS

### CONFIRM WHAT YOU CAN AFFORD

As a first-time buyer, it is important to know what you can afford to purchase right now. A mortgage broker like MCP, can provide you with the information to better understand your financial position and needs. This will include your current borrowing capacity, taking into account your current situation and also any known future changes to your circumstances.

### DO YOUR OWN RESEARCH

Although you may be limited by budget and/or income, make decisions on property for the long term as it is a very illiquid asset! Talk to people about their experiences, and remember property doesn't always just go up in value. Use resources such as a Property Guide to widen your knowledge across how property ownership will impact you, and understand where you are buying too.

### GET LEGAL & PROPERTY ADVICE

After you have done your research, confirm your findings with someone that knows property and also access legal representation to properly review a Contract of Sale.

### PARENTAL SUPPORT

Under some circumstances, your level of deposit may mean you will have to access Lenders' Mortgage Insurance. An alternative may be to access to a parent or other that may want to support you by way of a loan or guarantee.

A guarantor is someone who will provide a guarantee for your home loan, usually a family member. This guarantee is usually secured against the equity in their own property. Once you have paid off part of your home loan, or your property has increased in value, you can apply to have the guarantee removed.

There are different types of guarantees, with the most common one being a security guarantee. This can be considered when borrower can demonstrate that they have the income to service the commitment of the proposed new lending.

The support of this type can be a worthwhile option for first home buyers who would otherwise require LMI.

It is important that the nature and terms of any support is understood by all parties.

### SECURITY GUARANTEE - EXAMPLE

Alex & Anne have purchased a \$750,000 property with a \$37,500 deposit (LVR of 95% ignoring stamp duty for this example), which means LMI would be payable due to the high Loan to Value Ratio (LVR) for this loan.

Alex's parents have equity in property, and want to assist, if they provide a Parental Guarantee of \$200,000 it could look like this:

This guarantee means that the LVR on this loan falls below 80%, and Alex and Anne can avoid paying Lenders Mortgage Insurance, saving them up to \$29,000.

	Existing	Proposed
Purchase Price	\$750,000	\$750,000
Cash Contribution	\$37,500	\$0
Parental Guarantee (Using Alex's parents' property)		\$200,000
Loan Amount	\$712,500	\$750,000
Loan to Value Ratio	95.0%	78.94%
Indicative LMI Premium	\$29,000	\$0

Parents should always seek independent advice on this strategy, in our experience we have seen a dramatic increase in the use of this strategy over the last two years, as parents look for ways to help their children into the property market.

## LENDERS' MORTGAGE INSURANCE (LMI)

LMI protects the mortgage lender (not you) in the event that you, the borrower, defaults on their loan. If your deposit is under the minimum required by your lender (usually 20%) you won't avoid it.

While it is a fantastic goal being able to save say \$100,000 plus costs (for a \$500,000 property), the reality can be a daunting task.

LMI allows the lender to have confidence in offering you a mortgage, even if you haven't quite reached that 20% deposit.

It is expensive and separate eligibility criteria applies, though with LMI in place, some lenders will allow you to borrow up to 95% of the purchase price of your home.

## THE FIRST HOME OWNERS GRANT (FHOG)

From 1 July 2013, the rules for the FHOG have changed. In Victoria for example, a \$10,000 Grant is available when you buy or build your first new home. Your home can be a house, townhouse, apartment, unit or similar, but it must be valued at \$750,000 or less and be the first sale of the property as residential premises. It cannot be an investment property or a holiday house.

The FHOG increases to \$20,000 for new homes built in Regional Victoria and valued up to \$750,000.

There are a number of criteria that you need to meet in order to qualify for the First Home Owners Grant in Victoria.

You are eligible if you:

- Are 18 years or over.
- Are an Australian citizen or permanent resident.
- Are planning to live in the home for at least six months.
- Have never owned a residential property in Victoria or anywhere else in Australia.
- Have never received the grant anywhere in Australia before.

In addition to the FHOG, the stamp duty concessions outlined above still apply too. These give the FHB a distinct advantage when competing against more experienced property buyers.

## CURRENT OFFERS

### NAB

Offering an attractive 2 year fixed interest loan (currently 3.69%) for first home buyers on the basis that:

- It must be a principal and interest loan
- The loan amount must be \$150,000 or more
- This offer only applies to owner occupiers
- Only for new purchases of residential properties

### ANZ

Conveyancing fee rebate up to \$1,000 for FHB's (for eligible stamp concession recipient with lending of \$250,000).

### Others

Westpac, Bank of Melbourne, St George Bank and BankSA are offering discounts on their fixed rate and principal and interest products.