

# What does it take to become a home owner?

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Steve Morrison - The Loan Operator

**Becoming a home owner takes more than just saving a deposit and making regular mortgage repayments. There are costs associated with making a home purchase which can total 5.5% on top of the purchase price, or even as high as 7% if you don't have a 20% deposit.**

**The effort and costs certainly makes it all worthwhile as residential property has a strong track record for creating wealth for many Australians, as well as the added benefit of a having a place to call home.**

## What's involved?

When borrowing money you can usually borrow up to 90 to 95% of the purchase price. Most lenders will stop at 90% however several others will lend a little higher. This means that if you were to borrow at 95% of purchase price and your purchasing costs are 5.5%, then as a starting point you need to have saved at least 10.5% of the purchase price. The cost of lenders mortgage insurance is usually added (capitalised) to the base loan amount (which applies when borrowing more than 80% of the purchase price).

This can be challenging for first home buyers particularly if you're currently renting. The formula to saving a deposit is simple, spend less than you earn and put yourself on a tight budget until you reach your savings target.

Usually buying your first property is the most challenging, however once you have at least one property under your belt, your future purchases will be much easier as property has a track record of growing in value which you can then use to upgrade your home or to purchase further property to create more wealth.

## Here are the costs associated with purchasing a home:

### Pest and Building Inspections

These pre-purchase inspection reports may seem like an unnecessary cost, but when you're making the biggest purchase of your life then it's a small price to pay to ensure you aren't buying an expensive repair job. Termite damage or structural problems could cost thousands to rectify and if the inspection shows problems it can be used to negotiate a lower purchase price.

### Conveyancing

This is all the paperwork involved in the legal transfer of ownership. It's usually performed by a solicitor or a conveyance. You can buy DIY kits, but if you're a first-timer you may feel more at ease if you hire a professional.

### Loan Fees

Depending on the loan type you select, lenders may charge an establishment fee and a settlement fee. You don't have to fork the cash out at settlement, because the fees can be added to the total amount you borrow. You may also be charged monthly or annual bank fees.

### Government Taxes

Stamp duty is the big one. It's an upfront tax calculated on the amount borrowed and the purchase price, which can add thousands to your total bill. First home buyers (in Victoria) are currently entitled to a 40% discount if the purchase price is \$600k or less.

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## Insurance

If your deposit is less than 20 per cent of the value of the property, most lenders will insist on Lenders Mortgage Insurance (LMI). This is a type of insurance that protects the bank. This is a good reason to keep saving for a few more months if you are close to having that magic 20 per cent deposit. That way you can avoid the extra expense of LMI.

There are also other methods for first home buyers to avoid the cost of LMI if a parent has an unencumbered property and is willing to put up their home as security guarantor. It may also be wise to look at contents and income/life insurance to protect your property and belongings should you become unemployed or sick.

## Moving Costs

Remember to factor in the cost of removalists and reconnecting amenities such as gas, electricity, water, phone/internet and Foxtel. They may seem like small expenses, but they add up. If you're selling a home you may need to consider renting for a period or storing belongings until settlement.

## Strata Fees

When buying a strata-title property the strata fees will be listed on the marketing material. These help with general maintenance of common areas and facilities, and are usually paid quarterly. It's also wise to organise an inspection of the records and accounts of the Owners Corporation by a qualified strata searcher. This is called a Strata Search and will cost in the vicinity of \$250-300. It provides information about the building that's not apparent from a physical inspection, such as a history of repairs, proposed expenditure and the value of the sinking fund.

## Council Rates

Rates contribute to the running of your local council and the services they provide. How much you pay depends on the value of your property and the yearly cost of the council's expenses. If you've been renting you may not have been paying water rates so this is something to bear in mind. It's a good time to be even more water efficient now that you're paying for it.

Here is the budget for a (fictional) \$500,000 house with a \$450,000 loan in Melbourne:

Building and Pest Inspections	\$700
Conveyancing	\$700
Loan Fees	\$600
Lenders Mortgage Insurance	\$8,534
Government Fees and Stamp Duty	\$23,439
Moving Costs and Connection Fees	\$1,000
<b>TOTAL:</b>	<b>\$34,973</b>

If you have a 20% deposit and can avoid the cost of LMI, then the total would be \$26,439 (~5.5% of the purchase price).

*Important information: The advice contained in this fact sheet is for general information purposes only. It has been prepared without considering your objectives, financial situation and does not constitute advice.*