

# First Home Buyers Guide



Step into your first home

Citi never sleeps



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# Introduction

Saving for, buying and paying off your first home can seem like a daunting process - but it's definitely worth the effort. And buying a home is really quite straightforward, though as with all new experiences, there may be some aspects you are uncertain about.

Your Citibank First Home Buyers Guide provides information on key topics relevant to first home buyers. We hope you find it useful, and of course, if you have any questions call us on 1300 361 922 or contact your mortgage broker.

'Buying your first home is definitely worth the effort.'



A little bit of groundwork at the outset can make a big difference in finding a home that's right for you, as well as helping you to manage your mortgage.

## **1 Check your credit record**

When you apply for a home loan, lenders will take a look at your credit record - which shows how well you have handled debt in the past. It's worthwhile checking your credit record before you apply for a home loan, so you have the chance to follow up and correct information on your credit history if you believe it to be inaccurate.

To access a copy of your credit history, go to [www.mycreditfile.com.au](http://www.mycreditfile.com.au)

## **2 Determine how much you want to borrow**

A key step in buying your first home is determining how much you can afford to borrow. One of the best ways to do this is by drawing up a budget that shows your total monthly income compared to your anticipated monthly expenses. Once you have purchased a property you will be tackling an array of new outgoings including rates, insurance and maintenance costs - in addition to your regular mortgage repayments. It is important that you will be able to comfortably meet all of these expenses.

It is worth thinking about where your career is headed. For example, is a salary increase likely? And give some thought to your plans for the future. You may intend to spend some time traveling or start a family. These could all have a significant impact on your budget, both now and in the future.

And give plenty of thought to the sort of features you are hoping for in your new home. Aspects like location, the number of bedrooms and the availability of parking are all important considerations. Buying a property is a major financial commitment and ideally your home should provide a comfortable lifestyle for many years to come.

Citibank has an online calculator at [www.citibank.com.au](http://www.citibank.com.au) that can give you an idea of the monthly repayments you could expect for a range of different loan sizes and interest rates. Allowing an extra 1.5%p.a. to 2.5%p.a. on current interest rates will help you see how easily you could maintain your repayments if rates rise in the future.

### **3 Save for your deposit**

You will also need to save for the deposit on the home. For most property purchases you will be required to provide evidence of genuine savings for at least 5% of the property price. This can be comprised of funds held in savings accounts, term deposits, shares, managed funds or bonds. Saving for a deposit on a home demonstrates your ability to service a mortgage.



# The costs involved

Buying a home involves a range of upfront costs that you will need to factor into your budget.

## 1 Stamp duty

Stamp duty is a state government charge that may be payable on the purchase price of your home and on the value of your mortgage. The amount payable varies between states and territories. Go to your state or territory's website for the stamp duty in your area - we've listed their web addresses below.

State/territory	Website
New South Wales	<a href="http://www.osr.nsw.gov.au">www.osr.nsw.gov.au</a>
Australian Capital Territory	<a href="http://www.revenue.act.gov.au">www.revenue.act.gov.au</a>
Northern Territory	<a href="http://www.revenue.nt.gov.au">www.revenue.nt.gov.au</a>
Queensland	<a href="http://www.osr.qld.gov.au">www.osr.qld.gov.au</a>
South Australia	<a href="http://www.revenuesa.sa.gov.au">www.revenuesa.sa.gov.au</a>
Tasmania	<a href="http://www.treasury.tas.gov.au">www.treasury.tas.gov.au</a>
Victoria	<a href="http://www.sro.vic.gov.au">www.sro.vic.gov.au</a>
Western Australia	<a href="http://www.dtf.wa.gov.au">www.dtf.wa.gov.au</a>

While stamp duty can be a significant upfront expense, valuable concessions are available for first home buyers.

## 2 Lenders Mortgage Insurance (applies to deposits less than 20%)

If you borrow more than 80% of the value of the property you're buying, you will need to pay Lenders Mortgage Insurance (LMI).<sup>1</sup> This insures your lender (not you, the borrower) against non-payment or default. By protecting your lender against default, LMI allows you to borrow with lower deposits. Your lender will organise LMI on your behalf, so it's not something you need to shop around for.

The LMI premium you can expect to pay will be based on the size of your mortgage and the purchase price. One of the best ways to reduce the cost of LMI is to save a larger deposit.

1. Citibank offers LMI up to 90% loan to value ratio (LVR) including the Lenders Mortgage Insurance premium. Conditions apply.

### **3 Other costs**

Purchasing a property involves other associated costs that we've listed below, which can add up to around 5% of your home's value. Aim to get several quotes for services like insurance and furniture removal to ensure you get the best deal. And don't forget to set aside funds for the house-warming!

#### **■ Loan costs**

- Loan application fee
- Valuation and lender's legal fees

#### **■ Legal fees** (also known as 'conveyancing' fees)

#### **■ Inspection costs**

- Building inspection
- Pest inspection

#### **■ Insurance**

- Property insurance
- Contents insurance

#### **■ Moving in costs**

- Council and water rates
- Strata levies (applicable to villas, townhouses and units)
- Furniture removal
- Utilities connection - telephone, gas, electricity
- Mail redirection

#### **Income protection insurance – worth thinking about**

This type of insurance offers protection for a specified proportion of your regular income (usually up to 75%) in the event you are temporarily unable to work due to illness or injury. It is a worthwhile precaution for anyone taking out a mortgage and in most cases the premiums are tax deductible.

Information on income insurance offered by Citibank is available on our website at [www.citibank.com.au](http://www.citibank.com.au)

# A helping hand – lender products and government assistance

Good news. There is plenty of financial assistance available for first home buyers – from useful products from lenders to government grants and concessions.

## **1 Low deposit home loans**

Saving to buy your first home is not easy. But it isn't always necessary to raise the traditional 20% home deposit. To help you get into your new home sooner, many lenders now approve loans of up to 90% of the property's value. You would also need to demonstrate savings of at least 5% of the property value.

Citibank's Low Deposit Home Loan<sup>1</sup> is the ideal solution for getting into your own home sooner. It helps you escape the rent trap and start building wealth in your home. Suitable for customers with strong incomes but limited savings to support their loan, Citibank's Low Deposit Home Loan is available with our Basic, Standard Variable, Mortgage Offset and Fixed rate loans.

## **2 First Home Owners Grant (FHOG)**

A tax-free grant is available to home buyers who have never owned a property before – this condition also applies to any co-owners you purchase the property with. To be eligible you must be an Australian citizen or a permanent Australian resident, and aged 18 years or over. Only one grant is payable per property – even when the home is purchased in joint names. You will need to use your home as your permanent residence for at least six months after purchase, or begin living in it within one year of settlement or following completion of building.

Citibank takes the hard work out of the First Home Owners Grant. Simply submit your application as part of your home loan, and we'll ensure it is processed.

1. The Citibank Low Deposit Home Loan is available up to 90% LVR, including the Lenders Mortgage Insurance Premium. Conditions apply.



### **3 Stamp duty concessions**

Stamp duty concessions offered to first home buyers can be worth thousands of dollars. The concessions available vary by state/territory and can depend on the value and type of property being purchased.

Citibank's online stamp duty calculator at [www.citibank.com.au](http://www.citibank.com.au) will show you just how much stamp duty you will pay in your state or territory.

Answers to commonly asked questions relating to the First Home Owners Grant and stamp duty concessions can be found on the revenue office website for your state or territory. The web addresses for these sites are located on page 5 of this Guide.



# Choosing a home loan that's right for you

First home buyers can choose from a broad selection of home loans, with something to suit just about everyone. Here we put some of the more popular home loan products under the spotlight.

**Basic home loan** - Often a good choice for first home buyers, a 'basic' home loan may have fewer features than a standard loan, but with a lower rate of interest it often represents great value for money. Citibank's Basic Variable loan is better than basic. It comes packed with handy features including a redraw facility and the flexibility to be combined with a fixed rate loan, while still offering a low rate.

**Standard variable loan** - A versatile home loan, the interest rate on a variable loan changes in line with market interest rates. Citibank's Standard Variable mortgage is a real workhorse, offering plenty of useful features along with a trim interest rate. It can be linked to an offset account, reducing your interest.

**Standard fixed rate loan** - Offers the security of a fixed interest rate for a given period - usually, one, two, three or five years. A fixed rate makes budgeting easier and is a real plus if rates rise. Citibank's Standard Fixed Rate mortgage lets you make additional repayments at no extra cost - the key to becoming mortgage-free sooner.

**Line of credit** - This is like having a large credit card secured by a mortgage on your property. You have a pre-set limit and money can be used as needed and paid back without structured minimum repayments. With Citibank's line of credit - Mortgage Power - interest is calculated daily only on the amount owing, and balances can fluctuate up to your credit limit at any time without having to consult us.

**Self-Certified loan** - Aimed at self-employed people, Self-Certified loans require less formal documentation of a borrower's income, however they usually come with a higher interest rate. Citibank offers a broad range of Self-Certified loans. You will be required to complete a Self-Certified Declaration Form<sup>1</sup>, have a registered ABN and provide supporting BAS statements.

**Professional package loan** - Originally available to borrowers in certain professions, professional packages are now usually available to eligible borrowers taking loans over \$200,000. Professional packages combine a home loan and credit card in a single package offering special discounts. Citibank's professional package - Mortgage Plus - entitles the borrower to their choice of mortgage with a discounted interest rate, free membership to the Citibank Gold Card Rewards Program<sup>2</sup> and a Citibank Gold Visa card free of annual fees.<sup>3</sup>

1. It is important that correct income information is provided in the Self Certified Declaration Form and your mortgage application, as these will be used to determine your ability to repay the loan. In addition, you will be required to provide BAS statements for 12 months and must have a registered ABN for at least 24 months.

2. Rewards are subject to the Citibank Rewards Terms and Conditions.

3. Terms and Conditions apply.

# Handy loan features

It's important to get the features on your home loan right. Features provide flexibility but can also cost extra, so you should aim to only get the ones you think you will use. Think about what your future needs will be and match them against the relevant features. Below are some of the main home loan features available.

Except where specified otherwise, all Citibank mortgages offer the following useful features - some fees may apply.

**Extra repayments** - Allows you to use extra cash to reduce the outstanding principal and interest on your home loan. This is a great way to pay off your loan faster.

**Offset account** - Many lenders offer an 'offset' account, which is a savings account linked to your home loan. It can be a great way to save on interest costs because interest charged on the home loan is calculated on the difference between the balance of your loan amount owing and the balance in your savings account.

Let's say, for example, that the balance on your home loan is \$250,000, and you have \$10,000 in your savings offset account. Instead of being charged interest on the full value of your home loan, interest will be charged on a balance of \$240,000 - being the difference between the balance of your loan and the money in your offset account.

A Citibank Offset Savings Account can be combined with our Standard Variable loan to get the best of both worlds - day-to-day access to your money while paying off your mortgage sooner.

**Portability** - Enables you to keep an existing loan should you wish to sell your property and buy a new one - a real plus in terms of cost savings and convenience.

**Redraw** - This popular loan feature lets you withdraw any additional repayments you have made on your mortgage. It is a useful way to reduce your interest while providing access to your funds. Citibank offers free, unlimited redraws on virtually all of our home loans with the exception of fixed rate loans.

**Split loan** - Splitting the loan allows you to establish multiple loan accounts. These split accounts can also be differing product types, e.g. you may want to combine a fixed rate portion with a variable rate portion.

Not sure which loan or features are best suited to your needs? Your Citibank Mortgage Specialist can help you make the right decision.

# You've found a property - what happens next?

Once you have found a property you are interested in, it's time to get stuck into the buying process. Our guide below outlines the steps involved in purchasing a property, though the order in which these events may occur can vary.

## **1 Engage a solicitor/conveyancer**

If you haven't yet secured the services of a solicitor or conveyancer, now is a good time to do so. Friends and family can be a useful source of referrals or simply look up 'Solicitors' in the Yellow Pages.

## **2 Obtain a copy of the contract of sale**

The selling agent will provide you with a copy of the property's sale contract. Arrange for your solicitor or conveyancer to check the contract carefully before you make an offer. This offers protection from any legal restrictions you may not be aware of.

## **3 Arrange pest and building inspections**

It is advisable to arrange a professional building and pest inspection of any property you are considering. This will ensure the property is structurally sound and free of pests.

## **4 Make an offer/bidding at auction**

If you are purchasing by private treaty, you can make your offer to the agent either verbally or in writing. The agent will relay your offer to the vendor (seller), and what follows may be a period of negotiation during which both you and the vendor arrive at a price you are both comfortable with.

If you are bidding at auction, remember to bring your cheque book as you will need to pay a deposit on the spot if you are the highest bidder.

## **5 Secure final loan approval**

Make sure you get final approval from your lender. The most important condition of final approval is that the loan amount is based on the lender's valuation of the property, not on the purchase price (and be aware that the valuation is often not the same as the purchase price). At this stage, your lender will conduct a valuation of your property.

## **6 Secure your purchase**

To secure your property purchase you will need to sign the sale contract and pay a deposit - usually equal to 10% of the properties agreed sale price, alternatively Deposit Bonds can also be used at this time.

Until you and the vendor have signed and exchanged contracts, the property can still be sold to another buyer offering a higher purchase price.

## **7 Cooling off period**

If you purchased your home through private treaty, you may be entitled to a 'cooling off' period following exchange, during which you can opt out of the purchase and still be entitled to a refund of your deposit. Do note though, the availability and length of a cooling off period varies between states and territories - ask your solicitor or conveyancer for full details.

There is no cooling off period for properties sold at auction. Once the hammer falls, you are committed to buying.

## **8 Arrange insurance cover on your new home**

It is a good idea to arrange insurance cover for the property as soon as you exchange contracts. At the same time, you may also want to arrange contents insurance - to commence from the date you move in.

## **9 Following exchange of contracts**

Once you and the vendor have exchanged contracts, you have six to eight weeks to settle on the property. During this time your solicitor or conveyancer will conduct a range of title and property searches to ensure everything is in order prior to title (ownership) of the property being transferred to you. Use this period to make arrangements for furniture removal and to organise utilities connection and mail redirection.

## **10 Settlement**

Settlement is the final legal stage of your home purchase. On the settlement date, representatives of the seller, the buyer and the lender all meet to complete the deal. The keys to the property are handed over to you - the buyer - and at last you have purchased your own home!

'The order of the steps involved in purchasing a property can vary.'

# Five tips for paying off your mortgage faster

Once you've got your home loan, follow one tip, or use them all, to pay off your mortgage sooner.

## **1 Pay fortnightly**

When you make your repayments monthly, you make 12 payments each year. Try paying half the full amount each fortnight. With 26 fortnights in a year, you'll pay the equivalent of an extra month's repayment - without feeling the pinch.

## **2 Make extra repayments**

Even small amounts can make a major difference. On a loan of \$250,000, paying just \$10 extra each week can see you mortgage-free more than three years sooner. And you could slash \$19,500 off the total interest bill in the process.

## **3 Make your lender a one-stop shop**

Having all your financial needs serviced by one lender is more than just convenient - it can also save money. Citibank, for example, will reward your loyalty with fee reductions on other products. When you take out a Citibank home loan we'll waive the monthly account fees when you open a Citibank Plus everyday account. That's an instant saving of \$60 each year - money you could put towards extra mortgage repayments.

## **4 Get an offset account**

An offset mortgage account can mean big savings on your home loan interest. You only pay interest on the difference between your home loan and your savings. It's like earning a tax-free return on your cash.

## **5 Give your mortgage an annual check up**

Our personal circumstances can change rapidly, and the loan that was right for you a few years ago may no longer offer the best solution. Check your current home loan to see that it still offers the features and service you need at a competitive rate.

'Citibank will reward your loyalty with fee reductions on other products.'

Learn the language of home loans with our easy to follow jargon buster.

**Comparison rate** - A rate that includes upfront and ongoing fees as well as the advertised interest rate. It will assist you in identifying the true cost of a loan.

**Credit limit increase** - Increasing the amount of money in your home loan. Note that stamp duty applies.

**Deposit Bonds** - Are a guarantee or bond that substitutes for a cash deposit between signing contracts and settlements. Deposit Bonds can be up to 10% of the purchase price and can be issued for all or part of the deposit amount required.

**Equity** - The difference between the amount owed on your home loan and your home's value.

**Fixed rate** - An interest rate that allows you to lock in to a specified rate of interest, with fixed monthly repayments, for a given period of time.

**Interest only** - A type of loan that requires repayments on the interest only and, as such, leaves the loan principal untouched.

**Loan to value ratio ('LVR')** - The LVR refers to the size of your home loan expressed as a percentage of your property's value. For example, if you borrow \$300,000 to fund a property worth \$375,000, the loan is said to have an LVR of 80% (\$300,000 is 80% of \$375,000).

**Principal and interest** - A type of loan where each repayment is comprised of interest plus a reduction in the loan principal.

**Private treaty** - The sale of property subject to privately negotiated terms (as distinct from a sale at auction).

**Switching** - Changing from a variable loan to a fixed rate loan. Can be useful if you are concerned about a possible rate rise.

**Variable rate** - An interest rate that will vary in line with changes to official interest rates.

**Variation** - A change to the home loan agreement.



# Let Citibank help you step into your first home.

For more information on Citibank Mortgages, simply:

- Call us on 1300 361 922 (9:00am to 5:00pm AEST Monday to Friday) or
- Contact us online at [www.citibank.com.au](http://www.citibank.com.au) or
- Contact your mortgage broker.

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The Citibank logo features the word "citibank" in a blue, lowercase, sans-serif font. A red arc is positioned above the letter "i". A registered trademark symbol (®) is located at the top right of the word.

All loans and security are subject to Citibank's Credit Criteria. Establishment, and where applicable, legal fees apply. Terms and conditions apply and are available upon request. Fees and charges apply.

The information and material contained in this document including about Citibank products and services, interest rates and fees are current as at 23 April 2009 (unless otherwise indicated) and subject to change without notice.

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