ali PROTECTING HOME & PROPERTY BUYERS

ALI Group

FIRST HOME BUYER'S PLAYBOOK

An end-to-end guide to purchasing your first home

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Introduction

FROM ONE FIRST HOME BUYER, TO ANOTHER

Hi there

Like so many Australians, the dream of owning your own property is a big one and an important milestone in your life. It might even be the largest financial investment you make. So, regardless of if you are buying your first property, an empty block of land, a home to raise your family in, or even your second or third investment property, there is a lot to know and to consider throughout the purchasing journey.

Purchasing your first home is a life changing moment. It signifies growing up, taking on responsibility and laying down some roots of your own. But, the journey to that moment of first home ownership can be complex and full of uncertainties. Trust us when we tell you, you're not alone in feeling a little overwhelmed by it all.

ALI Group has partnered with mortgage brokers to protect First Home Buyers for over 17 years and now we hope to share some of our knowledge and experience with you through this playbook.

On behalf of the whole team at ALI Group, we hope you find this helpful throughout this exciting and life changing time in your life.

Emma is the Communications Executive at ALI Group, who is currently going through the process of purchasing her first home. Emma and her fiancé are currently living with Emma's parents and are saving for a house deposit, a wedding, a honeymoon all whilst trying to balance and *afford* everyday life.

After finding a real gap in quality information for first home buyers, Emma put this playbook together to make the journey less overwhelming and challenging for others. You can learn more from Emma's first home buyer blog series on the website:

info.aligroup.com.au/FHB

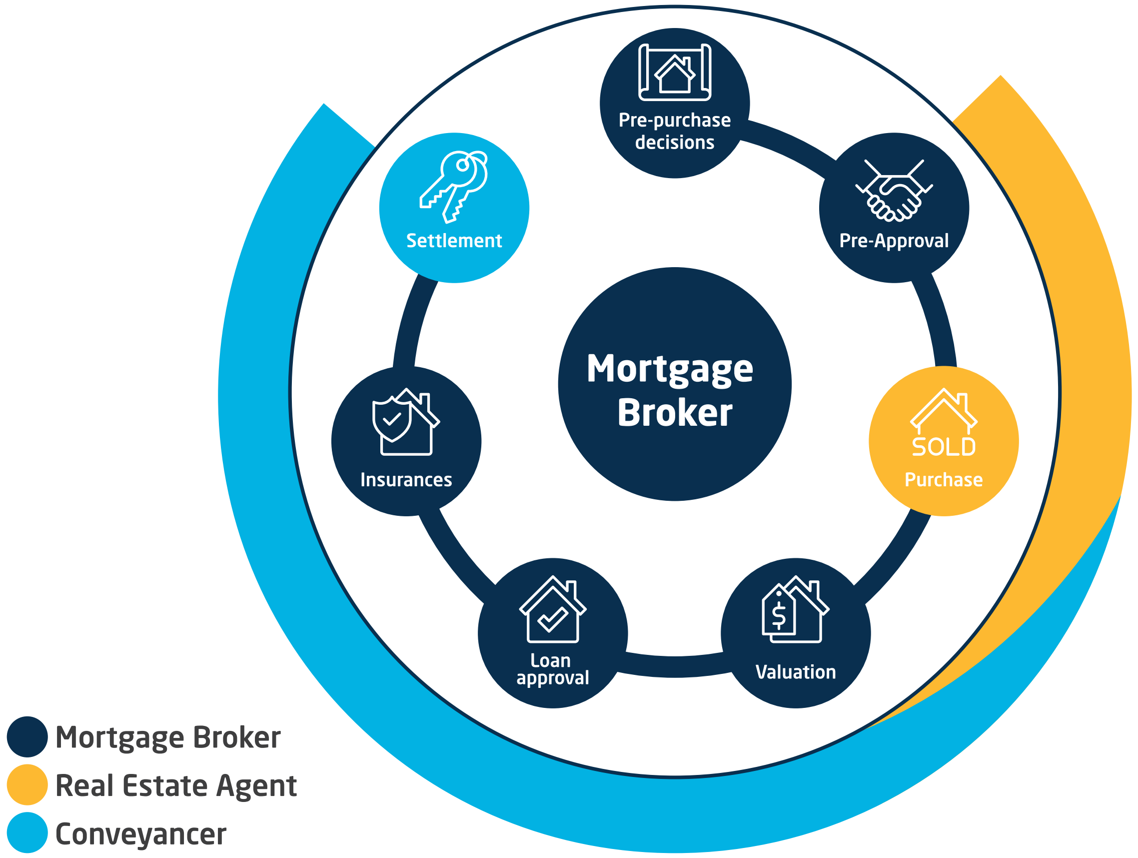
A look at the BUYING JOURNEY

Going through the buying journey with a mortgage broker is a great decision if you're new to the process. A mortgage broker will be able to assist you, review your circumstances and look at a few different options or scenarios for you.

The broker difference is they will be able to compare lenders to find the best option for you in your financial circumstances and provide you the knowledge you need to make informed decisions.

The image below is a snapshot of what the process looks like as a whole. In the image you can see the important roles the mortgage broker plays, as well as other key parties such as the real estate agent and the conveyancer.

We will break these down for you to help you understand what each part of the journey means and what you can expect.



Mortgage broker:

The mortgage broker will help you through the entire process from purchase through to settlement - they are the go between the lenders and yourself and are there to find you the right loan and lender.

Real Estate Agent:

The Real estate agent will support your purchase process when you have found your dream home or investment property. It's important to do your research and only work with a real estate agent you trust so you can ensure you're getting the best deal possible.

Conveyancer:

A conveyancer plays a necessary role in the process as they will assist you in the settlement and the title transfer process. They will ensure legal obligations are being met and their client's rights are being protected. You will incur conveyancing fees so it's important to account for these fees to ensure there are no surprises.

Pre-purchase decisions:

Exactly what you're doing now - looking at your options, your financial circumstances, looking at the options available to you and if you haven't done so already, looking at a savings plan and a goal to get you into your dream home.

Pre-approval:

You will be sitting down now with your mortgage broker or financial professional and collating all the information you need to apply to a lender best suited to you. You will have established a deposit or a guarantor and have a clear idea of how much you'd like to borrow. Your mortgage broker will at this point be preparing your application to submit to the lender.

If you get approved for pre-approval, you will have a good understanding of what the bank is willing to lend you and what your repayments will be over the life of the loan. Pre-approval lasts for three months so it's usually during this time you will ramp up the house/land hunting and start to make offers on your dream properties.

If you're unsuccessful for pre-approval, don't be discouraged. Take a step back and review your circumstances, perhaps you need to close out some old loans or credit cards or need to work on building your genuine savings. Your mortgage broker will be able to help you each step of the way, even if the outcome was not what you had hoped.

Purchase:

By this stage you have found the home you want to purchase or the land and house package you wish to begin construction on. Before you sign on the dotted line, make sure you've completed a bit of a checklist which should include a building inspection where you check everything. Some common regrets of first home buyers is that they overlooked things which became costly down the line.

The building inspection will also help you with the offer you'd like to make and any negotiations with the real estate agent.

Valuation:

Lenders will arrange for their own valuation or appraisal so they can establish an estimated value of the home or land you are about to purchase. The valuer is independent of the lender and is important in ensuring the investment is fair.

Unconditional approval or formal approval:

This is the stage when the lender is equipped with everything they need, the valuation has been completed and now the lender is ready to provide formal approval of your loan. At this point you can probably start relaxing those shoulders and putting the champagne on ice!

An important consideration is LMI - Lenders Mortgage Insurance. This can incur if you need to borrow over 80% of the property value. You will need to be approved for LMI as well as the loan which can extend the application time and process.

Insurances:

This is often a part of the process which can be forgotten about, however it's an important one. There are always risks when entering a large debt. So, it can be a good idea to look at any existing cover or insurances and to take note of any inadequacies or vulnerable areas. Ask yourself, how would you manage the mortgage repayments if something unexpected were to occur like redundancy, a serious illness, or even if you were to pass away? Can you rely on your savings to see you through financially hard times? Your mortgage broker will introduce you to loan and mortgage protection - which is a way you can mitigate the risks of entering a large debt.

Read more about loan and mortgage protection on page, 21.

Settlement:

Property settlement is when ownership passes from the seller to you and the balance of the property is paid. The seller will set a settlement date in the contract of sale which can generally be around 30 to 90 days. Your conveyancer or legal representative will meet with the lender and the seller's representatives to exchange the documents. There are a few things which need to happen on settlement day, such as:

- Your lender will register a mortgage against the title of your new property.
- Funds will be provided to purchase the new property.
- Your solicitor or conveyancer will check that any existing mortgage or title to the vendor is discharged.
- Any third party or person who has rights over the property (a caveat) is removed.
- All clauses on the sales contract are fulfilled.
- The transfer of land and mortgage is registered with the title office in your state or territory.

How much do you really need?

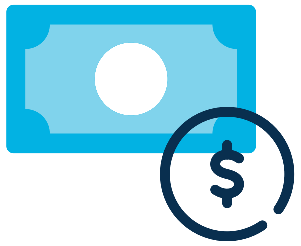
DEPOSITS, DEPOSITS, DEPOSITS

Let's talk about deposits. If you're a first home buyer who assumes they need to save a full 20% deposit before a lender will even talk to you, then you'll be pleased to know this isn't always the case.

In fact, it's becoming less challenging for us first home buyers to enter the market without a full 20% deposit saved.

If you were looking to purchase a home for say $650,000 and you wanted to save a 20% deposit, then you would need to save $130,000. This might be easy for some, however for a lot of us, this isn't feasible and can put years and years on our home buying dreams.

The good news is, there are lenders who are willing to lend you up to 95% of the property value, meaning you might only need a deposit of 5%. Now, there is a little thing called LMI or Lenders Mortgage Insurance which you might be required to pay on top of your loan which can add thousands of dollars to your loan. However, this is a way you can get into the market sooner and a lot of FHBs do explore this option.



Guarantor Loans

Another low-deposit option is borrowing with a guarantor. If you're renting and are really struggling to save your deposit and you have parents or in-laws who are willing to go guarantor on your loan - then this might be the option best suited to your personal situation.

A guarantor will offer the equity in their own home as security for your loan. This way you can enter into the property market sooner, without the 20% deposit and it's also a way to avoid the cost of LMI.

Now, this option can leave you feeling a bit uneasy, especially if you think you're gambling with your parents home to buy your own and even though there are risks associated with any large debt you enter, it may not be as dangerous of an option as some first think.

In fact, by taking out loan and mortgage protection, you can ensure if something unexpected were to happen like if you became seriously ill, lost your job or even passed away, then you could have peace of mind that you're protecting yourself and your guarantor loan from financial hardship.

What's available to you as a

FIRST HOME BUYER

In case you were not fully aware of some of the concessions and schemes currently in place to make it easier for first home buyers in Australia to enter the property market, we have listed some of the information here for you.

First Home Owner's Grant (New Homes) scheme

The First Home Owner's Grant (FHOG) scheme is a state governments' initiative to help first home owners achieve their first home dreams sooner. It does require you to be buying or building your new home and depending on your location, there will most likely be a cap on the value.

Whilst there are variances from state to state, eligibility criteria to meet before you can apply for the grant generally includes:

- You must be a FHB as a person, not a company or trust.
- If you're buying with another person, at least one applicant must be a permanent resident or Australian citizen.
- Each applicant must be at least 18 years old.
- You or your spouse cannot have lived in a residential property which you owned from 1 July 2000.
- You or your spouse, partner or co-purchaser may not have claimed the grant previously.
- You must occupy your first home as your principal place of residence within 12 months of the construction or purchase of your home and the minimum period of occupancy is six continuous months.

Please note, the grant changes per state - to ensure you have the right information for your area, you can visit the First Home Owner Grant website:

Firsthome.gov.au

WA

The grant available in Western Australia is $10,000 for those eligible and buying or building a new home. Eligible properties located south of the 26th parallel (of southern latitude) are capped to $750,000, whilst properties north of the 26th parallel are capped to $1 million.

NT

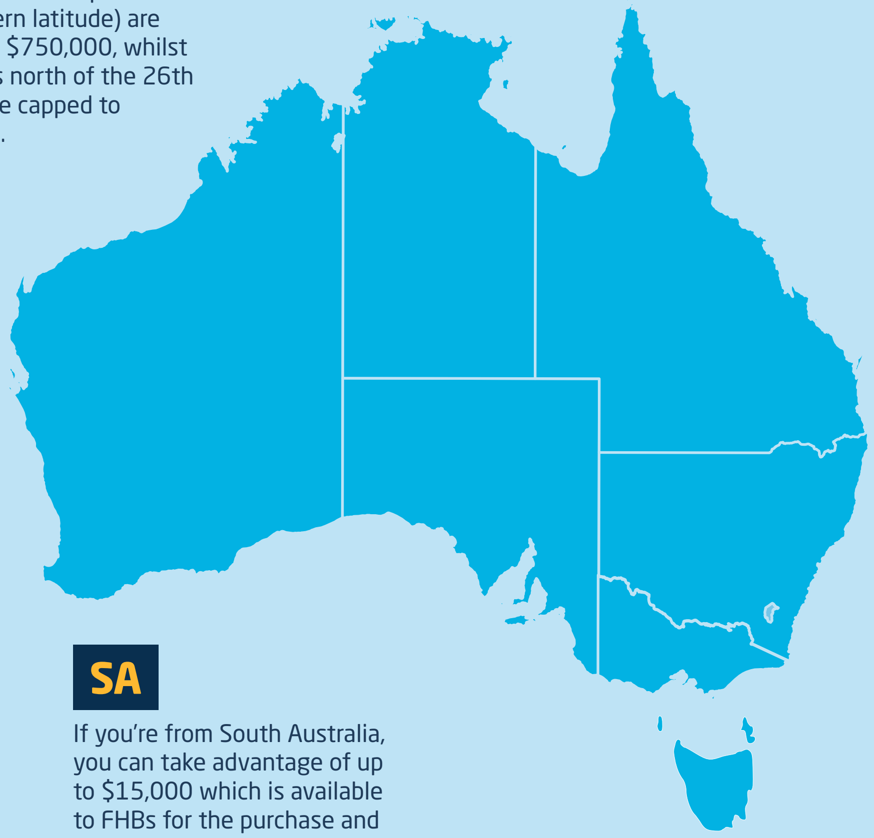
A $10,000 grant for FHBs is available to eligible applicants who purchase or construct a new home. No limit applies to the value of the property you buy or build, either!

QLD

In QLD, depending on the date of your contract, you could be eligible to receive $15,000 or $20,000 towards buying or building your new home, if it is valued under $750,000.

NSW

In NSW, the scheme offers a $10,000 grant for the purchase or construction of new homes with the value of a newly constructed property having to be $600,000 or less for it to be eligible. If you are buying land and plan on building a new home or dwelling on that land, then the value must be equal to or less than $750,000.



SA

If you're from South Australia, you can take advantage of up to $15,000 which is available to FHBs for the purchase and construction of new homes valued up to $575,000.

ACT

It changes again in ACT, with the grant of $7,000 available to help fund the purchase of a new or substantially renovated home, valued $750,000 or less.

TAS

Like regional Victoria, the grant is $20,000 for FHBs buying a new home, buying a new home off the plan or building a new home. However, this is expected to reduce to $10,000 from 1 July 2020.

VIC

Victoria offer a $10,000 First Home Owner Grant is available to eligible applicants buying or building a new home valued up to $750,000 in metropolitan Melbourne and for applicants in regional Victoria, the grant is $20,000.

The above information is current as at January 2020 and has been sourced from firsthome.gov.au

More options to consider:

Transfer Duty (previously known as Stamp Duty) Exemptions

There are several things to factor in when calculating what the transfer duty will be on the property you buy and what exemptions will be for you, in your specific state.

For FHBs though, as part of the First Home Buyer Assistance scheme, we may be exempt from transfer duty on new homes, or eligible for discount.
To be eligible for this, you need to be:

- Over 18 and a permanent resident or citizen
- Have never owned a property before
- Have never received a first home owner grant or concession

The best place to find out about these exemptions is either through your mortgage broker, or your state revenue's websites.

The Federal Government's First Home Loan Deposit Scheme

The First Home Loan Deposit Scheme is a Australian Government initiative to support eligible first home buyers purchase a home sooner.

The scheme came into action January 2020 and works by providing a maximum of 10,000 FHBs a guarantee that will allow eligible FHBs on low and middle incomes to purcase a home with a deposit as little as 5 per cent (lender's criteria apply).

From 1 February 2020, potential applicants will have a panel of 27 lenders to choose from.

It does not come without its eligibility critera though. You can access the eligibility tool on the website:

nhfic.gov.au/what-we-do/fhlds/eligibility/

You will also need to satisfy the following key checks for your personal circumstances:

- an income test
- a prior property owner test
- a minimum wage test
- a deposit requirement, and
- an owner-occupier requirement.

If you do not satisfy the above check, the website suggests you should not ask your mortgage broker or lender to make submissions or applications to the scheme and you should seek appropriate advice.

Property price thresholds

To ensure the scheme is only available for the purchase of a modest home, or the purchase of land and construction of a modest home, the following price thresholds will apply in capital cities, large regional centres and regional areas:

You can see more in the table below:

State/Territory	Capital City & Regional Centres	Rest of State
NSW	$700,000	$450,000
VIC	$600,000	$375,000
QLD	$475,000	$400,000
WA	$400,000	$300,000
SA	$400,000	$250,000
TAS	$400,000	$300,000
ACT	$500,000	-
NT	$375,000	-
Jervis Bay Territory & Norfolk Island	$450,000	-
Christmas Island & Cocos (Keeling Island)	$300,000	-

Source: nhfic.gov.au/what-we-do/fhlds/property-price-thresholds/

First Home Super Saver Scheme (FHSS)

If you're still slugging it out trying to save even just a 5% deposit and you feel like you're not getting anywhere, then this could be a scheme for you. The FHSS was essentially introduced to allow FHBs to save money inside their superannuation fund for a deposit toward a first home. It works by tapping into superannuation's tax breaks to give your deposit a bit of a boost.

You can make voluntary contributions to a maximum of $15,000 in any one financial year, and up to a maximum total of $30,000 to your super and withdraw this amount, plus earnings, less tax. So, because you're saving through super, you pay less tax than saving outside of super, meaning you can save your deposit quicker.

More information about this can be found on the ATO website:

ato.gov.au

First Home Buyers' COMMON REGRETS

Buyers remorse may be inevitable – especially when purchasing those big-ticket items like your first home or property. It's human nature to think "is this the right decision for me? Have I done enough research? Have I thought this through?".

Now, we can't stop you regretting those zebra print drapes you thought were modern and chic, but we may be able to assist you in some of the more common regrets first home and property buyers can experience.

Don't regret buying more than you need

What seems like an obvious point – many first home and property buyers have admitted to buying a house they ultimately couldn't afford. Why? How? Banks may approve you for a loan larger than you expected and when this happens, it's easy to think bigger. Set a limit on what you can afford to pay back and buy within your means.

Don't regret losing your cool by offering the asking price

How's your poker face? Not good? Well, you need to work on that. Don't get too excited and offer the asking price right away. There's often room to wriggle! Common knowledge in the industry is there are always mind games at play. There's no harm in trying to negotiate a better deal and if there are other buyers interested, just remember they're in the same boat as you.

Don't regret overlooking seemingly minor problems

The excitement of finding your perfect home can be blinding at times. When you feel like you've finally found "the one", it's easy to put blinkers on and overlook minor problems – which, in turn, can become bigger problems down the line. Be sure to get a building inspection and attend if you can. Have a tradie in the family? Ask if you can bring them over too. That leaky tap, those rusting pipes, that dodgy garage door might seem insignificant when the entertaining area is that big, but those minor problems can sometimes be masking bigger issues which could cost you a lot of money down the line.

Don't regret considering commute times

Buying a home or property where you're going to live for the foreseeable future requires much consideration. Don't regret doing your geographical research. Is there easy access to public transport? How long will it take you to get to work from here? You don't want to move in only to realise it's going to be trains, planes and automobiles just to get you to work each day.

Don't regret not looking into the future

We aren't suggesting you see a psychic – we just want you to consider future developments in your area where you might buy or even build. Yes, your new view adds value now, but what if your neighbours build a monstrosity extension and blocks it? It's a hard one, we know. Do your research, speak to the local council, and consider how your area might look in the next 10 or so years.

Don't regret not shopping around for the best deal!

There are so many mortgage products on the market for all types of consumers. By meeting with a mortgage broker, you're giving yourself access to a broad range of lenders and good brokers are well practised in finding a deal to suit your personal and financial needs. Navigating the nuances of lenders' credit policies can be overwhelming – having a broker on your side can help you find the right loan for your circumstances.

Have no regrets when it comes to protecting yourself

You've been approved for your loan, you have found your dream house, you've done everything by the book and are feeling confident about this big step in your life. The last thing you're probably thinking of is the what if's – What if I get sick? What if I lose my job?

Give yourself total peace of mind and protect yourself against life's unexpected events – death, illness, redundancy, accidental injury. Life can throw a curve ball at any given moment and whilst Lenders Mortgage Insurance (LMI) might protect the bank when you can't pay your repayments, who is going to protect you? ALI Loan Protection Plan (LPP) means you can rest a little easier. You can find out more about LPP on page, 21.

All about
AUCTIONS

Participating in an auction can be a foreign experience for most and it's likely you won't know about the whole process.

We've listed several auction tips for buyers to give you a helping hand with your preparations and hopefully come out satisfied on bidding day.

What's the difference between house auctions and private treaty sales?

'Private treaty sales' is the correct term for the usual process of buying. The property is listed for sale with a real estate agent and the prospective buyer(s) make an offer to the agent who passes it to the owner who may then accept or decline the offer. Auctions, on the other hand, gather all the interested buyers together so that they can bid against each other.

If you have your offer accepted for a private sale, you'll likely sign a contract with the property owner before putting down a partial deposit.

The most important difference between the two is that you'll have the opportunity to change your mind with a private treaty sale even after signing the contracts. This 'cooling off period' will let you change your mind but you might find that you end up losing a portion of your deposit or, all of it.

Our top auction tips for buyers:

1) Be prepared when buying a property at auction

Doing your homework before attending your first auction should really help you on the day you plan to make your own bid. So, sit in on as many local auctions as possible to learn what to expect in terms of prices, process and people.

2) Always inspect a property before you bid

A picture really can paint a thousand words, but they can also be quite deceiving. Don't entirely rely on a seller's word or photographs as evidence of a safe and proper home. Visit and inspect the property to make your own judgement on whether the presentation meets your standards.

It's also vital you question whether pest and building inspections have been carried out prior to the auction. Remember, there's no going back once the hammer comes down in your favour.

3) Don't forget to gain mortgage pre-approval

It's probably wise to have received written mortgage pre-approval before the day of the auction. As mentioned above, once your bid at auction has been accepted, you are committed to buying the property. So, search the market for a favourable home loan product and then contact the lender ahead of time. Additionally, you'll probably need a 10% deposit too^.

4) Set a budget you can stick to

Auctions can be exciting but sticking to your budget is extremely important. Remaining calm and not letting yourself get carried away in a bidding war is key.

^https://www.fairtrading.nsw.gov.au/housing-and-property/buying-and-selling-property/buying-a-property/buying-property-at-an-auction

Be prepared with these four auction tips for buyers to give you a helping hand

Make sense of the

MUMBO JUMBO

Whether you're doing your own research or talking to a finance professional, sometimes it can feel like you're reading and hearing a whole other language. One thing you will learn quickly, this industry loves an acronym and can forget how confusing and overwhelming the industry jargon can sound to someone completely new to it all.

We're here to equip you and arm you with as much knowledge as possible. So, let's start with a glossary of terms and words you are sure to hear a lot of throughout your journey to home ownership.

A

Agent
Someone who acts on behalf of another person or organisation. For example, a real estate agent acts on behalf of a landlord or owner when leasing or selling a property.

Amortisation period
Also known as the loan term. It's the agreed length of time that a borrower has to repay a loan. It's set during the application and approval process.

Application fees
The fees a lender charges to set up the loan. It's generally to cover the lender's internal costs.

Appraised value
The estimated value of a property being used as security for a loan.

Appreciation
The increase in the value of a property.

Arrears
An outstanding or overdue amount.

Assets
Money, property or goods owned.

Auction
A public sale where a property is sold to the highest bidder.

B

Body corporate
All the unit owners within a strata building. The owners elect a council responsible for the management of the building and it's common areas.

Breach of contract
Breaking the conditions of a contract.

Break costs
Penalty charges for 'breaking' or ending a fixed term loan before the agreed date.

Bridging finance
A loan used to cover the finance gap that can happen when a buyer purchases a new property before selling an old one. Higher interest rates are usually charged for this form of finance, and it has to be paid back after an agreed time.

Building inspection
An inspection generally carried out prior to the purchase of a property to ensure the building is structurally sound. Contracts of sale can be made subject to the satisfactory building inspection.

Building regulations
Legal or statutory rules set up by a local council to control the manner and quality of buildings in it's jurisdiction. The rules are generally designed to ensure public health and safety as well as acceptable standards of construction.

Building society
A financial institution owned by its customers or "members". It offers banking and other financial services, especially mortgage lending.

C

Capital gains
The financial or monetary gain obtained when an asset is sold for more than its original price.

Capital gains tax
A federal tax on the monetary gain made on the sale of an asset bought after September 1985. The tax does not apply to the gains made on the sale of an owner-occupied residence, so it generally applies only to investment properties.

Capped loan
A loan where the interest rate cannot exceed a set level for a period of time but, unlike fixed rate loans, can fall.

Caveat
A caveat lodged upon a land or property title indicates that a party, that is not the owner, claims some right over or interest in the property.

Certificate of Title
A record of all current information relevant to a particular property or piece of land, including:

- Current ownership details.
- Any registered encumbrances or caveats.
- Lot or plan details.

A lender usually holds this document as security. Once the loan is fully repaid, the Certificate of Title is returned to the borrower.

Chattels
Chattels are items of personal property, such as clothing, appliances and furniture. In real estate terms chattels are usually movable items which may be included in the sale, such as furniture.

Commission
The fee or payment made to a professional for their services.

Contract of Sale
A written agreement outlining the terms and conditions for the purchase or sale of a property.

Conveyance
The transfer of property ownership and changing the title of a property from the seller's name to the buyer's name.

Conveyancing
The legal process for the transfer of ownership of real estate.

Cover note
A guarantee of temporary property insurance before the implementation of a formal policy.

Credit
Borrowed money or other finance to be paid back under an arrangement with a lender.

Credit union
A cooperative which operates similarly to a bank, but is owned and controlled by people who use its services.

D

Deed
Another word for title. It's a legal document that states all information regarding the ownership of a property or piece of land.

Default
Failure to abide by the terms of a mortgage or loan agreement - such as not making loan minimum required repayments. Defaulting on a loan may result in financial penalties and, in extreme cases, the mortgage holder taking legal action to repossess the mortgaged property.

Deposit
An amount paid by the buyer at the time of exchanging the contract for sale. It acts as a commitment to buy. Normally a minimum of 5-20% of the total purchase price is required.

Deposit bond
A guarantee from a financial institution that a deposit will be paid to a seller. It's useful for buyers with savings in a term deposit because it can be offered at the time of exchange - instead of a cash deposit. Which means the buyer doesn't have to break the term deposit and lose any interest accrued. The buyer must pay the full purchase price of the property, including the amount of the deposit, at settlement. In the event that buyer does not settle on the property the seller will be paid the deposit amount by the financial institution.

Direct debit
Regular electronic debiting of funds from a nominated cheque or savings account.

Disbursements
Miscellaneous fees and charges incurred during the conveyancing process, including search fees and charges paid to government authorities.

Discharge fees
An administration fee to cover the costs incurred in terminating a loan account.

Discharge of Mortgage
A document signed by the lender and given to the borrower when a mortgage loan has been repaid in full.

Disposable income
A person's remaining income after all known expenses, such as loan payments and bills, have been met.

Draw down
To access available loan funds. Draw down usually refers to a construction loan, or a line of credit. That is a loan where the limit is set, but the amount is not accessed all at once. The borrower draws down or uses the funds as required, up to the set limit.

E

Easement
A right to use a part of land owned by another person or organisation, for example to access another property.

Encumbrance
An outstanding liability or charge on a property.

Equity
The amount of a property actually "owned" by the owner. It's the current value of a property less the amount still owed on its mortgage. Equity usually increases as the principal of the mortgage is paid off. Market values and improvements to the property can also affect equity.

Establishment fees
Fees charged by a lender to cover the cost of setting up a loan.

Exit or early repayment fees
Penalties charged by some lenders when a loan is paid off before the end of its term.

Extra repayments
These are regular additional repayments on a home loan account, above the minimum required repayment, which can reduce the term of the loan and the interest payable.

F

First Home Owners Grant
A grant from the Federal and State Governments. It was introduced as compensation for the increased cost of housing after implementation of the Goods and Services Tax (GST) on 1 July 2000. It's only for buyers that have not previously bought property in Australia.

Fittings
Items not intended to be removed from a property when it's sold, for example fixed carpets, lights, curtains and stoves.

Fixed rate
An interest rate that applies to a loan for a set term. Both the interest rate and loan repayments are fixed for the agreed term, regardless of any interest rate variations in the home loan market. The agreed term is usually anywhere between 1 and 7 years.

Freehold
Complete ownership of a property and the land that it's built on.

G

Gazumping
Yes, this is a real word and it relates to when a seller accepts an offer from a buyer but then proceeds to formalise the sale of the property to another buyer with more favourable terms.

Guarantee
The contract to pay someone else's debt if they don't pay it.

Guarantor
A person or organisation that agrees to be responsible for the payment of a loan - if the actual borrower defaults or is unable to pay.

H

Home Equity
This relates to how much of the home is actually owned by the owner. Therefore, it is the current value of a property less the amount still owed on its mortgage. Equity generally increases as the principal of the mortgage is paid off and when property market value increases.

I

Interest only loan
This is a loan where only the interest is paid for an agreed term (1-5 years as an example). The principal is then repaid over the remaining term of the loan by the conversion of repayments to principal and interest.

Introductory loan
Often known as the "honeymoon rate" this is an introductory loan offered to new borrowers at a reduced rate for an introductory period of around 6-12 months.

J

Joint tenants
Equal holding of a property between two or more people. If one party dies, their share passes to the survivor or survivors.

L

Lenders Mortgage insurance or LMI
LMI is an insurance which only covers the lender. If you don't have a 20% deposit, and you need to borrow over 80% of the property value, the lender might deem you a risk. To mitigate this risk, LMI will be added on top of your loan amount. The cost of paying LMI can run into additional thousands of dollars, however it is an option many first home buyer's explore as a way of entering the property market sooner.

It's important to remember, LMI will not cover you if something were to occur, it only protects the lender if you were to default on your loan.

Loan to Value ratio or LVR
This commonly heard term relates to the value of your home loan as a percentage of the property's value and it's calculated by dividing the loan by the property's value.

For example, if you are buying your first home for $650,000 and you have a deposit of $100,000, your LVR would be 85%.

You can find helpful LVR calculators online through lenders or banks, which will help you determine what your LVR will be.

A couple of important considerations:

- Some Lenders have LVR maximums. Some will have a maximum 90% and will require you to have a 10% deposit, where others will have a maximum of 95%, so you would only require a 5% deposit.
- Your LVR will determine if your lender requires you to pay LMI
- A low LVR could access you lower rates as you pose less of a risk to the lender
- A high LVR means you will need a bigger loan and could make you vulnerable to rising interest rates in the future

M

Maturity
The date when a debt must be paid in full.

Maximum loan amount
The maximum amount that can be borrowed. It's based on a borrower's disposable income, deposit, and the purchase price of the property.

Minimum loan amount
The minimum amount that can be borrowed.

Minimum repayment required
The amount a borrower is contractually obliged to pay each month, in order to repay a loan within an agreed term.

Mortgage Offset Account
This is a savings account or a transaction account linked to a home loan. The balance of the account is offset against your home loan balance and as a result you're only charged interest on the difference between the total loan balance and the amount in offset account.

P

Passed in
A property is 'passed in' at auction if the highest bid fails to meet the reserve price set by the seller.

Portability
Allows a different property to be substituted as security for an existing loan. Useful if you are buying a new home but don't want to set up a new mortgage.

Principal
The amount owing on a loan, on which interest must be paid.

Principal & Interest loan
A loan in which both the principal and interest are repaid, during the agreed term of the loan.

R

Re-amortise
To recalculate the minimum repayment required to repay the outstanding balance of a loan over the remaining period. This generally happens when:

- The loan term is extended or
- The loan amount has significantly increased or decreased compared to the original loan amount.

Redraw facility
A component of a variable rate loan which enables a borrower to make extra repayments on the loan but later redraw this money if needed.

Refinance
To switch mortgage providers and arrange a new loan for the same property.

Reserve price
At an auction, this is the minimum price acceptable to the seller of a property.

S

Searches
Research carried out, prior to the settlement of the property, to confirm information about the property. Searches are usually arranged by a solicitor.

Security
An asset that a borrower gives a lender the rights to - so the lender can be confident of getting the money back, one way or another if the debt is not re-payed as per the loan agreement.

Settlement
There are generally two types of settlement that happen with most property purchases:

1. Settlement of the property is when the balance of the purchase price is paid to the seller. The buyer receives the keys and becomes the legal owner of the property.
2. Settlement of a loan coincides with settlement of the property. It's when the lender transfers the borrowed funds to the seller or the seller's mortgage holder.

Split loan
Generally a loan that is part variable and part fixed, but it can also be a loan with multiple variable parts. Borrowers wanting to use equity in a property to invest in the share market may make "multiple variable splits" to better track the return on their investment.

Stamp duty
A State Government tax based on the purchase price of the property. It's also payable on mortgages in some states. Each state and territory has different rules and calculations.

Strata title
The most common title associated with townhouses and home units. It acts as evidence of a unit's ownership. In a strata plan, individuals each own a small portion of a strata building such as a unit - which is identified as 'lot' on the title. All owners in a strata plan share common property such as external walls, windows, roof, driveways, foyers, fences, lawns and gardens.

T

Tenants in common
A form of agreement often used when friends or family purchase a property together. It details the equal or unequal holding of property by two or more people. If one person dies, their share passes according to their Will or the law, rather than to the owner of the other share.

Term
The duration of a loan, or a specific period within that loan. This is usually written in months for example, 360 months equals 30 years.

Title deed
Document disclosing the legal description and ownership of a property.

Title fees
Charged by a state or territory's Titles Office for title searches, property ownership transfers, the registration of new mortgages and the discharge of old ones.

Transfer
A document registered with the Titles Office that confirms the change of ownership or a property.

U

Uniform Consumer Credit Code (UCCC)
This is the legal framework that governs the relationship between borrowers and lenders. It requires all credit providers such as banks, building societies, credit unions, finance companies and businesses, to:

- Explain the borrowers rights and obligations.
- Disclose all relevant information about a loan in a written contract - including interest rates, fees, and commissions.

V

Valuation
A professional opinion of a property's value.

Variable rate
A rate that goes up or down depending on money market interest rates.

Variation
A change to any part of a loan contract.

Z

Zoning
Statutory descriptions of the allowable uses of land as set out by local councils or planning authorities.

Mitigating the risks of

ENTERING A LARGE DEBT

There is always going to be risks when you purchase a big ticket item. Purchasing a property whether it be in the form of a new build, an established home, an acreage, an apartment or a block of land, is a huge achievement and you should feel proud of taking this step.

It's an exciting time and it's easy to focus your attention on other things in the moment but it's important to consider the risks and how you would handle situations if they were to arise.

You see, life throws us unexpected curve balls all the time. If you are about to take out a mortgage or a large loan, you should ask yourself some important questions as a way of checking if you're financially vulnerable:

1. If you were to lose your job, do you have a plan in place to cover living expenses, bills and the mortgage repayments?
2. If you were to fall seriously ill and needed to take time off work to recover and get back to being healthy, how would you manage?
3. Do you know for sure that you have a level of cover in your superannuation? And is it enough to adequately cover you?
4. If you were to unfortunately pass away, have you got a plan for your family and the mortgage?

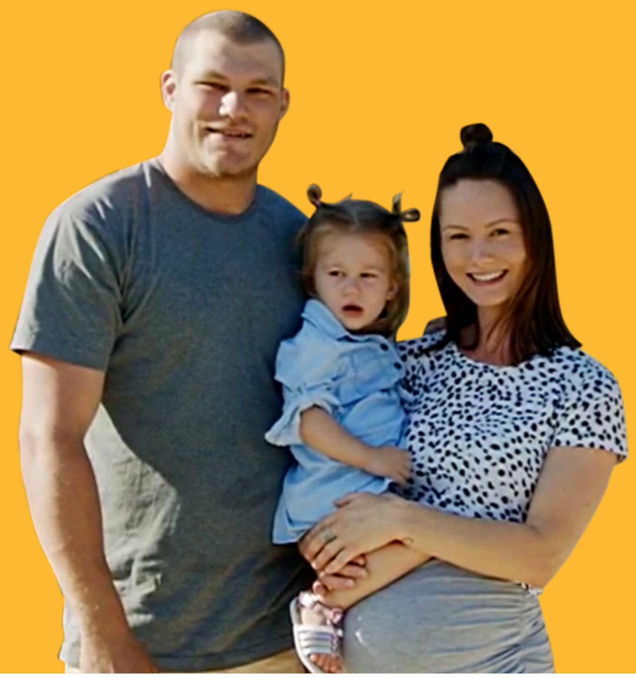
The reason we ask these questions is because we want to ensure you're adequately insured and prepared for the future. No one knows what the future holds so to mitigate the risks and allow yourself peace of mind, ALI Group has created loan and mortgage protection plan.

Loan protection protects you if something unfortunate were to occur like serious illness, redundancy or even death. You would receive payment right into your chosen bank account to use where needed. You can pay off the house if you wish, use it to cover medical bills, to renovate your house or book a holiday - how the funds are used is entirely up to you.

ALI Group have been protecting Australian home and property buyers since 2003. To date, ALI have protected over 202,000 Aussies with over $55 billion in cover.

You can learn more about loan and mortgage protection by speaking with your mortgage broker today.

You can also visit the ALI website: aligroup.com.au



Real claim story

JOEL & ANNA

Joel and Anna's story is one which reminds you how life can take an unexpected turn, completely out of our control. You can be young, fit, healthy, have the world at your feet and then life throws you a curve ball leaving you thinking "I just never expected something like this to happen to me".

This was the case for Joel and Anna. After years of wanting to purchase their own home, the time finally came when they were able to do so. With the help of guarantors and their mortgage broker, Craig, their dream came to fruition. Then, a couple of months later, Anna fell pregnant with their little girl, Harper.

Living in beautiful Sandy Beach in Coffs Harbour, on the north coast of New South Wales, Anna and Joel were living on cloud 9. Loving their new family life, Anna and Joel put a lot of emphasis on being healthy, fit parents and spending time outdoors.

When Anna found out she was expecting their second child, they could not believe how lucky they were.

"We really relished how well things were going - then, when Joel got sick, it all fell apart".

Joel was 24 years old when he was diagnosed with testicular cancer. Anna, 15 weeks pregnant at the time, was in a midwife appointment when Joel took himself to the doctors. Both thinking it would be nothing, never had expected how quickly their lives would change.

"We just kept thinking, how does this happen? Joel was so young and healthy. It was such a massive shock and a massive adjustment in our lives".

Joel was worried about having to receive chemotherapy because of the time off work and the loss of wages. Not having a lot of sick leave available, the financial stress began to set in. At 15 weeks pregnant, Anna had to begin working a second job during Joel's treatment, but it was still not enough to meet their mortgage repayments and their living expenses.

Feeling stripped of their financial freedom and stressed about needing to rely on their families, Joel and Anna began to worry about how this would impact their guarantors. When their family friend of ten years, and their mortgage broker Craig received the news about Joel's diagnosis, he was quick to remind them about the mortgage protection policy they had taken out when they purchased their home.

Craig contacted Joel and Anna and emailed the documents to them that day to start the claims process. Feeling unsure as to whether the claim would even be approved, they were blown away at how easy and fast the process was.

"The claim was processed, and we received the funds and we just couldn't believe the burden it lifted from our shoulders. It meant we were able to focus on more important things, like Joel's treatment and raising our daughter".

Mortgage protection enabled Anna and Joel to continue with their lives, took the financial stress away and gave them back their financial independence.

"The scary thought was, we were considering cancelling the plan. We had it for two years and were thinking, when are we going to need this? We feel so lucky to have kept the policy in place. You just don't think something like this is going to happen to a young family - but it did. If we had cancelled the policy, we would have been in a lot of trouble financially".

The Mortgage Broker Difference

For Anna and Joel, it was an important decision to go with a mortgage broker they trusted. For a major financial step, they wanted to work with someone who had their best interests in mind.

Mortgage broker from Coffs Harbour, Craig, has been in the industry for over 14 years. For Craig, mortgage protection is a very important part of his process.

"Mortgage protection is really important, not just for first home buyers but where there is a major milestone in your life - especially when you're taking out a large debt. It's a fundamental change in your financial situation and it's the time when you should be reassessing your cover".

When Craig went through the mortgage process with Anna and Joel and brought up mortgage protection, it was Joel who thought it was something he wanted to do in case something ever happened to him, he wanted to know Anna and his daughter were able to keep their home, their safe place.

Now, having witnessed someone close to him going through the claims process, Craig is even more adamant about mortgage protection:

"Hearing about Joel and knowing they had put the policy in place was the best feeling in the world. I've had many clients take out mortgage protection, but it wasn't until I saw the pain and stress Anna and Joel were feeling and then seeing the benefit and relief which came from the claim being paid out, that it really brought it home about how important this is".

No Regrets

Anna says they have absolutely no regrets about anything:

"We have insurance for our cars, our home and contents, why would we not insure ourselves? Even though we thought nothing could happen to us as a young family, we have no regrets about taking out the policy, because look what happened".

Joel has since received the all - clear and he and Anna are back enjoying their life in Sandy Beach. They recently welcomed a healthy baby boy into their family and could not be happier.

Talk to your mortgage broker today about mortgage protection. It's how your mortgage broker prepares you for life's unexpected events.

ali PROTECTING HOME & PROPERTY BUYERS