HOME LOAN BASICS

FIND THE HOME LOAN THAT'S PERFECT FOR YOU

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YOUR MORTGAGE BROKER

Mortgage brokers play a vital role in the home loan market. They are experts in the loan process and will help you obtain a loan for a home, investment or other commercial purpose.

Mortgage brokers provide an efficient and cost-effective service, assisting you in researching, organising and negotiating a loan that will best suit your lifestyle and financial situation. A mortgage broker's role is to act as an intermediary between the lenders and borrowers, ensuring that you get the best possible loan. They will help you discover the most competitive loan for your needs, and guide you through every step of your loan application. Overall, they aspire to help you save money, figure out a suitable loan structure and secure you the best deal.

Tools available to mortgage brokers

The variability of interest rates, products and fees across loan products, along with a large number of lenders in the market highlights the complexity of the loan process. Good brokers use loan-tracking software as a means to electronically keep tabs on the latest data and access the different loan products on offer.

This software is very useful in a market where changes occur daily, or even hourly. If you choose to use a broker, they will happily guide you through different options on the computer, showing you various loan products in a language that you will easily understand.

Mortgage brokers also have access to information relating to the property market. Whether you're selling or buying, it's important to understand the worth of a property, as well as the current trends in the property market. By using a mortgage broker, they can give you access to this kind of property information.

How are mortgage brokers paid?

Most mortgage brokers don't charge you a brokerage service for a home loan as they work on a 'contingency basis' whereby the lender pays them once your loan settles. The interest rate paid when obtaining a loan through a broker is generally the same as what the lender advertises, although with a broker you'll receive their professional service, guiding you through the loan process. Brokers can be viewed as intermediaries that help lenders distribute their loan products, whilst offering borrowers access to a wide range of cost-effective options. If you are unsure of how your mortgage broker is paid, feel free to ask them.

USING THE SERVICES OF A MORTGAGE BROKER

Finding a reputable mortgage broker that you are comfortable with is of utmost importance. After all, you want to be sure you secure the most suitable and competitive loan. So consider the following points when choosing your mortgage broker.

Service for no charge

The services of a mortgage broker when advising on residential loans should be free of charge. Their entire service which should include: advising and giving you information on loan products, negotiating the loan on your behalf, and managing your paperwork through to settlement, should be provided at no charge to you. Ensure that your broker is open with you about how they are getting paid, and they disclose what commissions and payments they will receive from the lender.

Qualified and experienced

You should check what qualifications and experiences your broker has in the mortgage industry, and don't be afraid to request references from previous clients if you wish. Also check if they are a member of a professional mortgage association such as the MFAA or FBAA, and a member of an external dispute resolution scheme. Ask your broker how they comply with the Privacy Act, so that they will maintain your personal and financial details securely.

Good brokers should have the tools to assist in your decision making, such as being able to show you on computer software how different loans will impact your financial situation, and access property valuation data to help you in making your decision.

Understanding your situation

The initial meeting should begin with your broker familiarising themselves with your entire financial situation, and your future plans. To assist the broker in doing this, ensure that you have your key documents with you when you visit them, as this knowledge will help them find loan products that fit your lifestyle, whilst ensuring that it provides you with flexibility for any future changes.

Making buying your new home easy

Once your mortgage broker has a good understanding of your current and future financial situation, they can begin explaining the wide range of loan options available from a host of different lenders. They should be able to outline the various loan products in plain English, as well as explaining the loan process from application to close including the documents required through the process. In addition they will go through all associated costs, disbursements, and fees of the loan application and give you a written schedule.

You can expect your broker to negotiate with lenders to find the best deal, while communicating with you throughout the loan process in a timely manner. Through the application process, they will follow up with the lender for you from application through to approval. Even once your loan is settled, good mortgage brokers are your resource for questions, concerns and ongoing review.

HOME LOANS – AN INTRODUCTION

As a buyer looking for a home loan, there are many options for you to consider in order to find a loan that suits your lifestyle and budget. These include the size of your loan, type of property you are hoping to buy and the deposit that you have. There are many resources available that can provide you with information to help you make this decision. This booklet has been written specifically to help you get a better understanding of available options in the loan market, and provide you with knowledge to assist you to make your decision. It will also direct you to a reputable broker to help you with your research and negotiate on your behalf.

There are a large variety of home loan options supplied by different financial institutions, which include non-bank lenders, building societies, credit unions and local and international banks. This has resulted in an extremely competitive home loan market, with a huge range of home loan options for the homebuyer. There are honeymoon rates, introductory rates, standard variable rates, fixed rates, redraw facilities and line of credit loans to name but a few. The following section outlines the various features and types of home loans you are likely to see when considering a home loan.

TYPES OF HOME LOANS

Fixed rate loans

Fixed rate loans allow you to fix your interest rates and repayments for an agreed period of time and are typically set for 1 to 5 years. At the end of the fixed term period, the loan will typically revert to a variable loan or you may choose to roll over for another fixed term at the rates applicable at that point in time.

Variable interest rate loans

A variable interest rate loan means the interest rate charged by your lender may vary throughout the life of the loan according to market conditions and indicators such as the Reserve Bank of Australia's Cash Rate. In other words, the repayments associated with the loan can also go up or down at any time. Many variable loans now offer a wealth of features such as an offset account or the ability to make extra repayments and redraw funds. Some institutions also offer basic or 'no-frills' variable loans with a lower interest rate but fewer features.

The standard variable interest rate is a 'benchmark rate', which is quoted by banks and lenders. These rates are not what customers usually pay, as they are typically only referenced rates.

Depending on the size and chosen features of your loan, if you decide to choose a variable interest home loan, a lender will generally offer you a discount on the variable rate anywhere between 0.10% and 0.70%, depending on the size on the size and features of the loan.

Categories of variable interest rate loans are the basic variable rate loans, which often feature lower interest rates. These loans tend to have limited features, although most will give you an option to redraw at a fee.

Split loans

Split loans allow your loan to comprise multiple portions which can include a variable, a fixed or a line of credit split, all within the one loan.

Building & Construction Loans

If you're building a new home or planning major renovations to your existing home, a construction loan is generally the most appropriate funding option. The major difference between a construction loan and a standard home loan is that in the case of a construction loan the loan is usually drawn down in stages. Payments (or draw downs) coincide with the initial purchase of the land follo wed by a number of key construction stages.

This type of loan is ideal for building, as you only pay interest on the amounts you have drawn down.

Before building starts, you will need to pay a deposit to your builder as well as paying a deposit for the land if you are buying land. As work progresses you will need to make payments to the builder.

Construction loans are generally structured for progress payments to be made to the builder during the various stages of construction.

Honeymoon and introductory loans

Honeymoon and introductory loans offer you a lower interest rate, discounted from the standard variable rate at the beginning of your loan. They are usually variable rate loans that only last for a short 'introductory' period of around 1 year although the term can vary from 6 months to up to 3 years. Sometimes these rates may be fixed or capped during the agreed time period. Once this period of time ends, the applicable interest rate will then revert to a higher standard variable rate.

Line of credit and equity loans

Line of credit or equity loans are loans which lenders offer you a specific credit limit that is secured against a registered mortgage over a residential property. People access these loans for a number of reasons including for renovations, investments or to purchase other properties. Usually, minimum interest repayments are necessary each month, with the principal repayments not usually required. Interest is only charged once the credit is drawn.

Non-conforming Loans

These home loans tend to be provided by specialist lenders offering loans to borrowers who do not meet the bank's strict credit criteria for mainstream lending. These include those with bad credit history, loan defaults, new migrants with no credit history, seasonal or casual workers.
In particular, there are low documentation or no documentation loans tailored to people who are self-employed or those who do not have evidence of a consistent income or lack financial reports.

Low documentation loans

In contrast to employees, self-employed or small business borrowers do not have regular income streams and may not be in a position to provide current financial information as required by lenders. Those without full documentation may find it more suitable to access a 'low doc' loan. Documentation required for low doc loans will differ across lenders and can typically include:

- Borrower Self-Declaration of Income
- Accountants Certified Letter to verify personal/business solvency and trade position
- 12 months of Business Activity Statements
- 3 months of business account statements

All prospective self-employed borrowers must have a current ABN which is GST registered. The ABN must also have been registered for at a period of between 6 months and 2 years depending on the lender.

Features of low documentation or non-conforming

Commonly low-documentation and non-conforming loans tend to have higher interest rates and this rate of interest will be influenced by the lender's risk evaluation. The variation in interest rates can be up to 2-4% higher than a traditional loan, and the exact rates will be dependent on your loan assessment.

Most low-document and non-conforming loans include aspects of both variable and fixed-rate loans. Loan features offered to both home buyers and residential property investors are now quite common, and includes such services as redraw and 100% mortgage offset on standard variable and fixed-rate products.

Borrowing limits

An important consideration is the LVR (Loan-to-Value Ratio) restriction placed on low-doc borrowers by lenders. Typically the restriction is 80% which is permitted with a requirement for Lender Mortgage Insurance (LMS), or 60% if LMS is not obtained; with LMS payable by the borrower. Once a borrower is required to take out LMI they will be subject to a series of credit assessments upon which more supporting documentation may be required.

Home loans for self employed

Depending on your financial situation and your home loan needs, there are a multitude of competitive home loan options for the self employed or small business owner. Assessment criteria for the self employed will depend on the loan type, and be based upon the borrower's net asset base, business income, and also their ability to repay their ongoing debts.

Full documentation

If you're able to verify your income and assets through the provision of financial and other related documents, you may be eligible for a more cost effective full documentation loan option. These documents will help prove to lenders your ability to repay your loan. Most of the documents listed below should be easily accessible, especially with some assistance from your accountant.

Documents that are typically required to verify your income stream:

- Financial statements (profit and loss statement, balance sheet) for the last two years
- Business and personal tax returns for the last two years
- Other documents which may be helpful in your credit assessment include those outlining your current personal & business commitments such loan statements and details of facilities required for refinancing
- Payslips, bank statements

Advantages and disadvantages of loan types

Loan types	Advantages	Disadvantages
Variable rate	– If interest rates fall, your repayments generally decrease. – Typically, extra repayments may be made without penalty, and will lower your principal. Extra repayments made may be accessed. – Basic variable loans may attract a lower interest rate.	– If interest rates rise, your repayments generally increase. – Basic variable loans tend to be less flexible and offer less features than typical variable rate loans.
Fixed rate	– You can be assured that your repayments will stay the same because your interest rates are fixed for an agreed period of time. – Consistent repayments may allow for better budgeting.	– Loans are not as flexible with extra repayments often limited or subject to fees. – Variability of interest rates makes it hard to decide when to fix. – Termination of fixed rate contract can incur break costs.
Honeymoon and introductory	– Tends to offer the lowest interest rates. – Extra repayments made during this initial, fixed rate period may reduce the principal and also reduce interest repayments.	– The introductory rates will increase to the standard variable rate after this initial period, so repayments will rise. – There may be break costs.
Split loans	– Flexible loan type, allowing borrowers to fix a portion of their loan type while still being offered a range of options for repayment and interest security.	– The variable interest rate portion of the loan is still susceptible to interest rate rises. If interest rates rise, your variable repayments might also increase.
Line of credit/equity	– Of all the loans, this is the most flexible product available, enabling loans to be used for various purposes. – Interest rates tend to be less than personal loan rates as they are secured by a residential property.	– Line of credit or equity loans are subject to variable rates and will be vulnerable to interest rate rises.
Low documentation	– A simple income declaration form needs to be completed. – Limited tax returns and financial reports required.	– Compared to a full document loan, the LVR tends to be considerably lower (approx. 80%). – The rates of interest tend to be higher than most full document loans.

HOME LOANS – FEATURES AND OPTIONS

To repay your mortgage at a quicker rate therefore reducing the amount of money you spend on a loan, you need to choose the right home loan features and also secure a good interest rate. You will find that a more flexible loan will mean a higher interest rate, which will increase your interest repayments. For example, someone who chooses a variable loan with a variety of features including redraw against additional payments or offsetting your savings will typically attract a higher interest rate than that of a basic loan.

However, if flexibility in a loan is what suits your financial situation, this type of loan will reap more benefits for you. The below terms will be explained to you, allowing you to get a better understanding of what features and options are suited to your needs.

Offset accounts	An offset account is an account or loan split that that is connected to your loan and reduces the interest on your loan account. The funds can then be used to offset your loan and reduce the amount of interest paid. It is especially convenient for those with loans from financial institutions that they bank with, and those who are paid on a monthly basis. For instance, if you have borrowed $500,000 and you have $50,000 in your offset account, the interest charged will be on a sum of $450, 000, even though your principal is $500,000.
Additional repayments	If you think you will have access to additional cash or income, you should ensure that your home loan has an additional repayments feature. This will allow you to use any extra cash to lower your principal which will also reduce the interest paid. Most lenders will allow you to withdraw those extra payments through a redraw facility.
Loan portability	A Portable loan means that you can transfer an existing loan to another property without refinancing, saving you time and money on application and legal fees. However, portability does not permit you to change lenders.
Redraw facility	Redraw facilities allow you to make extra repayments on your loan, and also to access these funds without any explanations to your lender. However, some lenders charge a fee for every redraw and also sets a minimum redraw amount.

Repayment holiday	Repayment holidays are offered by some lenders, allowing you to take full or partial periods off your mortgage repayments. This may reduce the pressure on borrowers whose finances are stretched through difficult circumstances such as unemployment or maternity.
Direct salary crediting	Salary credit permits you to direct your salary into your home loan account, reducing the principal owed. As interest is calculated daily, this salary credit will reduce the interest paid and is particularly useful for couples with second salaries. It is also a convenient way to make your loan repayments.
Switching feature	The switching feature permits you to switch from a variable rate to a fixed rate of interest, and will suit you if interest rates are unstable.
Professional packages	Professional packages are loan 'bundles' offering borrowers discounts on interest rates, ongoing fees, and reduced application and establishment fees, subject to loan size.
Interest only loans	Interest only loans tend to be short term loans ranging from one to five years and are often used by investors. On these loans only the interest portion of the loan is repaid with the principal remaining unchanged during the ‘interest only’ term.
Top up	A loan top up allows the borrower to increase the limit on their existing loan, without having to acquire additional finance through other sources.
Construction loans	During the construction phase of your property, certain features may not be available. For instance, the redraw facility may be withdrawn whilst your payment frequency may change. However, at the completion of your property, all features of the loan will come into effect.
Limited guarantor loans	A limited guarantor loan or an equity guarantee loan is a loan that allows family members to assist you with your loan, by guaranteeing a part of your loan. Family members ‘pledge’ to aid the borrower and will act as a guarantor for your loan, providing extra security or by assisting with repayments.
Comparison rate	Comparison rates help you identify the real cost of your loan, allowing you to make comparisons between loans relatively easily. It differs from your loan interest as it takes into consideration other costs that you will have to pay when you take out a loan, such as other fees and charges.

MORTGAGE COMPARE PLUS

BORROWING FOR YOUR NEW HOME

There are many things which may influence the amount you eventually borrow from your lender (e.g. the final purchasing price), and it may be greater than the amount that you had decided upon before your property search began.

Your borrowing capacity

The maximum amount you can borrow will be evaluated by your broker, who will look at your purchasing costs, as well as the size of your deposit and your loan repayments at the current interest rate. They will also factor in possible interest rate rises at a "stress" rate, which tends to be higher than the current interest rate. In determining your uncommitted monthly income, lenders will also look at your overall income and expenses, whilst also factoring in a margin for safety purposes.
The larger your uncommitted monthly income, the greater your capacity to borrow.

Factors that can impact your borrowing capacity include:

- Loan value ratio, loan term and other loan product features
- Income and types of income - e.g. casual vs full-time
- Other loans, obligations and credit card limits
- Number of dependents

Calculating borrowing capacity

Lenders may calculate your borrowing capacity in different ways. So if your previous application was unsuccessful, it may be useful to check with a mortgage broker, especially if you feel that you have agood chance of getting a loan.
In addition, there are numerous things that you can do to enhance your borrowing capacity, which include:

- Paying off outstanding term debts such as personal loans
- Paying off and closing any credit cards, store cards or overdrafts
- Decrease the limit on any other loans your are currently servicing
- Decide on a workable budget and stick to it to improve your savings record

HOW YOU CAN GET THE BEST DEAL ON YOUR HOME LOAN

Working with your mortgage broker, there are a number of avenues to pursue in order to ensure you get the best deal on your home loan.

Reducing upfront fees

You may be able to negotiate with your lender a discount on application fees. This may result in savings of up to $600, which may be directed at helping you pay for other costs such as conveyancing or stamp duty, or it may add to your deposit. Whilst obtaining a reduction for fees and charges associated with your loan may save you some money, keep in mind that sometimes these reductions will not save you as much as a lower interest rate.

Negotiating interest rates generates the biggest savings

Even a small reduction in your interest rates may result in savings over the term of your loan. For instance, if you borrow $500, 000, a 0.1% discount will save you in interest, approximately $500 per annum.

So, a $500,000 loan with an interest rate discount of 0.50% p.a. on a 25 year loan, will reduce your average annual interest expenses by approximately by $2,500. Over the term of a loan, this will save you approximately $62,000.

If you are borrowing more than $150,000, most lenders will often offer you a discounted interest rate of up to 0.7% off the standard variable rate, starting with discounts at 0.5% for a $150,000 loan. This may however attract an annual fee.

Mortgage counter offers

Good mortgage brokers have a network of lenders in which they know will negotiate on a loan. Their knowledge, experience and links with these lenders may be useful in the negotiation process and to help you to receive and assess counter offers from potential lenders.

Know your negotiation position when you make a purchase offer

Ensure that you have a sound understanding of your finances, including your borrowing capacity and a comfortable repayment schedule. It is important that you consider the influence of a higher purchase offer on your repayments. The table on pages 22 and 23 highlights these differences.

COSTS OF BUYING YOUR NEW HOME

Most buyers should take into account the following fees when purchasing a property.

State taxes, duties and fees

Stamp duty, mortgage registration, mortgage stamp duty and registration fees are State based and are applicable in accordance with the laws of the State in which the property is located. Stamp duty is applied in all States, although different State Governments have different ways in which they calculate these fees. Note that some States have different exemptions or reductions on stamp duty which may be applicable. Your mortgage broker will be able to discuss these with you.

Lender fees

Depending on your specific application, different fees may be applicable to your loan which can be negotiated. Sometimes, these fees may be waived or reduced. However, you should be aware that most lenders that waive up-front fees will offer you a higher interest rate or higher ongoing fees.

Ensure that you are aware of the fees in your loan search and that your broker negotiates where possible, so that you can factor these costs into your budget. As fees may differ by lender and product, it's difficult to provide guidance on what each fee may be. Some of the common fees include:

- Loan application and establishment fees
- Service and valuation fees
- Legal and account transaction fees
- Break costs

Legal fees

Solicitors or conveyancers are usually engaged to assist you with property exchange paper work and to help you legally settle on your purchase. Legal costs depend not only on the State you live in, but it is also influenced by the property's value. As a general guide, these costs can range from $1000 plus disbursements to over $3000, so it is useful to get different quotes.

Building inspection reports

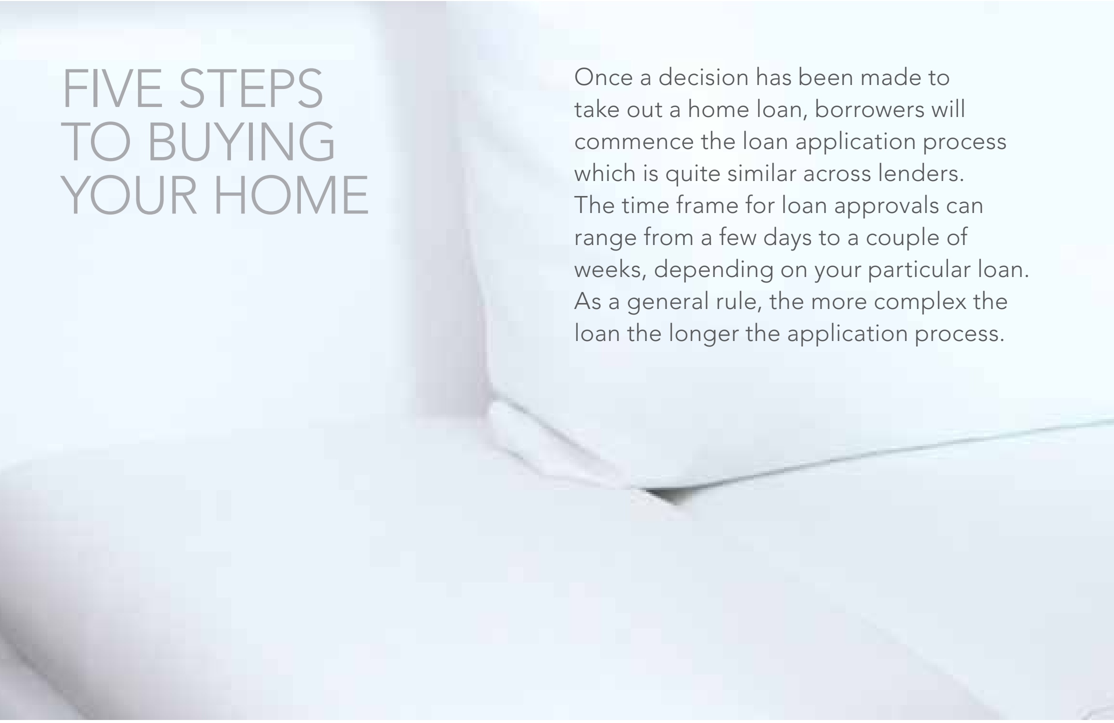
A building inspection report may be a condition of a loan approval. However, it is recommended that all potential buyers undertake a building inspection of their chosen property. Typically, inspection reports range from $250-$500.

Pests and termite inspections

Pest and termite inspections are not legally required or a condition of loan. Again, it is highly recommended that one is undertaken before a purchase is made, and may cost you $200-$400.

Other expenses

There are a number of other costs involved with your purchase, which are dependent on your own situation, for example utility connection costs, telephone connection costs, strata costs, and insurance. You should consider these smaller items in addition to other costs.



FIVE STEPS TO BUYING YOUR HOME

Once a decision has been made to take out a home loan, borrowers will commence the loan application process which is quite similar across lenders.
The time frame for loan approvals can range from a few days to a couple of weeks, depending on your particular loan. As a general rule, the more complex the loan the longer the application process.

Step 1
Supporting documents, completed applications and all other necessary information are provided by you to your mortgage broker. Your mortgage broker then packages your home loan application and presents it to the lender. At this stage, they should notify you that your application has been submitted for approval.

Step 2
The lender evaluates your application by undertaking credit checks and ensuring that the information submitted is authentic. Once these checks have met the lender’s specific lending guidelines, a conditional approval will be issued by the lender via your broker. If the lender requires more documents or supporting information, your broker should discuss this with you. Your broker will be contacted by the lender if there are any queries regarding your application, and they will attend to these concerns with you.

Step 3
A formal valuation of your property will be undertaken on behalf of the lender. An inspection report will be submitted by a valuer and sent directly to the lender to be reviewed. If it meets the lender’s guidelines, an issuance for an ‘unconditional’ approval will begin.

If there are concerns with the report, your lender will discuss this with your broker, who will then address the issue with you.

Step 4
If a lender’s mortgage insurance (LMI) is required for your loan, approval will be sought through the LMI provider. When this approval is granted by the LMI provider, an unconditional approval will be granted and the loan documents will be prepared.

Step 5
The lender will now issue an unconditional approval for your loan and also start preparing your loan documents. These will be sent to you from your lender and your broker will then assist you in executing these documents. These signed forms must be then sent back to the lender.
Once the Lender has received these documents, they will check that these forms have been signed correctly. Once all verifications have been done, the lender will then start the settlement process.