

# The Borrowers Guide to Lending

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This Borrowers Guide to Lending has been designed to assist you gain a better understanding of how the lending process works. The mortgage process can be confusing and overwhelming at times, but when you understand the basic process, you will be much more prepared.

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# Tools to Assist You

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# Talk to your Mortgage Broker!

Your Mortgage Broker is here to assist you navigate this complicated process so it is important to engage them early in the process.

## Your Mortgage Broker will:

01. Discuss your existing situation, your lending needs, requirements and obtain all necessary information pertaining to your lending application.
02. Explain the types of loans available to you from a range of banks and specialist lending institutions.
03. Based on the information provided by you and utilising specialist lending software, match your lending requirements to a selection of loan products offered by a diverse range of lenders.
04. Provide an overview of the relevant costs associated with your loan application.

05. Provide an in-depth overview of the loan product or products you select.
06. Act as an intermediary between you and the lender by completing and packaging your loan application.
07. Liaise with your solicitor, real estate agent, accountant and any other related party to ensure a smooth and timely settlement.
08. Assist with any future lending requirements, whether you wish to check, change or top-up your loan.



# Preparation

THE KEY BEFORE GETTING YOUR KEYS

Before you start looking for a home or investment property, there are several key details to consider such as:

How much can I borrow?

How much deposit do I require?

What are the costs involved?

Can I afford it?

# How Much Can You Borrow?

The amount you can borrow will depend on several factors and is another reason why it is important to engage your Mortgage Broker in the process BEFORE you are wanting to buy a house. Your borrowing capacity will be determined by several factors including:



## Your income

This includes your fixed remuneration and any bonuses or allowances you receive. It is important when discussing your income with your Mortgage Broker that you disclose the types of income as some lenders may assess different types of income at different rates. As an example, your overtime might only be assessed at 80% of your income, but if you were in essential services it may be assessed at 100%.

## Your Financial Liabilities

This includes things such as credit cards, personal or car loan and HECS debt. It also includes After Pay and Zip Pay and any interest free loans you may have. Credit cards with no debt owing but still active also need to be disclosed.

## Your Living Expenses

Mortgage Brokers and lenders have an obligation to ensure they are not putting you into a loan that would cause you undue hardship. A key factor in assessing this is reviewing your living expenses. This is normally done by assessing your last 3-6 months transaction and credit card statements to assess how and where you spend your money.

One of the key benefits of working with your Mortgage Broker before you are ready to buy a property is that they can help you identify any changes in your spending habits that you could make to provide a more favourable view to the lender.

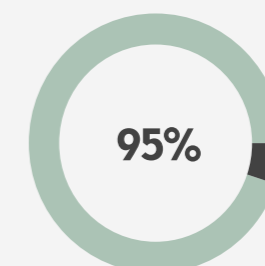
# How Much Deposit Do I Require?

There are many options available in relation to how much you will need to come up with as a deposit. Depending on your situation it could vary from 5%-20%. Sitting down with your trusted Mortgage Broker will ensure you know which options are available to you.

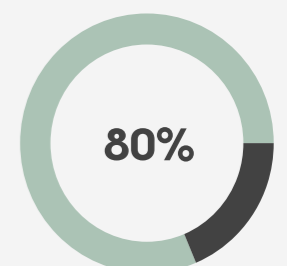
Most lenders will want to see evidence of consistent savings over a period of 3-6 months. This is to not only show that you have the funds to complete the transaction, but that you also have the discipline and commitment to pay your ongoing mortgage repayments once you settle your loan.

The amount of the deposit can be varied, some lenders will allow you to borrow up to 95% of the value of the property requiring you to only have 5% of the value of the property saved. This will require you to pay Lenders Mortgage Insurance (LMI). LMI is a cost which you, the borrower, pay at the settlement of your loan which protects the bank in case you default on the loan and they must sell the property at a loss. It is important to understand that LMI does not protect you if you get sick or lose your job. To avoid paying LMI you generally need to borrow less than 80% of the value of the property.

POSSIBLE TO BORROW UP TO:



AVOID LMI:



# What are the Costs Involved in Buying a Property?

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The cost involved in purchasing a property is more than just the purchase price and can include such things as:

## Bank Fees

This includes any application or valuation charges and can vary between lenders.

## Stamp Duty

This is a government cost that is usually the biggest expense outside the purchase price of the property. Stamp duty varies between the states and territory. Your Mortgage Broker can assist you in calculating this amount.

## Lenders Mortgage Insurance

This is a cost to you, the borrower, that is generally charged by the bank if you have less than a 20% deposit on the property. It can vary between lenders and your Mortgage Broker can assist you in calculating this amount.

## Government Fees

These include things such as mortgage registration, transfer fees and title searches.

## Legal Costs

Either a conveyancer or solicitor will review your Contract of Sale and ensure appropriate checks are conducted on the property with local government agencies.

## Property Checks

It is always recommended that prior to purchasing a property, you hire professionals to inspect the property for structural defects, concerns, pest infestations, anything that could potentially cause damage to your property.

## Removalist Costs

Will you do this yourself or hire a company?

## Utilities

Set up of utilities which may include a connection fee and up to 2 months of charges as they may charge in advance.

# Can I Afford It?

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Please note, whilst it is good to review your living expenses and reduce discretionary costs, it is also important that you balance that with your lifestyle. You want to ensure that this is a budget you can stick to long term and not feel like you are sacrificing too much for the sake of buying a house. It is important to therefore factor rate increases into your calculation.

# Types of Home Loans



**There are several different types of home loans and your Mortgage Broker will assist you in choosing the right one for your specific needs.**

## **Fixed Rate Home Loan**

A fixed rate simply means that the interest rate is guaranteed for a certain amount of time – commonly between 1 year to 5 years. The benefits of a fixed rate loan are that you know what your repayments will be over a specific time frame and you can budget accordingly. The interest rate is not going to go up (or down) over that period.

The disadvantage however is that fixed rates loans are not very flexible. There will be a limit to the amount extra you can pay off over the fixed term and fixed rate loans rarely allow you to redraw any surplus funds or have an offset account. The other thing to be aware of is that if you have to sell the property during the fixed rate period, you may incur break costs which could run into the 1000's of dollars

## **Interest Only Home Loan**

An interest only loan is where the borrower only has to pay the interest accrued each month on the loan, rather than paying down the principle balance. Usually it is associated with investment properties in line with a strategy from the accountant or financial planner.

The benefits are that the repayment is reduced, thus freeing up cash for other purposes however, the principle will still need to be repaid and once the interest only period is over you will be paying off the principle at higher repayments than you would if you started paying the principle off from the beginning.

## **Variable Rate Home Loan**

A variable rate means that the interest rate will rise and fall with the market over the period of your home loan. This can be in line with movements in the official cash rate by the Reserve Bank or it may be a decision by your financial institution to vary their rates.

The main advantage of a variable rate loan is flexibility. While you must meet your minimum monthly repayment, you can usually pay more if you want to. There is also no cost penalty if you decide to sell your property and move. You also generally can have access to an offset account, redraw or both.

The main disadvantage of a variable rate loan is that your minimum repayment amount may rise or fall at any time in line with either the Reserve Bank or a business decision by your financial institution. This can make it hard to plan especially for those on a tight budget.

## **Split Home Loan**

A split loan offers the best of both, offering the certainty of a fixed rate and the flexibility of a variable rate.

# Tools to Assist You

To ensure you have the best experience possible in buying your home, we have provided a few handy checklists:



## Required Documents Checklist

This will allow you to prepare for your first meeting with your Mortgage Broker and ensure you have the right documents ready, to avoid delay.



## Budget

It is important to understand what you spend and what you can afford. Your Mortgage Broker will review this with you, but this document will help get you started.



## Preparing for Settlement Checklist

There is a lot to think of when you are buying your home and this will assist you in ensuring there are no delays on settlement day.

# REQUIRED DOCUMENTS CHECKLIST

## IDENTIFICATION

Driver's License  
Medicare Card  
Passport

## STATEMENTS – less than 30 days old

Transaction Statements  
Savings Statements  
Home Loan Statements

3-6 months to verify income & living expenses  
3-6 months to verify savings & funds to complete  
In the event of refinancing, 6 months loan statements will be required, otherwise a minimum of 1 month statement to verify details of the loan  
1-3 months may be required

Credit Card Statements

## PAYG INCOME

Pay Slips  
Payment Summary  
Employment Contract

Last two pay slips, less than 30 days old  
Most recent may be required  
May be required to validate overtime/bonuses

## SELF EMPLOYED INCOME

Tax Returns

Last Two years of personal/business/company/ trust income tax returns no older than 24 months old.

Notice of Assessments

Last two notice of assessments, no older than 24 months old

Financial Statements

last two years financial statements for the business

## ADDITIONAL INCOME DOCUMENTS

Rental Income  
Centrelink Benefits

Rental ledger or letter from the real estate agent  
Most recent Centrelink letter, less than 30 days old, outlining details of benefits

## POTENTIAL ADDITIONAL DOCUMENTS

Superannuation Statements

Depending on your circumstances, your most recent superannuation statement may be required

Share and Dividend Income

Share statements and personal tax returns may be required

Building Contract and Plans  
Contract of Sale

For construction loans  
For purchases

# MONTHLY BUDGET

## FOOD EXPENSES

Food & supermarket	\$
Coffees, lunches takeaway	\$
Cigarettes & alcohol	\$

## DISCRETIONARY EXPENSES

Entertainment	\$
Domestic holidays	\$
Clothing, shoes & accessories	\$
Hairdressing & grooming	\$
Phone, Internet & pay TV	\$
Media streaming & subscription services	\$
Gifts & celebrations	\$
Other discretionary expenses	\$

## CHILDREN AND EDUCATION EXPENSES

Public education costs	\$
Private education costs	\$
Tertiary & vocational education	\$
Childcare	\$

## HEALTH & WELLNESS EXPENSES

Gym fees, sport, other health & wellness	\$
Private health insurance	\$
Doctor, dentist, pharmacy, glasses	\$
Life, trauma, income insurance	\$

## TRANSPORT EXPENSES

Recreational vehicle running costs	\$
Essential vehicle running cost	\$
Public transport, taxis, ride share, commuting airfares	\$
Essential vehicle insurance	\$

## PROPERTY EXPENSES

Primary residence running costs	\$
Primary residence body corporate	\$
Secondary residence running costs	\$
Secondary residence body corporate	\$
Investment property running costs	\$
Investment property body corporate	\$

## OTHER EXPENSES

Pets	\$
Child or spousal maintenance	\$
Current rent expense	\$
Ongoing board expense	\$

**TOTAL MONTHLY** \$





