FIND THE RIGHT MORTGAGE

WISDOM IS HAVING A PLAN TO OWN YOUR HOME SOONER

WOMEN AND MONEY SERIES

“GETTING MY FIRST MORTGAGE WAS A BIT NERVE RACKING, BUT NOW I LOVE THE FEELING OF HAVING THE SECURITY OF A HOUSE BEHIND ME”

– Clara, aged 27

Nowadays, more and more women are buying their own property. Instead of waiting for a partner to buy with, women are taking charge of their own financial future. From young unmarried women who want to set themselves up financially to single women who want something that suits their lifestyle, women are leading the charge into the property market.

There are many benefits of owning your own property. You get the opportunity to put down roots and have full control over the decision of what and where to buy. Best of all, it can provide you with financial security and give you a solid foundation for the future. If you like the idea of owning your own home or investment property you need to be thoroughly prepared. Buying a property is a big financial decision and there are a number of important things to consider before jumping in. We’ve outlined the basics of getting a mortgage below to help you get you started on your journey of becoming a home owner.

STEP 1

Work out what you can afford

The first thing you need to do is work out how much money you will have to put towards a property. There's no point getting your heart set on a modern, three bedroom semi-detached house if it's out of your price range. To work out what's realistic for you, there are two things you need to consider:

- How much a lender is prepared to let you borrow; and
- How much you can comfortably repay each month.

Lenders take a number of factors into account when assessing your borrowing capacity. These typically include your current level of income, your liabilities (such as credit card debt), your length of employment, your credit history, any ongoing commitments (such as dependent children or other loans), and the size of your deposit. Most major lenders have online calculators on their websites that you can use to get an idea of how much you can borrow.

The assessment process varies from lender to lender, so different lenders will give you different indicative loan amounts. However, you shouldn't automatically go with the lender who is prepared to loan the highest amount. Ask yourself how much you can realistically afford to pay back.

You need to know that you can comfortably maintain the monthly repayments on your mortgage. By borrowing a lower loan amount, you'll keep your repayments lower and put less strain on your cashflow. A general rule of thumb is that your repayment amounts shouldn't be more than 30% of your gross salary.

One final consideration is whether you eventually plan to marry and/or start a family. As the primary mortgage holder you will need to think about how this will affect your ability to make repayments. If you plan to keep the house, you will need to make extra repayments before giving birth to cover your maternity leave. You may also be able to refinance your loan to get more flexibility. This would require planning in advance and it is a good idea to talk to a professional about your options in this situation.

Improve your borrowing capacity

One of the key factors that lenders consider, when working out how much you can borrow, is your current level of debt. So before applying for a home loan it's a good idea to pay off outstanding debt, such as credit card debt, personal loans, etc. How well you've serviced this debt, and kept on top of bills in general, is also taken into consideration. If you've missed payments, or have outstanding bills your credit rating will be in poor shape. To find out what your credit rating is, you can request a free credit file at www.mycreditfile.com.au.

STEP 2

Save a deposit

Once you've worked out how much you can afford you need to save a deposit. The more money you are able to save, the less you will have to borrow. Also, if you save more than 20% of total cost of the loan, you will avoid having to pay mortgage insurance which can save you hundreds, if not, thousands of dollars.

Mortgage insurance is an additional fee that lenders will ask you to pay if you borrow more than 80% of the loan amount. It protects the lender against any loss they may suffer if you default on your loan and they sell your home for less than the outstanding loan amount. It doesn't cover you for any financial loss, but it does help you purchase a home with a lower deposit.

To save money you need to be disciplined. There are no shortcuts when it comes to saving money. But this doesn't mean you have to sacrifice everything. In fact, you're more likely to stick with a budget if you allow yourself a small treat now and again. Telling your family and friends about your savings goal can also make it easier to stick with your savings plan. Once they know, they'll be less inclined to suggest expensive outings. They may even share their own money saving tips with you so you'll end up with a treasure trove of ideas on how to cut costs and save more.

It's also a good idea to open a high-interest saving account. By keeping your savings in a separate account to your everyday spending account, you won't be able to spend this money as part of your weekly expenses. You'll also attract a higher rate of interest, which will help you save your deposit sooner.

The top five sacrifices people make when saving for a home loan

Need some ideas on how to save for the deposit? Research carried out by the Mortgage Finance Association uncovered the top 5 ways people save for a deposit:

1. Reducing home costs
2. Eating out less often
3. Taking lunch to work
4. Buying food in bulk or on special
5. Taking cheaper holidays

STEP 3

Find the right loan for you

When it comes to choosing a mortgage, you need to shop around to get the best loan at the best price. The best loan won't necessarily be the cheapest loan, it will be the loan with the features that match your lifestyle. For example, if you're young and single, you may want a loan that offers you flexibility in case you choose to switch your mortgage or repay it early if you get married down the track. If you're self-employed or have children, you may want a fixed-rate loan to give you the security of knowing that your repayment amount will be the same each month.

Once you start looking for a home loan you'll quickly realise that there are a dizzying array of options to choose from. All the different rates and features on offer can make finding the right home loan a difficult and confusing process. To make it easier for you to make sense of what's on offer, here's a brief guide to the different types of loans and features you're likely to come across.

Various home loan types are tabled on the following page.

Could you keep repayments up if your income stopped?

As a single mortgage holder, it's a good idea to consider how you could afford loan repayments and living expenses if you weren't able to work due to a serious accident or illness. For example, for a 35-year old female, the chances of a disability occurring which lasts for more than three months is 42%.[1]

Income protection insurance and total and permanent disability (TPD) insurance can help you avoid the risk of losing your home if the unthinkable happens. Income protection insurance replaces up to 75% of your taxable income for the length of your chosen benefit period or until you are able to return to work, while Trauma Cover provides a lump sum upon the diagnosis of more than 40 serious but common medical conditions, such as heart attack, cancer or stroke. In the unlikely event a serious health condition leaves you permanently unable to work, total and permanent disability (TPD) insurance can pay you a lump sum to assist with paying off the mortgage and so relieve you of the worry of losing your home.

As some insurance covers can be paid through your super fund and/or are tax-deductible, the overall impact of the insurance premiums on your monthly budget can be reduced. Getting the right assistance in implementing an affordable mix of covers can provide you with peace-of-mind when you need it most.

1 Risk Researcher

Types of loans and features	Description
Basic/standard home loan	These home loans usually have a low interest rate, low fees and a restricted range of features, with a standard loan usually having more features than a basic loan. These loans are most suitable for people who don't expect their circumstances to change a lot.
Discount variable rate or introductory rate loans	This is a type of standard home loan that offers new customers a reduced or discounted rate of interest for the initial 6 to 24 months. After the set time, the interest rate reverts to the standard loan rate. With these types of loans you need to check for the ability to repay early without penalties.
Fixed rate loans	A fixed rate loan is loan where the interest rate is guaranteed to remain the same during an initial term of between 1-5 years. At the end of the fixed term the loan may need to be repaid in full or renegotiated to revert to a standard variable rate. Penalties may apply for breaking this type of loan early.
Line of credit/home equity loans	With a line of credit loan, you can establish a credit limit and then draw down from this loan without restriction. This type of loan is useful for borrowers who need extra money to carry out renovations, but it is not for everyone. Unless you are disciplined you will find it difficult to pay down this type of loan.

Types of loans and features	Description
Redraw facility	A loan redraw feature allows a borrower to withdraw any additional funds they have paid over and above the normal minimum repayment. Lenders may charge a fee for this feature so find out what fees, if any, you may be charged for this feature.
Loan portability	This feature gives the borrower the option of keeping their existing loan arrangements, but changing the property that secures it.
100% offset account	An offset account allows the borrower to have any savings or credit balances in their transaction account to be offset against their loan when interest is calculated. While the mortgage offset account itself does not earn any interest you benefit from a reduction in the interest charged on your outstanding loan amount.
Split loans	Many lenders allow borrowers to split their loan in a number of different products, such as a combination of the fixed and variable rate loan.
Interest only payments	Most lenders offer borrowers the ability to make interest only payments on their loan for a set period. This means that the monthly repayment has no principal reduction, and the outstanding balance will remain unchanged during the term of the interest only period.

CHECKLIST: PREPARING FOR A HOME LOAN

Here's a list of things you should do to prepare for a home loan application:

- ☐ Find an online calculator to get an idea of how much money you can borrow
- ☐ Reduce your level of outstanding debts, such as credit card debt or personal loans
- ☐ Check your credit rating
- ☐ Create a budget to work out what a comfortable repayment amount would be
- ☐ Think about your current income and how that might change in the future
- ☐ Start a saving plan in a high-interest savings account
- ☐ Explore different home loan options to figure out which types of loans and features are best for your situation
- ☐ Shop around for the best rate
- ☐ Consider income and TPD insurance to protect against the risk of losing your income

WE CAN HELP YOU BECOME FINANCIALLY WISE

Wisdom is knowing what you don't know and seeking help. Our financial advisers can refer you to a lending specialist who can help you understand your options and make sure you're financially ready to service your own home loan.

Arrange an appointment today for more information:

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