

PLANNING FOR HOME OWNERSHIP





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CONTENTS

PAGE	4	Home ownership basics
PAGE	12	Finding the right property
PAGE	18	Financing the property
PAGE	26	Buying a property
PAGE	32	Getting the most out of home ownership
PAGE	34	Selling a property
PAGE	36	Where to go for more info
PAGE	38	All that jargon — a glossary of terms

UNDERSTANDING HOME OWNERSHIP



INTRODUCTION

UNDERSTANDING HOME OWNERSHIP

It has become something of a cliché that owning your own home is the 'great Australian dream'. Home ownership is an aspiration of many Australians, and we have one of the highest rates of home ownership in the world.

As the experts are fond of saying, the purchase of a house may well be the biggest purchase you ever make, and your home is probably your biggest investment.

But the purchase of a home is not just a financial decision – it's also a decision about lifestyle. Owning the place where you live can bring you a great sense of security and stability. A home is a place to relax, raise a family, and enjoy time with family and friends.

Because emotions are involved, it is especially important that your decisions about buying or selling a property are based on thorough research and a sound, well thought-through plan. The process can be stressful, and the better prepared you are, the more confident you will feel to make the right decisions when the time arrives.

Over the last few years, the goal of home ownership has not become any easier to reach. Median property values have increased significantly, and the ratio of the median house price to the average wage stands at record highs. Interest rates have also risen. While rates are not at the levels seen in the late 1980s and early 1990s, these rises have increased the burden on individuals and families with mortgages, and reduced the borrowing capacity of those looking to buy property.

In this difficult environment, it is more important than ever to be well-prepared and well-informed if you are considering the purchase (or sale) of property.

A lot goes into effective planning for home ownership. There are many questions to think about:

- What property do you want?
- Will a house or an apartment suit you better?
- How much can you afford?
- How will you finance your purchase?
- Where do you want to live?
- When is the right time to buy?

This booklet is designed to help you answer these questions. We will look at some home ownership basics before discussing how you should decide the type of property that is right for you. The various options you have to finance your purchase will be considered.

The process of buying and selling will be covered, and we will look at some of the things you can do to get the most out of your home once you have bought it.



HOME OWNERSHIP BASICS



When considering a property purchase, it can be difficult to know where to start. The focus naturally tends to be on working out how much you can afford, and then finding the right place.

But really, the first question to consider is not what to buy, but whether to buy.

In other words, taking everything into account, is buying a home the right thing for you to do? And is the timing right to do so now?

Given that home ownership is an Australian tradition, this question can often go unasked. It seems to be universally accepted that to own your own home is always a sensible decision. But as it is such a significant decision for most people, we really should take the time to consider whether it is the right step to take.

The answer will depend on your own personal circumstances and financial situation, and reasons for wanting to own property.

RENT OR BUY?

Perhaps the best way to decide whether buying your own home is the best course of action is to look at the alternative, renting, and compare the pros and cons of each.

The pros and cons fall into two main areas – the tangible, financial considerations, and the more intangible, emotional considerations.

Let's look firstly at the financial side of things. Most of you will have heard the old caution 'money spent on rent is dead money'. Meaning that the rent you pay is money that goes to someone else ('paying off someone else's mortgage') and you have nothing to show for it at the end.

In recent years that conventional wisdom has been questioned by some financial experts. The thrust of their argument is that it usually costs a lot less to rent a house than to make the mortgage repayments on the same house. If you rent a house, and invest the difference (between the rental and the mortgage amount you would be paying if you owned the house), you will come out ahead over time.

For this to work, you must of course have the discipline to invest what you 'save' by renting. If you simply spend that money, the strategy will fail.

Comparisons like this depend on the assumptions made – including the amount you would pay in rent, the size of your mortgage repayments, the return you would make from investing, and how much your property is likely to increase in value over time. Still, it's worth taking the time to go through the exercise to see how the sums work out.

Just as important as the financial calculations, are the intangible aspects of owning your own home – these are things that cannot be derived from renting a property.

As a home owner, no-one can tell you to leave – assuming you continue to pay your mortgage! You do not have

to go through the stress as the end of each lease approaches of worrying whether you will be able to sign a new lease – and if so, at what rental increase.

You do not have to ask anyone's permission to paint your house, or put a picture up on the wall, or make other changes to your property.

In short, you have a place you can call your own – one you own, rather than simply temporarily occupy. For most of us, the stability and security that home ownership gives us are worth much more than the money we might save by renting the same house.

PROPERTY VS. OTHER INVESTMENTS

If you are considering purchasing property as an investment, rather than to live in, then the considerations are more straightforward. The intangible aspects that matter to the owner-occupier take a back seat to the financial considerations.

The relevant comparison here is not renting vs. owning, but rather investing in property vs. investing in another asset class, such as cash, shares or fixed interest.

The following are some of the things you should think about when considering property as an investment.

POTENTIAL RATE OF RETURN

Investment decisions primarily involve weighing up risk and reward. As an investor, you should compare the returns you predict from a property investment with those from investing elsewhere, for example, in the share market.

Information about the historical performance of various asset classes is publicly available, for example, from the Australian Securities Exchange (ASX). The ASX/Russell Long-Term Investing Report 2006 showed that residential investment property

TIP

The transaction costs associated with buying a property varies from state to state and property to property. As a rule of thumb, on top of the purchase price, property experts typically recommend that buyers should allow an extra 7-10% to cover transaction costs.

returned 11.7% per annum (pre-tax) over the preceding 10 years and the preceding 20 years. This compared with returns for Australian shares of 12.8% (10 years) and 11.1% (20 years)¹.

SPREAD OF INVESTMENTS

A fundamental principle of wise investing is to diversify your investments, in other words to make sure that your investments are spread among several asset classes. In the event that one asset class performs poorly, the effect on your overall portfolio will not be as damaging as if you had all your investment funds 'in one basket'. Your decision whether to invest in property should therefore take into account what other investments you have.

LIQUIDITY

Do you need to have ready access to your investment funds? If so, direct investment in property may not be your best choice. Direct property investment is generally not regarded as 'liquid', that is easily and quickly convertible into cash. It takes considerable time to convert a property into cash by selling it, and high transaction costs will be paid along the way.

For more information, see the ABA booklet 'Smarter Investing' which provides details about types of investments and investment concepts – it is available on the ABA website www.bankers.asn.au.

These are just some of the considerations to make when deciding whether a property purchase is right for you.

¹ Source: ASX Russell Long-Term Investing Report 2006. http://www.asx.com.au/about/pdf/asx_russell_long_term_investing_report_2006.pdf

COSTS OF BUYING PROPERTY

The main focus of property buyers naturally is on the price of the property they are considering.

The 'purchase price' itself is usually payable in two parts:

- an initial deposit (which can be decided at the vendor's discretion, but normally 5-10% of the purchase price) at the time of signing the contract of sale, and
- the balance of the purchase price at settlement.

Matters to do with 'Financing the property' are covered in more detail on page 18.

Unfortunately, this is just the beginning! There is a range of costs associated with the purchase of property that soon adds up.

The following are costs you need to allow for when purchasing property.

STAMP DUTY

State and territory governments impose stamp duty on the transfer of property. After your deposit, this is likely to be the largest cost faced by a property buyer. The amount of stamp duty is based on the market value of the property or the purchase price, whichever is higher.

Rates of stamp duty vary considerably between the states and territories.

The table (right) shows the stamp duty that would apply on the purchase of properties valued at \$300,000, \$500,000 and \$1,000,000 in each state and territory, as at May 2008. The figures assume that the property is your principal place of residence (i.e. you are an owner-occupier), and do not take into account any concessions that may be available.

STATE	PROPERTY VALUE		
	\$300,000	\$500,000	\$1,000,000
VIC	\$11,370	\$21,970	\$55,000
NT	\$10,414	\$23,929	\$49,500
ACT	\$9,500	\$20,500	\$49,250
SA	\$11,330	\$21,330	\$48,830
WA	\$10,700	\$20,700	\$47,700
NSW	\$8,990	\$17,990	\$40,490
TAS	\$9,550	\$17,550	\$37,550
QLD	\$8,975	\$15,975	\$37,475

NOTE: The figures in the table are calculated using data from the Office of State Revenue in each of the states and territories, as at May 2008.

OTHER GOVERNMENT FEES

Unfortunately, government fees do not end with stamp duty on the property.

State and territory governments also charge a transfer fee, which again varies according to the value of the property and the state.

Other state government charges will apply if you take out a loan to buy your property. Some, but not all, state governments charge a mortgage duty.

And finally, a fee will apply to register your mortgage.

CONVEYANCING

Conveyancing refers to the transfer of ownership of property from the seller to the buyer. It is usually performed by either a conveyancer or a solicitor. (You do have the option to do the conveyancing yourself, with the help of a DIY conveyancing kit. Naturally the costs are lower, but this is something you should only consider if you are extremely confident in your ability to do the task properly.)

Both the buyer and the seller of the property will require the services of a conveyancer/solicitor:

Tasks performed as part of the conveyancing for the property buyer usually include:

- Checking the vendor's statement and contract of sale
- Conducting the necessary searches, such as title searches
- Ensuring the transfer of title is done correctly
- Calculating the adjustments that may be payable
- Attending the settlement.

Did you know?

A solicitor may charge higher fees than a conveyancer; however, they are able to offer services a conveyancer may not be able to provide. For example, conveyancers may not perform legal work or give legal advice. The choice of conveyancer or solicitor may depend in part on the services you require.

TIP

The amount of stamp duty payable can change. Many banks' websites have online calculators that will tell you how much stamp duty is payable on your intended property purchase at the time. Alternatively, the Office of State Revenue in your state or territory will be able to tell you the rates of stamp duty that will apply.

TIP

The websites of many removalists offer online quotes according to the quantity of goods to be moved and the distance of your move. Don't forget to check that your goods are covered by insurance during the move.

INSPECTION FEES

Some costs are not a compulsory part of buying a property, but will be incurred if you undertake certain inspections. For example, you may decide to get a building inspection to get a professional opinion on certain things associated with the property, such as its structural soundness. You may want a surveyor to check the measurements that are on the title. Or you may want a pest inspector to check that the property does not have pest problems, such as termites.

MORTGAGE FEES

If you are taking out a loan to purchase a property, your lender is likely to charge you fees.

These may include:

- Loan establishment fees
- Valuation fees
- Mortgage insurance

Matters to do with 'Financing the property' are covered in more detail on page 18.

MOVING COSTS

Physically moving into your new home costs you money. Costs vary widely, depending on how far you are moving, and the amount of belongings you have. The services offered by removalists range from a basic 'pick up and deliver' service, to a comprehensive service including the packing of your possessions at one end and unpacking at the other.

So, after this long list of costs, is there any good news?

GOVERNMENT ASSISTANCE

FIRST HOME OWNER GRANT

If you are buying your first home, you may be eligible for the First Home Owner Grant (FHOG) scheme. The FHOG is a national scheme, but it is administered by the state and territory governments.

If you are eligible, you will receive a one-off grant of up to \$7,000. The grant is not means tested, and the amount received is tax-free. To qualify for the grant, you must meet the eligibility criteria, which include:

- You must be at least 18 years of age.
- At least one applicant must be a permanent resident or Australian citizen.
- Neither you nor your spouse/de facto may have previously owned a residential property in any State or Territory of Australia.
- This is the first time you and/or your spouse/de facto will receive the FHOG.
- The house will be your principal place of residence for a continuous period of at least six months, commencing within 12 months of settlement or construction of the home.

While the FHOG scheme is administered by the states individually, the conditions are uniform across all states.

As well as the FHOG scheme, each state or territory government may have in place its own scheme that offers a bonus payment, or a concession on government fees, such as stamp duty. To find out what benefits are available in your state, contact the relevant Office of State Revenue.

For more information on the FHOG scheme, go to www.firsthome.gov.au.

FIRST HOME SAVER ACCOUNT

If you are buying your first home, you may be eligible to save using a First Home Saver Account (FHSA).

The FHSA initiative is intended to help first home buyers build savings for a deposit on their first home. Savings in one of these accounts will receive preferential taxation treatment in a number of ways:

- Personal contributions are not taxed (as they are made from after-tax income) and the first \$5,000 (indexed) invested each year will receive a Government contribution of 17%.
- Earnings will be taxed at a low rate of 15%, rather than at the account holder's marginal tax rate.
- Withdrawals will be tax-free if used by the account holder to purchase or build their first home to live in.

The eligibility criteria is similar to the FHOG, however; you must be aged 18 or over and under 65. The FHSA initiative also refers to the individual, which means that as long as you have not owned a home, you are entitled to have a FHSA, regardless of whether your spouse/de facto may have owned a home.

The legislation for the FHSA initiative is due to commence on 1 October 2008.

For more information on the FHSA initiative, go to www.homesaver.treasury.gov.au.

COSTS OF OWNING PROPERTY

Unfortunately, the costs do not end once you have settled on the purchase of your property. As well as having to repay any loan you have taken out, there are other ongoing costs you may have to meet. If you have rented up to this point, many of these costs will be new to you.

INSURANCE

It is important that you take out adequate insurance over your property, called building insurance. This insurance protects you in the event that your property is damaged, for example, by fire or storm. Make sure that you do not underestimate the amount of cover you need. If disaster strikes and your home is destroyed, you need to have sufficient cover to rebuild.

Contents insurance is also important to protect your belongings in the case they are destroyed, damaged or stolen.

Many insurers have calculators to assist you to identify how much cover is appropriate. For more information on insurance, see the ABA booklet 'Smarter Insurance' – it is available on the ABA website www.bankers.asn.au.

TIP

Many insurers offer building and contents insurance in a combined policy (often called home and contents insurance). Instead of having to manage separate insurance policies, there is only one renewal, one payment and you only pay one excess. For example, if your home is damaged by a fire and you have separate building and contents insurance policies and you need to make a claim to repair your home and replace your belongings – you'll need to make separate claims and pay the excess on both policies. Combining your building and contents insurance is not only more convenient, but it can save you time and money if you need to make a claim.

RATES

Local governments will charge you annual rates. Rates pay for things such as garbage disposal, road maintenance and maintenance of local facilities, such as parks and gardens.

The amount you will be charged depends on the rateable value of the property. The vendor's statement sets out the amount currently charged.

LAND TAX

Depending on your circumstances, land tax may apply. Land tax is imposed in all states and the ACT, but not in the Northern Territory. Your principal place of residence is generally exempt from land tax. If, however, you own investment property, or a holiday house, that property may well be subject to land tax.

OWNERS CORPORATION FEES

If the property you buy includes ownership of, and the right to use, property in common with other property owners, there will be an owners corporation (known as the body corporate). Property in common areas includes gardens, hallways, lifts, swimming pool, gym, driveways and car parks.

The owners corporation comprises the owners of the individual properties, and is responsible for making decisions about the common property. The individual owners pay owners corporation fees (known as strata levies), which go towards things such as maintenance, repairs and insurance.

If you are considering buying a property that involves an owners corporation, you should be careful to check out the fees charged, and also whether there are any major works proposed that could result in an additional financial call on owners. Fees can include administration and sinking fund fees as well as special levies.

Did you know?

Strata levies are payable by each unit owner quarterly and the amount is usually set by the body corporate at its annual general meeting.

Strata levies usually take two forms: administration fees, which are used for maintenance and minor repairs of common property, building/public liability insurance, management expenses, common property electricity and water; and sinking fund fees; which are used for major repairs and upgrade of the building.

INDIRECT COSTS

So far we have looked at 'direct' costs, amounts that are directly related to buying or owning a property. There are other costs to consider that you may not have thought of, costs you could describe as 'indirect' costs. Many of these relate to the location of your home.

For example, where is your potential property in relation to your workplace, or your children's school? You may be considering two properties, one of which is cheaper, but further away from your workplace. Will the amount you save buying the cheaper home be worth the extra time and money you spend traveling each day?

If you work full-time and have young children, will your child care costs be affected by where you live? You may currently live close to family or neighbours who are able to look after your children. If you move further away, you may have to pay for childcare.

Does your potential new home have off-street parking? If not, your local government may require you to have a resident's parking permit to park your car on the street, incurring an annual fee for each vehicle you own. Some insurers may also increase the premium on your car insurance if your car is parked on the street, instead of being garaged.

These are just some of the hidden costs you may be up for as a consequence of your property purchase. Consider your own personal circumstances to think if there are others that may be relevant.





Finding the right property means asking yourself two main questions: Where? And what?

In other words, you need to consider location, and the nature of the property itself. Of course these two factors are linked, when you take into account how much you can afford to spend. Being in your most preferred location may mean compromising on the type of home you buy, while you may only be able to afford your ideal home in a location that is not number 1 on your list.

Real estate agents can help you in your search. Go to 'open for inspections' and let the agent know the sort of property you are looking for. You can also register at no cost with property websites or real estate agents' websites, so that you are notified when properties that meet your criteria come to market.

The Internet is an easy way to find out what's on the market. There are a number of real estate websites you may find useful (see page 37).

Metropolitan and local newspapers and magazines are also good information sources, most usually have a property section or lift-out.

FINDING THE RIGHT PROPERTY

LOCATION

We have all heard the estate agent's mantra that the three most important things are 'location, location, location'. Other words of wisdom include 'Buy the worst house in the best street' and 'You can change anything about a house – except where it is'.

What this points to is the importance of location in your decision making. Generally accepted wisdom is that over time, land appreciates in value, while buildings decline in value. As an investment, it is the land that will provide you with your returns.

Location is important for more than just investment reasons. Some questions to do with where you buy are:

- How far do you want to be from where you and/or your partner work?
- How far away are your children's schools?
- Where do relatives and close friends live?
- How close is public transport?
- Where are the nearest shops?
- How close are you to essential services such as hospitals, police and fire stations?
- What other amenities (e.g. restaurants, cinemas, parks, libraries) are nearby?

And then there is also how an area 'feels' to you. Can you imagine this area being your home? Some people prefer quiet suburbs with larger blocks of land and fewer people. Others prefer more densely populated areas with some 'hustle and bustle' and easy access to amenities.

Think carefully about these things, as no matter how attractive a property itself may be, it's just as important that the area it is in is what you want.

Did you know?

Remember that real estate agents work for the property vendor. They are naturally motivated to find potential buyers for properties on their books, and so will try to match you with a suitable property – but don't necessarily expect them to point out any negatives in a property they introduce you to!

If you want someone to represent your interests as a buyer, you can consider using a buyer's advocate. A buyer's advocate is someone you pay to act on your behalf in looking for and/or buying property.

Some people use a buyer's advocate throughout the process: finding a suitable property, advising on the investment potential and value of the property, and negotiating the purchase or bidding at auction on behalf of the client. Others may prefer to find a property themselves but ask the buyer's advocate to handle the purchase itself.

THE PROPERTY

The process of choosing your preferred location goes along with the decision on the type of property. In many cases, your budget will dictate the type of property that you can consider in a given location. Or if you have particular requirements for the property you want, that may rule out some locations.

TYPES OF PROPERTY

The types of properties you will be choosing from include free-standing house, semi-detached house, terrace house, townhouse, duplex and apartment. The meaning of some of these terms has changed over time, and in many cases different people use the same term to mean different things.

TIP

Make a buyer's list. To help you remember all the details about the property you are after, it's a good idea to start with a list. Divide the list into "must have" and "nice to have". Gather information from newspapers, magazines and websites, and talk to family and friends to learn from their experiences. This can help you understand what to ask the real estate agent or builder or tell your buyer's advocate. You can supplement your buyer's list by considering the property checklist on page 15.

TIP

Buying off the plan means buying a property before it is built, on the basis of plans, and possibly a display property that is the same as, or similar to, the one being sold. One of the advantages of buying off-the-plan is that you are able to purchase a property today, but settle sometime in the future. This means you may be able to pay today's dollars for a home. Be careful, however; that the 'saving' is not built back into the price set by the property developer – overall you may be no better off. Also, make sure the contract is unambiguous – sometimes property developers can change aspects of the property, such as fixtures and fittings, or even more substantive features, such as swimming pool facilities or telecommunications services.

The Federal Government's National Housing Assistance Data Dictionary gives a classification to dwelling structures. The three classifications that are likely to be of most relevance to property buyers are:

- Separate house
- Semi-detached, row or terrace house, townhouse, etc.
- Flat, unit or apartment.

The first category, a separate or free-standing house, refers to a house which is separated on all sides from other buildings.

The second category includes properties which have their own private grounds and no dwelling above or below. A key feature of these properties is that they are attached structurally to one or more of the neighbouring dwellings.

The third category includes self-contained dwellings in blocks of flats, units or apartments. Owners of this type of property do not have their own private grounds, and there is usually common property.

In the end, of course, it is the features of the property that are important, not the name that is used to describe it.

For example, it is important to establish whether there is any common property associated with the property you buy. If there is, the law requires that there is a body corporate, or owners corporation, in place (see page 16).

Another possibility is to buy a block of land, and build your own house. While a great deal of time and energy must be devoted to this process, starting with a clean slate gives you the chance to create a home exactly as you would like it.

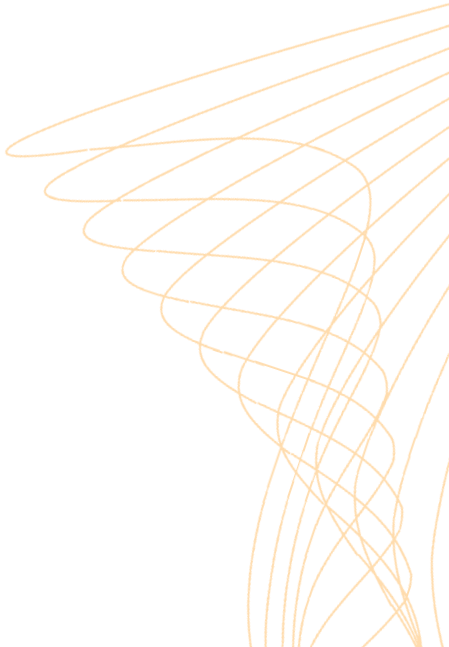
OTHER CONSIDERATIONS

Once you have determined the type of property you would like to live in, you can turn your attention to more detailed considerations. Some of these you can think about before you start looking, others you can look at once you have found a property you think may be suitable.

The property checklist (right) has some of the features you may want to consider for your home or property.

While it is useful to have a checklist to make sure you do not overlook anything, it's essential also to assess how you 'feel' about a property.

It is not unusual to walk into a property that 'ticks all the boxes' on your checklist, and yet not have the feeling that you could call the place home. You should pay attention to that feeling. Sooner or later, you are likely to walk into a house that gives you the 'right' feeling. Assuming it also measures up on your objective criteria, maybe this is the place for you.



PROPERTY CHECKLIST

- What is the house constructed of? – brick, weatherboard etc.
- Does the interior floor plan suit your needs? Consider the number of bedrooms, number of bathrooms, separate study/media room, formal vs. informal living and eating areas, storage areas, fireplaces, balconies/verandahs etc.
- What size garden or courtyard does the property have? Does the garden require a lot of maintenance? Consider if a watering system is installed.
- Is there a garage/carport or off-street parking?
- Is the property well insulated?
- Is the property connected to a mains sewerage system?
- Is the property connected to both gas and electricity?
- Are the electricity wiring and gas pipes in good condition, or will they need replacing at some point?
- Does the property have cabling inbuilt for phone/Internet/cable TV?
- What heating and air-conditioning does the property have?
- What star rating does the property have? What are the energy efficiency ratings of fixtures and appliances that come with the property (e.g. showerheads, taps, toilets, lighting)?
- How secure is the property?
- If there is common property, what does this comprise? – swimming pool, gym, tennis court, gardens etc.
- Are there additional features such as security personnel or a concierge desk?
- Are there local sources of noise that are likely to be a disturbance (e.g. railway line close by, or pubs/entertainment areas that may result in noise at night)?
- Are there any visible problems, such as cracks in walls/ceiling, signs of rising damp, or other structural damage?
- Are there any easements running through the property, which might restrict you from, for example, putting in a pool?
- What is the council zoning for the block? This may limit what the property can be used for or what can be done to the property. For example, mixed zoning allows the property to be used as a business and home.
- Where is the property located? Consider ease of access to schools, hospitals, shops, public transport, parks and other amenities.

TIP

Because you do not own any of the land or the building, it can be harder to get an institution to lend on company title properties. If you are interested in a property on company title, it is advisable to get advice from a solicitor experienced in this area.

TITLE

'Title' has to do with your legal right to ownership of property. While the legal aspect may not be the most interesting part of your search for property, it is essential that you pay careful attention to it. There are several types of title under which you can own property in Australia.

TORRENS TITLE

Torrens title is the system of dealing with land on which the land laws of all Australian states are based. It is the most common form of property title in Australia.

In short, this system means that title to land is shown through one document recorded at a central registry. Before this system was introduced in the mid 19th century, many documents often had to be referred to in order to establish title.

'Title by registration' is the fundamental concept of Torrens title. Under Torrens title, once your name is recorded on the title register, you become the owner of the property. You own the land and everything on it.

STRATA TITLE

Torrens title was not set up to deal with units, flats, apartments, or other properties where there are multiple dwellings on the one block of land.

Strata title is part of the Torrens title system, but it allows for the 'horizontal' subdivision of land into separate titles. Under a strata plan, a building and its land is divided into lots. Each of these lots has a strata title as evidence of ownership. There is also usually property in common areas, such as gardens, hallways, lifts, swimming pool, gym, driveways and car parks.

As the owner of a strata title home unit, you have title to the area bounded by the floor, ceiling and walls of your apartment.

OWNERS CORPORATION

The owners corporation, or body corporate, is the body that owns the common areas in a property, and the building structure itself. Together, all the owners of the individual lots in the strata plan make up the owners corporation.

The owners corporation has a number of responsibilities, including administering the building, taking care of maintenance and upkeep of common areas, and making sure insurance policies are up-to-date.

A committee is elected by the owners corporation to handle the day-to-day administration of the strata scheme. Very often, the owners corporation will appoint a third party, such as a licensed strata manager, to take on some of the responsibilities.

COMPANY TITLE

Though far less common than strata title, company title is another way you can own a unit or flat. In this case, the building and land is owned by the company, and you purchase shares in the company, which gives you the right to occupy a specified part of the building (i.e. your unit/flat). The important distinction from strata title is that you do not hold individual title to your flat, rather you own shares in the company.

The directors of the company (who are usually residents of the building) generally have right of approval of potential purchasers or renters of units in the building. This can be an advantage to those already living in the building — but a disadvantage if you are looking to sell or rent your unit.

GREEN HOUSING

One of the hottest topics in today's world is the environment, and what we can do to minimise our impact on it. How we set up our living surrounds is a significant part of this.

If you are building a new home, you have a great opportunity to ensure that your house is as energy efficient as possible. It is not so easy if you are looking at a home that already exists – but there are still things you can do. Looking at a home's energy efficiency should be part of the process of comparing different properties. Not only does being energy efficient help the environment, it's also better for your hip pocket.

Some things to look out for include:

- Orientation of the house, and other design features that reduce heating and cooling needs
- A north-facing roof that could be used for solar hot water
- Rainwater tanks
- Water efficient taps, showerheads, etc
- Fans or evaporative coolers instead of air conditioning
- High star rating appliances
- Drought tolerant garden.

Some of these things may involve initial costs to install, but over time reduced running costs will compensate for that outlay. They will also make your home more appealing when the time comes to sell.

Did you know?

Going green can help your hip pocket in other ways. Some banks and other lenders offer 'green home loans', with an interest rate below the standard variable rate. These loans may be available to fund the building or purchase of an environmentally friendly property, for example, the building may be required to comply with certain environmental standards. You may also qualify for a Government rebate if you install green features or appliances, such as a solar hot water system or a rainwater tank.



A hand holding a pen over a mortgage application form, with a small model house in the background.

FINANCING THE PROPERTY

Before you start looking for a property, it's important to work out your budget, and how you will finance your home or property.

HOW MUCH CAN YOU AFFORD?

Unless you are in the fortunate position of having sufficient funds to pay for your home or property purchase outright, you will probably be borrowing funds in the form of a mortgage.

The amount you can borrow depends mainly on two things:

- The amount you have saved for a deposit, and
- The repayments you can afford.

DEPOSIT

Most banks and other lenders require that you have a deposit of at least 20% of the value of the property, and preferably more. So for a property valued at \$400,000, you would need to have saved \$80,000.

Some lenders will allow you to have a lower deposit, say 5-10%, but there may be other fees and charges applied to the mortgage.

If you are borrowing more than 80% of the value of the property, most lenders will require you to take out lenders mortgage insurance. This is an additional cost you must budget for – and be aware that this insurance does not protect you, it protects your lender in case you default on your loan obligations. If you default and the mortgage insurance is paid out, the insurance company will take action to recover the debt from you.

Note: The deposit is different to the initial deposit you pay at the time of making an offer so that the seller knows you are a serious buyer.

Did you know?

Consumer credit insurance (CCI) offers protection to the borrower. It can cover part or all of your loan repayments, for a set period, if you're unable to work due to a serious accident or illness, temporary unemployment or death. The cost of your cover depends on the amount you borrow, your level of repayments and the level of cover you select.

REPAYMENTS

The second part of the equation is how much you can afford in repayments.

A rule of thumb is that your repayments should not be more than a third of your gross (pre-tax) income. You can think of this as allowing a third of your income in tax, a third for your living expenses, and a third for the mortgage.

You may think that you can afford more than a third of your income in repayments. But it is important not to over-commit yourself. It is also important to think about having a savings capacity.

Circumstances can change, and you do not want the additional pressure of worrying about whether you can afford to pay your mortgage and other debts, such as personal loan or credit card. Ask yourself how you would cope if you lost your job, or if you went from a two-income to a one-income family, for example, if you or your partner became pregnant.

There could also be a change in interest rates. Would a significant increase in interest rates affect your ability to repay your mortgage?

It is a good idea to do a budget, setting out all your income and expenses. Going through this process will give you a clear picture of your personal circumstances and financial situation as well as help you to estimate with some confidence the spare income you have available.

Many banks' websites have tools and calculators to help you estimate the amount you can afford in loan repayments.

For more information, see the ABA booklet 'Smarter Money' which shows you how to put a budget together – it is available on the ABA website www.bankers.asn.au.

TIP

Once you have worked out how much you have to spend, remember to factor in the costs of your purchase. Matters to do with 'Costs of buying property' are covered in more detail on page 6.

TIP

While banks quote a 'standard variable' rate, you should always ask for a better deal. Invariably, you will be able to get a better rate from your bank – depending in part on how much you are borrowing, what other accounts you have with the bank, and how long you have been a customer of the bank.

TIP

Most banks and other lenders have mortgage calculators and simulators on their websites. You can use these to work out how long it will take you to pay off your loan, and the amount of interest you will pay. You can see the effect a change of interest rates will have, the consequences of varying the amount of your repayments, and the difference in principal and interest-only repayments.

THE MORTGAGE

A mortgage is a contract between you and the lending institution (for example a bank), where you (the mortgagor) provide property as security for a loan provided by the bank (the mortgagee). When you pay back the loan, the mortgage expires.

In Australia, mortgages over residential property generally have a maximum term of 25-30 years. Mortgage repayments are usually made on a fortnightly or monthly basis. As interest on your loan is calculated on a daily basis, the more often you make your repayments, the less you will pay in interest over the life of the loan, all else being equal.

Aside from your regular repayments, some loans permit you to make additional, or lump-sum payments. Such payments can significantly reduce the overall interest cost of your loan, and result in you paying off the mortgage sooner. If you expect to make such payments, make sure you choose a mortgage that gives you the flexibility to do so. Check what fees your lender may charge for doing this.

There are many different types of home loans available in Australia. It is not possible to cover them all in this booklet, but following are some of the factors to consider.

Did you know?

If you can't decide between a fixed and variable rate loan, you can go for a combination – fixing the rate on a portion of your loan, and having the remainder as a variable loan. Check what fees your lender may charge for doing this.

FIXED OR VARIABLE RATE?

Variable rate loans are the most common form of home loan. As the name suggests, the interest rate charged on your loan will fluctuate, mainly to reflect variations in the official rate set by the Reserve Bank of Australia (RBA), but also due to changes in the cost of money available on the money market.

With a fixed rate loan, the rate charged on your loan is set for an agreed period of time. Regardless of what happens to official rates or the money market during this time, your rate is locked in for a fixed period. Obviously, if rates rise, this can be beneficial to you – but if they fall, you miss out on the favourable movement.

At the end of the agreed period, fixed rate loans usually revert to the standard variable rate, unless you reset them to a fixed rate for another period. If you re-fix your loan, the rate will reflect interest rate conditions at the time you reset, not the rate when you first took out the loan.

As a general rule, standard variable loans tend to be more flexible than fixed rate loans. You may be able to redraw funds, or make additional payments off the loan. With a fixed rate loan, additional payments may result in fees or other costs.

There are also differences between variable loans. Standard variable loans tend to be flexible and offer features such as the ability to redraw any additional amounts that you have already paid off your loan, while basic variable loans have fewer features. The interest rate on a standard variable loan will tend to be higher than that charged on a basic loan.

Did you know?

The primary influence on the level of interest rates in Australia is the Reserve Bank of Australia (RBA). The RBA is Australia's central bank. It implements monetary policy with the aim of maintaining inflation within a target range. It does this by setting the overnight 'cash rate' at a level it considers appropriate (known as the 'official rate').

If the RBA thinks that inflation is likely to rise, it acts to tighten monetary policy by restricting the supply of money and increasing the cash rate. If the RBA wants to stimulate economic activity, it will ease monetary policy by increasing the supply of money and reducing the cash rate.

The cash rate flows through to the lending and borrowing rates set by banks. Banks may increase (or decrease) their rates by more (or less) than the amount the RBA increases (or decreases) the cash rate depending on other factors, such as the cost and availability of money on the money market.

For more information on the RBA, monetary policy and the cash rate, go to www.rba.gov.au.

OFFSET ACCOUNTS

With some loans it is possible to set up an offset account, with any funds in the account being deducted from the outstanding loan amount for the purposes of interest calculations. The benefit of an offset account is that you can access the funds held in the account at any time, and are also reducing the amount of interest paid on the loan.

Many people use the offset facility as their day-to-day account, having their salary or wages paid directly into the account so that they get maximum benefit from their available cash.



TIP

If you're thinking of applying for a mortgage, it's a good idea to check your credit history first to make sure the details listed are accurate and up-to-date.

Sometimes, the first time people become aware of their credit file is when a mortgage, loan or credit application is declined. This occasionally happens as a result of an incorrect listing or inaccuracy on your credit file, or an error in your personal details.

You can obtain a copy of your credit file (a fee may apply) by applying in writing to a credit reference agency, such as Veda Advantage.

LINE OF CREDIT LOANS

With a line of credit, you have no fixed schedule of repayments. Your line of credit is a specified amount, and you are not permitted to exceed that level of borrowing. The rate at which you reduce the outstanding principal is up to you, although many lenders require you to pay the interest charged each month. Interest is calculated, usually on a daily basis, on the amount owing.

You can draw on the line of credit as you need to, so long as you do not exceed your limit. You may choose to have your salary or wages paid into the line of credit, reducing the amount owed and therefore the interest charged, and then redraw for your living expenses.

The advantage of this type of loan is that you have flexibility to draw on the line of credit, for example, to pay for renovations to the property.

The disadvantage of this type of borrowing is that the interest rate may be higher than on other types of loans. Also, because you are not required to make a set repayment on a regular basis, unless you are disciplined you may end up taking longer to pay off the debt.

BRIDGING FINANCE

If you are already a homeowner, and decide to buy a new home before selling your existing one, bridging finance may be required. Bridging finance is a loan that covers the gap between paying for your new home, and receiving the money for the home you sell.

Bridging finance can be expensive, as your lender may charge a higher rate than the rate on a normal variable loan.

HOME EQUITY LOANS

Once you own your own home, and start paying off your loan, you have 'equity' in the property. The amount of equity gradually increases as you continue to reduce the amount you owe. You can borrow against this equity to make investments.

The advantage of a home equity loan is that the interest rate charged is usually lower than if you were to take out an investment or personal loan.

The disadvantage is that the loan is secured against your property and the lender has recourse to your home if you are unable to make the repayments on the home equity loan.

Did you know?

Many lenders offer 'honeymoon' rates. Be careful! The interest rate quoted is usually quite a bit lower than the 'standard variable' rate. But after the honeymoon period, which is typically up to a year, the loan reverts to the standard rate. Bear in mind that the total term of your loan may be up to 30 years, so saving some interest for 6 or 12 months may not be worth it if the interest you pay over the life of the loan ends up being more. Make sure you do your calculations over the full term of the loan.

APPLYING FOR A MORTGAGE

Mortgages are available from a number of lenders, including banks. To obtain a mortgage you will need to contact a bank or other lender and make an application. It is best to shop around to find a product which best suits your needs.

When making an application, you will need to provide the lender with information to assist them assess your application. You will need to provide evidence of your income, savings history, and the deposit, as well as your expenses and any other debts you may have.

The documentation that you are required to provide to the lender will depend on the terms and conditions of the loan. Some lenders offer 'low-doc' loans that do not require as much documentation, however, these loans may come with conditions, such as a higher interest rate or fees for missed repayments.

The lender will check your credit history and may not approve your loan if you have experienced credit problems in the past, such as missed payments or unpaid bills.

For your part, you should make sure you understand in detail the terms and conditions of the mortgage being offered. As well as the interest rate, and how it is charged, you should find out what fees apply to the mortgage, including establishment fees, property evaluation fees, loan service fees, and early exit fees.

Some establishment fees can be deferred, and after a certain period of having the mortgage, for example after 4 years, could be waived altogether.

MORTGAGE CHECKLIST

To apply for a mortgage, generally, you will need to provide the following information to the lender:

- Personal identification — such as a driver's licence, credit card, Medicare card, passport or birth certificate.
- Financial information — such as your last salary advice, tax return, group certificate, letter from your employer detailing your income and length of employment, details of other regular income (e.g. investments, rental properties, social security payments, etc).
- Assets — such as your savings account or term deposit statements, investment/portfolio statement, details of property, car or other assets.
- Liabilities — such as amounts owing on any credit cards, store cards, hire purchase/lease agreements or other loans.
- Expenses — such as details of rent/board payments, details of bills (e.g. council and water rates, electricity and gas), car expenses (e.g. petrol and maintenance costs, registration costs and insurance), living expenses (e.g. food, clothing, leisure and entertainment activities, sports, pets), insurance costs (e.g. health insurance, home/contents insurance, life insurance), education costs (e.g. enrolments and term fees, tuition charges), child care expenses.
- Property information — such as contract of sale (e.g. certificate of title, transfer of land); or if refinancing, current home loan statements; or if building a property, building contract.

Each lender may ask for additional information, so you should ask what information you need to provide when applying for a mortgage.

TIP

It's important to feel confident that a mortgage broker is giving you the right advice. Ask the broker what commission they are being paid to sell the mortgage, and if there are any ongoing commissions. Also, be prepared to ask the broker about other home loans. That way you can form your own opinion on whether their recommendation is impartial.

TIP

Are you planning on buying a small apartment? Some lenders will not accept as security for a loan a property under a certain size, for example under 40 square metres. Check with your lender whether there is a size restriction to avoid your loan application being refused on these grounds.

PRE-APPROVAL

Most banks and other lenders will provide pre-approval on your loan. This means that they approve finance up to a certain amount, 'in principle'. The lender will confirm this approval in writing so that you can demonstrate to a real estate agent that you are a serious buyer.

Once you find the right property, you are therefore in a position to move quickly to make an offer, as you already know the amount you are able to borrow, rather than having to delay while you organise finance.

Pre-approval is usually valid for a specified period, and must be renewed at the end of this time.

MORTGAGE PROVIDERS

There is a wide array of lenders offering home loans. Banks, building societies and credit unions all offer mortgages, and there is also a range of non-bank lenders.

You can apply face-to-face for a loan by going into the branch of a bank, or in many cases the bank will come to you. Many banks also allow you to apply for a mortgage over the phone or the Internet.

MORTGAGE BROKERS

Rather than going direct to a mortgage provider, you may prefer to use a mortgage broker. A mortgage broker can help you to find a loan that suits your needs.

They will have a range of mortgage providers on their books, with a variety of loans available. Typically they do not charge you a fee, but are paid a commission by the lender you end up choosing.

Did you know?

Naturally the banks factor the commission payable to the broker into the rate and fee structure of the loan they offer via the broker; so it's still advisable to check the broker's recommendations against a mortgage you could get directly from the mortgage provider – you may find it cheaper to go direct.

THE INITIAL DEPOSIT

When you have found the property you want to buy, you will need to put down an initial deposit. The usual amount is 5-10% of the purchase price of the property. You will need to have this amount available at the time you make your offer on the property. If you buy at auction, the deposit is payable at the time you sign the contract of sale.

In some cases, you may be able to use a deposit bond instead of a deposit. This is an instrument issued by an insurance company that guarantees to the seller of the property that the deposit will be paid. The fee charged by the insurance company to issue the bond is typically around 1% of the deposit amount. A deposit bond is not always acceptable in place of a deposit, so be sure to check with the vendor's agent beforehand.

Note: The initial deposit is different to the deposit required by your bank or other lender to secure your mortgage. The initial deposit is part of the 'purchase price' and is taken account of in the contract of sale.

Did you know?

Be aware that if you're unable to complete settlement on your purchase when the time comes, the contract may entitle the vendor to retain your deposit.



BUYING A PROPERTY



Let's assume you have found a property that meets your criteria, and that fits your budget. You have organised pre-approved finance from your mortgage provider.

We will now consider the steps to go through before you can call the property your own.

There are a few things to do before you make your offer, in the case of a private sale, or place a bid, in the case of an auction.

PRE-PURCHASE INSPECTIONS

Obviously you will have been round the property at 'open for inspections'. It is always advisable to take at least a second look. Sometimes in the excitement of thinking you have found 'your' home on the first visit, you can overlook things. Going back after a day or two gives you the chance to cast a more objective eye over the property, and evaluate it according to your buyer's list.

As well as your own inspections, you may wish to get one or more professional inspections, such as building and pest inspections. No matter how good a property looks, it is always possible there are significant flaws that you cannot see. Sellers naturally try to present their property in the best possible light, and patching and paint work can conceal serious problems.

A building inspection will determine whether everything is structurally sound and generally in good shape, looking beneath the surface, and into areas such as the sub-floor and the roof cavity. If the inspection comes up positive, it gives you the confidence that you are buying a property that is not going to produce nasty, and costly surprises.

While obvious pest damage should be picked up in a building inspection, it may be worth getting an inspection specifically for pests. Pests such as termites can do major damage to a property, but without obvious signs to the untrained eye. Pests can be more of a problem in some areas than others, and some types of properties (such as weatherboard houses) may be more susceptible.

The cost of a pest inspection is usually money well-spent, as the cost of rectifying damage caused by pests can be huge.

Did you know?

Bodies such as the Housing Industry Association (HIA) and Archicentre provide building and architect's inspections. Getting an architect to look at your potential purchase may be worthwhile if you are planning to do a major renovation or extension to the property.

TIP

It can be difficult to decide whether to pay for inspections on a property that is going to auction. The inspections may come up positive, but you may miss out on the house at auction, and feel that you have wasted your money. Assess whether you have a realistic chance of success at an auction before you commit to the expense of professional inspections. Remember, though, that if there turns out to be a problem with the property, the inspection may save you money in the long run.

TIP

When you receive the paperwork, it's important to check the details of the contract of sale and the vendor's statement. It's also up to the buyer to check anything that isn't included in the vendor's statement. For example, the vendor's statement doesn't include information about the condition of the property, or whether building regulations have been complied with, or whether there are planning approvals or proposals that may affect the property. It's important that you properly check all the details before signing the contract.

TIP

If there is something in the contract of sale that you would like modified, you can always approach the vendor's agent to see if the vendor would agree to a change. Unless the modification is a significant one, you may find the vendor will agree.

CHECKING THE PAPERWORK

Just as important as checking the property itself, is going over the legal documentation, in particular the contract of sale and the vendor's statement.

The contract of sale includes terms and conditions of the sale itself, such as the deposit paid, the settlement terms, and any special conditions that may apply.

The vendor's statement usually includes:

- A copy of the title to the property
- Copies of documents showing any other interests registered over the property
- Copies of notices or other information concerning the property, such as building permits, easements, council rates, etc
- A zoning certificate from the local council
- A diagram of the sewerage on the property.

You may wish to get a solicitor or conveyancer to go over these documents for you. As part of this process, all legal aspects relating to the land and title should be checked.

You or your representative should check that the relevant planning or building permits were obtained for any renovations or extensions on the property. You should also check such things as whether there have been any planning approvals granted for neighbouring properties, or proposals to widen roads made that would affect the property.

THE PURCHASE

The purchase process depends partly on the method being used to sell the property. Methods of sale can broadly be separated into private sale, and sale by auction.

PRIVATE SALE

Sale by private treaty is the most common method to sell property. In a private sale, the owner decides on the price they want for the property. The property is then offered, usually through a real estate agent, at the asking price.

If the property you find is being offered for private sale, you make an offer to the estate agent, who passes it on to the seller. You can offer a price lower than the asking price.

Your initial offer is usually made verbally, but there is no binding agreement until both parties have signed the contract of sale, or contract note. If you offer less than the asking price, there may be a period of negotiation until a price is reached that is acceptable to both parties.

You may also be required to pay an initial deposit at the time of making an offer. Paying a deposit shows the seller that you are a serious buyer. The initial deposit is returned to you if your offer is not accepted.

If your offer is accepted, you will proceed to the 'exchange of contracts'. This is the process whereby you and the vendor each sign a copy of the contract, and hand a copy to the other.

Except in Tasmania and Western Australia, the law generally requires that there is a 'cooling off' period for residential properties bought in a private sale. The cooling off period commences immediately after the exchange of contracts and lasts for a defined period. The length of the cooling off period can vary depending on the law in your state or territory.

During the cooling off period you can change your mind and pull out of the purchase. For example, some people use this period to arrange inspections, as the buyer can choose not to go ahead with the purchase if a major problem is found. If you change your mind during the cooling off period, you will need to notify the seller in writing. Your deposit will be returned, but depending on the law in your state or territory, the seller may be entitled to retain a small percentage of the deposit.

There is no cooling-off period if the property is bought at auction, or in some other circumstances such as when the purchase takes place within a certain number of days of an auction.

CONDITIONAL OFFERS

In a private sale, it is possible to make an offer subject to certain conditions. For example, the offer may be conditional on a building and pest inspection giving the property the all clear. Or it could be subject to an acceptable title search by your conveyancer or solicitor.

All else being equal, a seller will naturally prefer an unconditional offer to a conditional one. This may be relevant if several buyers are interested in the same property as you.

Did you know?

If the seller accepts your conditional offer, the contract you sign is legally binding, as long as the conditions you specify are met. The only reason you can back out of the contract is if one or more of the conditions is not satisfied – not just because you change your mind.

SALE BY AUCTION

An auction puts you in a competitive bidding situation with any other buyers who are interested in the property.

There are some important differences from the rules governing private sales. There is no cooling-off period when a house is bought at auction, and you cannot make your purchase conditional. If you buy a house at auction, you must produce the deposit on the day, and therefore must have your finances organised beforehand.

The seller sets a reserve price, which is the minimum price they are prepared to sell the property for. If the price does not meet the reserve, the property is 'passed in', and the real estate agent will negotiate with the unsuccessful bidders in an attempt to get a price that is acceptable to the seller. The highest unsuccessful bidder has the first opportunity to negotiate with the seller.

An auction can be a stressful experience – for both seller and potential buyers. It is important before bidding that you are certain this is the property you want, and that you set a limit on how high you are prepared to bid. The emotion and excitement of an auction is not always conducive to calm and rational decision-making!

There are strict rules governing the conduct of auctions. Some of these rules have been introduced relatively recently to stamp out unfair and unethical practices. As a result, auctions nowadays are fairer and more transparent than in years gone by, when dummy bidding and other misleading practices could result in distorted prices. Rules governing the conduct of auctions vary from state to state – check with the consumer rights or fair trading body in your state for further information.

TIP

When you make an offer on a property, it's advisable to put an expiry date on your offer – in other words, if the offer is not accepted by a specified date, it lapses. This prevents the vendor's agent from indefinitely shopping around for higher offers with the security of your offer as a 'fall back position' for the vendor.

TIP

If you find a property you like that is listed for auction, consider making an offer prior to the auction. It may be that the vendor will accept the certainty of a pre-auction offer rather than take the risk of going to auction. You may secure the property for a lower price than it would have gone for at auction. On the other hand, the bidding may not have reached your offer price – you can never know for sure.

TIP

It's a good idea to arrange insurance cover for your new property from the time of exchange of contracts (date of purchase). Strictly speaking, it is the seller's responsibility to take care of the property until the time of settlement. However, insurable events could occur between the exchange of contracts and settlement. Having your own insurance cover will give you peace of mind.

GAZUMPING

It is important to understand that no legally binding contract exists until both buyer and seller have signed the contract of sale.

Your offer to purchase a property may be verbally accepted by the seller, and so long as contracts have not been exchanged, if another buyer subsequently offers a higher price, the seller can legally accept that offer (known as 'gazumping').

Gazumping can even happen when a property is sold at auction. Many people believe that the property is sold at the fall of the hammer. This is not so – the property is only sold once the contract is signed by both parties.

In recent times, attention has been drawn to this questionable practice, as a result of auctions where the real estate agent has accepted late bids after the property has been knocked down to the highest bidder. At the time of writing, some state governments are in the process of introducing legislation to ensure that the property is sold at the fall of the hammer.

POST-PURCHASE

Once both you and the seller have signed the contract of sale, the first thing to do is to sit back and celebrate your purchase! However, the property is not actually yours until settlement, when you pay the balance of the purchase price and take ownership of the property.

Settlement is usually somewhere between 30 and 90 days from the exchange of contracts (date of purchase), and in many cases can be negotiated to suit both buyer and seller.

After the purchase, you will need to contact your mortgage provider and your solicitor/conveyancer to organise settlement. Your mortgage provider may want to arrange a valuation on the property, and will need you to sign various documents in order to organise your loan.

Your solicitor/conveyancer will liaise with your mortgage provider to ensure that all the necessary documentation is in place for settlement. Still, it is worth checking a few days beforehand that everything is in order. If something goes wrong, and you fail to settle, the vendor is entitled to charge you a punitive rate of interest on the funds owing.

In calculating the amount due at settlement, there is likely to be an amount included for adjustments. This amount covers payments that have been made either by the buyer or by the seller of the property that relate to a period that concerns the other party.

For example, the seller of the property may have paid council rates, or charges to the water board, that cover a full year. If the buyer settles midway through the period the payment covers, they are required to reimburse the seller pro rata for those costs. The conveyancer for each party will provide a statement of adjustments to their client.

A few days before settlement, you should arrange an inspection of the property. The contract of sale stipulates that the property at the time of settlement must be in the same condition it was at the time of purchase – it's up to you to check that this is the case.

Pay special attention that all items that formed part of the contract are still there, such as light fittings, window coverings, and appliances such as dishwashers or washing machines. It is much easier to resolve any problems before you pay the balance of the funds, rather than trying to do so afterwards.

Before settlement, contact suppliers of the various utilities such as phone, water, electricity and gas, to ensure that you are connected on the date you take possession of your new home. You should also place a redirection on your mail with Australia Post so that any mail sent to your old home will be forwarded to you.

Once settlement has gone through, the vendor's agent will be authorised to release the keys to the property to you – you now own your new home!





GETTING THE MOST OUT OF HOME OWNERSHIP

Many people do not give too much thought to the financial aspects of home ownership once the purchase has been settled. There are, however, a few steps you can take to make sure you get the most financially out of owning your own home.

PAYING OFF YOUR MORTGAGE FASTER

Any measures you can take to pay off your mortgage sooner are well worth the effort.

If you are living in your property (known as owner-occupier), then interest paid on your mortgage is not tax deductible. Mortgage repayments come out of your after-tax income. Any money you can save on your home loan is therefore even more valuable. Looked at another way, generally interest you save yourself on your home loan is worth more than the same amount earned from an investment.

So what are some ways to pay off your mortgage sooner, and save yourself interest?

INCREASE THE FREQUENCY OR AMOUNT OF YOUR REPAYMENTS

If you have a loan where you are paying principal and interest and are making monthly repayments, switch to paying half that amount every fortnight. Over the course of a year you will make 26 fortnightly payments instead of 12 monthly payments. The extra amount will significantly reduce the amount of interest you pay over the term of the loan.

The alternative is to increase the amount of your regular repayments. The extra you pay will come straight off the principal you owe, reducing the amount of interest that is subsequently charged.

Even better, increase both the frequency and the amount of your repayments!

At the time of applying for your mortgage, make sure you choose a mortgage that gives you the flexibility to change your payments. Check what fees your lender may charge you for doing this.

MAKE LUMP SUM REPAYMENTS

If you accumulate some extra cash, make a lump sum repayment on your mortgage. The resulting reduction in the principal you owe will mean lower interest charges.

At the time of applying for your mortgage, make sure you choose a mortgage that allows you to make additional or lump sum payments. Check what fees your lender may charge you for doing this.

DIVERT ANY SPARE CASH TO YOUR OFFSET ACCOUNT

Remember that any cash you hold in an offset account is deducted from your loan balance when it comes to calculating interest. It makes sense, therefore, to hold any spare funds in your offset account.

Generally it will be better financially for you to hold your funds in your offset account than to invest them in an interest bearing account. For one thing, the interest rate you receive from funds deposited is generally lower than the rate applicable to the offset. For another, you will be taxed on any interest you receive, whereas the amount you save in interest on your loan is a tax-free saving.

CHANGING YOUR MORTGAGE

It can happen that after owning your home for a couple of years, you come to the conclusion that you simply have the wrong type of loan, or that you can get a better deal elsewhere. You may be in a fixed loan and decide you would prefer to be in a variable rate loan, or vice versa. Or you may

feel that your lender is charging you a higher rate than is available elsewhere, and all attempts to negotiate a lower rate fail.

In these circumstances, you could consider refinancing. It will inevitably cost you in fees to refinance, so be sure to do your sums. It can be particularly expensive to leave a fixed rate loan. Work out how much better off you will be with the refinanced mortgage, and how much it will cost you to get there – overall, will you be better off?

If you can get your current lender to agree to a better deal, that is usually the best outcome.

LEVERAGING YOUR MORTGAGE

Once you have built up some equity in your home, it may be time to make use of that equity.

Perhaps you are considering renovating your home. If you have sufficient equity, you should be able to take a second mortgage, or renovation loan, secured against your home, to finance the renovations.

Or you could consider borrowing against your home for investment purposes. You might choose to invest in another property, or in a share portfolio. Using borrowed funds to invest is known as gearing. Assuming the money you borrow is invested in assets that produce taxable income, the interest on the loan is usually tax deductible.

The advantage of borrowing against your home is that the interest rate charged will usually be lower than the rate charged on a personal loan.

TIP

If interest rates fall, your lender may give you the option to reduce your repayments. Try to resist the temptation! If you maintain your current level, you will reduce the amount outstanding on your mortgage, and pay it off sooner.

TIP

Geared investments can be a great way to increase your wealth, as they involve leverage. Leverage means that you increase your exposure by using borrowed funds. If the investments you make perform well, this increased exposure results in larger profits. However, leverage works both ways – if your investments perform poorly, your losses are increased. This is particularly so if you are negatively geared – i.e. your expenses (interest, maintenance costs and so on) exceed the income from the investment.

SELLING A PROPERTY



So far, this booklet has concentrated on the process of finding and buying property – it's now time to take a brief look at selling.

Sooner or later, the time may come when you outgrow your current home, and you decide on a move. In this situation, you will usually be both buyer (of your new home) and seller (of your existing home).

Or you may own an investment property, and decide that you would like to sell up to realise funds for use elsewhere, in which case you will be involved only in a sale.

Following are the main steps you will take.

APPOINTING AN AGENT

One of the first things to take care of is appointing a real estate agent to handle the sale. It is a good idea to interview several agents.

The agent will make an appraisal of your home, and give you an estimate of the price they believe is achievable. They will also propose a marketing and advertising plan, make a recommendation on the appropriate method of sale, and tell you the commission they will charge for their services.

The commission may be a fixed dollar amount, a flat percentage rate of the price achieved, or it may be a set percentage up to a certain sale price, and a 'bonus' rate applied to any amount over that price. Commission rates are usually open to negotiation.

METHOD OF SALE

The two main methods of sale – private sale and public auction – have already been discussed on page 28. The agent you appoint will advise you on the most suitable method for your property and for the current market conditions.

In Australia, most properties are sold by private sale, but an auction can sometimes be the best way to go. If your property is particularly unusual or desirable, and the market is strong, the competitive bidding situation can bring you the best result.

SETTING THE PRICE

Again, your agent will advise you on the price. The figure should take into account the property's location, size and condition. It should also reflect current market conditions. If you are selling at auction, you need to set the reserve price, which is the lowest figure you are prepared to accept at the auction. This figure should be known only to you and your real estate agent.

THE PAPERWORK

You will need to appoint a conveyancer or solicitor to act on your behalf. Your real estate agent should be able to give you a recommendation.

The conveyancer/solicitor's job is to prepare all the necessary documentation including the vendor's statement and the contract of sale. Once the property has been sold, they will liaise with the buyer's conveyancer/solicitor and with your mortgage provider, and will attend the settlement on your behalf to complete the sale.

ADVISING YOUR MORTGAGE PROVIDER

You should advise your lender that you intend to sell your property, and discuss with them how you plan to pay out your mortgage. Because the lender holds a mortgage over your property, this mortgage needs to be discharged before ownership of the property can legally be transferred to the buyer. Usually, at settlement the amount necessary to pay out your loan is deducted from the sale proceeds and paid to your lender.

MOVING OUT

On the date of settlement, the purchaser has the right to occupy the property, so you must make arrangements ahead of this date to have vacated.

These include:

- Organising a removalist
- Arranging for utilities (phone, gas, electricity) to be disconnected
- Organising for your mail to be forwarded.

TIP

It's important to select the agent you believe will do the best job – not necessarily the one who offers the lowest commission rate, or places the highest estimate on the price of your property. Ask the agent to give details of recent sales of comparable properties in your area, to back up the price estimate they put on your property.

TIP

If you're selling privately, the price you place on your property will usually be viewed by prospective buyers as a starting point. Buyers are likely to make an offer below what you are asking, and negotiations then proceed. So it's usually best to set a price that gives you some room to move.



WHERE TO GO
FOR MORE INFO

There are many websites available to help you find the right property for you and your family.

GOVERNMENT WEBSITES

www.firsthome.gov.au

Refer to this Government website for information on the First Home Owners Grant (FHOG) scheme. The website has links to the Office of State Revenue in your state or territory.

www.homesaver.treasury.gov.au

Refer to this Government website for information on the new First Home Saver Account (FHSA) initiative. At the time of writing, ASIC's FIDO website, ATO's website and account providers' websites are being updated with information about FHSAs.

STATE REVENUE OFFICES

The Office of State Revenue in your state or territory can provide you with information about the state duties, taxes and charges that will apply to your purchase or sale of property.

RESIDENTIAL TENANCY AGREEMENTS

If you own a rental property, it is important that you are familiar with the Residential Tenancies legislation that applies in your state. This legislation sets out your rights and responsibilities as a landlord. For details, contact the relevant body in your state – for example the Office of Fair Trading in NSW, or the Residential Tenancies Authority in Queensland.

REAL ESTATE WEBSITES

www.reiaustralia.com.au

The Real Estate Institute of Australia (REIA) is the national professional association for the real estate industry in Australia. It has eight members, which are the state and territory Real Estate Institutes.

Around 80% of real estate firms and licensed agents are collectively represented through the institutes. You can also refer to the websites of each state institute for information particular to your state.

www.archicentre.com.au

Archicentre is the building advisory service of the Royal Australian Institute of Architects. It offers architectural services to home buyers, new home builders and renovators.

PROPERTY WEBSITES

A range of websites contain information on buying and selling property. These include:

www.domain.com.au

www.realestate.com.au

www.property.com.au

www.apm.com.au

You can register on these websites to be notified by email when properties that meet your criteria are listed for sale.

The websites of real estate agents are also a valuable source of information on individual properties.

BANK WEBSITES

Banks' websites have useful information on the financial side of buying and selling property. Many websites include mortgage simulators that help you to estimate the amount you can borrow, the length of time it will take to pay off a loan, and the amount of interest you will end up paying. You can play with variables such as repayment amounts and interest rates to see how the term of the loan would be affected.

www.bankers.asn.au

The Australian Bankers' Association (ABA) publishes a range of booklets as part of its financial literacy program. These booklets can be downloaded from the ABA website or call 1800 009 180 for a free hard copy.

The Code of Banking Practice sets out the banking industry's key commitments and obligations to customers on standards of practice and principles of conduct.

The Code has provisions for customers having financial difficulties with their bank loan which require your bank to try to help you overcome those financial difficulties, for example, by working with you to develop a repayment plan.

The uniform Consumer Credit Code allows for variations to loan contracts where the borrower is suffering hardship.

FINANCIAL COUNSELLOR WEBSITE

www.afccra.org

While the purchase and ownership of your own home can be one of the most satisfying things you will ever do, the obligation to pay off your mortgage can bring with it financial pressure. If, for example, your circumstances change, such as you lose your job, financial stress can result.

The Australian Financial Counselling and Credit Reform Association (AFCCRA) is the peak body for financial counsellors in Australia. Financial counsellors provide information to consumers in financial difficulty. They are funded largely by government, and their services are free. If you need financial counselling, a counsellor will thoroughly assess your situation and identify steps you can take to deal with your financial difficulties.

GLOSSARY OF TERMS

Auction

Method of sale where interested buyers bid on a property in competition with each other.

Body corporate

Also known as owners corporation, is the body that owns the common areas in a property, and the building structure itself. Together, all the owners of the individual lots in the strata plan make up the owners corporation.

Bridging finance

A loan taken out to bridge the gap between providing funds for the purchase of a property and receiving funds from the sale of a property.

Company title

A form of title where you do not hold individual title to a property, but rather you own shares in the company that owns the building and land.

Consumer Credit Code

A law governing consumer lending in Australia.

Contract of sale

The agreement containing the terms and conditions of a property sale.

Conveyancing

The legal process by which the ownership of a property is transferred from seller to buyer.

Cooling off period

A set period during which the buyer of a property can back out of the purchase (does not apply in all states or for properties bought at auction).

Debt

The amount of money you have borrowed from a bank or other lender.

Deposit bond

A document from an insurance company that guarantees payment of a deposit on a property purchase.

Easement

A right to use land belonging to someone else. For example, mains, drains and water pipes are usually covered by an easement.

Equity

The difference between what you owe and the value of what you own. Negative equity means you owe more than the total value of what you own.

Establishment fees

Fees charged by your mortgage provider to set up the loan.

First Home Owner Grant

A Government scheme to help first home buyers.

First Home Saver Account

A tax preferred savings account for first home buyers to save a deposit.

Fixed rate loan

A loan where the interest rate is set for an agreed period of time.

Gazumping

A practice where a vendor verbally agrees to a price, but then accepts a later, higher offer.

Gearing

Borrowing money to use to buy investments.

Honeymoon period

A period of time at the start of a loan where an interest rate is applied that is lower than the standard rate.

Interest

The price of money. The price a bank or other lender charges for the money it lends you, or the return you get for the money you lend someone else.

Investment property

A property that the owner does not live in, but rents out.

Mortgage

A contract between the property buyer and the lending institution, that provides property as security for a loan.

Mortgagee

The party who lends money, and holds a mortgage over the property of the borrower.

Mortgagor

The party who borrows funds, and as security gives the lender the mortgage.

Mortgage duty

A tax levied by a state or territory government on the amount borrowed.

Mortgage insurance

Insurance that protects the mortgage provider against the borrower defaulting on their loan.

Negative gearing

Where an investment is made using borrowed funds, and the income, such as rental or dividend income, after the deduction of expenses, is less than the interest on the borrowed funds in a financial year.

Owner-occupied property

A property the owner lives in as their principal place of residence.

Owners corporation

See 'body corporate'.

Passed in

A property is 'passed in' at an auction if bidding fails to reach the vendor's reserve price.

Private treaty sale

The process of selling a property via a real estate agent through private negotiation and contract (rather than by auction).

Redraw facility

A facility on a loan that means you can access (redraw) any additional amounts that you have paid off the loan.

Refinancing

The process of exiting a loan, and arranging a new one with different terms and conditions, or from a different lender.

Reserve price

The price set by the vendor which is the minimum they are prepared to accept at auction.

Settlement

The completion of a property sale, when the purchaser pays the outstanding amount, and legal ownership of the property is transferred.

Stamp duty

A tax levied by a state or territory government on the purchase of property.

Strata title

Under a strata plan, a building and its land is divided into lots. Each of these lots has a strata title as evidence of ownership.

Title search

The process of checking that the seller of a property has the right to transfer ownership, by investigating the title.

Torrens title

The system of dealing with land on which the land laws of all Australian states are based. It is the most common form of property title in Australia.

Variable rate loan

A loan where the interest rate changes in line with market rates.

Vendor

Seller of the property.

Vendor bid

A bid made at auction by the seller of the property, usually via the agent acting for the vendor.

Vendor's statement

A document provided by the vendor (seller) to an intending buyer of a property. The vendor's statement must be provided before the contract is signed.



Other booklets in the ABA's financial literacy booklet series



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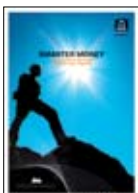
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The banking industry is committed to helping Australians better understand financial
services to make more informed choices when it comes to managing money and
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The ABA website has a Financial Literacy Info Centre which provides information
on managing your money, ways of banking, banking products and services, and
protecting your money and banking information.

CONTACT US

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Website: <http://www.bankers.asn.au>

