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Financial advice you can act on!

Borrowers Guide to Lending



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Introduction

The Borrowers Guide to Lending has been designed to assist you to gain a better understanding on how the lending process works. The mortgage process can be confusing and overwhelming at times, but when you understand the basic process, you'll be much more prepared. The purpose of this guide is to assist you through each step.

We believe the collection of the enclosed mortgage information will make your journey into the finance world an enjoyable one!



Preparation

The key before obtaining your keys

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

- ✿ How much can I borrow?
- ✿ Understanding the costs involved
- ✿ How much deposit do I require?
- ✿ Can I afford it!

How much can I borrow?

Before purchasing a property it is always important to get an idea of how much you need to borrow.

How much you can borrow will depend on several factors including:

- ✿ Your income
- ✿ What you are buying (home or investment)
- ✿ Eligibility for Home Owner Grant
- ✿ What deposit is required
- ✿ Other loan repayments and commitments

An important factor to consider is how comfortable you are financially to repay the proposed loan. It is imperative that you do not over stretch yourself, it is best if you sit down and work out a budget and understand how much you have left over to repay a loan comfortably. You should also factor in interest rate movements as this will affect your repayment amount.



The cost involved in purchasing a property is more than just the purchase price.

Understanding the costs.

Some of the other costs would include the following:

Stamp Duty

This is a government cost that is usually the biggest expense outside the purchase price of the property. Stamp duty varies between the states and territory. A great website is available for guidance on what the approximate stamp duty cost would be in your relevant state: www.stampdutycalculator.com.au

Loan Setup Costs

This includes establishment fees and will vary pending on the lender and the loan product chosen. It is important to note that you may also require Lender's Mortgage Insurance (LMI) depending on your deposit size.

Conveyancing Costs

Conveyancing is the process of which a property's ownership is transferred from the current owner (the vendor) to the buyer. A conveyancer is a legal representative that specialises in this field. Either a conveyancer or solicitor will review your Contract of Sale and ensure appropriate checks are conducted on the property with local government agencies.

Inspection Costs

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





Preparation

Getting a deposit together.

There are many options available in relation to how much you will need to come up with as a deposit. Depending on your situation it could vary from 3%-20% - sitting down with your trusted mortgage professional will ensure you know which options are available to you.



Mortgage Process Steps

Understanding the mortgage process

The Mortgage Steps.

There are 10 steps to the Mortgage Process.

These are:

Step 1: Interview

Step 2: Completion of a Loan Application

Step 3: Lender Assessing Application

Step 4: Obtaining a Decision – Conditional Approval

Step 5: Valuation of Security being provided

Step 6: Lenders Mortgage Insurance

Step 7: Formal Approval

Step 8: Mortgage Documentation

Step 9: Insurance Requirements

Step 10: Settlement

Obtaining a loan can be confusing and overwhelming at times, understanding the basics will ensure you will be prepared



Step 1: *Interview*

Where possible, always ensure that you talk to your mortgage professional. During the interview process, your mortgage professional will discuss the home loans (with the necessary features and benefits that you require) that best suit your situation. They will go through and provide you with numerous options that are available and then go through each one with you to see which is the most appropriate that will suit your needs and wants. Once you are happy with your selection of the loan product, the loan process will commence.

Step 2: *Completion of Loan Application*

Your Mortgage Professional will now complete the lenders application that you have chosen and will go through what is required in relation to all the necessary documentation which is to be included so they can lodge your home loan application. They will also go through your income situation to see if you will be able to service the loan that you are applying for. It would depend on your situation as to what documents would be required. Upon receiving all the relevant documentation the Mortgage Professional will submit it to the chosen lender.

Step 3: *Lender Assessing Application*

The lender will assess your application to determine whether you meet their serviceability and credit requirements. This process includes confirmation of your income, employment and a credit reference check. Your supporting documentation is also assessed at this time. If the credit assessor requires any additional information they will send through a request to the Mortgage Professional.



Step 4:

Conditional Approval

The Mortgage Professional will receive a communication from the lender in the form of a conditional approval on your behalf. The lender will also outline any matters that need to be addressed before they can issue an unconditional approval. The Mortgage Professional will advise you upon receipt of this communication.

Step 5:

Valuation of Security being provided

The most common condition of an approval is valuation of the security being provided. The lender will order the valuation and this could take up to 3-4 days to complete – it will all depend if the valuer can obtain access to the security property being provided. This is a very important step in the mortgage process and co-operation is utmost to ensure that the loan application is not delayed due to the fact that the valuer cannot access the property security. If there is an application fee applicable the cost of the valuation is usually included in this fee.

This step will only be necessary if you have less than 20% deposit or insufficient equity in an existing property.

Step 6:

Lenders Mortgage Insurance

What is Lenders Mortgage Insurance?

Lenders Mortgage Insurance (LMI) is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Many lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. This is largely to protect against the risk associated with providing the borrower with the loan in the event that they default.



By using LMI, lenders are able to pass on this risk to a mortgage insurer, which in turn enables them to offer the same loan amount but with less of a deposit.

LMI should not be mistaken for Mortgage Protection Insurance, which covers your mortgage in the event of death, sickness, unemployment or disability. LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. Should this be the case, the lender is entitled to make an insurance claim to the Mortgage Insurer for the reimbursement of any shortfall, calculated in accordance with the terms of the insurance policy. It is a once off premium and in a lot of cases can be capitalized with the loan.

Step 7: *Formal Approval*

When a home loan application is formally approved (some lenders use the terminology of unconditionally approved) it means that all conditions and criteria required to assess a loan application have been supplied, assessed and approved. It is only when a home loan application is formally approved that the borrower can feel comfortable that they can obtain a home loan. If you are buying a property it is advisable not to exchange contracts until such time that your loan has been formally approved. This will be communicated to the Mortgage Professional of who will notify you immediately of the decision. A formal Letter of Offer will then be issued by the lender.

The Mortgage Process



Step 8:

Mortgage Documentation

Now that the formal offer has been provided, mortgage documentation is prepared by the lender. These include the letter of offer; transfer document; terms and conditions of the loan you have chosen and any other documentation that is pertinent to the lenders own guidelines. If a purchase is involved then it is highly recommended that you should sit down with your solicitor/conveyancer to go through the paperwork and it will be the solicitor/conveyancer who will then liaise with the lender to schedule a settlement date. If it is for a refinance or a 'top up' then it is recommended you sit down and go through these documents with your Mortgage Professional.

Step 9:

Insurance Requirements

With the new liabilities that come with owning property, it is important to consider or review your insurance requirements to ensure you are appropriately covered. There are four main types of insurance you should consider:

- Home Insurance
- Contents Insurance
- Life Insurance
- Income Protection

You may need to start your insurance cover prior to settlement.

Step 10:

Settlement

After the mortgage documents are signed, witnessed and sent back to the lender, then settlement is arranged via your solicitor/conveyancer or if there is not a necessity for a solicitor/conveyance then the Mortgage Professional will be involved to ensure settlement is completed. The first repayment on your loan will usually be required one month after the settlement date.

Tips & Warnings



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Lenders will require a paper trail for money that has been deposited into your account. The paper trail will verify from where the money came and that the money is not a loan that will have to be paid back. So, if the credit assessor discovers that a large amount of money has been deposited into your account, the credit assessor may want further information/verification of where it came from.

When you go to sign your mortgage documentation, bring your driver's license or some form of picture identification.

How long does it take to obtain a loan?

Not having the finance at the right time could cost you money, potentially thousands or even your whole deposit. Understanding the time frames in getting a loan can help you be prepared and remove much of the stress in obtaining a loan.

Unforeseen delays, such as problems getting a valuer access to the property or obtaining information from an outside source, will slow the loan process.

First home owners

A little helping hand

Entering the property market can be hard. Especially for first home owners - it can all seem very daunting.

Thankfully there are some government incentives and benefits available to provide a little helping hand.

- ✿ Reduced/Deferred Stamp Duty
- ✿ First Home Owners Grant

More information visit www.firsthome.gov.au



Reduced Stamp Duty

Each state provides stamp duty relief for first home buyers this relief varies between states and territories.

First Home Owners Grant

The First Home Owners Grant is a Federal initiative to assist you financially when you buy your first home. If you have not previously bought or owned a residential property and are an Australian Resident over 18 years of age, you may be eligible for this government grant.

Additional grants are available in some states and territories.

What a mortgage professional can do for you



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Nearly half of Australian home buyers now use a mortgage professional to find them the home loan that best suits them.

Mortgage Professionals have the expertise, the contacts and experience to ensure you get the right loan for you. Furthermore, we take on the legwork so you don't have to.

Professional Services

There are plenty of great deals around if you know where to look and who to ask. Every day, good mortgage professionals link home owners, investors and business people with the best finance products available from their panel of major banks and lenders.

Mortgage Professionals understand the finance market, and have access to a range of major banks and secure lenders. They use their knowledge of the home finance market and the assistance of specialised lending software to help you find the home loan that is in your best interest now, but with the flexibility for future changes.

Mortgage Professionals will then take over the legwork and guide you through the application process until your lending transaction is settled.



What a mortgage professional can do

Your mortgage professional will:

- ✿ Discuss your existing situation, your lending needs, requirements, and obtain all necessary information pertaining to your lending application.
- ✿ Explain the types of loans available to you from a range of banks and specialist lending institutions.
- ✿ Based on the information provided by you and utilising specialist lending software, match your lending requirements to a selection of loan products offered by a diverse range of lenders.
- ✿ Provide an overview of the relevant costs associated with your loan application.
- ✿ Provide an in-depth overview of the loan product or products you select.
- ✿ Act as an intermediary between you and the lender by completing and packaging your loan application.
- ✿ Liaise with your solicitor; real estate agent; accountant and any other related party to ensure a smooth and timely settlement.
- ✿ Assist with any future lending requirements, whether you wish to check, change or top-up your loan.





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