



Top Eleven Mistakes Made By

# FIRST HOME BUYERS

and how to avoid them



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## First Home Buyers

*If you're like most people, purchasing a home is the biggest investment you'll ever make. If you're considering buying a home, you're likely unaware of the complexity of the endeavor. Because of the numerous factors to consider when purchasing a home, it's important to prepare as best you can. Some common home-buying principles and caveats are presented here for your consideration. By keeping them in mind, you'll help create a successful and more enjoyable experience. This Top Eleven list is by no means exhaustive, but the most common and costly errors made by first home buyers. Since your home could cost you 25 to 40 percent of your gross income, it's important to conduct research, ask questions and study the process carefully.*



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## 1. Not Reviewing your Credit Report

**A very common mistake is failing to get a copy of your credit report. By reviewing your report in advance, you can make an effort to improve your credit rating if necessary or have any errors corrected. Approximately 35% of Credit Reports contain errors, and these errors may reduce your chances of getting your loan approved.**



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## 2. Mismanaging your existing Debts

Prior to shopping for a loan you want to make a concerted effort to have all your existing loan repayments made on time and in full. Any interest free loans and credit card balances should be reduced as much as possible. You also do not want to be opening and closing various credit card accounts, personal loan or interest free accounts. Plan in advance and reduce your credit cards to 2 at the most.



## 3. Not Assessing your monthly expenses

A mortgage will mean paying a monthly amount on top of your current monthly expenses. You need to determine how much you can comfortably afford to pay without dipping into funds necessary for other living expenses. Mortgage calculators are readily available on Web sites to help you determine how much a mortgage loan, with interest, will cost you on a monthly basis. Also factor additional expenses that you may not be currently paying such as Water Rates, Council Rates & Strata Fees, and Building Insurance.



## 4. Not knowing how much you have to contribute towards your purchase

You cannot look for a mortgage loan unless you know how much you need. To do so, you should first determine **the cost of purchasing a property**, how much money you have available to cover your deposit and the fees, what government assistance is available to help you with your purchase. The difference will be the amount you need to borrow.

Property Purchase Price + Associated Fees & Costs  
= **Total Cost of the Property**

Less: **Deposit Saved + Entitlements = Loan Required**



## 5. Not Understanding the Terminology

You need to know the difference between fixed interest and variable interest rate loan, what Lenders Mortgage Insurance is, what's involved at settlement, and various other key terms are before seeking a mortgage loan so that you can better understand the products offered to you and the process involved. Web sites and books about attaining a mortgage loan can help with the terminology.



## 6. Looking for a home without being pre-approved

To make an offer on a property without having first been pre-approved would be the equivalent of committing financial suicide. Although you have a 5 day cooling off period for all non-auction purchases, depending on your circumstances this may not be enough time to arrange finance and you could lose your holding deposit, generally 0.25% of the contract price, if you rescind within the cooling off period. Even worse you could be liable for the whole 10% deposit and be sued in the event you are forced to rescind after the cooling off period.

You shouldn't assume that you are going to be approved for a home loan. There are many credit criteria that a lender will require you to meet prior to approving a loan. There are many lenders and hundreds of loan packages available, and you don't want to be stuck with the wrong

loan and possibly pay thousands more in interest and fees by not taking the time to get pre-approved.

### The Pre-Approval Process

The pre-approval process involves having your lender/broker make an assessment of your borrowing capacity. They will go over all your financing options and explain all the costs and fees associated with your purchase. Once your borrowing capacity has been determined your lender/broker will lodge a finance application for which you will need to provide written evidence of income, expenses, assets, liabilities and credit.

Once all the information has been verified by a lender. You will be provided with a pre-approval certificate from the lender. You now can be certain of meeting settlement for your approved limit.



## 7. Choosing a lender just because they have the lowest rate

While the rate is important, consider the total cost of your loan, including the annual percentage rate (APR), loan establishment fees, ongoing monthly or yearly fees, legal & settlement fees, deferred establishment fees for repaying/refinancing your loan within 5 years.

It is also important to consider the features of the loan such as redraw, interest offset accounts, cheque book, card & ATM access. These features can help you save interest or cost you a lot in additional fees.

Lender's Mortgage Insurance (LMI) is required to be paid by you when you borrow more than 80% of the value of your property. Ensure you get a quote on your LMI premium. Premiums to lender depending on their LMI policy, generally the easier to obtain LMI policy the more expensive the premium.



Many lenders provide interest rate discounts for 'Professional Packages' ensure that you are quoted the correct standard rate & appropriate discount, so that you can best compare different offers.

## 8. Making Verbal Agreements

If you're asked to sign a document containing instructions contrary to your verbal agreements...don't! For example, the seller verbally agrees to include the air conditioning unit as part of the sale, but the written purchase contract excludes it. The written contract will override the verbal contract. More importantly, all contracts for the sale of real property must be in writing. Do not expect oral agreements to be enforceable.



## 9. Buying a home without professional inspections

Unless you're buying a new home with Home Owners Warranty & warranties on most appliances, it's highly recommended that you get building and pest & termite inspections. This way you'll know what you are buying.

Inspection reports are great negotiating tools when asking the seller to make needed repairs or discount the asking price. When a professional inspector recommends that certain repairs be done, the seller is more likely to negotiate. If the seller agrees to make repairs, have your inspector verify that they are done prior to settlement. Do not assume that everything was done as promised.



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## 10. Not Shopping for home insurance until you are ready to settle

Start shopping for insurance as soon as you have an accepted offer. Many buyers wait until the last minute to get insurance and do not have time to shop around.



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## 11. Signing Documents without reading them

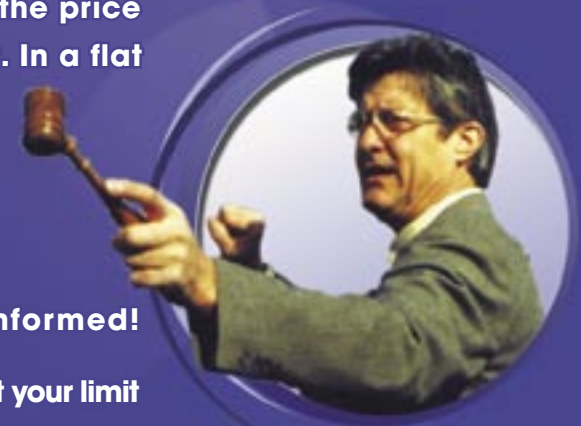
Whenever possible, review in advance the documents you'll be signing. Obtain independent legal advice, be sure to allow plenty of time to go over the contracts and listen to any concerns raised by your solicitor.

Never sign anything under pressure before obtaining legal advice. If you feel pressured in signing anything without the advise of your solicitor, remember you are in control and the answer should always be NO.



## The Golden Rules of Buying at Auction

1. Before each auction, carry out all checking including review of the contract by your solicitor and a thorough property inspection. Do this even if you have missed out at previous auctions or suspect the property may be withdrawn.
2. Only begin your bidding when the reserve price is reached - the auctioneer should say 'the property is on the market.'
3. Expect the unexpected, especially high prices in rising markets, and no bids in flat markets.
4. Role-play the auction before the day. Visit other auctions and get to know the process.
5. An offer before auction in a rising market is unlikely to be successful and may raise the price by disclosing your interest. In a flat market however, an offer may be taken as it does mean that the seller avoids the cost of auction.
6. Don't be scared - be informed!
7. Don't EVER get pushed past your limit



# Top 10 Tips for Smart Home Buying

- 1. Get informed. Do lots of research.**
- 2. Try not to buy around the top of a boom in property prices.**
- 3. Location and special features are the most important factors in choosing your home.**
- 4. Don't get your heart set on any particular property - it will impair your judgment. If you miss out on one, you will in time find something as good or even better.**
- 5. Look for properties that have been 'passed in' at auction. If bidding does not reach reserve price (the price the seller has set as the minimum), the property can be withdrawn from auction. It may then be offered for sale by private treaty. Since the demand is obviously not as great as the seller had hoped, the price is often negotiable and may drop.**
- 6. Before making the final decision, ask yourself whether you could easily resell the property in the worst economic times.**
- 7. Choose your mortgage broker, legal advisor & building consultant carefully and make the most of their advice and expertise.**

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