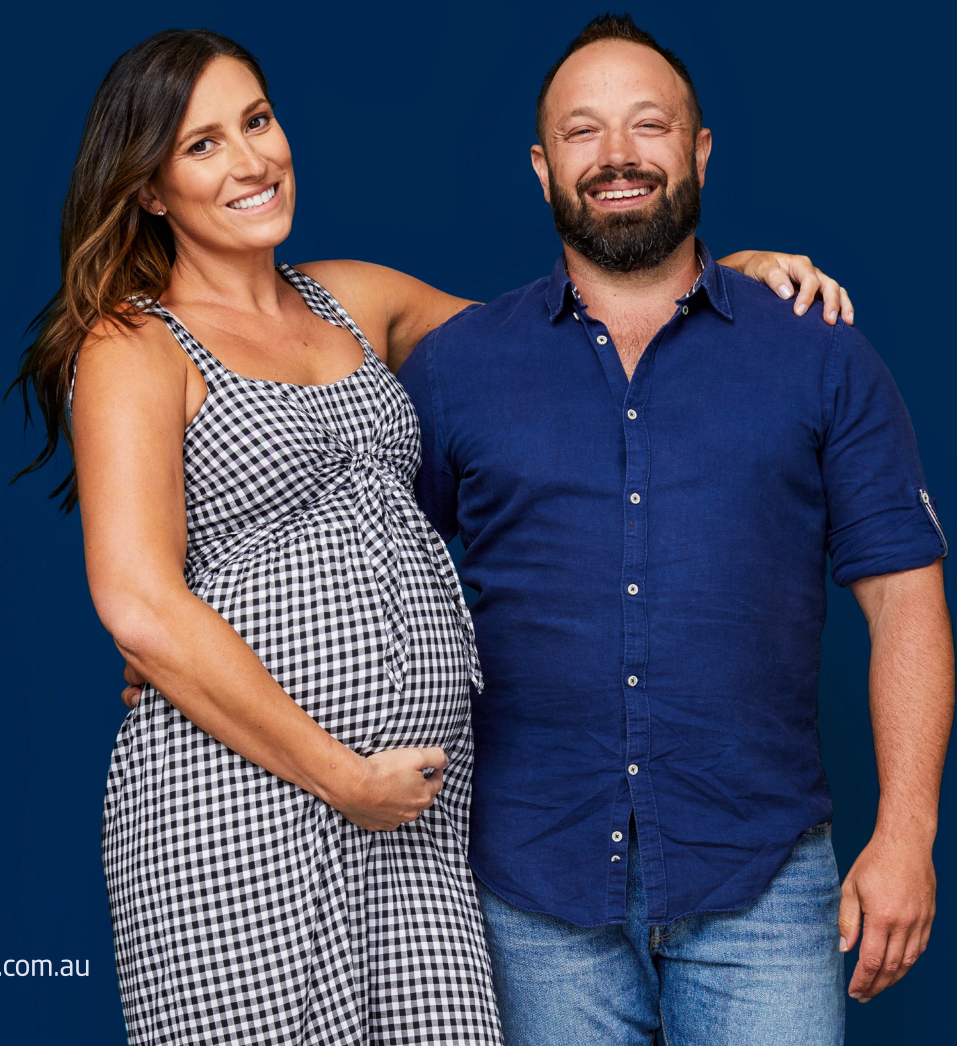
PROTECTING HOME & PROPERTY BUYERS

FIRST HOME BUYERS PLAYBOOK

An end-to-end guide to purchasing your first home

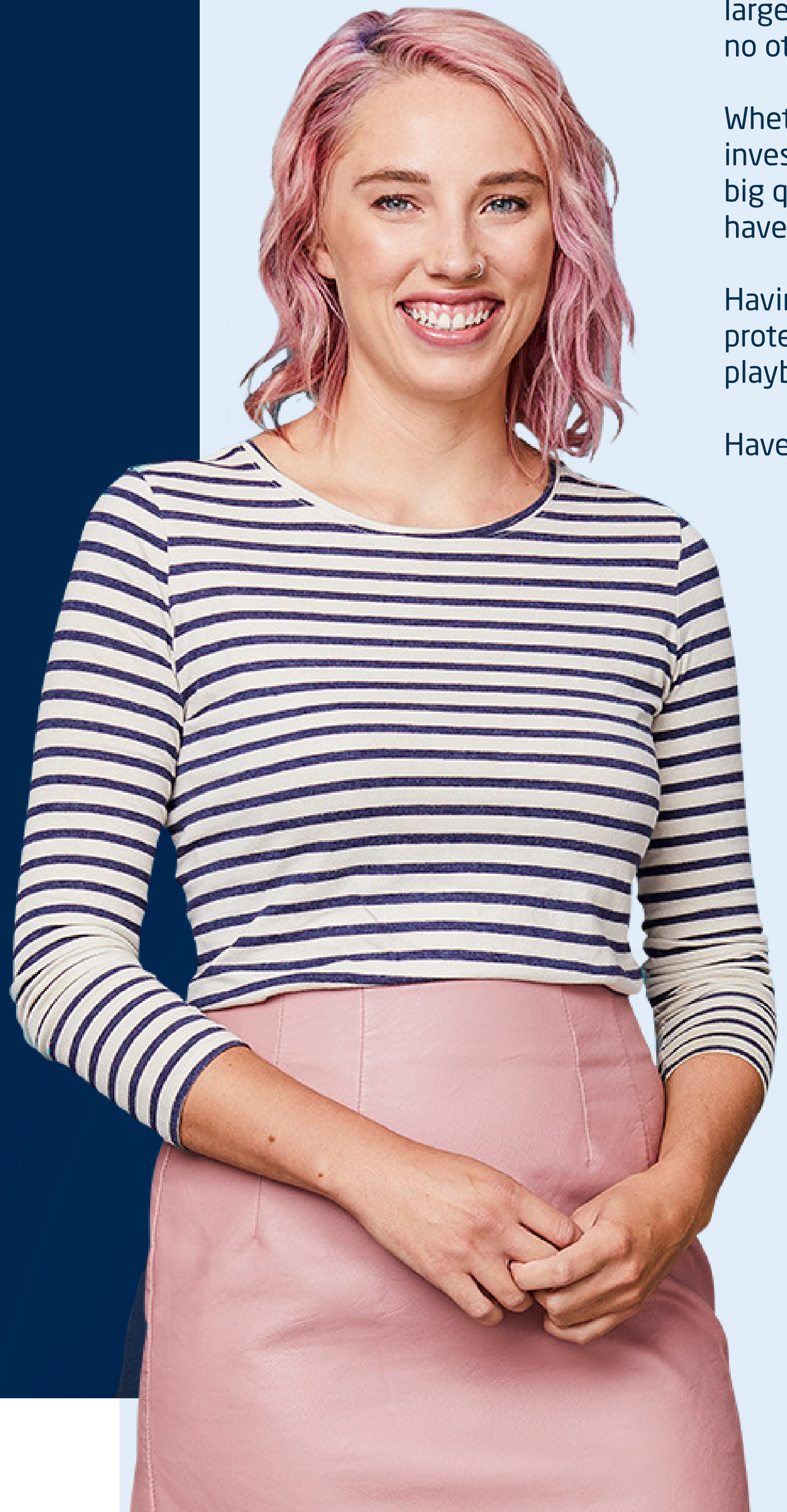
OCTOBER 2024



www.aligroup.com.au

CONTENTS

Introduction	03
Buying journey	04
The home loan phases	06
How much do you really need?	08
Schemes for first time buyers	10
Tips for buying like a pro	14
Auctions and sales	16
Easing the stress	18
Real claim: Sea's story	20
Extra Benefits Rewards Program	22
Make sense of the Mumbo Jumbo	24



Introduction

WHAT'S IN THE BOOK?

Hi there,

Owning your first property is a big, happy milestone. Likely being the largest financial investment you'll make to date, it's also a milestone like no other.

Whether you're buying land to build on, a property to live in, or an investment for tomorrow, we've created this playbook to help answer the big questions. It includes the how-it-works stuff, the things you may not have thought about yet, plus links and pointers on who can help.

Having spent the last 20 years partnering with mortgage brokers to protect all kinds of home buyers, we're delighted to bring you this playbook for first timers.

Have fun, don't sweat the small stuff, and ask all the questions you need.

Big Picture

BUYING JOURNEY

There are many moving parts when buying property. The good news for you is that by choosing to work with a mortgage broker, you have a professional on your side who has seen it all before. Here's the lowdown from today to possession day.

THE MAIN PLAYERS

The people who play a key part in the process come into it at different phases. This is who they are and a little about what they do.

MORTGAGE BROKER:

Mortgage brokers are your 'go between' and support you through to settlement. They help you get ready to buy, find a loan and lender to suit your circumstances, lodge your application, and they provide a general guiding hand. When finding a mortgage broker, it pays to ask around and choose someone you feel comfortable with.

REAL ESTATE AGENT:

The agent liaises between buyers and sellers. While they're there to help everyone, the ultimate goal for the agent is to get the best possible deal for their sellers. Remember, agents typically earn a percentage of the sale price.

CONVEYANCER:

The conveyancer manages much of the settlement, including title transfer to your name, and ensures your rights as a buyer are looked after. Be sure to include their fees when putting a purchase budget together.

WHO DOES WHAT AND WHEN

MORTGAGE BROKER
REAL STATE AGENT
CONVEYANCER

OTHER PLAYERS MAY INCLUDE:
Building inspectors, buyers' agents, and financial services providers.

Big Picture

THE HOME LOAN PHASES

1. PRE-PURCHASE

You're in the zone and tidying up your savings and deposit. You could be paying down old debts, lowering credit limits and taking steps to check there's no issue with your credit history. You might also be thinking about what to buy and where.

2. PRE-APPROVAL

This is where your mortgage broker might lodge an application to a lender for your preferred loan seeking pre-approval. If successful at this stage, it means you have a clearer understanding of what you could borrow and can start looking for properties within your budget. Pre-approval lasts for a specified time only, so ask your mortgage broker what applies for yours.

3. PURCHASE

You've found the property you love and you're ready to proceed, the next step is to ask to see the contract of sale. Seeking help from a solicitor or conveyancer at this point to review anything before signing is recommended. You'll also need to tell your mortgage broker you've found a property you wish to buy and apply to finalise your loan.

Whether you buy at an auction, private treaty, a tender process or expression of interest, be sure to have a pest and building inspection. This helps you understand the condition of the property and make an offer that feels right for you.

4. VALUATION

Once you've signed the contract to buy your property, your lender will have an independent valuer provide an estimated value of the property. This helps the lender assess whether the property value gives adequate security (if you can't pay the loan back, for example) and the loan amount they are willing to lend to you. If the amount of your loan is more than 80% of the value, you might need to pay LMI (Lenders Mortgage Insurance).

5. FORMAL APPROVAL

Also called unconditional approval, if you reach this stage it means the lender has said yes! Be sure to read the loan documents carefully and ask your mortgage broker or legal adviser any questions you may have.

6. INSURANCES

When buying a house, most lenders require you to have home (building) insurance to protect the actual building. If buying any other kind of property, your mortgage broker will let you know what may be required.

Other insurances you could think about at this time include contents insurance (to give some protection for your furniture and other contents of your new home) and life insurance (to give some peace of mind that your home, lifestyle and future plans are protected if certain events occur). Check out page 18 for more info.

7. SETTLEMENT

You and the seller will have previously agreed on a settlement date, usually somewhere between 30 to 90 days from the date you signed the contract. On the day of settlement, your loan is funded, the balance of the purchase price is paid and ownership passes from the seller to you. It's a busy day where many things happen, including the exchange of documents between your conveyancer, the lender, and the seller's representatives. And, of course, you also get the keys!

Deposits and savings

HOW MUCH DO YOU REALLY NEED?

Your income and overall financial position aside, the reality of what you can afford to buy is directly impacted by how much you have saved. Careful planning and patience are key, likewise an understanding of how the deposit basics work and what's expected from you as a buyer.

THE RULE OF THUMB

The general rule is to have a deposit of 20% of the property's value or more, plus enough to cover upfront costs such as transfer (or stamp) duty, legal fees and insurances for your home.

GETTING IT TOGETHER

Your deposit can come from a combination of sources including genuine savings, gifts from family, and first home buyer schemes. See pages 10-13 for details.

GENUINE SAVINGS

Broadly speaking, at least 5% of your deposit must come from genuine savings – it can't have magically appeared in your account overnight.

CAN'T HIT 20%?

Some lenders may be able to lend you up to 95% of the property value, meaning you only need a deposit of 5%. In these cases, you may be hit with LMI or Lenders Mortgage Insurance, which protects the lender in case you can't repay the loan.

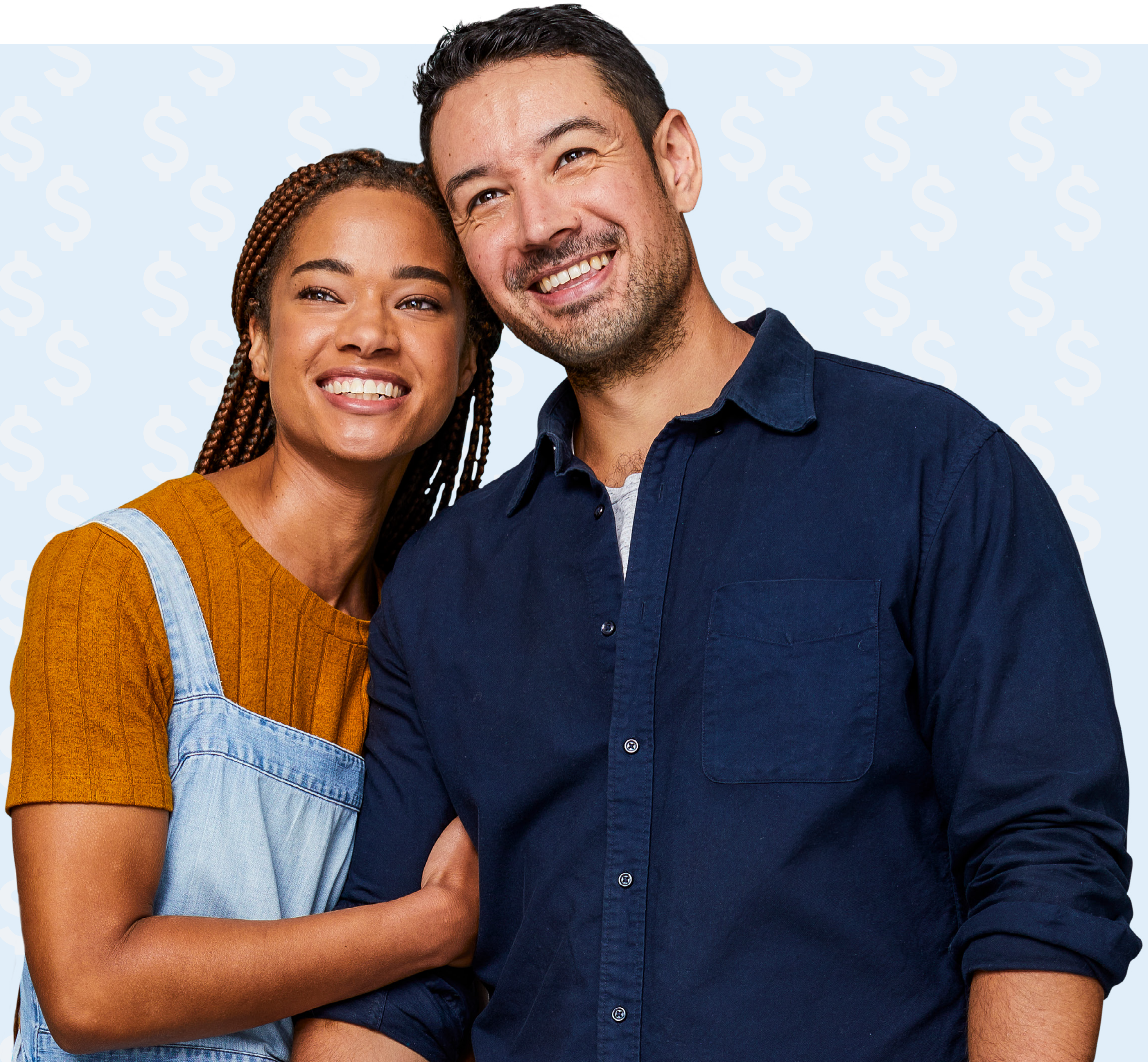
GUARANTOR LOANS

A low-deposit option to help you get into the market sooner and potentially avoid the cost of LMI may be borrowing with a guarantor.

Guarantors could be your parents or other family members or friends, and they must own property with equity in it.

How it works is that the guarantor applies with you for the loan and offers their own home as additional security for the loan. Like any application, it must be approved by the lender.

While there are likely risks for your guarantor, one way to ease some of the concerns could be life insurance – which could help protect you and your guarantor from financial hardship if something unexpected were to happen, such as a serious illness, injury, or death. See page 18 for details.



Grants and schemes

SCHEMES FOR FIRST TIME BUYERS

Grants vary by state to territory, and can offer a significant helping hand for eligible first home buyers keen to get into the market. Not sure where you stand? Check this list of potential options and speak with your mortgage broker to find out more.

THE NATIONAL FIRST HOME OWNER GRANT (FHOG) SCHEME

The national FHOG scheme is funded and administered by the states and territories. You need to be buying or building a home to live in, and, depending on the location, a cap on the property's value may apply.

GENERAL ELIGIBILITY CRITERIA

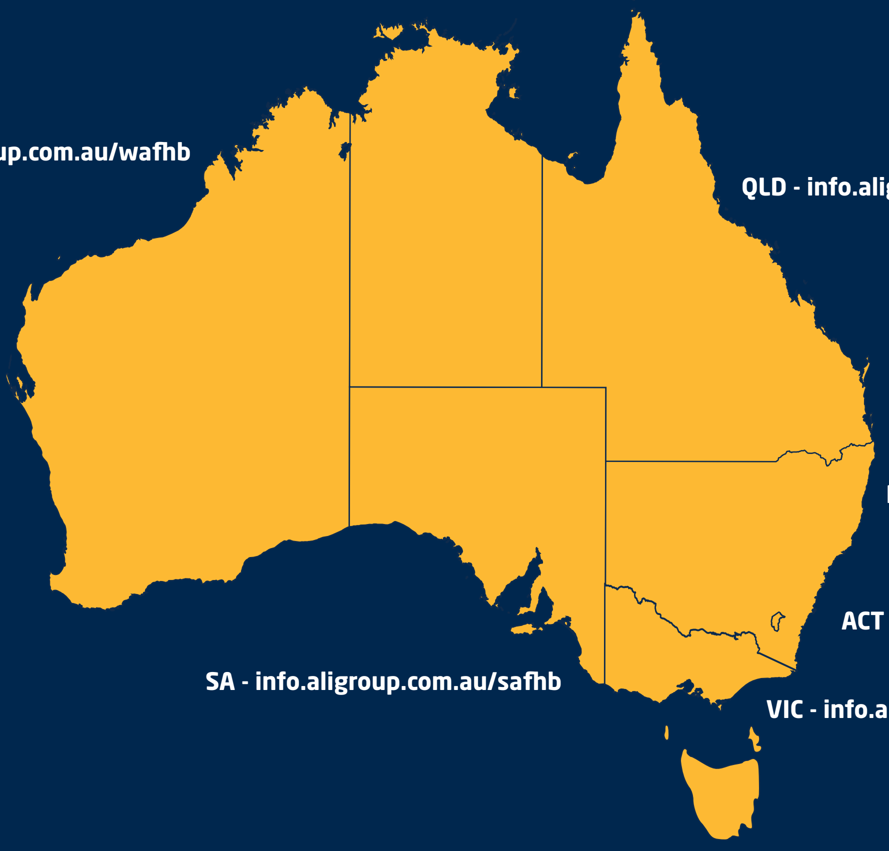
To apply for the grant you must meet the following general criteria, bearing in mind that there are slight differences between states and territories.

- You must be buying the property as an individual buyer, not as a company or trust.
- If buying with another person, at least one of you must be a permanent resident or citizen of Australia.
- Applicants must be aged 18 or above.
- You or your spouse, partner or co-purchaser can't have lived in a residential property owned by either of you from 1 July 2000.
- You or your spouse, partner or co-purchaser may not have claimed the grant previously.
- You must occupy your first home as your principal place of residence within 12 months of the construction or purchase of your home. The minimum period of occupancy is six continuous months.

Visit the First Home Owner Grant website for details: www.firsthome.gov.au

LEARN ABOUT YOUR STATE OR TERRITORY

Visit the links for more information on the eligibility criteria for First Home Owner Grants in your area.



FHOG information is current as at March 2024 and has been sourced from firsthome.gov.au

Grants and schemes

MORE FOOD FOR THOUGHT:

TRANSFER (OR STAMP) DUTY EXEMPTIONS

You may be eligible for transfer duty exemptions and discounts, depending on the state or territory.

As an example, some NSW buyers may be exempt from transfer duty or eligible for a discount with the NSW First Home Buyer Assistance scheme.

For details applicable to your situation, talk to your mortgage broker or visit the relevant revenue website for your state or territory.

THE FEDERAL GOVERNMENT'S FIRST HOME GUARANTEE

This scheme provides a guarantee for first home buyers on low and middle incomes. It means that, subject to the lender's criteria, you might be able to purchase a home with a 5% deposit. Places in the scheme are capped, some general eligibility and property price thresholds apply, and not all lenders participate in the scheme.

PROPERTY PRICE THRESHOLDS

The scheme may be available to help with the purchase of existing homes or for the purchase of land to build a home.

The following price thresholds generally apply:

State/Territory	Capital City & regional Centres	Other
NSW	$900,000	$750,000
VIC	$800,000	$650,00
QLD	$700,000	$550,000
WA	$600,000	$450,000
SA	$600,000	$450,000
TAS	$600,000	$450,000
ACT	$750,000	-
NT	$600,000	-
Jervis Bay Territory & Norfolk Island	$550,000	-
Christmas Island & Cocos (Keeling) Islands	$400,000	-

Source: https://www.nhfic.gov.au/what-we-do/property-price-caps/ [Accessed March 2024]

NOT SURE IF YOU MEET THE CRITERIA?

Talk to your mortgage broker or lender to find out more before making submissions or applications to the scheme.

Visit the National Housing Finance and Investment Corporation (NHFIC) for details:

www.nhfic.gov.au/support-buy-home/first-home-guarantee

FIRST HOME SUPER SAVER SCHEME (FHSS)

The FHSS was introduced to allow first home buyers to save money for a deposit inside their superannuation funds.

HOW IT WORKS

You can make voluntary contributions to a maximum of $15,000 in any one financial year, and up to a capped total of $50,000. You can withdraw this amount, plus earnings and less tax, to use towards buying your property.

Search "FHSS" at the ATO website for details: ato.gov.au

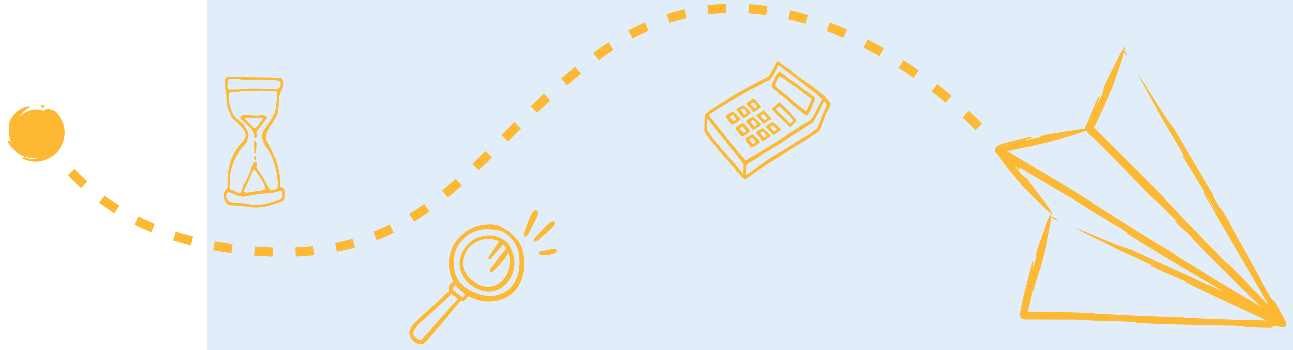
INDIGENOUS BUSINESS AUSTRALIA (IBA)

If you are of Aboriginal or Torres Strait Islander decent, you may be eligible to apply for an IBA home loan. Through partnerships with some banks, they offer loans to eligible customers with lower deposit requirements.

Visit IBA for details: https://iba.gov.au/home-ownership/about-iba-home-loans/

Knowledge is power

TIPS FOR BUYING LIKE A PRO



Want your buying experience to go off without a hitch? From confidently negotiating a price to thinking long term about where to buy and what kind of lender you want to do business with, let's unpack at the essentials.

STICK TO YOUR BUDGET

When you have a figure in mind, allow for wriggle room on repayments in case interest rates go up. It's important that you feel confident you will be able to afford your regular home loan repayments, so even if your lender offers a higher loan amount than you applied for, you might be best to think before you take on that level of debt. Also, don't tempt yourself by inspecting properties way outside of your range. Honour your limits – your stress levels will thank you.

BACK YOURSELF

When you find the perfect property, remember that you don't have to offer the asking price or more. You may be able to use the art of negotiation to reach a lower price that suits both you and the seller. There's no harm in putting another number out there. If there are other buyers interested, they're in the same boat as you.

DO THE DUE DILIGENCE

It's easy to overlook minor problems when you find what feels like "the one". Be sure to get a building inspection and be there when it happens if you can. Have a tradie in the family? Ask if you can bring them over too. Minor problems can sometimes mask bigger issues, which could cost you a lot of money down the line.

CLOCK THE TRAVEL TIMES

Great spot, but a long commute? Whether driving or taking public transport, the travel time from your new property must work for you (or the people you're renting to). The same goes for life outside work. If it's a property too far, maybe bide your time until the right one comes along.

LOOK AHEAD

You may not be in the street or suburb Facebook group yet, but you can still find out what's going on in your proposed new neighbourhood before you buy. Speak to the local council, chat to the local barista, and consider how the area might look in the next 10 or so years. New infrastructure could bring in more people and attract higher prices. A new reno next door may have the opposite effect.

LOVE YOUR LOAN

Great mortgage brokers will help you to find the right lender and product to suit your needs. Navigating the nuances of lenders' credit policies can feel overwhelming, but be sure to explore a few different options and ask all the questions. Having a mortgage broker to guide you can be invaluable.

TRUST YOUR GUT

If you're having the "what if's" after you buy, you're not alone. Like "what if I fall seriously ill?" or "what if something happens and I don't have much in savings?" Take the time to consider your options and talk it out with your mortgage broker. While Lenders Mortgage Insurance (LMI) might protect the lender if you can't make repayments, what might protect you? See page 18 for a potential solution.

All about

AUCTIONS AND SALES

While reality TV is a handy window into the property market, it's a whole other story when it's you holding the paddle or negotiating a number. What to do in real life? Check these pointers for handling yourself with confidence.

WHAT'S THE DIFFERENCE BETWEEN PURCHASING VIA PRIVATE TREATY AND AUCTION?

Sale type	Private treaty	Auctions
How it works	The property is listed for sale with a real estate agent. The prospective buyer makes an offer to the agent, who then passes it to the owner to accept or decline.	The auction date is set. Prospective buyers (or their representatives) gather together and bid against each other, at the property or elsewhere.
Contracts	The contract with the property owner is typically signed before putting down a partial deposit.	The contract is signed and deposit paid on the day of the auction.
Cooling off period	You can change your mind after signing the contract, but may lose some or all of the deposit.	There is no cooling off period. Once your bid is accepted, it's yours.

OUR TOP TIPS FOR AUCTIONS:

1

DO YOUR FIELD RESEARCH

Going in cold as an active bidder could give you the jitters. So be sure to hone that poker face by doing your homework before participating in an auction for the first time. Sit in on as many local auctions as possible to learn what to expect in terms of prices, process and people.

2

INSPECT THE PROPERTY BEFORE YOU BID

Visit and inspect the property to make your own judgement on whether the property meets your standards and needs. It's also prudent to ensure that pest and building inspections have been carried out prior to the auction. Remember, there's no going back once the hammer comes down in your favour.

3

DON'T FORGET ABOUT PRE-APPROVAL

Pre-approval is the lender's in-principle 'yes' to what you can borrow, assuming everything checks out on paper, like your financials and the property's value. It pays to get written pre-approval ahead of time so you know your bidding limits on the day. Your mortgage broker can help you with this.

4

SET A BUDGET AND STICK TO IT

Auctions are exciting and the emotions can run high. Write your number down and keep it with you as a reminder. If the bids go higher than you can afford, walk away. There are plenty of other properties out there. Why put yourself in an uncomfortable or unmanageable position?

Large debt

EASING THE STRESS

Stepping onto the property ladder and into the next phase of life can serve up a mixed bag of emotions. If the worries are starting to creep in, here's how many manage through it and how ALI Group may be able to help.

ASK YOURSELF THE HARD QUESTIONS

Buying property means making regular repayments for a big chunk of your life. But a lot can happen in our lifetimes, including less than ideal experiences that take us away from where we want to be. Do you know how you'd prefer to handle a serious negative life event? Now could be the time to explore how to protect yourself or reassess what you currently have.

While of course you could sell your property or get help from family if you need it, there's also the option of insurance that may help you independently manage through any bumps in the road (and keep your property).

1. If you were to fall seriously ill and needed to take time off work for treatment and recovery, how would you manage financially?
2. Would something like a fractured leg or arm impact you and your ability to work or slow you down?
3. Do you know for sure that you have a level of cover in your superannuation? And is the cover amount adequate for your needs?
4. If you were to unfortunately pass away, have you got a plan to help your family cope financially?

ALI's My Protection Plan is an optional life insurance policy that may help financially in the event of serious illness, specified injury or death. There's a real life example on page 20 to show you how it helped Ana and her family when they needed it most.

ALI MY PROTECTION PLAN

CHOICE

The flexibility to choose how and when to use your benefit funds - for instance, to help with living expenses, medical costs, or to reduce large debts.

CONTINUATION OF COVER

Cover isn't linked to your loan so as long as you pay your premiums, your protection doesn't cease if you change lenders or payout your loan.

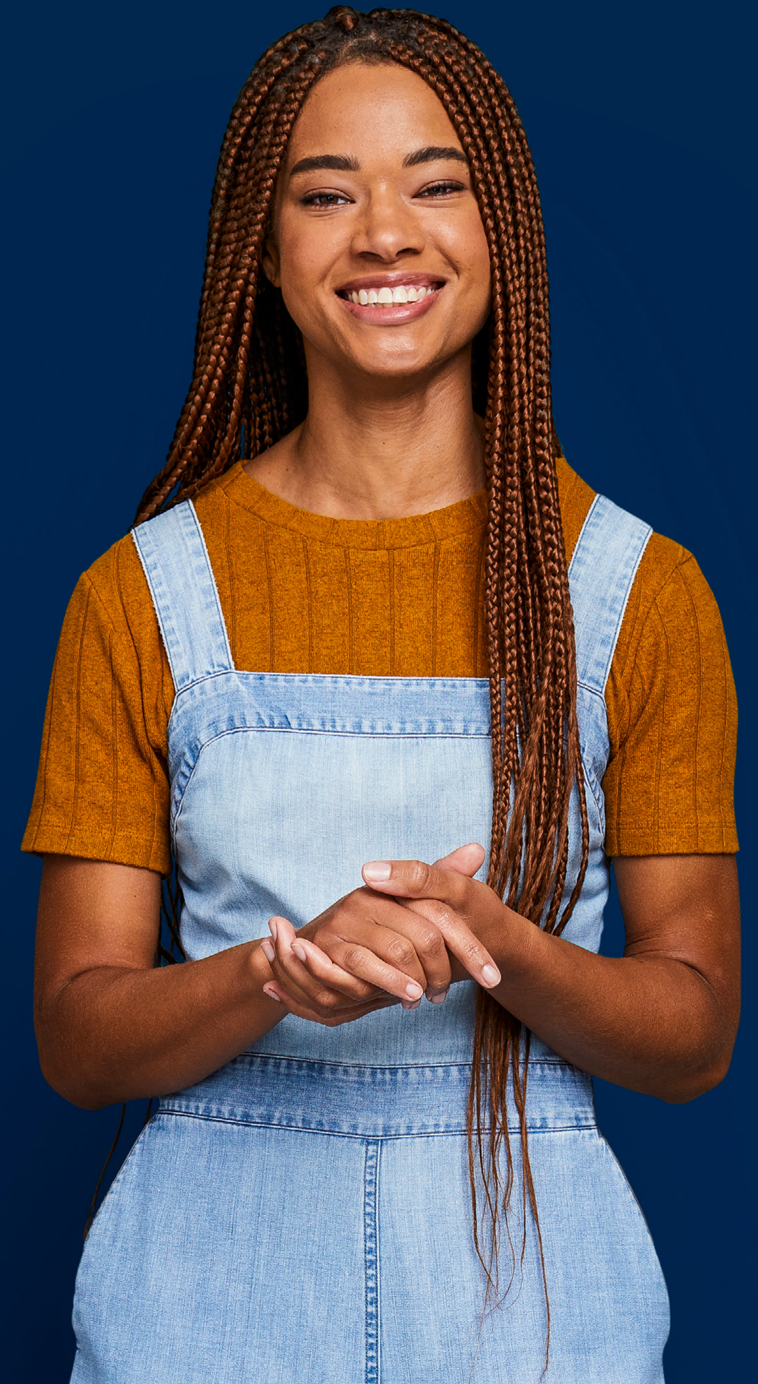
LEARN MORE ABOUT THE OPTIONS

Terms and conditions apply. Visit our website or talk to your mortgage broker for details: aligroup.com.au

GOOD TO KNOW

ALI Group has protected Australian home and property buyers since 2003. To date, we've protected over 239,000 Aussies with over $67 billion in cover.

SCAN TO LEARN MORE



Real Claim

ANA'S STORY

Policyholder: Female, 37
Reason for claim: Brain Cancer
Living Benefit Claim amount: $245,864
Duration of policy: 3 years
Time to pay: 13 days

"Not worrying about your finances is a huge thing when you're going through illness."

First homebuyer and mum of one, Ana, was just 37 years old when she was diagnosed with stage three glioblastoma, a fast-growing cancer on the frontal lobe of her brain. Knocked for a loop by the diagnosis, Ana soon began an intensive treatment journey, one that included six-hour brain surgery and over 30 rounds of radiotherapy.

With a hefty surgery bill looming and without hospital cover, Ana and her husband, Mark, could have encountered financial hardship. Thankfully for the couple, they had opted for cover with ALI Group, which was offered to them by their broker, Jenny, during the process of buying their home.

Though Mark was initially skeptical, Jenny posed to the couple this question: "You insure your car but you're not going to insure your life?" Jenny's question compelled Ana and Mark to do their own research. They watched a claims video and Ana even reviewed what default insurance she had in her super before assessing that protection with ALI Group was the right move for them.

It was towards the end of her radiotherapy treatment that Ana decided to submit a claim on the living benefit of her policy. The ALI claims team were "super friendly and relaxed."

After Ana explained the situation they said, "absolutely you can claim, we'll send you all the necessary forms." The process gave Ana peace of mind about "what's going to happen down the line – the medical expenses that you're not even foreseeing."

Ana says having the protection has made a huge difference. "The funds enabled us to do a lot of things, and just make sure that we are comfortable enough to pay our mortgage until such time that I go back to work. It's given us a bit of financial freedom to go through this whole process in this whole journey in a calmer way as much as possible."

Ana acknowledges this outcome would not have been possible without her broker offering protection in the first place.

"If it wasn't for my broker, Jenny, I have to say we wouldn't have thought about the insurance."

SCAN TO WATCH ANA'S STORY

*The current My Protection Plan has been available since 5 April 2021. The above is an example of a customer claim paid on a similar product distributed by Australian Life Insurance Distribution Pty Ltd ABN 31 103 157 811 AFSL 226403. Any advice provided is general in nature and does not take into consideration personal objectives, financial situation and needs. Consumers should consider these and the information in the Product Disclosure Statement (available along with the Target Market Determination, from www.aligroup.com.au) or speak to a financial advisor before making a decision about the suitability of the product.

Big Picture

THE BIGGEST EVERYDAY PERK FOR ALI CUSTOMERS

When you take out a home loan and choose protection with ALI, you get access to money savings on groceries, petrol, entertainment and more. Take a look at how Extra Benefits works and why it's even a thing.

WHO GETS EXTRA BENEFITS?

Exclusive to ALI customers, Extra Benefits provides access to discounted eGift cards on more than 100 retailers. You will get access once your policy is set up.

WHAT DOES THE PROGRAM DO?

It helps you save money on everyday shopping and household goods. And, at the date of publication of this playbook, Extra Benefits provides savings on over 100 retailers including groceries, fuel, electronics, entertainment, fashion, homewares and more.

HOW MUCH CAN I SAVE?

The average Aussie family of four spends over $10,000 a year on groceries alone*. When customers use Extra Benefits for multiple expenses they could save hundreds, if not thousands each year.

HOW DO I USE EXTRA BENEFITS?

Rather than paying for your shopping with your usual debit card, credit card or even cash, you can buy eGift cards through Extra Benefits and use these instead. The cards are essentially another way to pay for things, but at a discount price.

WHAT DOES IT HAVE TO DO WITH GETTING A HOME LOAN?

We firmly believe that Aussies shouldn't have to forego financial protection to make ends meet. So, we set up Extra Benefits to create some balance. Extra Benefits discounts could help you save money, and offset the cost of some or all of your cover.

EXTRA benefits

SCAN TO LEARN MORE

*www.canstarblue.com.au/groceries/average-grocery-bill/ (accessed August 2024)

Extra Benefits is provided by ALI Group Pty Ltd ABN 42 101 330 036 using services provided by The Ambassador Card ABN 27 271 418 094. Terms and conditions apply – visit https://extrabenefits.aligroup.com.au/page/terms-conditions.

Glossary

MAKE SENSE OF THE MUMBO JUMBO

Whether you're doing your own research or talking to a mortgage broker or other finance professional, sometimes it can feel like you're reading and hearing a whole other language.

One thing you will learn quickly, this industry loves an acronym, forgetting how confusing and overwhelming the jargon can sound to someone completely new to it all.

We're here to equip you with as much knowledge as possible. So, let's start with a glossary of terms and words you are sure to hear a lot of throughout your journey to home ownership.

A

Agent
Someone who acts on behalf of another person or organisation. For example, a real estate agent acts on behalf of the owner or landlord when selling or leasing a property.

Application fees
The fees a lender charges to set up the loan. It's generally to cover the lender's internal costs.

Appraised value
The estimated value of a property being used as security for a loan.

Appreciation
The increase in the value of a property.

Arrears
An outstanding or overdue amount.

Assets
Money, property or goods owned.

Auction
A public sale where a property is sold to the highest bidder.

B

Body corporate
All the unit owners within a strata building. The owners elect a council responsible for the management of the building and its common areas.

Breach of contract
Breaking the conditions of a contract.

Break costs
Penalty charges for 'breaking' or ending a fixed term loan before the agreed date.

Bridging finance
A loan used to cover the finance gap that can happen when a buyer purchases a new property before selling an old one. Higher interest rates are usually charged for this form of finance, and it has to be paid back after an agreed time.

Building inspection
An inspection generally carried out prior to the purchase of a property to ensure the building is structurally sound. Contracts of sale can be made subject to the satisfactory building inspection.

Building regulations
Legal or statutory rules set up by a local council to control the manner and quality of buildings in its jurisdiction. The rules are generally designed to ensure public health and safety, as well as acceptable standards of construction.

Building society
A financial institution owned by its customers or "members". It offers banking and other financial services, especially mortgage lending.

C

Capital gains
The financial or monetary gain obtained when an asset is sold for more than its original price.

Capital gains tax
A federal government tax on the profits made from selling an asset bought after September 1985. Your main home is generally exempt from GST, however it may apply in certain circumstances. Check the ATO website (https://www.ato.gov.au/Individuals/Capital-gains-tax/) for more information.

Capped loan
A loan where the interest rate cannot exceed a set level for a period of time but, unlike fixed interest rate loans, can fall.

Caveat
A caveat lodged upon a land or property title indicates that a party, that is not the owner, claims some right over or interest in the property.

Certificate of Title
A record of all current information relevant to a particular property or piece of land, including:

- current ownership details
- any registered encumbrances or caveats
- lot or plan details.

Certificates of Title may be paper or electronic in Australia. A lender is registered on the Certificate of Title and where a paper document exists, may hold that as security. Once the loan is fully repaid, there is a process to have the loan discharged and the lender removed from the title of your property.

Chattels
Chattels are items of personal property, such as clothing, appliances and furniture. In real estate terms chattels are usually movable items which may or may not be included in the sale, such as furniture. The contract of sale may detail included chattels.

Commission
The fee or payment made to a professional for their services. For example, lenders may pay the mortgage broker a fee or commission for selling their products, so you don't pay the mortgage broker anything.

Contract of Sale
A written agreement outlining the terms and conditions for the purchase or sale of a property.

Conveyance
The transfer of property ownership and changing the title of a property from the seller's name to the buyer's name.

Conveyancing
The legal process for the transfer of ownership of real estate.

Cover note
A guarantee of temporary property insurance before the implementation of a formal policy. Cover notes can also be issued for other insurances such as car insurance.

Credit
Borrowed money or other finance to be paid back under an arrangement with a lender.

Credit Union
A cooperative which operates similarly to a bank but is owned and controlled by people who use its services.

D

Deed
Another word for the certificate of title. It's a legal record of all information regarding the ownership of a property or piece of land.

Default
Failing to make loan repayments when they are due. This can enable a lender to penalise the borrower by charging a higher interest rate and/or take legal action to repossess the property.

Deposit
An amount paid by the buyer at the time of exchanging the contract of sale. It acts as a commitment to buy. It is usually calculated as a percentage of the total purchase price and will be agreed with the seller or their agent.

Deposit bond
An alternative to paying cash for a deposit, this is a guarantee from a bank or other financial institution that a deposit will be paid to a seller before or at the time of settlement. Fees, charges, conditions and eligibility criteria may apply and security must be provided to support the bond (for example, funds held in a term deposit may be used to secure the bond.

Direct debit
The regular deduction of money from a transaction account, frequently used to make loan repayments.

Disbursements
The costs incurred by your conveyancer or lawyer during preparation for the settlement of a sale of a property. These could include the costs to get various certificates from government (eg title searches or local council rates notices) and administrative expenses (eg photocopying and attending the settlement).

Discharge fees
An administration fee to cover the costs incurred in finalising a loan account.

Discharge of Mortgage
A document signed by the lender and given to the borrower when a mortgage loan has been repaid in full.

Disposable income
A person's remaining income after all known expenses, such as loan payments and bills, have been met.

Draw down
To access available loan funds. Draw down usually refers to a construction loan, or a line of credit, loans where the limit is set, but the amount is not accessed all at once. The borrower draws down or uses the funds as required, up to the set limit.

E

Easement
A right to use a part of land owned by another person or organisation, for example to access another property.

Encumbrance
An outstanding liability or charge on a property.

Equity
The amount of a property actually "owned" by the owner. It's the current value of a property less the amount still owed on its mortgage. Equity usually increases as the principal of the mortgage is paid off. Market values and improvements to the property can also affect equity.

Establishment fees
Fees charged by a lender to cover the cost of setting up a loan.

Exit or early repayment fees
Penalties charged by some lenders when a loan is paid off before the end of its term.

Extra Benefits
Extra Benefits is ALI Group's exclusive savings program for ALI customers which provides discounts on a range of popular retailers' egift and physical gift cards. It's free to join once your policy has started. Refer page 22 for more information.

Extra repayments
These are additional repayments on a home loan account, above the minimum required repayment, which can reduce the term of the loan and the interest payable.

F

First Home Owners Grant
A grant from the Federal and/or State Governments. It's only for buyers who have not previously bought property in Australia.

Fittings
Items not intended to be removed from a property when it's sold, for example fixed carpets, lights, curtains and stoves.

Fixed rate
An interest rate that applies to a loan for a set term. Both the interest rate and loan repayments are fixed for the agreed term, regardless of any interest rate variations in the home loan market. The agreed term is usually anywhere between 1 and 7 years.

Freehold
Ownership of land for perpetuity ("free from hold") meaning unrestricted ownership and the right to deal with it subject to complying with any applicable laws. .

G

Gazumping
Yes, this is a real word and it relates to when a seller accepts an offer from a buyer but then proceeds to formalise the sale of the property to another buyer, usually for a higher price or other more favourable terms.

Guarantee
The contractual agreement to pay someone else's debt if they don't pay it.

Guarantor
A person or organisation that agrees to be responsible for the payment of a loan if the actual borrower defaults or is unable to pay.

H

Home Equity
See equity.

I

Interest only loan
This is a loan where only the interest is paid for an agreed term (1-5 years as an example). At the end of the term, a new interest only term may be agreed, or the principal repaid over the remaining loan term by the conversion of repayments to principal and interest.

Introductory interest rate loan
Often known as the "honeymoon rate" this is an introductory loan offered to new borrowers at a reduced interest rate for a specified period at the start of the loan.

J

Joint tenants
Equal holding of a property between two or more people. If one party dies, their share passes to the survivor or survivors.

L

Lenders Mortgage Insurance or LMI
Lenders Mortgage Insurance is an insurance policy that provides a benefit to the lender

(not the borrower) if a borrower defaults on their loan. The premium for the insurance policy is payable by the borrower, and may be added to the loan amount at the time of settlement. LMI is usually required by a lender if your LVR is less more than 80%.

Loan to Value Ratio or LVR
This commonly heard term relates to the amount of your home loan as a percentage of the property's value and it's calculated by dividing the loan amount by the property's value.

As a simple example, if you are buying your first home for $700,000 and you need to borrow $560,000, your LVR would be 80%. You can often find helpful LVR calculators on the websites of various lenders or banks to help you determine what your LVR will be, or you can ask your mortgage broker.

Some things to keep in mind:

- Some lenders will only lend to a certain level of LVR.
- Your LVR may impact whether your lender requires you to pay LMI.

M

Maturity
The date when a debt or loan must be paid in full.

Maximum loan amount
The maximum amount that can be borrowed. It's based on a borrower's financial situation, disposable income, deposit, and the value of the property which will secure the loan.

Minimum loan amount
The minimum amount that can be borrowed. Different lenders may have different minimum loan amounts.

Minimum repayment required
The amount a borrower is contractually obliged to pay each month, in order to repay a loan within the agreed term.

Mortgage Offset Account
An offset account is an account linked to your home loan that operates like a transaction or savings account. Funds in an offset account may be fully or partially offset against the balance of the home loan. Where funds are fully offset, interest will only be charged on the difference between the home loan balance and the offset account balance.

As an example, if you had a loan of $500,000 and had $50,000 in savings account which was fully offset, your loan would accrue interest on the net loan balance of $450,000. If the $50,000 was only partially offset, the interest which would otherwise be accrued in the savings account would be used to directly reduce the interest accrued on the loan (given the interest rate applicable to the savings account is likely to be lower than the interest rate applied to the home loan, there would still be some accrual of interest on the $50,000).

My Protection Plan (MPP)
An optional life insurance policy for homebuyers which provides three types of cover – Death & Terminal Illness Benefit, Trauma Benefit and a Specified Injury Benefit covering fracture of a listed part of your body.

My Protection Plan benefits are payable to you (or your estate or beneficiary) not the lender, which means that you (or your estate or beneficiary) choose how to use your payout.

More information about My Protection Plan is on page 18, or from a mortgage broker who holds authorisation from ALI Group, or from www.aligroup.com.au

N

National Credit Code
The National Credit Code offers protection to borrowers who take loans for non-business purposes. It governs the relationship between borrowers and lenders, and requires lenders such as banks, building societies, credit unions, finance companies and businesses, to:

- explain the borrowers rights and obligations
- disclose all relevant information about a loan in a written contract - including interest rates, fees, and commissions.

The National Credit Code is Schedule 1 of the National Consumer Credit Protection Act 2009 and is regulated by the Australian Securities and Investments Commission.

P

Passed in
A property is 'passed in' at auction if the highest bid fails to meet the reserve price set by the seller.

Portability
Allows a different property to be substituted as security for an existing loan, meaning you don't have to go through the process of refinancing. There are pros and cons, so seek advice from your mortgage broker or lender.

Principal
The amount owing on a loan on which interest must be paid.

Principal & Interest loan
A loan in which both the principal and interest are repaid during the agreed term of the loan so that the loan is fully paid out by the end of the term.

R

Redraw facility
A component of a variable rate loan which enables a borrower to make extra repayments on the loan but later redraw this money if needed. Fees may apply and you should check with your mortgage broker or the lender.

Refinance
To arrange a new loan for the same property, usually from a different lender.

Reserve price
At an auction, this is the minimum price acceptable to the seller of a property.

S

Searches
Research carried out prior to the settlement to confirm information about the property.

Searches are usually arranged by a solicitor or conveyancer.

Security
An asset that a borrower gives a lender the rights to - so the lender can be confident of getting the money back, one way or another, if the debt is not repaid as per the loan agreement. In the case of a home loan, the security is usually the property being purchased but may be another property or properties combined.

Settlement
There are generally two types of settlements that happen with most property purchases.

1. Settlement of the property is when the balance of the purchase price is paid to the seller. The buyer receives the keys and becomes the legal owner of the property.
2. Settlement of a loan coincides with settlement of the property. It's when the lender transfers the borrowed funds to the seller or the seller's mortgage holder.

When a loan is being refinanced, settlement refers to the funding of the loan from the new lender and payout of the current debt to the existing lender.

Split loan
Dividing a loan into two or more parts. For example, having part of the loan on a variable interest rate and the other part on a fixed interest rate, which provides flexibility (variable interest rate component – perhaps enabling redraw, offset and additional repayments) and confidence (fixed interest rate component – knowing repayment amount and protection against interest rate rises during the fixed interest rate term).

Stamp duty
Also known as transfer duty is a state government tax paid when buying a property and is based on the purchase price of the property. It's also payable on mortgages in some states. Each state and territory has different rules and calculations so check with your mortgage broker, solicitor or conveyancer.

Strata title
The most common title associated with townhouses and home units. Owning of a strata title property means that there is individual ownership over the apartment, unit or townhouse (called a "lot") as well as shared ownership over the 'common property' (such as the driveway, foyer and/or gardens).

T

Tenants in common
A form of agreement often used when friends or family purchase a property together, detailing the equal or unequal holding of property by two or more people. If one person dies, their share passes according to their Will or the law, rather than to the owner of the other share.

Term
The loan term is the total period over which the loan must be repaid in full. Term may also apply to a specific period within a loan, such as a fixed interest rate term. Term is usually written in months - for example, 360 months equals 30 years.

Title deed
Document or record that contains the legal description and ownership of a property. Many states have or are moving to electronic titling, so there may or may not be a paper Title Deed (or Certificate of Title) for a property.

Title fees
Charged by a state's or territory's Titles Office for title searches, property ownership transfers, the registration of new mortgages and the discharge of old ones.

Transfer
A document registered with the Titles Office that confirms the change of ownership of a property.

V

Valuation
A professional opinion of a property's value.

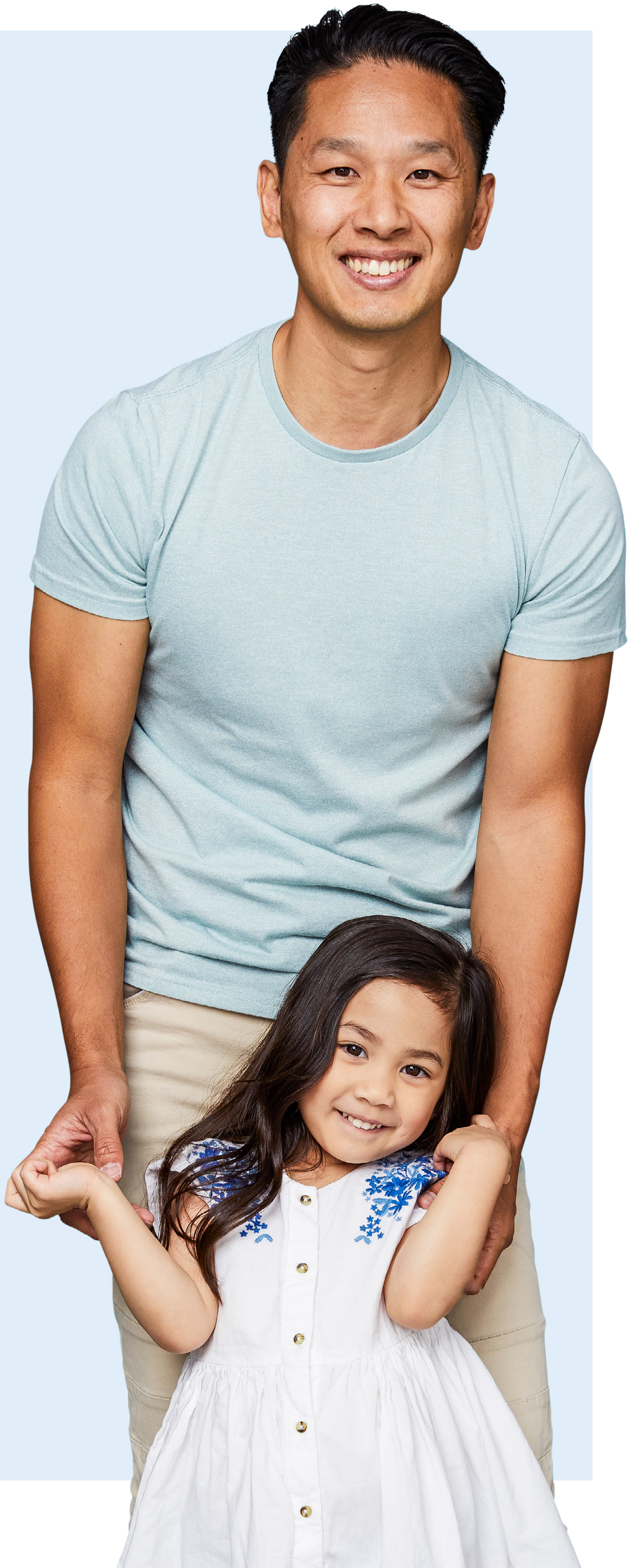
Variable rate
A rate that goes up or down depending on market interest rates.

Variation
A change to any part of a loan contract, most typically in relation to moving to or from a fixed interest rate.

Vendor
A seller. The person or entity that currently owns a property and is selling it.

Z

Zoning
Statutory descriptions of the nature of the property and its allowable uses as set out by local councils or planning authorities. For more information, check with your solicitor or conveyancer.



PROTECTING
HOME & PROPERTY
BUYERS

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