

Buying Your First Home And Saving Thousands From The Start



You have probably seen all of the ads on tv and on Facebook about buying a home with little or no deposit.

Is this possible?

Yes it is and we have three main ways of achieving this. We can use Keystart home loans in WA only, Guarantor loans and banks that specialise in non-conforming lending.

In WA we have a government backed financial Institution that is called Keystart. Keystart is a unique lender and doesn't require a large deposit which make it the go to choice for people looking at buying their first home when they don't have a large deposit.

They have recently changed the rules to make it even easier to buy your first home with Keystart. You now don't need genuine savings which means depending on the value of the home you buy the first home owner grant may cover all of your costs, allowing you to purchase your first home with little or no deposit.

Unfortunately you only get the \$10,000 grant when you build but if your purchase an established property under \$400,000 you can get access to a \$2,000 grant to cover your settlement costs.

Buying an established home valued at \$350,000 with Keystart you will need approximately \$11,700 and if you're eligible you will get \$2,000 cash back after settlement. If you were to build a home valued at \$350,000 with Keystart you would need \$1,700 to make your dream happen. If you're able to find a house and land package under \$270,000 then technically you can buy your first home with no deposit.

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The other benefit of Keystart is that you don't have to pay Lender's Mortgage Insurance (LMI). LMI is a one off fee that you as the customer pay to protect the lender in case you default on your mortgage. This fee doesn't actually help you at all but it's an expense you have to pay when you have less than a 20% deposit for your home.

Now, on a \$350,000 home loan the average LMI you will be required to pay is \$12,000 and most lenders will require 5% genuine savings as well as settlement costs. This means the amount of deposit you will need to purchase a \$350,000 house is roughly \$33,000 or \$23,000 if you build.

This is why Keystart is the go to for a lot of first home buyers in Western Australia because you can own your own home for a couple of thousand dollars if you build. While you're constructing your house, you only need to pay \$50 per week.

Now, because Keystart will give you a home loan with two great benefits (no LMI and low deposit), there are quite a few conditions. Most of these are conditions you would expect like being employed and having a good credit history (there are a few exceptions) but they do have a few quirks, which if you don't know about it can lead to a few hiccups along the way.

They have a maximum income level, which means you can earn too much to qualify for a loan, so you need to act quickly if your boss is about to give you a raise. Singles can earn up to \$90,000, couples \$115,000 and families \$135,000. The good thing is that you can still qualify if you make over \$90,000 as a single person. Over time income is only calculated at 30% so if you make \$70,000 as your base salary and \$30,000 in over time, Keystart will assess your income as only \$79,000 (30% of \$30,000 = \$9,000).

Keystart is designed to help predominately young people get out of the renting market and into their own homes, which is why they have the income limits. They believe if you're making \$200,000 a year you can go to a normal bank. Their goal is to help the people that don't qualify for a normal bank loan, get a home. If your base income is under the threshold give me a call because I can run scenarios to see if you qualify for Keystart even if your income is over. The banks are very quick to take a conservative approach in regards to income, so this works to our advantage.

Keystart does have a high interest rate in comparison to what you can get from the big four but you have to remember the big four want a 5% deposit as a minimum and it has to be genuinely saved, so you can't use the \$10,000 first home owners grant as part of the 5% deposit or \$17,500. You can still use it towards settlement fees and LMI, but 5% is still a lot of cash you have to come up with.

Now it's hard to imagine a Perth property market rising quickly but it does happen and the last time was 2003-2007. The Sydney property market rose considerably around the 2000 Olympic Games before doing nothing for many years before exploding again with growth from 2014-2017. Hopefully history continues and we boom shortly after Sydney just like last time.

This type of crystal ball stuff is very difficult to time and many people have lost out over the years, while a few have made millions. To buy an established home for \$350,000 will cost approximately \$33,000 and this would buy you a small apartment close to the city or a big house far away in the countryside.

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How long would it take you to save the \$33,000 deposit?

If you were to save \$200 per week which is a very good effort because most people don't save that much per week, it would take over 3 years to save the deposit. In three years, you might have had an emergency that put a bit dip into your savings like having to buy a new car or your best friend said, "Let's go to Europe" or, you had a baby. Life happens and this can delay how long it takes you get your desired deposit.

Both Perth in the mid 2000 and Sydney/Melbourne in the last few years saw their house prices nearly double in that short time frame of three years. So while you're doing the right thing and saving a deposit because you don't want to pay the high interest rate of Keystart that lovely house you were looking at for \$350,000 is now \$600,000 and the deposit you need has doubled if not more. Life isn't fair and you will be renting forever now. Luckily, we have two options left and we start with guarantor loans.

Guarantor loans have many different names depending on the bank that is offering the loan, sometimes you may hear them called family pledge, parental guarantee, family guarantee and guarantor support to name a few.

As you might have guessed this loan is based around having a family member assist you with security for your purchase. Generally speaking it will be a parents offering to help but it can be other family members depending on the bank policy. The guarantor needs to be an Australian or New Zealand citizen and the property must be in Australia. Generally speaking the guarantors need to be working on most occasions and you must be over 18 years old.

The last and probably the most important point is that they must have enough equity in their property to assist you. You need to have 20% equity to avoid paying Lenders Mortgage Insurance or LMI. If you're looking to buy a \$500,000 home you need a deposit of \$100,000 to avoid by LMI. To use the equity from your parents property they need to make sure they not only have \$100,000 of equity to give but they also keep \$100,000 in equity in their property because the banks wont let them be a guarantor if their property is subjected to LMI, so they need to have their mortgage under \$300,000.

When the parents become guarantors they are giving a limited security guarantee. This means if for some reason their child defaults on the mortgage the bank can only come after their parents for the amount they guaranteed not for their whole house. Also worth noting is that the parents are giving a guarantee not actual money, so they don't pay any interest on the \$100,000, the kids have to pay for that.

In this scenario you would buy a home for \$500,000 and you would have a mortgage for \$500,000. Thanks to your parents going guarantor the bank will treat you like you have a 20% or \$100,000 deposit allowing you to get some very low interest rates as well as not having to pay LMI. This allows your parents to give you thousands of dollars toward your first house without actually giving you a cent.

Using \$500,000 as our example, they will save you roughly \$17,500 in LMI fees and your monthly mortgage repayment will be \$473.38 lower thanks to your parents getting you access to a lower rate. Over the life of the loan this will save you \$170,416, so please start being nice to your parents, it's in your best interest. :D

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If you're still reading this blog, you probably fall into our third group. Which is, I don't qualify for Keystart because I earn too much and I don't have parents that can help me out with a guarantee loan, what's my option?

You give me a call. I work hard to get the finance my clients need whatever their situation. If you can't get your first home right now we can work on a plan to get you where you need to be as soon as possible. I can let you know what you'll need and we can get you into your new home sooner.

Sincerely,

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