



# Preparing for a Home Loan

Even on a moderate income



*The Plan Towards  
Home Ownership*



**WHAT IF YOU  
HAVE DEBT  
ALREADY?**

**YOU NEED TO  
CLEAR EXISTING  
DEBT FIRST!**

# From Debt to Home Ownership

Have you decided that a home of your own, or as an investment is a good thing and something you are prepared to work on? Let's look at what you need to prepare to get there.

*Been having a good time and not thinking about saving, or had problems that cost a bit to fix and now have some debt? Generally you are going to need to clear all your debt first and then demonstrate a savings pattern before a Lender will look at you... The following may help accelerate this.*



# Preparing for a Home Loan: The Plan towards Home Ownership

## OPTION 1

*If it's not too much debt and your credit rating is good:*

Look at consolidating debts with an Interest Free Credit Card Transfer. Credit card companies are competing hard for your business and are prepared to offer up to 18 months Interest free on your existing Debts. The trick to making this work for you, is not to put any additional Debt on this card. Work out a weekly or fortnightly payment plan to clear this whole debt as quickly as you can. Putting anything extra on this card before you clear the debt entirely, will quite often generate interest on the purchase immediately. Defeating

the whole purpose of doing this. It is most important that you do not use this card until you have cleared the debt to Zero. Or not at all if planning to be Debt Free and apply for a Home Loan. This is most suitable for debts under \$10,000.

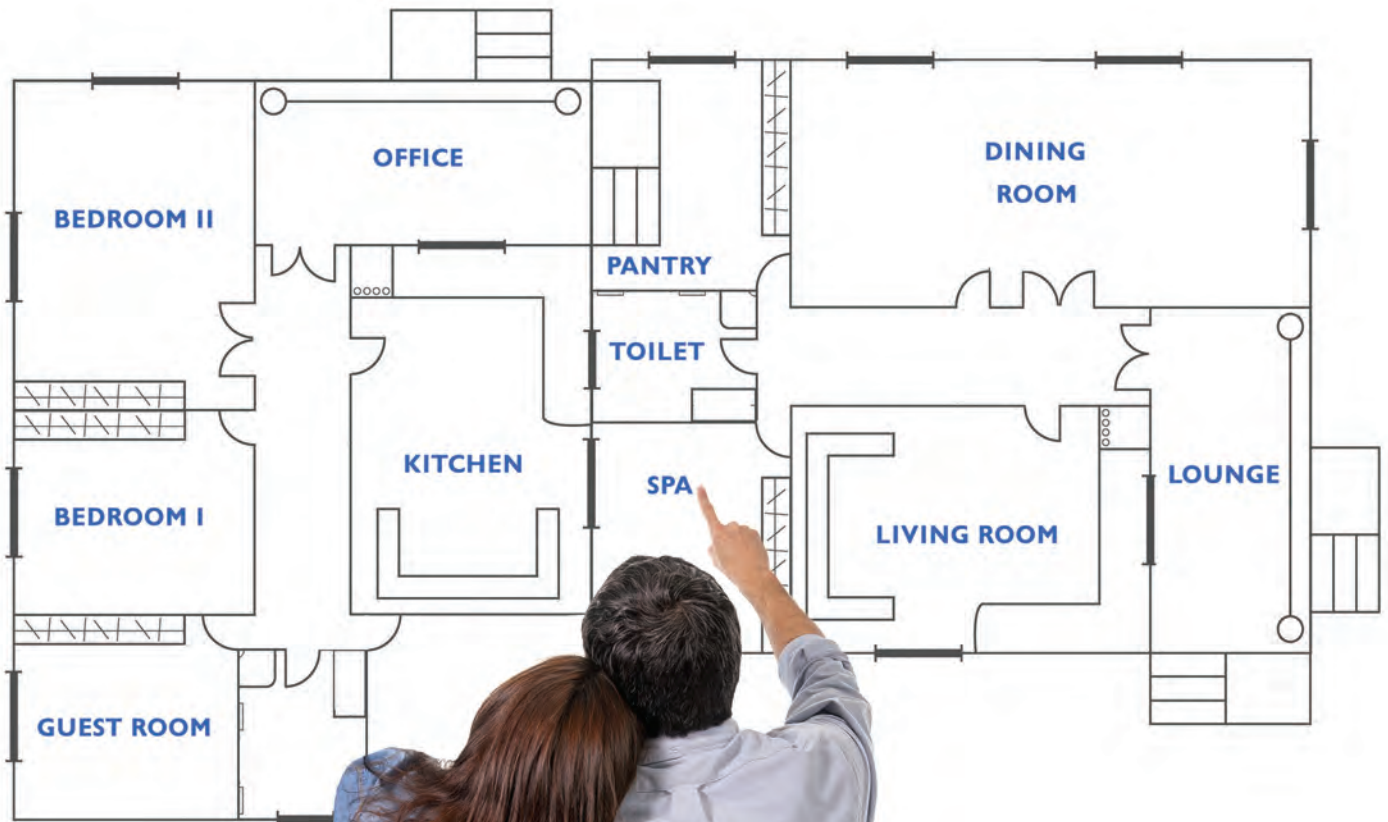
## OPTION 2

If you can't clear the debt this way, set up to pay more than your minimum payment. If you work out 1% of the debt as a weekly repayment, even high Interest credit cards will disappear in under 4 years, that is if you don't add anything to them. If you are in a hurry you are going to need to pay more.

For example: A \$15,000 credit card debt can be cleared in under 4 years if you continue to pay \$150 a week until it is gone. Don't add anything additional on. Live off the budget you set. The Money Buckets budget system can help if you use it.

**Don't borrow money at high Interest rates on short terms.** When you start down the track of payday lenders you are in the end game of finances and risk being trapped as a slave to the lenders. We see many people whose cost of living has doubled after doing a few of these loans. Any ability to save will be gone.

**If you can't afford to do this, ring Money Buckets for debt problem solutions on 1800 825 010.**



“Work out a weekly or fortnightly payment plan to clear the whole debt as quickly as you can.”



**MONEY BUCKETS**  
FINANCIAL SOLUTIONS



# Cars and Debt

To put you in a debt free position keep your car costs down. If you do not have a large income, expensive cars will blow your budget. If finances are a little tight, keep the purchase of cars to a low cost and long warranty. The amount of people we see (who are now in Financial Trouble) who have gone and borrowed over \$30,000 to buy a car and pushed their finances to the limit is astounding. There are plenty of new and near new cars available that are good value.

Car dealers are very good at pushing people into expensive loans for expensive cars and slip in extras and Interest that push the price to figures

they aren't expecting.

All of a sudden you owe upwards of fifty to sixty thousand dollars on a car that is worth half of that.

They have let their emotions run away with the thought of a new car and they have not added up the cost of what they were buying. If your wages are under a \$1000 a week don't sign a contract to buy a car for any more than around a \$100 a week.

Anything over that is not going to leave you the money to service, repair and run the car and have a savings plan. You can kiss your home plans goodbye till you've paid it off.





# Preparing for a Home Loan: The Plan towards Home Ownership

## OTHER DEBT REDUCTION AND SAVINGS TIPS

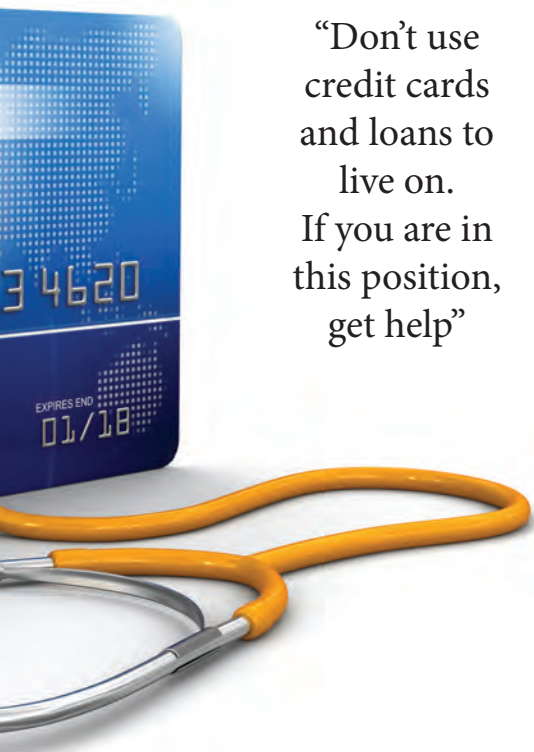
Pay your loans weekly or fortnightly if your pay frequency allows it. This way you don't have big bills at the end of a month that catch you short.

Don't use your credit cards and loans to live on. If you are at this stage, refer to the *Money Buckets* information in the opposite column. Quite often the catalyst to want to buy a home is that you are now a couple. Sensible joint budgets, with the sharing of living costs, can pave the way to freeing up money for a savings plan. This works very well where both partners are committed to this.

But a word of warning. Be cautious if this looks like being a one sided affair with money. We do have a number of clients both Female and Male who have had their partner run up debt in their name, empty bank accounts and disappear. More than you might think.

***Set the Debt repayment budget up with Money Buckets and use the third bucket for extra debt repayments until the Debt is gone.***

“Don't use credit cards and loans to live on. If you are in this position, get help”



**MONEY BUCKETS**  
FINANCIAL SOLUTIONS

## DEBT TROUBLE

OK, you've used Money Buckets to add up your finances and there is a big minus at the end. You are now falling behind quickly and actually going in reverse.

Every week that you wait to address your Debt problems now puts you further away from your own home and Financial Security.

Don't borrow any more money!

Call in **Money Buckets** to see if you are in a position to freeze the Debt and Interest, and work out a Consolidated Payment Plan to clear you of Debt.

We will work within your income to achieve this and still give you enough money to live on, without borrowing further money.

We can use Government Legislation called a Debt Agreement if necessary.

Once you have cleared the debts and you have learned to live within your means, the money you were paying for a Debt Agreement or loan repayments can be put into the Savings Bucket.



 **MONEY BUCKETS**  
FINANCIAL SOLUTIONS



**OWNING AND MAINTAINING A HOME AND PAYING THE HOME LOAN, WILL INITIALLY TAKE MORE OUT OF YOUR PAY THAN JUST PAYING THE RENT.**



# Out of Debt and Now Saving

## Show a Savings History or a sustained Debt payment plan to qualify for a Home Loan.

If you have used *Money Buckets* to get your Budget under control and are out of Debt, the next step is to start actually putting money away and start saving. A bank or Finance provider will be looking for more than just your ability to pay the loan. They will be looking for you to have had a history of savings, in addition to your rent, that demonstrates you can live with a home loan.

Owning and maintaining a home and paying the home loan, will initially take more out of your pay than just paying the rent. You will

have rates to pay, repairs to make and you will probably want to individualise your home, simply because you can. In the long term say in 10 to 15 years, your Home Loan payment will probably become cheaper than renting and eventually when you own your own home, you will be on your way to Financial Freedom.

But in the meantime, lets look at the costs of a home loan. A \$500,000 loan, at say 5% interest over 30 years would cost you roughly \$620 per week. But in reality you probably

need to allow \$670 to \$720 a week to pay for the rates and maintenance. Even more for Strata Fees on units.

A Home Loan of \$300,000, with the same conditions as above, would cost \$372 per week, so once again you need to allow that \$50 to \$100 extra, so around \$425 to \$475 per week.

So what the bank is looking for and what you need to demonstrate, is your ability to pay this higher amount on a sustained basis. You are going to need to show that what rent you are paying now and what you have been saving and repaying on loans, adds up to this figure. This could also be shown with other regular debt repayments that have now been paid off.



# Preparing for a Home Loan: The Plan towards Home Ownership

## LET'S LOOK AT EXAMPLES

**1: If you are paying say \$350 a week rent now, you would need to be showing a sustained saving plan of \$150 a week, which adds up to \$500 a week, to show you can afford a \$300,000 home loan. If you had been saving this amount for 3 to 4 years you would be in a good position to get a \$300,000 home loan. A savings history and a savings account of around \$30,000 to pay for deposit, stamp duty and legal fees.**

**2: If you are paying \$500 a week rent now and wish to borrow \$500,000 you would need to show a saving history of say \$220 per week, which shows an ability to pay \$720 per week on a sustained basis. Done over 3 to 4 years, this would give you from \$35,000 to \$45,000 savings to put towards deposits and legal fees and show you can live on your income and pay the loan.**

**If you want an \$800,000 loan, you could add the numbers in these two examples together. That is you need to show an ability to pay \$1220 a week home loan payment and be able to live on the rest.**

Many people spend many times this savings amount on Cars, Cigarettes, Alcohol and Going Out. Without realising it. It's pretty easy to spend money. This is not about having no fun, it's about sticking to what you can afford to spend on entertainment, and then having something you prepared to save for. Having friends with similar goals helps, especially with socialising. Making a home and family can be satisfying and fun too.

## ARE THERE ANY SHORT CUTS?

If you have a partner you can combine your resources and put yourself in this position quicker. Best if you are both on the same wavelength with wanting this.

How Much would you need to earn between 2 people with no kids to borrow \$500,000.

If you have no other debt the average costs as of 2017 would be:

**\$720 Home payment + \$500 living costs for a couple + \$100 for extras = 1420 per week income clear.**

That's between two people after Tax. Two people on a Gross Income (including Tax) per year of \$45000 each could do this. It adds up without other debt.

Start adding car loans and credit cards and what you need for income grows very quickly. Get yourself out of Debt and keep to a budget and this all adds up.

If there is a gift of money or inheritance that helps you along,

you may only have to show a savings record of 6 to 12 months to get approved.

Parents can sometimes help with the equity in their home to put up against your home, but once again you will have to show at least a 6 to 12 month history of being able to save and show your ability to live on the income you are proposing to pay the home loan with. Because if you can't live on the amount left now, it's not going to get any easier with a home loan. Can you really do it?

If you need help planning this out, contact **Money Buckets** and talk to a consultant. Get an overview of your situation.

Those who have addressed their Debt Problems, turned things around and started saving, will be in a good position to eventually own their own home.

***Need Help with This? Contact Money Buckets on 1800 825 010***

[www.moneybuckets.com.au](http://www.moneybuckets.com.au)



**MONEY BUCKETS**  
FINANCIAL SOLUTIONS



# Applying for a Home Loan



## THREE THINGS YOU NEED TO ASK YOUR PARTNER BEFORE YOU APPLY FOR A HOME LOAN TOGETHER

*Before you apply for a home loan with your partner, there are a few discussions that you need to have that go a little beyond what you may know already.*

You've found someone you want to spend your life with (or a significant chunk of it, at least) – the hard part is over, right? Wrong. You know each other well enough to know whether or not you each blow the budget every month, but you probably don't know each other's complete credit history. So, before you buy a property together, there are plenty of discussions you need to have. Here are three of them.

### **1. Have they defaulted on any payments?**

He or she might be relatively debt free

now, but has this always been the case? One bad mark on a credit file, such as a late car payment or a default on a credit card, will change the approach you need to take when applying for finance.

It doesn't mean you can't secure finance, but it may mean you need to apply to a specialist lender for an alt-doc loan. Money Buckets can help you find the right lender and craft an application to avoid the heartbreak of continual rejection.

### **2. That savings balance, where has it come from?**

If your partner has savings towards a deposit, that's fantastic. But the balance is only one part of the equation that lenders consider.

If he or she has managed to build up those savings over a good period of time, making regular contributions and managing their savings well, lenders will consider this a positive indication of an ability to make repayments regularly.

If, however, the savings are the result of a redundancy payout, a gift from family or backing a good horse, they are still helpful as a deposit, but don't indicate that ability to make repayments.

Again, this is not the end of the world. You'll be in a better position than you would without that balance, but may need expert help to put your application in the best light.

### **3. If we did get into trouble, how would you want to handle it?**

You must plan for every eventuality, even one you think is not likely. Having said that, this discussion isn't so much about having a solid plan in place for the worst, as seeing how your partner would deal with difficulty.

If one of you lost your job, or you had unexpected bills that seemed overwhelming, would they try to struggle through, not wanting to talk about it with you or Money Buckets, and potentially default on the loan? Or would they tackle it head on by calling Money Buckets with you to make a plan to get through it without defaulting?

Before you start looking for a home to share with the love of your life, an appointment with **Money Buckets** is a good start.



# Preparing for a Home Loan: Applying for a Home Loan

## FLYING SOLO AND BUYING A HOME

*Are you flying solo and starting to think that buying a property will never be possible? There's really no need to wait for a knight, or lady, in shining armour to come along, as securing finance on a single income does happen.*

*“An option for singles is to consider purchasing or building outside metropolitan areas in order to lower costs.”*

Of course, just as if you were a couple, your borrowing capacity will depend on your income and commitments. But there are some differences.

A single will probably have different requirements of a property than a couple would. So consider: are you looking for a residential or investment property? What kind of deposit are you considering? Do you have dependents or children?

You may also need to take extra precautions without a second income to fall back on. Some MFAA Approved

Credit Advisers recommend that single-income clients sign up for mortgage protection insurance, in case they lose their jobs or suffer from an accident that could impact their ability to make repayments.

One example is a single first-home buyer who wanted to live in the eastern suburbs in Sydney. She decided to downsize from her large rental and buy an affordable studio in which to live.

We looked at how much she's paying in rent and what she's currently saving. Then we looked at what was a good, comfortable spend for her and worked backwards from that.

It wasn't as if she had to sacrifice everything, she just went smaller. As a single person, she decided she'd be happy in a studio, as opposed to a bigger apartment in a location she wasn't as happy with.

Another happy client was a young professional who purchased her first investment property.

She used her 10 per cent savings on stamp duty, mortgage insurance and her initial deposit. The property is now being rented out and is a good investment with borrowed return.

An option for singles is to consider purchasing or building outside metropolitan areas in order to lower costs. When deciding whether such a purchase would be owner-occupied or an investment, you need to weigh up relocation or commuting costs, as well as any income losses associated with moving away from a city.

Often an investment property can put you into the market and keep growing your assets, until you can afford to buy something you want to live in. Or if you develop a portfolio of investment properties, it may eventually provide enough income so you can rent in a much better location than you can afford to buy in. Especially if you are continually on the move, or intend to be.



**MONEY BUCKETS**  
FINANCIAL SOLUTIONS





## HOW TO BUY A HOUSE WHEN YOU HAVE A HECS OR HELP DEBT

(As of 01/01/2017)

*Paying off your education is no reason to put off buying property.*

You can remember it now: sitting in a chair at the back of the lecture theatre, chatting to your friends and ignoring the debt that each day at university was plunging you into.

But now you're older and wiser, and reality has set in. You want to buy a property, but you're unsure how your student HECS or HELP debt could impact your ability to take out a loan.

When you apply for a home loan, you'll need to reveal information about your liabilities, poor credit ratings and any other debts you have. This is where you need to start worrying about your student debt.

If you chose to defer any of your HECS/HELP payment, you don't need to start paying it off until you're earning an annual taxable income of \$54,869 or more. (As of 01/01/17).

At this point your employer is required to hold a percentage of your taxable income and direct it towards your HECS/HELP loan. The percentage increases with your income but tops out at 8 per cent when you earn over \$101,900 annually.

Essentially, this decreases your net annual income. But as long as the remainder of your income is enough to service your loan and living expenses and there are no other problems, we can search for a suitable loan deal.

By having the ability to compare several lenders at the one time, we are able to recommend a product suitable for the applicant's individual needs.

During the initial contact with you, we will complete a broker fact find, enabling a comprehensive financial analysis to be conducted.

From there, guidance can be given on paying down or consolidating debt in order to reduce outgoings and increase borrowing capacity.

*If you're getting ready to buy a property for investment or to live in, there's no need to hold out because you're still paying for your education.*



# Preparing for a Home Loan: Applying for a Home Loan

## WHAT'S THE REAL INTEREST RATE? THE COMPARISON RATE

*Comparison rates were introduced a number of years ago, in an effort to help consumers compare 'apples with apples' when reviewing different home loans.*

It is difficult to compare home loans that have different interest rates and fees. This is why credit providers must give a comparison rate when they advertise a rate or a weekly payment for home loans.

The comparison rate includes the

interest rate or weekly repayment amount, plus most fees and charges. Here is an example.

In the example above, home loan B will cost less than home loan A, even though home loan A has a lower interest rate. However, keep in mind the the features being offered by each loan, to ensure in the long run you get the best deal.

If you can find the comparison Interest rate from each loan, you can get the true cost of the loan to compare to. When a Lender advertises, they should show their comparison rate somewhere in the advertisement.

It also pays to read the fine print. Sometimes the comparison rate can be based on an entirely different scenario to yours and won't reflect the loan you are looking for.

Different loan amounts and repayment duration can change it dramatically.

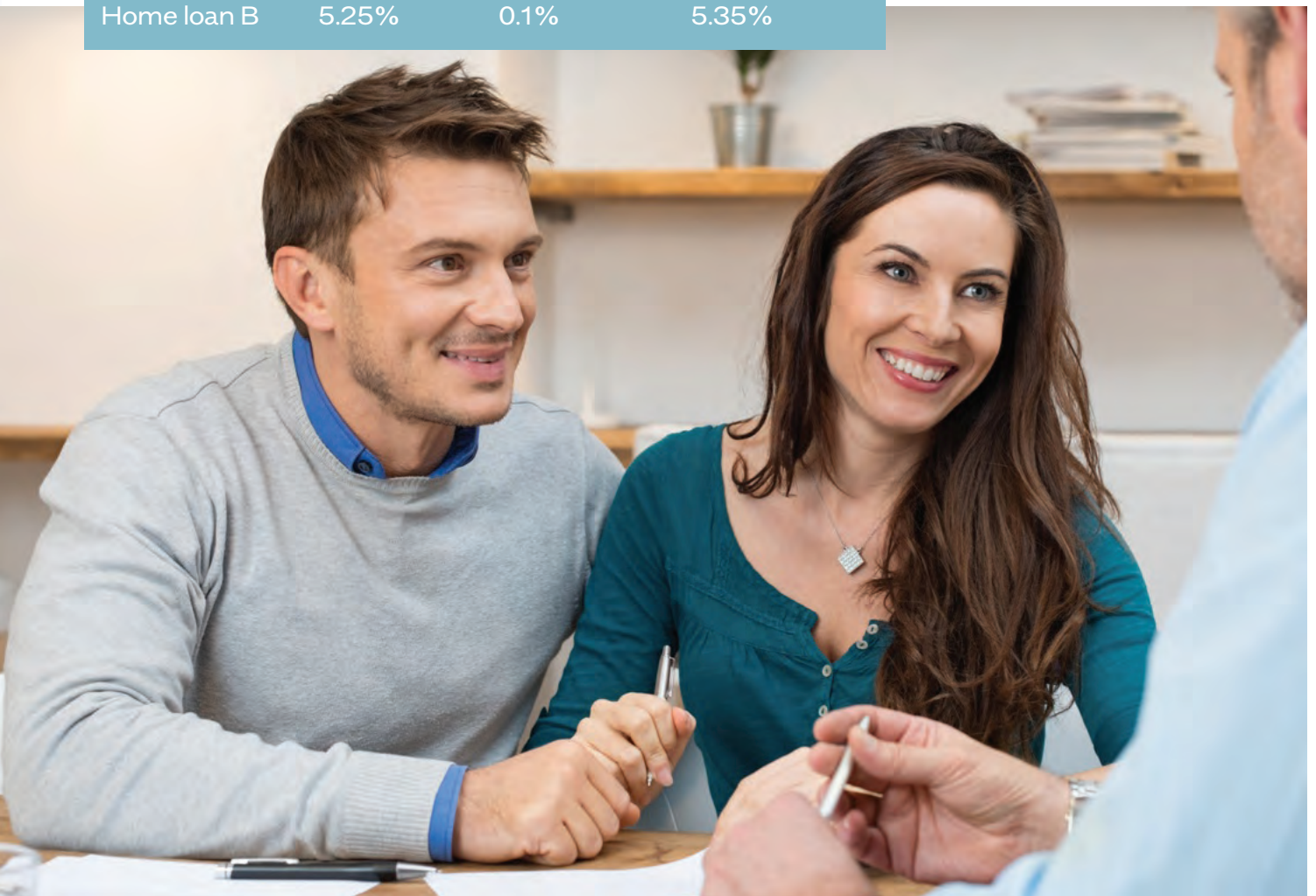
You also need to be aware that a comparison rate doesn't take into account other costs you may incur at the beginning of the loan, such as loan establishment fees and approval fees. These can vary widely, so you really need to do your research to make sure you're getting the best deal for your requirements.

The same will also apply to finance on cars, cards and personal loans.

Remember, a loan is about more than the cost – you need to consider other loan features and flexibility factors such as offset and redraw, and fixed versus variable terms.

***So comparison rates are a good starting point, but not the be all and end all.***

	Interest rate	Fees & charges	Comparison rate
Home loan A	5%	0.5%	5.5%
Home loan B	5.25%	0.1%	5.35%





## WHAT DOCUMENTS YOU NEED TO APPLY FOR A NEW LOAN

OK, you are ready to buy a home, you just need a mortgage. Before you go rushing off to meet with a Money Buckets representative, be sure that you have the documents on hand to prove your identity, income, assets and liabilities.

Applying for a loan is not always straightforward.

To help make it simple, here is a handy list of the documents you are likely to need when you meet with Money Buckets. This is quite

often the hardest part of obtaining a loan. Don't argue with the list, there's no point, we've heard it all before, just get everything as quickly as you are able to, cross off the list one at a time and put it all together. If it takes too long you may have to top up with the most recent statement as well.

So start keeping everything now, don't throw any letters or statements away and keep it all in the one spot. Even if it's a shoe box. Anything missing ring and order or print it out, it can take a week or more to get some statements. If you leave it to the last minute you will be frustrated so start on it now and keep your history and information up to date.

### IDENTITY

#### You will need the following

- Passport : If no passport Birth Certificate or Marriage Certificate or citizenship certificate.
- Driver's licence: If no License photo ID Card or a university identification card or proof of age card.
- Medicare Card

## We understand the problem. We know the solution.

### INCOME

If you are employed on a full-time basis, this is a fairly easy part.

You will need to prove your income by providing your most recent 3 PAYG payslips, including showing YTD income of at least three months. If your payslips don't list your YTD income, Supply a group Certificate or an ATO tax assessment, a PAYG summary or a professionally prepared tax return.

(If you are in a new Job we need to go about it a little differently, ring us.

Some Lenders will make you wait till after your 6 month trial period is over, others don't.)

If you are self-employed to get the best Interest rate with a Full Doc Loan you'll need to provide your individual tax return and ATO assessment notices for a year, sometimes two. As well as your business's financial documents: one year's tax return, profit and loss statement, and balance sheet. Better if there's two years.

You will need BAS statements if applicable or other documents from your accountant, too.

If you don't have these we may be able to do a Low Doc Loan. We need 6 Months of BAS statements and a report from your accountant on expectant income. Plus 12 months Bank statements from the Business.

If you have only just started in Business still contact Money Buckets, as there are lenders that may still work with you. Understand though, this is a riskier proposition for the Lender and the Interest rate and mortgage insurance will be priced

accordingly.

Whether you are self-employed or not, any other income you receive will also need to be documented and will work to your advantage. For example, if you own an investment property, provide a current lease and tax return listing the rental income or a letter from the leasing agent.

If you own shares, get a statement, investment record or tax return

If you receive any government benefits, get a statement from Centrelink.

### ASSETS

You will need to prove your savings with bank statements, as well as be able to provide details and values of any other assets, such as cars, stock, term deposits and property. Get the last six months of Statements from your Bank Accounts. Don't miss any.

### LIABILITIES

By the time you are applying, you should have paid down your debts and reduced the limits on credit cards to give you the best chance of approval and improve your borrowing capacity, as lenders assess your ability to make repayments on your credit limits, not just the amount you owe.

If you have a Car Loan a Transaction statement for the last 6 months

Current statements for your credit cards, store cards and personal loans for the last 3 to 6 months.

**Also handy, especially if you are older is a statement from your superannuation**