

The Finance

GLOW UP

CUA First Home Buyer Toolkit



Common Home Loan Terms

Credit Score

Financial institutions will use your credit score to help decide if you're worth lending more money to. You can obtain a good credit score by making payments to certain services on time. In the simplest of terms, if you've been paying off your credit card, phone bill or loan on time (just to list a few), you're going to have a good credit score, which means you'll be able to take out bigger loans with lower interest.

Lender's Mortgage Insurance (LMI)

LMI is a type of insurance that borrowers with a smaller deposit (usually less than 20%) need to pay when they take out a home loan. It covers the lender (not you, the borrower) from financial loss if you can't repay your loan. LMI is a one-off payment made by the borrower and is usually added to the total loan amount, so that there's no up-front cost. However, adding LMI to your home loan amount means you would pay interest on the LMI amount as well.

Conveyancing Property

Conveyancing is the transfer of property or land titles from a seller to a buyer. It involves more than just an exchange of contracts. Under most state's laws there are many steps to be completed before a property transaction is legally binding. You'll need a solicitor or specialist conveyancing firm to help with this process.

Comparison Rates

A comparison rate includes all of the fees associated with a loan. However, it's not just the interest rate, it also includes other fees you'd otherwise overlook. If a loan's comparison rate and interest rate are similar, this means there are few fees involved so you'll be choosing a loan wisely. This is particularly handy when looking for a car or home loan – just remember that it's for a set loan amount, so you'll need to figure out how much you want to borrow and have the actual comparison rate calculated for you.

Credit Union

Credit Unions like CUA are financial institutions like banks, but unlike banks, you become a member when you sign up. So while banks use their profits to pay dividends to shareholders, Credit Unions reinvest their profits back into their business to improve their products, services or digital channels to benefit their members.

Stamp Duty

The amount of tax you pay when you buy a property. Stamp Duty can be considered one of the heftiest upfront costs for first home buyers – along with your deposit, of course!

Borrowing Power

As the name infers, borrowing power is how much you can afford to borrow. It takes into account your income, existing debt commitments and living expenses.

What's the best home loan for me?

When choosing a home loan, it's important to consider your financial and personal circumstances. Do you need to know exactly what your repayments are so you can plan? Will you benefit from offsetting interest with money in your accounts? Do you want to make extra loan repayments and have access to them? Here are some things to consider when deciding.

Fixed Interest Rate Loans

- Give you more certainty and make it easier to budget because you know exactly what your repayments are for a set period of time.
- Protect you against interest rate rises, but if interest rates fall you miss out on the savings.
- Often have a higher rate than variable loans because you pay to 'lock-in' your rate.
- If you decide to change your financial institution, sell your home, or pay off your loan within the fixed period, you may be charged an early payout fee.



Hot tip

If you can't decide whether a Fixed or Variable loan is for you, don't fear - there is another option. You can split your loan so that part of it is a fixed rate and part of it is a variable rate. This allows you to manage some of the risk of an interest rate rise with the fixed rate loan, while still having the flexibility with the variable rate loan so you can make extra repayments or pay the loan off early.

Variable Interest Rate Loans

- Are subject to market conditions – if rates fall it's likely your variable rate will fall too and your loan repayments will decrease. If rates rise, so might your repayments.
- Usually give you more features and flexibility – like an offset account, the ability to make extra repayments and to pay off or move your loan without penalty or an early payout fee (but they may have a discharge fee).

Source: cua.com.au/loans/home-loans/buying-your-first-home

Offset Accounts

- ❑ An Offset account lets you use money in linked accounts to 'offset' your home loan. This means the balance in your accounts is offset daily against your loan, reducing the amount of interest you pay and your loan term. For example; if you have a loan of \$500,000 and a balance of \$10,000 in your offset account/s, you'll only pay interest on \$490,000 instead of \$500,000.
- ❑ Can have different features. 100% offset means you can deduct the full balance of your linked account/s from your loan.
- ❑ Often have a minimum balance requirement that applies to your linked accounts.
- ❑ No interest is earned on offset accounts.

Redraw

- ❑ This feature provides access to the extra and additional repayments you've made on your loan.
- ❑ You can take out (redraw) money from your 'repayments in advance' or 'redraw balance' whenever you need to, which can come in handy.

Extra Repayments

- ❑ Allows you to pay more than the contracted or minimum loan repayment amount. If your monthly repayment is \$2,300 you may decide to pay \$2,500 instead.
- ❑ Helps you to pay off the loan faster and reduces your interest payments.
- ❑ You can also make lump-sum repayments, for example, if you receive a bonus or an inheritance.

Home Loan Fees

- ❑ Some home loans can come with lots of fees, from establishment fees to exit fees. If possible, try to find a lender who won't charge for many. Look for loans which don't have annual fees, monthly fees, extra repayment fees, redraw fees or early payout fees.
- ❑ Only fixed rates (fixed period) have an early break fee - known as an EPF.

Source: cua.com.au/loans/home-loans/buying-your-first-home

HELPFUL CALCULATOR TOOLS

[Borrowing Power Calculator](#)

[Budget Planner Calculator](#)

[Home Loan Repayments Calculator](#)

[Split Loan Calculator](#)

[Savings Planner Calculator](#)



FEELING OVERWHELMED?

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