



# FIRST HOME BUYER MANUAL

Unconditional approval  
Steps 25 - 28

# John Ruddick's step by step guide to buying your first property in NSW.

## Steps 25-28. Unconditional approval

### PREFACE

If you need to borrow money to buy a residential property in New South Wales, I want to be your mortgage broker.

To apply for a home or investment loan you can either contact a lender directly or speak to a mortgage broker. In recent years, more than half of all Australian mortgages have been taken out with the help of a mortgage broker. The advantage of a broker is we are mortgage specialists who can introduce you to products from many lenders, including all the major banks.

The rising dominance of mortgage brokers can also be attributed to the increasing complexity of the mortgage process. Government and lender policies change frequently, and it takes a dedicated professional to stay informed.

These 31 steps are a rough sequence of events for first-time property buyers in NSW. But every individual and every mortgage application is unique. Since 2001 my passion has been to help borrowers properly structure their mortgage debt and, just as importantly, understand the strategy behind the structure.

I hope this guide inspires you to begin mapping out a plan to buy your first property. A good first step on that journey is to contact my office and arrange an obligation-free appointment to discuss your circumstances. Even if you think you may not buy for a year or more, it's worth having a general discussion now.

### CONTENTS

<b>STEP 25</b>	Unconditional Approval	4
<b>STEP 26</b>	Paying your deposit	4
<b>STEP 27</b>	Loan offer	4
<b>STEP 28</b>	Insurances	4

## Old-fashioned tips

Having worked closely with several hundred first property buyers, I know that following these guidelines will put you in a stronger position when applying for your first mortgage.

- Drive a modest car. Often the first thing people do when they start earning a full-time income is borrow money to buy a car. Car loans usually come with high repayments, which significantly reduce how much you can borrow for a property. A less expensive car often means a better first property.
- Holidays should be funded by savings, not credit cards. Travellers tend to be more prudent if they are spending their hard-earned savings. A large credit card debt will weigh down a savings plan for your first property, and reduce your borrowing capacity.
- Open a dedicated savings account that is separate from your everyday bank account. A good online savings account will offer a better rate of return than conventional bank accounts, and usually with no fees. It's better not to have ATM access to your savings account so you can resist impulse spending. Name the account something like 'Deposit for My First Property' to encourage a mindset of saving and frugality.
- A debit card is preferable to a credit card because you're spending your own money, rather than spending the bank's and incurring high interest. If a credit card *is* necessary, the key thing in a mortgage application is the limit, not the balance. A high credit card limit reduces borrowing capacity, even if the card is barely used.
- There's no better savings plan than living at home until you buy a property. If that's an option, save at least the rent you would otherwise be paying.
- While it's tempting to rent somewhere expensive, you'll have less savings for a deposit. The more modest your rental accommodation, the more options you'll have for your first property.



Every person who invests in well-selected real estate in a growing section of a prosperous community adopts the surest and safest method of becoming independent, for real estate is the basis of wealth.

Theodore Roosevelt





## STEP 25

### Unconditional Approval

Once a lender has approved your final loan structure, your property and its purchase price (and if necessary obtained LMI approval), the lender will issue the Unconditional Approval. This means the lender has agreed to lend you the money required and has no further checks to make. Once we get to this point, the pressure is off. The lender will email me a document confirming the loan is 100% approved, which I will then forward to you (and often your legal representative) via email. You will then instruct your legal representative to complete the exchange by paying the full deposit (less any amount you've already paid).

## STEP 26

### Paying your deposit

Under NSW property law, the exchange of contracts requires a 10% deposit. However, the vendor can agree to a lower amount, with 5% being quite common. Sometimes the vendor will ask for the deposit funds to be released to them before settlement. You should ask your legal advisor whether this is advisable.

If you don't have a cash deposit available (maybe you have a guarantor, or a gift of money is yet to arrive), I can help you get a deposit bond from one of several providers. A deposit bond comes with a fee, but it's easy to obtain once you have an unconditional loan approval. A deposit bond is a promise from a major insurance company to the vendor that if you cannot settle on the purchase then the insurer will pay the 10% deposit in cash. The insurer will then seek to recoup that payment from you.

## STEP 27

### Loan Offer

Once your loan is unconditionally approved your lender will post a formal loan offer to you. This consists of several important legal documents that you should read carefully, sign and return. If you are unclear about anything in these documents, you should discuss it with your legal advisor. I often go through the loan offer with borrowers in person as well.

Once the loan offer documents are signed, they are posted back to the lender who will take a few days to process them. Once that's complete, your lender's legal department will contact your legal advisor to co-ordinate the settlement which is typically six weeks after the exchange.

## STEP 28

### Insurances

Once you've exchanged contracts, you have a legal interest in the property. But what if the property is destroyed by a natural disaster between the exchange and the settlement? And what if the vendor doesn't have building insurance? This opens up a myriad of legal questions, so it's worth contacting an insurance company and getting the property insured. This isn't necessary for a strata unit – strata insurance covers the entire building, and is paid by the strata levies. Some lenders will make having an insurance policy in place a condition of settlement.

Taking on a mortgage is a significant responsibility, and it's well worth considering personal insurances such as income protection, life insurance and total and permanent disability insurance. If you already have these policies in place, now is a good time to review them in light of your increased debt. This is especially important if you have dependent children. People understand the need to insure their car, home, contents and property, but find it harder to appreciate the need to insure their greatest asset – their ability to earn future income.



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