

How to estimate the real cost of buying

Purchasing a home is a pretty huge financial commitment but the costs don't just end with the purchase price.

The first big outlay is going to be your deposit, a percentage of the purchase price of the property. But there are other costs which aren't always immediately obvious.

Being aware of these extras also means you may be able to secure additional funds when initially applying for your mortgage – depending on whether or not it's within the lender's limit – to cover many of these costs – after all, mortgages are still the cheapest form of credit when compared to personal loan interest rates.

Fees can mostly be broken down into government fees and taxes, lender fees and legal fees. Here are the main ones you will need to take into consideration when buying your first home. It's good practice to budget between 5-7 percent of the purchase price of the property for all these fees and charges.

GOVERNMENT FEES

Stamp Duty

Generally, a person purchasing a property is required to pay stamp duty (a tax) on the property contract. The duty is based on the home's purchase price. If you're a first-home buyer however, you may be exempt from paying stamp duty or be entitled to certain concessions.

In 2008, the average loan size for a first home buyer was \$232,000¹, so based on this loan amount, with the purchase price of the property of \$257,250 (i.e. with a 10 percent deposit) if you were to buy your first home in New South Wales, there would be no stamp duty payable. However, in South Australia, the stamp duty would be \$9,316. Check our Stamp Duty calculator to determine how much stamp duty you will have to pay.

This is an example only. Check with your state or territory government for accurate figures.

Land Transfer Registration fee

A Land Transfer Registration fee, which varies from state to state, is the fee charged to record the property's change of ownership at the Land Titles Office.

Based on the same price above (\$257,250), in NSW, the Transfer Fee would be \$92.00 and in South Australia it would be \$1503.00. Again, check our Stamp Duty calculator to see how much you will need to pay.

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LENDER FEES

Your lender may charge an up front loan application fee or



establishment fee when the loan settles, and a mortgage discharge fee when you want to end your mortgage – for example, by paying out your loan, by refinancing your loan, or by selling your property. These will vary, so ask your lender about all the various fees involved in your loan at the start.

You may also have to factor in lenders mortgage insurance (LMI) to the cost of your mortgage, depending on the kind of loan you take out and the percentage of the purchase price you are borrowing. LMI will normally be required when your home loan is more than 80 percent of what the lender believes your property is worth. Its important to understand that LMI protects the lender's interest and not yours, in circumstances where there is a shortfall in what you owe compared to what the lender receives from selling your property.

LMI is normally charged as a one-off premium on a sliding scale – the more money you borrow as a percentage of the property's value, the higher the premium. Make sure you check how much the premium costs when considering borrowing more than 80 percent of the property's value.

LEGAL FEES

Conveyancing and solicitors' fees

Conveyancing is when ownership of the property is legally transferred from the seller's name to the buyer's name. Sounds simple, but there's a lot involved and it's important to find a solicitor or conveyancer expert in the areas of residential property transactions. Conveyancing fees can cost upwards of \$1000 and prices and procedures will vary depending on the state in which the property is purchased – so it's a good idea to shop around. It's also worth remembering that many law firms and conveyancing companies do not tell you how much disbursements (out-of-pocket fees rather than their professional fees) are going to be. These may include photocopying, faxing, courier, STD call fees and local government and statutory authority fees. These disbursements alone can often exceed \$300. So make sure you have the full low down on total costs before appointing your conveyancer or solicitor.

OTHER ASSOCIATED COSTS TO CONSIDER

Here are some other expenses to consider when purchasing and moving into your first home.

Building/pest inspections

These are worth conducting when you're ready to make an offer on a property.

Insurance – mortgage protection, income protection and home insurance

Mortgage protection and income protection insurance policies are like safety nets in case something happens to you and you're not able to continue paying off your mortgage (e.g. as a result of sickness, disability or death). Home insurance is needed to cover costs associated with

damage and theft – to the building or property's structure, as well as the contents within your home. Importantly, your lender will require you to obtain a home insurance policy with their interests as mortgagee noted on the certificate of insurance provided by your insurer.

Removalists costs

If you want to save money, hold a garage sale to get rid of what you don't need and rope in your friends to help you move, otherwise, budget for removalists.

Rates/strata levies

The joys of owning a home also come with the responsibility for such things as council rates and strata management fees if you own a strata title (e.g. a unit/apartment). In certain circumstances, land tax may be payable but generally your principal place of residence is excluded from the calculation. As always, check with your solicitor or conveyancer, or your state or territory revenue office to see what rates or taxes apply to your property.

Utilities

Don't forget you will need to pay to connect your essential utilities when you move in, so leave some money in the kitty for this.

Finally, it's a good idea to list all the likely costs of buying your first property so you know exactly what's involved. This list should include costs associated with borrowing, moving, insuring and setting up your dream home.

Check out www.ourhomesweethome.com.au for tools, calculators, reports and all the information you need to buy your first home.

¹ The Genworth Financial Mortgage Trend Report, July 2008.

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