

Wealth Creation Dynamics



Learn how to
drastically
advance
your financial
future.

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Welcome

Module 8 The Loan Process

Welcome to module 8 of the Wealth Creation Home Dynamics Study Course - The Loan Process.

This module is number 8 of 24.

Each module is presented in the same layout and contains exercises that you can do in your own time.

The benefits of participating in this Home Study Course are:-

- You progress at your own pace.
- You can study in the privacy of your own home.
- You can ask questions regarding the course at questions@apin.com.au

We hope you enjoy the Wealth Creation Home Study Course.

Best regards,
The team at APIN

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The Loan Process

Your decision to purchase property

Many issues have to be addressed when you make your decision including the best Mortgage Adviser to speak with regarding your individual needs.

Choosing a Mortgage Adviser

A good discussion with your Mortgage Adviser will help address any further issues or concerns that may arise.

Making an Application

After finding the most suitable product, the next step is to fill out an application and submit it. This will cost you nothing with most Mortgage Advisers. Be Aware.

Conditional Approval

This is where the lender will approve the loan in principle. This will allow you to go out and find a 'suitable' property up to the limit you are approved for.

Unconditional Approval

Once a 'suitable' property is found, the lender will arrange a valuation. If this property meets the guidelines outlined to you by your Mortgage Adviser, your loan will proceed.

Documentation Preparation

Documents will be prepared and a 'formal offer' will be forwarded to you for your inspection, signing and return. You are not obliged to proceed if you are not satisfied.

Settlement

Settlement will be arranged following the return of completed "formal offer" documents. Your loan will be drawn down on the day of settlement and repayments commence.

Post - Settlement

In many instances, your Mortgage Adviser will not be able to assist with general account issues, however, they will be able to assist with any errors, problems or other requests. Your Mortgage Adviser should contact you regularly to ensure everything is moving along as you expected and they should update you regarding new products that may suit your individual needs. The process will repeat itself following your next purchase.



Application Checklist

Completed Cover Sheet, Adviser Notes & Application Checklist		
Completed Application Form & Signed Privacy Act		
Completed Serviceability Calculation		
100 Points of Identification (e.g.: Passport & Driver's Licence)		
Verification of Income - PAYE Applicants		
	Two (2) most recent pay slips OR	
	Letter from employer confirming income, position & service OR	
	Most recent tax return PLUS	
	Most recent payment summary / group certificate OR	
	Most recent tax assessment notice	
Verification of Income - Self-Employed / Corporate / Trust Applicants		
	Last two (2) years company / business tax returns PLUS	
	Last two (2) years personal tax PL returns US	
	Most recent tax assessment notice	
Verification of Income - Rental Income		
	Current lease agreement(s) OR	
	Six (6) months rental statement(s) OR	
	Tax returns supporting existing rental income PLUS	
	Rent appraisal letter (required for new purchase)	
Verification of Property & Funding Requirements - New Purchase		
	Front page of contract detailing property details, purchase price etc.	
	Certificate of currency insuring new purchase	
Verification of Property & Funding Requirements - Refinance		
	Previous loan contract	
	Six (6) months most recent loan statements	
	Rates notice showing title particulars for each property	
	Certificate of currency insuring current property	
	Signed discharge authority for outgoing lender	
	Six (6) months most recent statements for other debts to refinance	
Verification of Property & Funding Requirements - Investment Property		
	Signed business purpose declaration	
	Explanation as to purpose of funds	
Verification of Property & Funding Requirements - Construction Property		
	Copies of plans & specifications for construction	
	Copies of builders fixed price tenders	
Verification of Property & Funding Requirements - Miscellaneous		
	Statutory declaration for non-repayable gift (If applicable)	
	Completed First Home Owner Grant application form	
	Completed Low Doc income declaration (may require accountant)	
	Completed Deposit Bond application for off-the-plan purchases	
Verification of Savings		
	Six (6) months transaction account statements	
	Share certificates / unit trust statements where applicable	
	Receipt for any deposits paid	
	Three (3) months credit card statements	

Exercise

What is the difference between a 'Conditional' approval and an 'Unconditional' approval?

List questions you would ask your Mortgage Advisor regarding your current financial position, loans and mortgages?

Common Home Loans

The number of different type of home loans in the market is growing, but here we try and look at the common types of home loans and other loans that many are using at the moment.

- Common Home Loans:
- Variable Rate Home Loans (basic)
 - Fixed Rate Loan
 - Introductory Rate Loan
 - All In One Loan
 - Line Of Credit Facility
 - Low Documentation Loan

Variable rate home loans (basic)

'Standard' variable rate loans are the most popular loan type in Australia. Loan terms are most commonly up to 30 years. Taken with a 'package' will see a reduction in the applicable interest rate.

Advantages

- Substantial discounts may apply.
- Flexibility to split your loan or fix the interest rate.
- Repayments will decrease if interest rates fall.
- Additional repayments are allowed.
- Additional funds can be redrawn.
- Many additional features.

Disadvantages

- Repayments will increase if interest rates rise.
- Relatively higher interest rate if not taken as part of a 'package'.

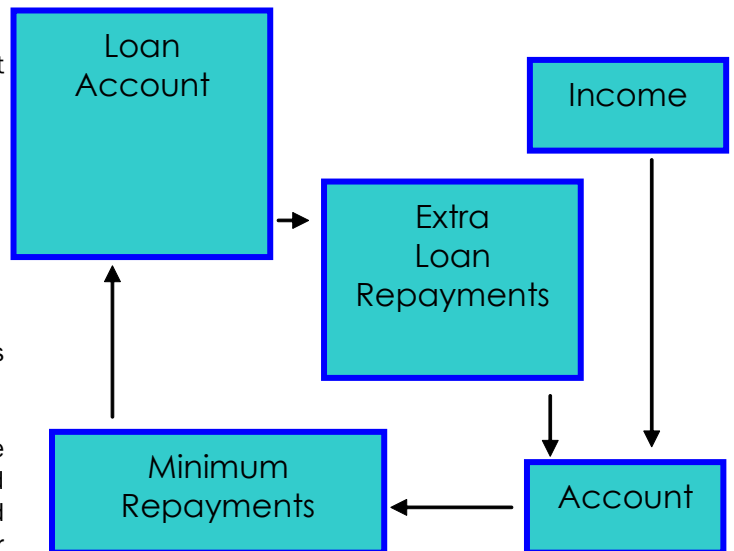
A 'Basic' loan is the no frills version of the 'Standard' type loans. They have limited features and a lower interest rate associated with them. They may be more beneficial for owner occupied property loans as they stay at a lower level throughout the term of the loan.

Advantages

- Low ongoing interest rate

Disadvantages

- Not very flexible
- Not many features



Fixed Rate Loan

'Fixed' rate loans are those where the interest rate is fixed for a term. This is usually between 1 and 5 years but can extend up to 10 years or more.

Advantages

Repayments will remain the same.
You will not be affected if interest rates increase.

Disadvantages

If interest rates decrease, repayments will stay the same.
Extra repayments may incur penalties.
Breaking the loan will usually incur penalties.



Introductory Rate Loan

An 'Introductory' Rate (or 'honeymoon' rate) may apply on some products. This is simply a discounted rate for a period, usually 12 months, that reverts back to a higher rate. Rates can be capped, fixed or variable. Capped rates are just variable rates with a maximum limit they can increase to.

Advantages

Very low interest rates when starting out.

Disadvantages

Repayments will increase after the initial period
May be locked into a higher rate if interest rates fall and choosing a fixed introductory period.
Usually more expensive over the medium to long term.

All In One Loan

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An 'All In One' facility simplifies the banking process. A single account operates as your loan and your transaction account. All your funds are kept in the one place. They operate very similar to a Line Of Credit facility except the limit usually reduces over the term of the loan.

Advantages

A full transaction account with many features.
Funds in the account fully offset against the loan saving you interest.

Disadvantages

Interest rates tend to be higher than standard investment type loans.
Additional fees and charges usually apply.

Line Of Credit Facility

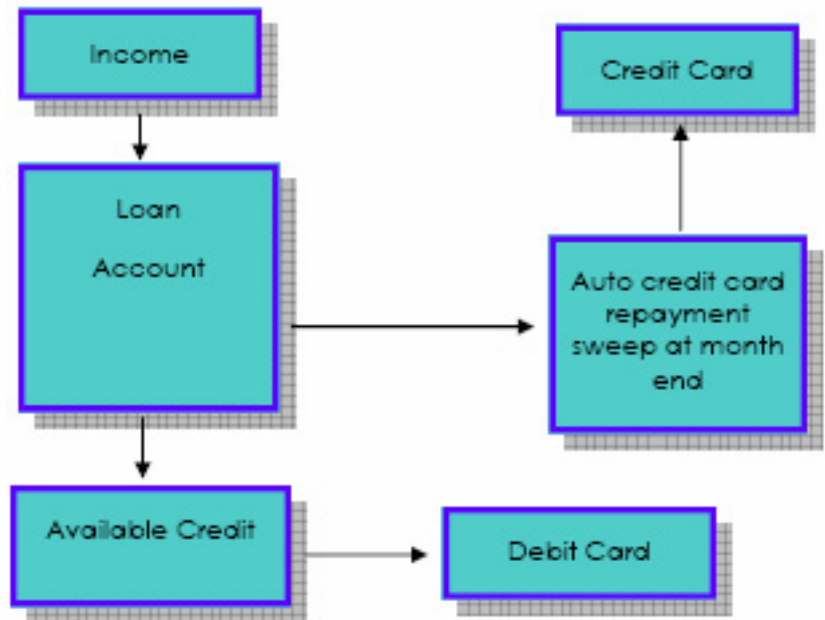
A 'Line Of Credit' (LOC) facility is an interest only variable rate loan. It is the most flexible loan type as it allows a borrower to use funds for whatever purpose needed. They have a prearranged limit and operate similar to a credit card. A true LOC has no set loan term and operate perpetually.

Advantages

Very flexible as to purpose of funds.
Cheaper than other investment type facilities.

Disadvantages

High risk of over spending if not good with money.
Interest rates tend to be higher than standard type loans.



Low Document Loan

'Low Document' or 'Low Doc' loans require, as the name suggests, less documents than a standard loan application and are very popular with small business owners. Wage earners also have access to these products. The difference is that income verification will not require tax returns or pay slips. In some cases, the lender will accept whatever the borrower states as their income. In other situations, an accountant may be needed to provide a letter verifying income levels as stated by the borrower. Some lenders do not require an income figure at all.

Low Doc loans can usually be converted to the standard loan types following a period of suitable repayment history or proof of income being provided.

Advantages

Allows those who cannot verify income to borrow money.
Wide range of loan facilities available as low doc loans.

Disadvantages

Interest rates will usually be higher than standard loans.
ATO may audit borrowers declaring overly high income level.
Usually attract higher ongoing fees than standard loans or packages.

Other Home Loans

Professional & Other Loan Packages

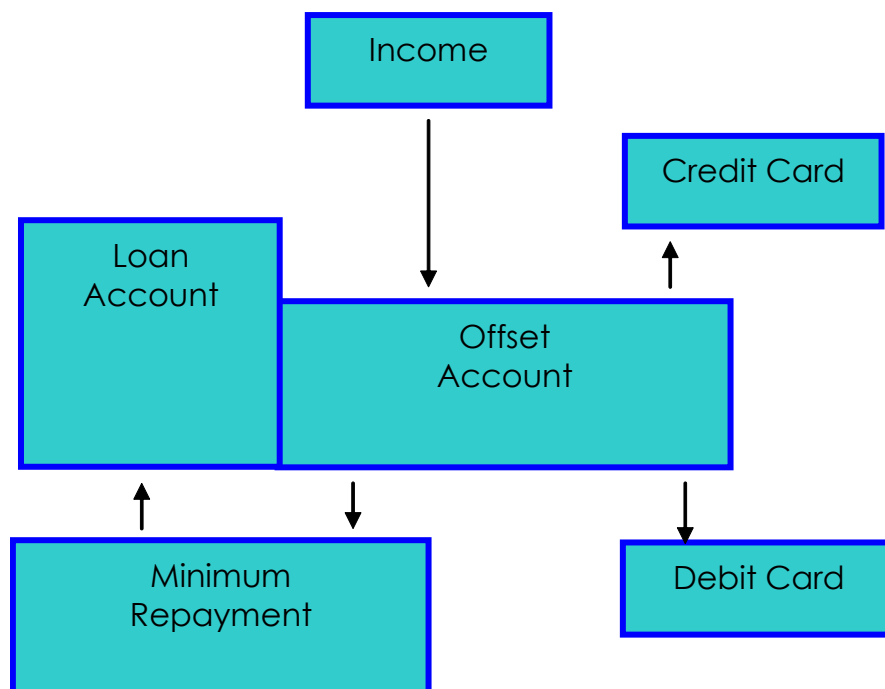
A 'Professional Pack' is a term given to a package available to most borrowers based on income levels, loan amounts and accepting specific features and products. They are Standard Variable Rate loans with the added bonus of substantial discounts based on the total overall loan amounts. The package usually consists of the actual home or investment loan, a fully transactional 100% offset account and a credit card. Multiple loans over multiple properties can be taken without additional cost making this package ideal for investors.

Advantages

- Low interest rates
- Very flexible
- Discounts apply on other products

Disadvantages

Annual package fees or ongoing monthly fees may apply.



No Document Loan & Asset Lend

'No Document' or 'No Doc' loans require practically no documents at all to be provided to the lender. Identification and proof of ownership or proof of purchase of a property are sufficient to satisfy lender requirements. These loans are commonly known as an 'Asset Lend'.

No Doc loans can usually be converted to the standard loan types following a period of suitable repayment history or proof of income being provided.

Advantages

Very minimal documentation required.

Disadvantages

Interest rates will usually be substantially higher than standard loans.
Minimal range of loan facilities is available as no doc loans.

Bridging Loan

A 'Bridging' loan is a facility that assists those borrowers seeking to purchase a new property prior to selling their current property. In most cases, lenders will provide funding for the new purchase on the condition that once the sale of the existing property occurs, an amount is paid to reduce the overall debt to acceptable levels.

The bridging loan may be set up so as to not require any repayments for a period, usually 6 or 12 months, or they may be set up as interest only loans. In most cases, the lender providing this finance may require any current home loan to be refinanced so they hold the mortgage on both properties.

These loans usually revert to a standard loan type following the sale of the current property.

Advantages

Allows purchase of a new property prior to the sale of a current property.
Avoids difficulty with servicing larger levels of debt.

Disadvantages

May encounter expensive interest rates.
May be more expensive overall than applying for a new standard loan facility.

Reverse Mortgage/Seniors Equity Loan

'Reverse Mortgage' loans are for the mature property owners. These loans can be taken by borrowers over the age of 60 years.

The unusual aspect to these loans is that no repayments are ever required. The loan interest will capitalise (be added to the loan). The lender will be repaid following the sale of the security property in the event of all the borrowers entering full-time nursing care or they pass away. Any funds that are in excess of what is owed to the lender, is passed onto the borrowers estate.

The only documents required to obtain these loans is identification and proof of ownership of the property. The funds can be used for any purpose the borrower sees fit.

Advantages

- Minimal documentation requirements.
- Source of funds in retirement years.
- Funds available for any purpose.

Disadvantages

- Interest rates higher than standard loans.
- Reduces value of estate that would be left for relatives.
- Require independent legal advice and financial planner sign-off in some cases.

Deposit Bond & Deposit Guarantee

A 'Deposit Bond / Guarantee' is a facility that allows a borrower to pay a deposit on a property without the need to outlay large sums of money. For a small fee, a deposit bond provider will guarantee a pre-approved limit for the deposit bond. Application requirements can vary depending on the term required by the borrower.

These facilities are very popular with buyers who are attending auctions to purchase their property and those who are purchasing property with long settlement periods (e.g.: off-the-plan purchases). It allows investment of funds that would normally be used to pay a deposit until they are required at settlement. They are considered an excellent tool when used effectively.

Construction Loan

A 'Construction' loan is best utilised when building your home. It can involve various draw downs (set payments) throughout the construction process. The funds will be made available as needed to undertake the next portion of the building process.

Some construction loans can incorporate an amount to purchase the initial parcel of land. The balance of monies will usually be provided according to a fixed price building contract or quote to complete the work.

During the construction phase, construction loans may only require interest only payments to be made and, in some cases, no payment to be made until completion of the work. Following completion, these loans will usually be converted to a more flexible and suitable loan facility of your choice.

Advantages

- Draw downs require lower repayments than taking the full amount from commencement.
- No repayments may be required until completion.
- Completion value may be used to calculate LVR (Loan to Valuation Ratio) .

Disadvantages

- Once established, not very flexible until completion.
- Available products upon completion may be more expensive than standard loans.
- Substantial fees may apply for draw downs.

Exercise

Choose 3 different types of home loans and investigate the advantages and disadvantages of each. Evaluate which home loan would be the most suited to your circumstances.

Grant Schemes

First Home Owner Grant (GHOG) Scheme

The First Home Owner Grant Scheme is a joint Commonwealth and NSW Government initiative to help first home owners. In NSW, the scheme is administered by the Office of State Revenue. No tax is payable on the First Home Owner Grant. Eligible first home owners can receive the grant regardless of their income, the area they are planning to buy / build or the value of their first home.¹

To be eligible for the grant you must first satisfy certain simple requirements.

The current First Home Owner Grant is \$7,000.

The Office of State Revenue (OSR) www.osr.nsw.gov.au

First Home Plus Scheme

First Home Plus provides exemptions or concessions on transfer stamp duty and mortgage duty for first home buyers and builders in NSW. This includes people buying vacant land on which the buyers intend to build their first home.

Changes were made to the First Home Plus scheme on 6 April in the NSW mini-budget for contracts entered into from 4 April 2004. Homes valued up to \$500,000 are duty-free for first home buyers. Discounts are available on stamp duty between \$500,000 and \$600,000.²

First home owners can now benefit by up to \$24,990.

Other benefits, exemptions and discounts apply in the different States and Territories of Australia.

The Office of State Revenue (OSR) www.osr.nsw.gov.au

A specialist website answering many of your questions is available at www.fhog.info

It is important also that First Home Buyers do all their research first and talk to a licensed professional before purchasing a property. We have made a list of many websites you can visit:

The websites provided are to assist you in finding information regarding finance, property investing and other investment related information.

Recommended Reading

Property Research

www.abs.gov.au
www.cannex.com.au
www.depreciator.com.au
www.Domain.com.au
www.HomeHound.com.au
www.homepriceguide.com.au
www.PropertyGuide.com.au
www.PropertyValue.com.au
www.RealEstate.com.au
www.Realtor.com.au
www.residex.com.au
www.financewraps.asn.au

Property Investing Info

www.anz.com.au
www.commbank.com.au
www.investorweb.com.au
www.MoneyManager.com.au
www.PropertyInvesting.com
Rent 2 Own Pack & Wrap Pack
www.marketerschoice.com
Somersoft Property Forum
www.somersoft.com.au/forum.htm

International Investors

www.australia-migration.com
www.westernunion.com
www.firb.gov.au

Credit History

www.baycorp.com.au

First Home Owners

www.fhog.info

Mortgage Insurance

www.gemico.com.au
www.pmigroup.com.au

State Revenue - Stamp Duty

www.revenue.act.gov.au
www.osr.nsw.gov.au
www.nt.gov.au/ntt/revenue/index.shtml
www.osr.qld.gov.au/index.htm
www.revenuesa.sa.gov.au/
www.treasury.tas.gov.au
www.sro.vic.gov.au
www.dtf.wa.gov.au
www.fhog.info

Government Info

www.asc.gov.au
ASIC - National Names Index
www.austrade.gov.au
www.ato.gov.au
www.firb.gov.au
www.nationalguide.com.au

Recommended Reading

Web Search

www.JustSearch.com.au
www.ask.com
www.google.com.au
www.StreetDirectory.com.au
WhereIs.com
www.whitepages.com.au
www.WorldYellowPages.com
www.yahoo.com.au
www.yellowpages.com.au
www.yellow.com

D.I.Y. Legal Documents

www.lawcentral.com.au

Mortgage Industry Bodies

Credit Ombudsman Service
Finance Brokers Association
Mortgage Industry Association

Online Publications

www.nla.gov.au/npapers/
www.feer.com
www.pathfinder.com/fortune/
www.personalinvestor.com.au
www.pathfinder.com/time

Real Estate Institutes (REI)

www.reiaustralia.com.au
www.reiact.com.au
www.reinsw.com.au
www.reiq.com.au
www.reisa.com.au
www.reit.com.au
www.reiv.com.au
www.reiwa.com.au

Financial Dictionaries

[www.county.com.au/web/webdict.nsf/
pages/index](http://www.county.com.au/web/webdict.nsf/pages/index)
www.investorwords.com
www.investopedia.com

Business & Finance

www.cnnfn.com
www.afr.com
www.globaledge.msu.edu/ibrd/ibrd.asp
www.msci.com/index.html
www.standardandpoors.com
www.au.finance.yahoo.com

Recommended Reading

Major Lenders

www.adelaidebank.com.au
www.amp.com.au
www.anz.com.au
www.bankwest.com.au
www.bluestoneequityrelease.com.au
www.bluestone.com.au
www.citibank.com.au
www.colonial.com.au
www.gemoney.com.au
www.national.com.au
www.hsbc.com.au
www.imb.com.au
www.ing.com.au
www.latrobehomeloans.com.au
www.liberty.com.au
www.macquarie.com.au
www.rams.com.au
www.stgeorge.com.au
www.suncorp.com.au
www.westpac.com.au

Deposit Bonds

www.bondsrus.com.au
www.depositaccess.com.au
www.depositbondaustralia.com.au
www.depositpower.com.au
www.deposit.com.au
www.ibonds.com.au

Investor Favourites

www.RealEstateLink.net
www.naked-investor.com
www.MrLandlord.com
www.Lease2Purchase.com
www.creonline.com
www.camerondirect.com
www.ApartmentAssociation.com
www.australianinvestmentproperty.com
www.smart-temp.com.au

Exercise

For this exercise, pretend you are a First Home Buyer. Visit some of the websites listed and do your research. Choose a 'First Home Buyers' property, work out how much Grant you will get from the Government and work out how much finance you would need to purchase this property if you and your partner's combined income was \$120,000.

final reflections

What key points have you learnt from this module?





You are ready for the next module.