

THE AUSTRALIAN FIRST HOME BUYER'S GUIDE

In-Depth Edition: Navigating the Property Market, Loans, and
Government Grants

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TRAK LOANS AND MORTGAGES AUSTRALIA

Table of Contents

1. The Home Buying Process: Step-by-Step
2. Deposit Requirements & LMI in Detail
3. Government Grants & Schemes (2026 Update)
4. Visa Requirements & Foreign Investment Rules
5. Buying as a PAYG Employee: The Bank's Perspective
6. Buying as a Self-Employed Professional: Alt Doc vs. Full Doc
7. Settlement, Handover, and Post-Purchase

About the Author: Avtar Sidhu is an experienced Mortgage Broker and the Director of Trak Loans and Mortgages Australia. With a deep understanding of the Australian financial landscape, Avtar specializes in guiding first home buyers, employees, and self-employed individuals through the complexities of securing a home loan.

Chapter 1: The Home Buying Process: Step-by-Step

Purchasing your first property in Australia is a journey that requires careful planning, legal diligence, and financial preparation. Below is a highly detailed breakdown of the end-to-end process.

1. Assess Your Financial Health & Borrowing Capacity

Before attending any open homes, you must establish a baseline. Lenders calculate your borrowing capacity by analyzing your income against your living expenses and existing liabilities. Be aware that debts like HECS/HELP, credit cards (even if the balance is zero, the limit is what counts), and car loans severely impact how much you can borrow.

2. Save the Deposit & Understand "Genuine Savings"

Banks do not just want to see a lump sum; they want to see the discipline of saving. "Genuine savings" refers to funds held or accumulated in your bank account over a minimum of 3 to 6 months. If your deposit comes from a gifted sum (like money from parents), you will generally need to hold it in your account for 3 months, or provide evidence of a rental history to prove your financial discipline.

3. Obtain Conditional Pre-Approval

A mortgage broker will collect your payslips, bank statements, and identification to lodge an application. Pre-approval is a conditional green light from a lender indicating how much they will lend you. **Crucially, pre-approvals typically only last for 90 days.** Having this gives you the confidence to make offers and shows real estate agents you are a qualified buyer.

4. Property Hunting & Due Diligence

Once armed with pre-approval, the search begins. When you find a property you like, never skip due diligence. Request a Section 32 (Vendor's Statement) and have your conveyancer review it.

Always arrange an independent Building and Pest Inspection to ensure you aren't buying a property with structural defects, termite damage, or illegal renovations.

5. Making an Offer or Bidding at Auction

If purchasing via private treaty, you can make an offer "subject to finance" and "subject to a building and pest inspection." This protects your deposit if the bank values the home lower than your offer or if the property has major defects. Conversely, purchasing at auction is **unconditional**. There is no cooling-off period. If the hammer falls and you are the highest bidder, you must pay the deposit immediately.

6. Formal Loan Approval (Unconditional)

Once your offer is accepted, your broker submits the signed Contract of Sale to the lender. The lender will conduct an independent valuation of the property. If the valuation matches the purchase price and your financial situation hasn't changed, the lender issues Formal (Unconditional) Approval.

7. Settlement

Settlement is the legal process where ownership is transferred from the vendor to you. It usually takes 30, 60, or 90 days from the contract date. On this day, the lender releases the funds, you pay stamp duty and any remaining deposit, and you get the keys.

Chapter 2: Deposit Requirements & LMI in Detail

The deposit strategy you choose dictates the entire structure of your loan and the fees involved.

The 20% Standard and Loan-to-Value Ratio (LVR)

The Australian banking standard is a 20% deposit. This results in an 80% Loan-to-Value Ratio (LVR) — meaning you are borrowing 80% of the property's value. Achieving an 80% LVR exempts you from paying Lenders Mortgage Insurance and gives you access to the lowest interest rates on the market.

Lenders Mortgage Insurance (LMI) Explained

If you cannot save a 20% deposit, you can still buy a home with as little as a 5% deposit, but you will incur Lenders Mortgage Insurance (LMI). **LMI is a premium paid by the borrower that protects the lender, not the borrower.** If you default on your loan and the property is sold for less than the mortgage balance, LMI covers the bank's shortfall.

LMI can cost anywhere from \$5,000 to over \$30,000 depending on the property price and your deposit size. Fortunately, LMI does not usually need to be paid upfront; it can be "capitalized" or added to the total loan balance, though you will pay interest on it over the 30-year life of the loan.

The Role of a Guarantor

If you have a 5% deposit and want to avoid paying LMI entirely, you can utilize a Family Guarantee. A family member (usually a parent) offers equity in their own home as security for your loan. This effectively lowers the LVR to 80% in the bank's eyes, removing the LMI fee. Once you pay down your loan or the property increases in value to reach 80% LVR, the guarantor can be released.

Chapter 3: Government Grants & Schemes

(2026 Update)

To ease the burden on first home buyers, both State and Federal Governments offer substantial schemes. Understanding how to stack these schemes is the key to entering the market sooner.

The Australian Government 5% Deposit Scheme

Previously known as the First Home Guarantee, this initiative has been significantly expanded. Under the current rules, eligible buyers can purchase a property with a **5% deposit and pay \$0 LMI**. The government acts as a guarantor for the remaining 15%. This can save a buyer tens of thousands of dollars.

- **No Income Caps & Unlimited Places:** As of recent changes, the scheme has removed income caps and now offers unlimited places, meaning any eligible buyer can access it regardless of their salary.
- **Price Caps Apply:** You must purchase a property under the location's price cap. For example, the cap is \$1,500,000 for NSW capital and regional centres, \$1,000,000 for QLD capital and regional centres, and \$950,000 for Melbourne and Geelong.
- **Eligibility:** Open to Australian Citizens and Permanent Residents who have not owned a property in Australia in the last 10 years.

State-Based Stamp Duty Concessions

Stamp duty is a tax levied by state governments on property purchases. It is often the largest upfront hurdle for buyers.

- **New South Wales (NSW):** Under the First Home Buyers Assistance Scheme, eligible buyers can apply for a full exemption from transfer duty on new and existing homes valued up to \$800,000. For homes valued between \$800,000 and \$1,000,000, a concessional (reduced) rate applies.
- **Victoria (VIC):** You pay no duty if you buy a home with a dutiable value up to \$600,000, and a reduced amount for homes between \$600,001 and \$750,000.

- **Queensland (QLD):** Generous concessions are available for first homes up to \$700,000.

First Home Owner Grant (FHOG)

The FHOG is a state-based initiative providing a one-off cash grant (ranging from \$10,000 to \$30,000 depending on the state). It is almost exclusively available for the purchase or construction of **brand-new homes**. The property must not have been previously lived in. This cash can often be used directly towards your deposit at settlement.

Chapter 4: Visa Requirements & Foreign Investment Rules

Your residential status dictates which banks will lend to you and what additional taxes you must pay.

Australian Citizens & Permanent Residents

Citizens and PR holders are treated equally by lenders. You have full access to 95% LVR loans, government grants, and standard stamp duty rates.

Temporary Visa Holders (e.g., Subclass 482, 485, 491)

Purchasing on a temporary visa involves significant hurdles:

- **FIRB Approval:** Temporary residents must obtain approval from the Foreign Investment Review Board (FIRB) before purchasing. Application fees apply and can cost thousands of dollars. Temporary residents can generally only buy one established dwelling (to live in) or new dwellings.
- **Foreign Purchaser Surcharge:** States impose an additional stamp duty surcharge on foreign buyers. In NSW, this can be an additional 8% of the purchase price on top of standard stamp duty. This means a \$1,000,000 home could incur an extra \$80,000 in upfront tax.
- **Lending Restrictions:** Most Australian banks view temporary visas as high-risk. You will generally be required to provide a 20% to 30% deposit, and many mainstream banks will not accept the application at all.

Partner Visas (Mixed Status Couples)

If you are purchasing jointly with a partner who is an Australian Citizen or PR, the landscape changes. Many lenders will accept a 5% to 10% deposit if one applicant is a citizen. Additionally, depending on the state, purchasing as joint tenants with an Australian Citizen may exempt the temporary visa holder from the foreign stamp duty surcharge.

Chapter 5: Buying as a PAYG Employee: The Bank's Perspective

Pay As You Go (PAYG) employees have the most streamlined path to loan approval, but the banks still scrutinize the stability of your income.

Standard Documentation

Lenders require proof of ongoing income. You will need to provide your two most recent consecutive payslips (no older than 30 days) and three months of personal bank statements showing your salary being deposited. Lenders will cross-reference your bank statements with your payslips to ensure consistency.

Employment Probation & Casual Work

Lenders crave stability. If you are a full-time or part-time employee, you must usually be past your probationary period (typically 3 to 6 months). If you are currently on probation, traditional banks may decline the loan, though some specialized lenders may accept it if you have a strong, continuous history in the exact same industry.

For casual employees, the rules are stricter. Because casual work is not guaranteed, lenders typically require you to have been with the same employer for a minimum of 6 to 12 months to prove income consistency.

Overtime, Allowances, and Bonuses

If a large portion of your income relies on overtime or bonuses, the bank will not take it at face value. They require a 2-year history of receiving these bonuses (usually evidenced via your ATO Notice of Assessment). Furthermore, most banks will "shade" this income — meaning they will only use 80% of the overtime or bonus amount when calculating your borrowing capacity to account for fluctuations.

Chapter 6: Buying as a Self-Employed Professional

As a business owner, contractor, or freelancer, you do not have regular payslips. Lenders must analyze your business financials to determine your actual usable income.

The Two-Year Rule & Full Doc Loans

To qualify for a standard "Full Doc" loan at the lowest interest rates, you must have been trading with an active ABN for a minimum of two years. You will need to provide:

- 2 years of personal tax returns.
- 2 years of company/business tax returns.
- 2 years of ATO Notice of Assessments.

If your income fluctuates, banks will generally average the two years. However, if your most recent year's income is lower than the previous year, the bank will conservatively use the lower figure.

Alt Doc (Low Doc) Loans

If your business is growing rapidly and your last year's tax returns do not reflect your current high earnings, or if your accountant has legally minimized your taxable income, an Alt Doc loan is a solution. Instead of tax returns, lenders verify your income using alternative documents:

- 6 to 12 months of Business Activity Statements (BAS) showing high revenue.
- An Accountant's Declaration Letter confirming your income.
- 6 months of business bank statements.

Alt Doc loans generally require a larger deposit (20%) and may come with slightly higher interest rates, but they provide flexibility for entrepreneurs.

Add-Backs: Maximizing Your Borrowing Power

A skilled mortgage broker can increase your borrowing capacity by "adding back" non-cash expenses to your net profit. Examples include asset depreciation, one-off capital expenses, or interest on business loans that are being refinanced. This shows the lender your true cash flow, resulting in a higher borrowing limit.

Chapter 7: Settlement, Handover, and Post-Purchase

The final hurdle is settlement, where the property legally becomes yours. Here is what to expect.

The Pre-Settlement Inspection

Usually occurring 3 to 7 days before settlement day, you are entitled to walk through the property one last time. You are checking that the property is in the exact same condition as when you signed the contract. Ensure the vendor has not removed fixtures (like dishwashers or fixed blinds) and that all agreed-upon repairs have been completed.

Statement of Adjustments

Before settlement, your conveyancer will prepare a Statement of Adjustments. You are responsible for paying council rates, water rates, and strata fees (if applicable) from the day of settlement onwards. If the vendor has already paid these in advance for the year, you must reimburse them for your share at settlement.

Settlement Day

You do not physically attend settlement. It happens electronically via a platform called PEXA. Your lender provides the loan funds, your conveyancer provides the remaining deposit and stamp duty funds (from your nominated account), and the money is transferred to the seller.

Handover

Once PEXA confirms the transaction is complete, the property title is officially registered in your name. Your conveyancer will call you to confirm settlement is successful, and they will notify the real estate agent. At this point, you can visit the real estate agency, pick up the keys, and celebrate entering the Australian property market!

Disclaimer: The information provided in this eBook is general in nature and does not constitute personal financial advice. Lending criteria, government grants, and tax laws are subject to change. Always consult with a licensed Mortgage Broker and financial advisor before making property purchasing decisions.

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