

# **MCP PROPERTY BUYING GUIDE**

**2010**



**MCP**  
FINANCE BROKERS  
& LAWYERS

**A STEP BY STEP GUIDE  
TO PURCHASING PROPERTY IN VICTORIA**



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## 1. OVERVIEW

### About this Guide

This guide has been prepared to provide general information regarding the process when purchasing property.

This guide will assist you with some of the key factors regarding property purchasing in Victoria and what the legal and financial requirements are, including the documentation that you may need to provide, as well as other issues that may be relevant to you.

### About MCP

From its origins in 1994 and based in the Melbourne CBD, MCP offers independent commercial and retail finance broking, property and legal services, estate planning and business advice.

The majority of our business is generated through relationships with Accounting Firms, Financial Planners and related professional groups.

In terms of finance, we submit in excess of \$100M in new lending proposals annually and enjoy an excellent reputation with major and second tier lending organisations.

MCP is staffed by chartered accountants, lawyers and bankers providing a diversity of experience and expertise.

We can assist with all aspects of property purchasing, from finance, conveyancing, contract reviews, property agreements, entity formations and other support.



### Budgeted Borrowing Capacity

[www.mcpgroup.com.au](http://www.mcpgroup.com.au)

|                                  |                                                 |                                                      |
|----------------------------------|-------------------------------------------------|------------------------------------------------------|
| Amount Allocated for Repayments  | <input type="text" value="\$2,250"/>            | <input type="text" value="Month"/>                   |
| Interest Rate you will pay       | <input type="text" value="5.05%"/>              | <input type="button" value="GET CURRENT BASE RATE"/> |
| Allowances for Increases         | <input type="text" value="0.50%"/>              |                                                      |
| Repayment Type                   | <input type="text" value="Principal Reducing"/> |                                                      |
| Desired Loan Term (until repaid) | <input type="text" value="30"/>                 |                                                      |

**Your Budgeted Borrowing Capacity is:**

**Disclaimer:** This calculator is for indicative purposes only. It is not a borrowing capacity calculator, nor does it suggest your eligibility to obtain mortgage insurance. It is designed to provide your suggested Repayment Capacity given a budgeted / allocated repayment amount. The actual amount may be more or less. This calculator remains the property of MCP Group © 2007.

### Disclaimer

The information provided in this document is not definitive and should be used as a guide only.

## 2. FINANCE

### 2.1 The Finance Broker / Adviser

An appointment with a finance broker or financier will be one of your first steps in the process to purchasing your property.

A good adviser should provide an assessment of the following:

- Your capacity to service new borrowings and the resultant loan repayments;
- Your borrowing capacity based on your deposit or equity in other property; and
- Provide an indicative overview of lending structure that may suit your circumstances.

As an initial summary therefore, in addition to having good character (supported by your previous credit history) you will need to demonstrate both capacity by way of income and collateral by way of a deposit.

Depending on the circumstances, you can then assess whether a formal pre-approval with a financier is required.

We would generally advise that a client progress to a formal pre-approval with a financier where:

- They are borrowing greater than 80% of the value of the property and mortgage insurance will apply;
- They intend to purchase within the next 3-6 months; or
- They have concerns regarding their previous credit conduct.

### 2.2 Finance Structure

The structure of the lending facilities, above all, is the most important consideration in establishing a mortgage.

There are options to have packaged loans, loans with offset accounts, loans with free redraw and a range of other features.

In all instances, start with identifying the optimal structure first, and then examine the financier and pricing arrangement that best supports you.

The structure adopted should be the one that allows you to best achieve your realistic goals that you may have in respect of debt reduction, also taking into account likely changes in the future.

An example of one structure for mortgages is outlined at **Attachment 2**.

### 2.3 Tools & Resources

To help you assess, review and manage all aspects of obtaining finance and managing your finances, we have developed a comprehensive range of financial tools and calculators.

This Toolkit can assist with determining a range of scenarios including:

- Borrowing Capacity based on Income;
- Borrowing Capacity based on Deposit;
- Compare different loans by calculating the Comparison Interest Rate;
- Cost / Benefit analysis of Refinancing;

- Acquisition Costs for Purchasing Property; and
- Loan Repayment Scenarios.

You can download our **Finance Toolkit** from our website (down the bottom of our home page) at [www.mcpgroup.com.au](http://www.mcpgroup.com.au) or contact our office for assistance.



## 2.4 Documentation Requirements

Your adviser will ask you to provide some documentation that would be relevant to your loan assessment and ultimate application. It is worth noting that financiers have become increasingly demanding in terms of information requirements.

We have outlined at **Attachment 3** a checklist of the documentation that may be required to complete a loan assessment and application. Please note, not all of these categories will apply to your individual circumstances.

If any of the applicants are self employed, the income verification requirements are more substantial than a PAYG employee and will include a two year history of financial statements and tax returns for all trading entities held.

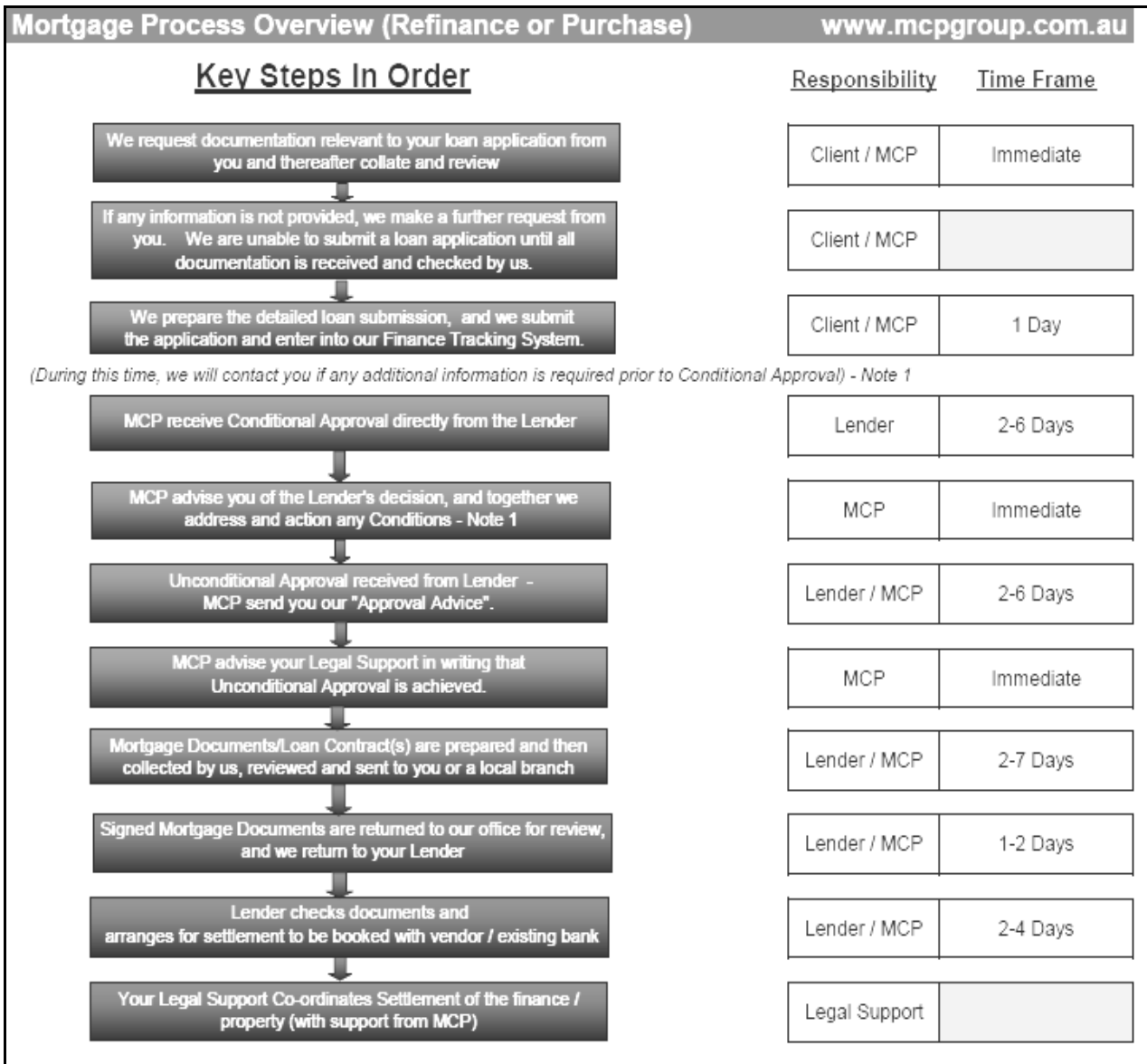
As a general rule, all information provided must be current and the circumstances noted in the documentation must still apply.

## 2.5 The Finance Process (Property Purchase)

In the summary below, we have outlined a general overview of the time frame that the mortgage process takes. This also outlines some of the key milestones in the mortgage process including:

- Conditional Loan Approval;
- Unconditional Loan Approval;
- Preparation and Issue of Mortgage Documentation; and
- Co-ordination of Settlement.

This process varies between funding institutions.



You should maintain an overview such as this as a guide to support you through the finance part of the property purchase process. A copy of this is available in the MCP Toolkit.

## 2.6 Types of Property Mortgages

### i) Residential Property

#### Basic Variable Rate Products

This is typically a low featured mortgage product which may have limitations on the number of repayment options, have limited redraw, no offset capability and may not facilitate direct credit of salaries into the loan account. The benefit of this type of product is that they usually offer the lowest available interest rates.

## **Featured Variable Rate Products**

These variable rate products will usually have a range of features, include a 100% Offset facility and may not place restrictions on how the loan can be transacted. There may be a premium interest rate that will apply in comparison to the Basic Variable Rate product.

## **Fixed Rate Products**

Financiers offer products where the interest rate charged on the loan is fixed for a period between one and fifteen (15) years. There are typically a number of restrictions that apply to the transacting of these loan types. At the expiration of this term, the loan can be rolled over into another fixed term or it will otherwise default to a featured variable rate loan.

## **Offset Account Loan Products**

These types of products combine a home loan account with traditional savings or other deposit accounts. Typically, they allow the direct payment of a salary into either the actual loan account or a linked savings account with the effect being that all proceeds are offset against the principal balance of the loan. The benefit is to potentially reduce the amount of interest charged on the loan on a daily basis. There are many subtle variations in these products available in the market.

## **ii) Commercial Property**

### **Overdraft Facility**

This typically represents a more short-term type facility to meet business working capital requirements. It is a flexible facility type with no set term or debt repayment arrangements, and as a result, overdrafts are not generally suitable facility to use for purchasing property.

### **Term Loans/Fully Drawn Advance**

Typically a longer-term facility for capital expenditure or project development but can also be part of a balanced working capital strategy. The loan servicing structure can be either interest only or principal and interest with a fixed or variable interest rate.

### **Commercial Bill Facility**

Typically a short-term facility for large borrowing amounts. A Bill is linked to the market cash rates and the borrower's commitment is to pay the face value of the bill at the end of the term. It is common for the facility to be renewed for a number of years at the lender's discretion. They are typically a variable interest rate but can be arranged at fixed or capped interest rates.

## **2.7 Interest Rate Movements**

Certainly one of the most common questions we get from our customers is a view on the direction of interest rates, and whether or not to proceed with a fixed interest rate.

Whilst every circumstance must be looked at in isolation, fixed rates, as a general rule, provide much less flexibility (in terms of extra repayment capacity and break costs). History also shows that there are not significant periods of time, though there are times, where they represent good value.

One useful guide is to look at a "Rolling Average" of interest rate of say a fifteen year period to see where rates sit against their recent trends.



An example of a summary of rates, as extracted from our quarterly newsletter, is attached that can provide a useful guide.

### Interest Rates against Rolling Average

| Index                         | Feb 2010 | Feb 2009 | Rolling Ave# |
|-------------------------------|----------|----------|--------------|
| Official Cash Rate            | 4.00%    | 3.25%    | 5.49%        |
| 90 Day Bill Rate              | 4.18%    | 3.06%    | 5.65%        |
| Differential                  | 0.18%    | - 0.19%  | 0.16%        |
| Average Variable Mortgage     | 6.05%    | 5.25%    | 7.06%        |
| Average 3 Year Fixed Mortgage | 7.70%    | 5.39%    | 7.46%        |

In this example, fixed interest rates sit over their rolling average and may provide the first hint they there value is diminished. Again, the most important factor remains your individual circumstances and the longer term plan for property holdings.

### 2.8 Comparing Mortgage Products

The interest rates and fees should only be one determinant in selecting a mortgage. It is more important that you adopt a structure that will ensure that your goals are achieved.



#### Comparison Rate Calculator

[www.mcpgroup.com.au](http://www.mcpgroup.com.au)

|                                    |                     |                                 |                     |
|------------------------------------|---------------------|---------------------------------|---------------------|
| <b>Prepared For:</b>               | Mr A Example        |                                 |                     |
| <b>Loan Option 1:</b>              | ABC                 | <b>Loan Option 2</b>            | XYZ                 |
| <b>Loan Particulars</b>            |                     |                                 |                     |
| Principal Amount (\$)              | \$500,000           | Principal Amount (\$)           | \$500,000           |
| Total Loan Term (Years)            | 25.00               | Total Loan Term (Years)         | 25.00               |
| Interest Rate (% p.a.)             | 6.20%               | Interest Rate (% p.a.)          | 6.20%               |
| <b>Introductory / Fixed Term</b>   |                     |                                 |                     |
| Interest Rate to Apply (% p.a.)    | 0.00%               | Interest Rate to Apply (% p.a.) | 0.00%               |
| Intro / Fixed Term (Years)         | 0.00                | Intro / Fixed Term (Years)      | 0.00                |
| <b>Establishment Costs</b>         |                     |                                 |                     |
| Application Fee                    | \$600               | Application Fee                 | \$0                 |
| Legal Fee                          | \$200               | Legal Fee                       | \$0                 |
| Valuation Fee                      | \$250               | Valuation Fee                   | \$0                 |
| <b>Ongoing Costs</b>               |                     |                                 |                     |
| Annual Fee                         | \$0                 | Annual Fee                      | \$375               |
| Monthly Fee                        | \$0                 | Monthly Fee                     | \$0                 |
| <b>Total Fees over Term</b>        | <b>\$1,050.00</b>   | <b>Total Fees over Term</b>     | <b>\$9,375.00</b>   |
| <b>Total Repayments &amp; Fees</b> | <b>\$985,923.14</b> | <b>Total Loan Repayments</b>    | <b>\$994,248.14</b> |
| <b>Interest &amp; Fees Paid</b>    | <b>\$485,923.14</b> | <b>Interest &amp; Fees Paid</b> | <b>\$494,248.14</b> |
| <i>Intro / Fixed Repayment</i>     | \$1,666.67          | <i>Intro / Fixed Repayment</i>  | \$1,666.67          |
| <i>Remaining Repayments</i>        | \$3,282.91          | <i>Remaining Repayments</i>     | \$3,282.91          |
| <b>Comparison Rate</b>             | <b>6.22%</b>        | <b>Comparison Rate</b>          | <b>6.30%</b>        |

Doc Checklist / Serviceability / Acquisition / Repayments / MPC / Compare Options / Chart1 / Chart2

The comparison rate calculator provides a useful guide to financial costs. As a key guide, for larger borrowings, interest rates are more critical. For smaller amounts, fees become more material.

## PROPERTY

### 3.1 The Search

The key here is lots of research, not only on the internet, but on the ground. Initially, be very specific in your requirements and locations and establish some non-negotiable guidelines. You can always relax some of your less critical criteria to reflect your budget over time.

Talk to Real Estate Agents as well, they should be a very good source of information about properties in your area.

### 3.2 Purchase Methods

#### i) Private Sale

This method allows you to negotiate to purchase a property with conditions (such as finance, building and pest inspection or a solicitor reviewing the contract).

Whilst inserting conditions is often the safest form of purchasing, be mindful that vendors generally will see your offer as less attractive, and may elect to go for another purchaser's offer that may be of a lesser amount but is unconditional.

#### ii) Auction

Buying at Auction means if you are the successful bidder your offer is unconditional. The advantage of buying at auction is other bids are transparent (whereas in Private Sale you cannot be certain if other offers are genuine offers or not).

The obvious disadvantage is you are unable to secure formal finance before auction (as a valuation cannot be conducted) and if you wish to have a building and pest inspection, you would need to organise this well before the auction.

A list of information providers, such as Building Inspectors, is outlined at **Attachment 1**.

### 3.3 Contract Review & Due Diligence

A term that we suggest you become familiar with is "Caveat Emptor", which is Latin for "let the buyer beware". This principle puts the onus on you as the purchaser to fully examine and be satisfied with the property before purchasing. It particularly applies to any buildings.

We generally recommend that you engage your solicitor to undertake a pre-purchase review of your contract prior to auction or offer.

The issues that this review should consider, amongst others include:

- Specific Commercial Terms;
- Cooling Off Period;
- Deposit Terms;
- Chattels;
- Vendor Statement;
- Easements;
- Applicable GST;

- Purchaser and/or Nomination Clauses; and
- Owners' Corporation.

### **3.4 The Purchaser Name**

You can elect to have a different ultimate purchaser before settlement of the transaction.

There is a range of taxation, asset protection and related issues that may form part of your decision in determining the proposed owner of the property, and we strongly suggest that you obtain advice if your structure is in any way complex.

You will need to be careful to ensure not to elect a nominee that does not exist at time of signing the Contract, or double stamp duty issues can arise. If you elect a company to be the purchaser, you may be required to personally guarantee the obligations upon your company under the contract.

### **3.5 The Deposit**

The deposit is generally payable at the signing of the Contract and is normally ten percent (10%) of the Purchase Price.

The options available for raising this amount include:

- Cash;
- Redraw from Existing Mortgage; and
- Deposit Bond (in some circumstances).

If you seek to make any alternative arrangements, discuss these with the Vendor's Agent.

### **3.6 Availability of Finance for Property Type**

Also ensure that the property you seek to purchase is one which is supported by a range of potential mortgagees. Some examples of property that may not be acceptable or be subjected to a lower borrowing threshold ("LVR") include:

- Property located in remote or regional areas;
- Property that is smaller than 50 square meters in building area;
- Inner City Apartments;
- Serviced Apartments; and
- Property used for certain purposes or highly specialised in nature.

## 4. ACQUISITION COSTS & CONSIDERATIONS

### 4.1 Statutory & Legal Costs

There are a number of cost components when purchasing property.


These costs include Government Stamp Duty, Government Registration Fees, Conveyancing Fees, Disbursements, Bank Fees, Property Adjustments, Moving Costs, Property Service Connection Costs etc... **Such costs normally account for up to 6% of the purchase price.**



**TRUE PROPERTY COST**  
**105 - 106%**  
Of the purchase price

*For first home buyers buying a property for \$550,000 or less, the cost is closer to 5%.*

Refer to MCP's Toolkit for further analysis of property acquisition costs as in the example below:

|  <b>MCP</b><br>FINANCE BROKERS<br>& LAWYERS |                                                       | <a href="http://www.mcpgroup.com.au">www.mcpgroup.com.au</a>                                                    |                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| <b>Property Acquisition Costs (Victoria)</b>                                                                                  |                                                       |                                                                                                                 |                                                                                                             |
| Prepared For                                                                                                                  | <input type="text" value="Mr Client A"/>              |                                                                                                                 |                                                                                                             |
| Property Purchase Price                                                                                                       | <input type="text" value="\$550,000"/>                |                                                                                                                 |                                                                                                             |
| Type of Purchase                                                                                                              | <input type="text" value="First Home (Established)"/> |                                                                                                                 |                                                                                                             |
| * ACQUISITION COSTS APPLY FOR ALL VICTORIAN CONTRACTS ENTERED INTO OR AFTER 6 MAY 2008 *                                      |                                                       |                                                                                                                 |                                                                                                             |
| <b>GOVERNMENT COSTS - VICTORIA ONLY</b>                                                                                       |                                                       |                                                                                                                 |                                                                                                             |
| Stamp Duty                                                                                                                    | \$24,970.00                                           | } *Inclusive of the State P.P.R Concession of \$3,100                                                           | } <b>Total Acquisition Costs (VIC Only)</b><br><b>\$29,461</b><br>(excludes any Mortgage Insurance Premium) |
| Transfer Fee                                                                                                                  | \$1,346.00                                            |                                                                                                                 |                                                                                                             |
| Mortgage Registration Fee                                                                                                     | \$95.10                                               |                                                                                                                 |                                                                                                             |
| <b>ALLOWANCES</b>                                                                                                             |                                                       |                                                                                                                 |                                                                                                             |
| Bank Fee Allowance                                                                                                            | \$600.00                                              | } <b>Total Transaction Cost (VIC Only)</b><br><b>\$579,461</b><br>(Purchase Price plus Total Acquisition Costs) |                                                                                                             |
| Conveyancing Allowance                                                                                                        | \$1,100.00                                            |                                                                                                                 |                                                                                                             |
| Disbursement Allowance                                                                                                        | \$250.00                                              |                                                                                                                 |                                                                                                             |
| Adjustment Allowance                                                                                                          | \$1,100.00                                            |                                                                                                                 |                                                                                                             |
| Other Costs                                                                                                                   | <input type="text"/>                                  |                                                                                                                 |                                                                                                             |
| Purchase Price                                                                                                                | \$550,000                                             |                                                                                                                 |                                                                                                             |
| Acquisition Costs                                                                                                             | \$29,461                                              |                                                                                                                 |                                                                                                             |

## 4.2 Lenders' Mortgage Insurance

When you borrow more than 80% of any property value Mortgage Insurance applies, and in this instance the borrower pays a once off premium representing a percentage of the loan amount.

This insurance only protects the lender in the event of loss. For example, in the event of repossession and the sale proceeds were not sufficient to satisfy outstanding principal, unpaid interest and legal fees – the financier could register a claim to the insurer.

### *How much will the premium cost me?*

It will depend on the Loan to Value Ratio (“LVR”), the loan amount and financier, but it is generally between 1.00% and 1.50% of the loan amount. The premium can generally be financed or capitalised on top of the mortgage insured loan, so you do not necessarily have to fund this yourself.

### *First Home Buyer Qualification for Mortgage Insurance*

Most mortgage insurers now require what is referred to as “genuine savings” evidenced over the most recent 3 - 6 month period, demonstrating the borrower’s ability to hold or save 5% of the purchase price.

Genuine savings is defined by:

- A “Liquid Asset” such as cash, shares or managed funds.
- Evidence must be in the form of 3 - 6 months bank issued statements, and internet statements are only accepted to supplement the time between the last Bank Issued Statement and recent 4 week period.
- Acceptable assets must be held or saved over a period of time. Savings must be reasonable and in line with the borrowers income (e.g. where savings is a high percentage of income this may be scrutinised).
- Proceeds from asset sales (such as cars or personal effects) which borrowers use to make up the 5% during the recent “genuine savings period” are usually not acceptable.
- Items such as the First Home Owner Grants, Gifted Funds from parents, Rent Paid, or Other Assets are not counted as “Genuine Savings”.
- Mortgage Insurers are relatively strict on the “Genuine Savings” rule in the current environment and an exception around this is proving difficult.

### *Minimum Contribution Required if you fund at 90% (with Mortgage Insurance)*

Should you seek to proceed with mortgage insurance you need to contribute a minimum of 10% of the purchase price, plus costs (say 5%). In total - **15% of the purchase price less grants.**

## 4.3 Property Grants & Concessions

### **i) First Home Owner Grant (F.H.O.G.) Benefits**

These will vary depending on when and for how much you purchase.

The following summary is an extract from the State Revenue Office (SRO) of Victoria Website ([www.sro.vic.gov.au](http://www.sro.vic.gov.au)). The regional bonus is only applicable in regional municipalities. You should consult the SRO to determine your eligibility for this.



Note as of 1 Jan 2010, properties purchased for over \$600,000 will get no First Home Owner Boost or Bonus.

| Contract Date                                                                                                                                                                                                              | Conditions                                            | First Home Owner Grant (FHOG) | New First Home Owner Boost | First Home Bonus | First Home Owner Regional Bonus | Total    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-------------------------------|----------------------------|------------------|---------------------------------|----------|
| From 1 January 2010 to 30 June 2010<br><i>Note:</i> This information has been taken from the Premier's announcement on 6/5/2009 and the 2009-2010 Federal Budget. This information is subject to legislative approval.     | Established homes only                                | \$7,000*                      | \$0.00                     | \$2,000‡         | \$0.00                          | \$9,000  |
|                                                                                                                                                                                                                            | Newly constructed homes in Metropolitan Victoria only | \$7,000*                      | \$0.00                     | \$11,000‡        | \$0.00                          | \$18,000 |
|                                                                                                                                                                                                                            | Newly constructed homes in Regional Victoria only     | \$7,000*                      | \$0.00                     | \$11,000‡        | \$4,500‡                        | \$22,500 |
| From 1 October 2009 to 31 December 2009<br><i>Note:</i> This information has been taken from the Premier's announcement on 6/5/2009 and the 2009-2010 Federal Budget. This information is subject to legislative approval. | Established homes only                                | \$7,000                       | \$3,500                    | \$2,000‡         | \$0.00                          | \$12,500 |
|                                                                                                                                                                                                                            | Newly constructed homes in Metropolitan Victoria only | \$7,000                       | \$7,000                    | \$11,000‡        | \$0.00                          | \$25,000 |
|                                                                                                                                                                                                                            | Newly constructed homes in Regional Victoria only     | \$7,000                       | \$7,000                    | \$11,000‡        | \$4,500‡                        | \$29,500 |
| From 1 July 2009 to 30 September 2009<br><i>Note:</i> This information has been taken from the Premier's announcement on 6/5/2009 and the 2009-2010 Federal Budget. This information is subject to legislative approval.   | Established homes only                                | \$7,000                       | \$7,000                    | \$2,000‡         | \$0.00                          | \$16,000 |
|                                                                                                                                                                                                                            | Newly constructed homes in Metropolitan Victoria only | \$7,000                       | \$14,000                   | \$11,000‡        | \$0.00                          | \$32,000 |
|                                                                                                                                                                                                                            | Newly constructed homes in Regional Victoria only     | \$7,000                       | \$14,000                   | \$11,000‡        | \$4,500‡                        | \$36,500 |

Source: www.sro.vic.gov.au

**\* Additional Condition for FHOG:**

To be eligible to receive the FHOG, for contracts entered into between 1 January 2010 and 30 June 2010, the value of the property must not exceed \$600,000

**Additional Conditions for Bonus and Regional Bonus:**

# for contracts entered into up to 30 June 2009, the value of the property must not exceed \$500,000.

‡ For contracts entered into between 1 July 2009 to 30 June 2010, the value of the property must not exceed \$600,000.

**ii) Principal Place of Residence (PPR) Concessions**

In addition to the Grants, you may be entitled to the PPR concession if you:

- Have purchased for \$550,000 or less;
- Use the property as your PPR within 12 months of becoming entitled to possession of the property (which usually occurs at settlement); and
- Reside in the property for a continuous period of at least 12 months.

The benefit will vary depending on the purchase price but can provide you a stamp duty saving of up to \$3,100 on the current rates.

**4.4 Insurance (Personal & Property)**

Insurance should always be considered in the context of property ownership.

**i) Mortgage Protection**

An insurance product providing payment of your mortgage should any of these events occur:

**Death or Total Permanent Disability**

- Preventing you from ever generating an income again.

**Temporary Disablement**

- Preventing you from generating an income through sickness or injury.

**Involuntary Redundancy**

- Preventing you from earning an income when you lose your job.

**ii) Life insurance**

Life or Term Life Insurance pays out a lump sum if you pass away before a pre-agreed date (the term). This provides protection for your family and dependents, with the objective of a lump sum being enough to provide for your family's long-term financial requirements.

It is therefore important to obtain some advice regarding the level and type of cover that you may require from someone qualified to do so.

**iii) Income Protection Insurance**

Income Protection is a monthly benefit that pays you up to 75% of your income and covers you for accidents, illnesses or major traumas.

It pays you up until you return to work (after your waiting period). Income protection is generally tax deductible and is designed to ensure that you can continue to pay the mortgage, and carry on financially until you return to work.

**iv) Property Insurance**

It is obviously important to ensure that the appropriate building insurance is arranged to protect your property investments, you may consider cover after paying your deposit to protect your interests.

## 5. CONVEYANCING

Conveyancing is the process of the transfer of title of property from one party to another.

A typical conveyancing transaction contains milestones, including the exchange of contracts (whereby equitable title passes) and completion or settlement (whereby legal title passes).

A property purchaser must ensure that they obtain a good and marketable 'title' to the land and that the seller is the true owner.

The Vendor's Statement sets out to a potential purchaser the details affecting the property's title, such as any mortgages, leases, easements, the zoning, rates and so forth. If the seller is aware of anything from other parties that may impact on the value of the property, such as roadworks or acquisition for public housing, this must also be disclosed in the Vendor's Statement

In Australia, this process is supported by a system of land registration to assure purchasers of land that they are taking good title.

Please find set out below a list of just some of the aspects that a prudent buyer should be aware of.

1. **Specific Commercial Terms** – You should confirm the Particulars of Sale are accurate.
2. **Cooling Off** – In certain circumstances a Cooling Off Period after signing can apply (but not if a property is purchased at or near auction).
3. **Finance** – You should ensure you can finance the transaction if finance is needed, prior to signing a Contract, otherwise in certain circumstances you can seek to make the Contract conditional upon finance approval. (This will not apply if the property is for auction).
4. **Deposit Bond** – In certain circumstances you can explore utilizing a deposit bond instead of paying cash for your deposit (this will be subject to Vendor's consent, which should not be unreasonably withheld).
5. **Purchaser and/or Nomination** – You can elect to nominate a different ultimate Purchaser before settlement of the transaction.

You will need to be careful to ensure not to elect a nominee that does not exist at time of signing the Contract, or double stamp duty issues can arise.

If you elect your company to be the Purchaser, you may be required to personally guarantee the obligations upon your company under the Contract (which is standard commercial practice in these matters).

6. **Identity of Land** – You should check the identity of the land is identical to that noted in the Certificate of Title/Plan of Subdivision. You can do so by engaging your own independent consultant.
7. **Caveat Emptor** - Caveat Emptor is Latin for "let the buyer beware". This principle puts the onus on you as the purchaser to fully examine and be satisfied with the property before purchasing. It particularly applies to any buildings on a property.

A building inspection report provides a written account of the condition of a property. It should tell you about any significant building defects or problems such as rising damp, termites, movement in the walls (cracking), safety hazards or faults.

We recommend you obtain a building report before you exchange sale contracts (or at worst shortly thereafter) so any problems with the property can be identified which, if left unchecked, could prove costly to repair.

If there are any issues you want to be fixed prior to settlement a special condition may be included in the Contract to specify the requirement.

8. **Building Inspection** – A pre-Contract inspection be undertaken by your own consultant.
9. **Penalty Interest** – Usually there is a penalty interest rate and associated costs if the matter does not settle on time (as is standard in all such conveyancing transactions).
10. **Chattels** - The Chattels sold with the property are outlined in the Particulars of Sale in the Contract of Sale. If you are agreeing to buy additional chattels from the Vendor this needs to be communicated to your conveyancer. This can be relevant to the stamp duty payable on the purchase.
11. **Deposit** – The deposit is generally payable at the signing of the Contract and is normally ten percent (10%) of the Purchase Price. In certain circumstances this can be negotiated.
12. **Planning** - You may wish to contact your local planning authority to discuss proposed plans indicated in a Vendors Statement.
13. **Easements** – We suggest the property be thoroughly checked for easements.
14. **GST** – We recommend you speak to your accountant in relation to GST.
15. **Owners Corporation** – With respect to strata title properties you should read and understand the Body Corporate Rules. Please also note any Minutes of Meeting indicating Special Levies may be struck.
16. **Financial Advice** - It is of course prudent to obtain financial, accounting and/or business advice prior to signing the Contract, which we understand is being undertaken by you.

A complete outline of the Conveyancing Process is outlined at **Attachment 4**.

## 6. ESTATE PLANNING

### i) Wills

At MCP we strongly recommend our clients have a valid Will, and the purchase of a new property can be a good time to arrange this.

This is the best way to ensure that your assets are left to your loved ones; making life easier for those you leave behind.

Your assets will therefore not be managed by the State Government who in certain circumstances will deal with Estates where there is no valid Will.

Some General Information is also outlined at **Attachment 5**.

### ii) Power Of Attorney

Many of our clients also decide it is appropriate to have Powers of Attorney.

These are vital if you want someone to take care of your financial and legal affairs, or want someone to take care of your affairs if you have an accident or sudden illness which leaves you incapable of doing it for yourself. It can also facilitate medical decisions on your behalf if you become unconscious or otherwise incapable of making those decisions for yourself.

Some General Information is also outlined at **Attachment 5**.

### iii) **Asset Protection**

Aspects of asset protection often tie in to Estate Planning issues, with respect to how assets are owned prior to death.

We can assess your current position in this regard and prepare a Report for your review.

## **7. BUYING PROPERTY, FAMILY GUARANTEE & BORROWING WITHIN SUPERANNUATION**

### **7.1 Ownership of Property within Superannuation**

An option for certain clients is to consider owning property within the superannuation environment via a Self Managed Superannuation Fund ("SMSF").

This can be achieved directly by the fund (provided it accords with relevant legislation), or for investors that do not have sufficient funds to purchase a property outright they can use an investment vehicle that effectively allows the SMSF to borrow in order to purchase a property, and pay it off over time while building the superannuation fund's equity in the property.

We strongly recommend clients seek professional financial advice before making any commitment to the above strategies, as there are many factors that need to be taken into consideration.

### **7.2 How a Family member can assist you**

Purchasing a property is usually a significant financial challenge. The challenge could be saving for the deposit, especially if you are a first time home buyer.

Obtaining finance via a Family Guarantee policy could assist you by giving you a head start with assistance from certain family members. You may be able to utilize the Family Guarantee policy to purchase a home or invest in residential property.

A Family Guarantee allows certain family members to utilize the equity in their home as additional security for a portion of your loan amount. This could mean that purchasing a property with the help of a family member could reduce or avoid paying Lenders Mortgage Insurance and maximize the amount you can borrow.

#### ***What are the requirements?***

- Guarantors can be a parents, parent-in-law or step-parent. Grandparents and siblings will also be considered.
- Available on most mortgage loan products.
- The Guarantor can determine what portion of the loan they would secure (they do not have to provide a full guarantee covering of your home loan).

- The borrower must complete a Loan Serviceability Credit Assessment for the total loan amount.
- The Guarantor to complete a Partial Serviceability Assessment for guaranteed amount.
- The Guarantor required to seek independent legal and financial advice.
- Standard guarantee release conditions apply.

### **7.3 What is an Instalment Warrant?**

Traditionally, an instalment warrant is a marketed investment product that enables the investor to acquire an asset, normally listed securities, but property is becoming more popular.

This is achieved through the investor paying an initial instalment together with a borrowing of money to fund the remaining amount required to acquire the asset. The borrowing is repaid by the investor making further instalment payments.

The investor obtains an interest in the underlying asset that provides an entitlement to the income from the asset (e.g. dividends in the case of shares). The investor's interest in the asset is provided as security for the borrowing the investor has made. In the event that the investor defaults on the borrowing, the lender may only have recourse to the asset acquired. The lender has no recourse to any other asset of the investor.

MCP can provide further advice and information with respect to this area, upon request.

### **ATTACHMENTS**

- |                     |                                       |
|---------------------|---------------------------------------|
| <b>Attachment 1</b> | Contacts & Reference Material         |
| <b>Attachment 2</b> | Example Mortgage Structure            |
| <b>Attachment 3</b> | Documentation Checklist – Mortgages   |
| <b>Attachment 4</b> | Overview of the Conveyancing Process  |
| <b>Attachment 5</b> | Estate Planning - General Information |