

● FIRST HOME LOAN DEPOSIT SCHEME

ISSUED: DECEMBER 2021
VERSION: DECEMBER 2021

The Australian Government has launched a new initiative from 1 January 2020 to support first home buyers on middle to low range incomes in purchasing their first home. This is called the First Home Loan Deposit Scheme (FHLDS) and it provides first home buyers with the opportunity to purchase a home with as little as a 5% deposit.

BENEFITS

- Avoid paying lenders mortgage insurance;
- Participating lenders in the FHLDS will not charge eligible customers higher interest rates than equivalent customers outside the scheme.
- The scheme is available for a variety of properties. Unlike the First Home Owner's Grant which only applies to newly built homes, the FHLDS can be used to purchase existing homes, an off-the-plan home, vacant land or a house and land package.
- Get into your home sooner and stop paying rent; and
- Property prices may rise over time after you purchase your property.

HOW IT WORKS

Key features of the scheme are:

- The FHLDS is only available for the purchase of a "modest home" and is capped according to where you wish to buy.
- Applicants must be first home buyers who have not previously owned or had an interest in residential property, either on their own or jointly with someone else (this includes body corporate and company-owned properties, regardless of whether it was an investment or owner-occupied property and whether it was ever lived in).
- The number of loans will be capped at 10,000 per-annum. The National Housing Finance and Investment Commission will guarantee the difference between the deposit accumulated (a minimum of 5%) and 20% of the purchase price. Applicants must be aged 18 years or older, not have held a freehold interest in Australian real property before, be purchasing or building an owner-occupied dwelling and earn a taxable income of up to \$125,000 pa (for individuals) or \$200,000 pa (for couples combined). A maximum of two borrowers for each loan, with both applicants required to meet all eligibility criteria (including being legally married or in a de facto relationship).
- Regular principal repayments are required (i.e. the loan cannot be interest only) for the full term of the loan (maximum of 30 years). Loans are only eligible for the scheme if they are for the purchase of a "residential" property. You will need to check with your lender as to what you are looking to purchase is considered residential.

- Applicants must move into and live in the property as their principal place of residence within six months from settlement. You must also continue to live in the property whilst it remains under the scheme.
- Caps will apply to the purchase price to ensure participation is spread fairly across the country (see table below), The scheme will complement (but not directly interact with) other measures such as the Government's First Home Super Saver Scheme and First Home Buyer grants, as well as State and Territory based stamp duty concessions.

WHAT YOU NEED TO CONSIDER

- Limited numbers. The scheme will only support \$10,000 first home buyers per annum, so even if you are eligible, you might not qualify for the scheme.
- You will have to pay extra interest over the life of the loan based on a larger sum borrowed.
- A higher Loan to Value Ratio (LVR) may mean it may be harder for you to refinance in the future. It may limit the lenders that are available to you and you may miss out on more competitive rates.
- If rates rise the increase in mortgage repayments will be greater; and
- Property prices could drop leaving you with less, potentially even negative equity.
- Weigh up the pros and cons, taking into account things like extra interest versus not having to pay rent or lenders mortgage insurance, and work out whether a 5 per cent deposit is a good idea for your finances.

REFERENCES



You may wish to refer to the following websites for further information about FHLDS:

- www.ato.gov.au
- www.dss.gov.au
- www.serviceaustralia.gov.au

The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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