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First Home Buyers – The Federal Government’s New Initiative

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Saving a 20% home loan deposit could be a thing of the past for some first home buyers. On 1 January 2020 the Australian Federal Government officially launched its First Home Loan Deposit Scheme (“**FHLDS**”), an initiative designed to help eligible first home buyers purchase a home sooner.

What is it?

The FHLDS will allow a limited number of eligible first home buyers to purchase a property with a deposit as little as 5%, in which case the Australian Government can act as a guarantor for up to 15%, thereby providing a 20% security typically required for home loan lenders to avoid having to pay lenders’ mortgage insurance (“**LMI**”).



The FHLDS is currently limited to 10,000 first home buyers each financial year, and on a first-in first-served basis.

The FHLDS is being administered through the National Housing Finance and Investment Commission (“**NHFIC**”), a corporate Commonwealth entity established under the *National Housing Finance and Investment Corporation Act 2018*.

The NHFIC has announced on its website that participating lenders have registered 3,000 potential first home buyers under the FHLDS since 1 January 2020, and the remaining 7,000 will be available from 1 February 2020. The NHFIC has also confirmed another 10,000 guarantees will be up for grabs from July 2020.

To clarify, the guarantee is not a cash payment to the first home buyer. The guarantee is a promise to the home loan lender that if the buyer were to default in making repayments, the government would pay the lender the guaranteed amount, being up to 15%.

The initiative aims to assist those first home buyers on low to middle incomes purchase a modest home. As such, property price thresholds and other criteria apply.

Special Criteria

Type of property

The property must be a 'residential property', which under the FHLDS includes the following:

1. An existing house, townhouse or apartment;
2. A house and land package;
3. Land together with a separate contract to build a home; and
4. An off-the-plan apartment or townhouse.

Property price thresholds

The property price cap begins at \$700,000.00 in New South Wales for the capital city and regional centres (such as Newcastle and Wollongong) as the highest cap, whilst other regional areas are capped at \$450,000.00. Victoria follows with a price cap of \$600,000.00 for the capital and regional centres (such as Geelong); \$375,000.00 for the rest of state. The Australian Capital Territory is next with a cap of \$500,000.00 and Queensland trails at \$475,000.00 in the city and regional centres (such as Gold Coast and Sunshine Coast). Other Australian States and Territories are capped at \$400,000.00 or below in the city capital, save for Jervis Bay Territory and Norfolk Island.

Type of loan

Loans under the FHLDS must be 'principal and interest' loans with scheduled repayments for the full period of the loan agreement. Limited exceptions for interest only loans mainly relate to construction lending.

Who is eligible?

1. Australian citizens over the age of 18 years. Permanent residents are not eligible.
2. Singles with a taxable income of not more than \$125,000 per annum for the previous financial year.
3. Couples who are married or in a de facto relationship with a combined taxable income of not more than \$200,000.00 per annum in the previous financial year. Other persons such as siblings, parent/child or friends are not eligible.

4. First home buyers who are have not owned property before or held an interest in a property either separately or jointly.
5. Owner occupiers only – applicants must intend to use the property as their principal place of residence. The FHLDS is not intended to support investment properties.

The catch

Be aware of the risks associated with taking out a low deposit home loan, namely the significantly higher debt and, accordingly, more interest.

In terms of FHLDS's purpose, it has been criticized as a poor attempt to aid housing affordability in Australia.¹ The 10,000 guarantee limit per financial year is said to barely service the demand for first home buyers.

Moreover, the income thresholds have been criticized as too high, when considering the median pre-tax wage for an individual in Australia, which is about \$78,000.00 per annum.² A person with a wage of \$125,000 per annum sits in the top 20% of full-time workers.³ Therefore, the FHLDS essentially offers high income earners the same advantage as lower-income earners.

Key points

The underlying benefit of the FHLDS is that eligible first home buyers can take out a low deposit home loan without the need to pay for lenders' mortgage insurance, and potentially own a home sooner.



From 1 February 2020 buyers will have a panel of 27 lenders to choose from to start the application process. The NHFIC will not take applications directly and does not maintain a waiting list.

The FHLDS can be used in conjunction with other government first home owner grants and stamp duty concessions.

There are no costs or repayments associated with the FHLDS guarantee.

To find out more, visit [NHFIC's website](https://www.nhfic.gov.au) at www.nhfic.gov.au.

How we can help you

JHK Legal or our property subsidiary MKP Property Lawyers can provide further assistance or advice for any conveyancing or property related matters in QLD, NSW, VIC, ACT, WA and TAS.

¹ See, Eliza Owen, Corelogic, 'First Home Buyers Scheme With Eliza Owen – Corelogic Head Of Residential Research Australia' <<https://www.corelogic.com.au/news/first-home-buyers-scheme-eliza-owen-corelogic-head-residential-research-australia>>.

² Ibid.

³ Derived from Australian Bureau of Statistics, Catalogue Number 6306.0 - Employee Earnings and Hours, Australia, May 2018 (Data Cube 3, Table 6).

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