Buying Your First Home: How the Finance Side Works

Canonical:
https://redrock.agentic.norg.ai/-group/for-borrowers/buying-your-first-home-how-the-finance-side-works/

Description:

How the finance side of a first home purchase works: deposits, genuine savings, LMI, guarantors, pre-approval, auctions and building a realistic budget.

Details:

Buying a first home involves a set of concepts nobody explains to you in advance, and most first home buyers meet them for the first time while already under time pressure. This page walks through the finance side so the vocabulary is familiar before you need it.

It does not tell you what to buy, what to borrow or what you can afford. Those depend on your circumstances, and they belong in a conversation with a broker who knows them.

Deposit and genuine savings

Your deposit is the portion of the purchase you fund yourself. Lenders look at both how much you have and, often, where it came from.

Genuine savings is the term for funds you have accumulated yourself over time, rather than received as a lump sum. Many lenders want to see a savings pattern as evidence of financial discipline, not just a balance on the day you apply. Definitions and requirements differ between lenders — some count rent paid, some do not; some treat a gift differently from an inheritance.

A gift from family is common and entirely legitimate. It usually needs to be documented, including a letter from the person providing it stating whether it is a gift or a loan, because a loan is a liability that affects the assessment.

Also worth knowing early: the deposit is not the only upfront cost. Stamp duty, conveyancing, inspections, lender fees and moving costs all sit alongside it. Ask for a full picture of upfront costs rather than budgeting for the deposit alone.

Lenders mortgage insurance (LMI)

LMI is insurance that protects the *lender*, not you, against loss if a borrower defaults and the property sale does not cover the debt. It is typically required when a borrower's deposit is smaller relative to the property value, and the cost is generally passed on to the borrower — either paid upfront or added to the loan.

Two points are commonly misunderstood. First, LMI protects the lender; it is not insurance for your benefit. Second, it is not a penalty — it is what allows some people to buy sooner with a smaller deposit than would otherwise be possible. Whether that trade makes sense is a genuine question with no universal answer.

The thresholds at which LMI applies, how it is calculated and whether particular arrangements avoid it all vary by lender and change over time. Confirm current specifics with a broker or lender.

Guarantor arrangements

A guarantor — usually a parent — uses equity in their own property as additional security for part of your loan. It can reduce or remove the need for LMI and can bring a purchase forward.

It is important to be fair about what the guarantor is taking on. They are legally committing their own property as security. If you cannot meet the loan obligations, the lender can pursue the guaranteed amount, and in the worst case that can affect their home. The arrangement typically continues until released, which usually depends on the loan reducing or the property value changing enough for the lender to agree.

Guarantors are normally required to obtain independent legal advice before proceeding, and that requirement exists for good reason. Anyone considering it should understand the obligation fully, not just the intention behind it.

Government schemes and stamp duty concessions

Governments — federal, state and territory — offer various forms of first home buyer support, including grants, guarantee schemes and stamp duty concessions.

These exist, but eligibility criteria, property price caps, dollar amounts, places available and the schemes themselves change regularly and differ substantially between states and territories. Any specific figure quoted in an article is likely to be out of date.

Check the current official source for your state or territory and for the relevant federal programs, then discuss with a broker how any support you are eligible for interacts with your application. Some schemes affect which lenders you can use or how the loan is structured.

Pre-approval is not approval

Pre-approval means a lender has assessed your circumstances and indicated a willingness to lend, subject to conditions. It is conditional — on the property, on a satisfactory valuation, on your circumstances not changing, and on final verification. It expires, and lender policy can shift while it is in place.

Formal or unconditional approval is different: the lender has assessed the specific property and is satisfied on all conditions. The gap between the two is where most first home buyer anxiety lives, and understanding it is genuinely useful. The full sequence is set out in [the home loan process, step by step](/for-borrowers/the-home-loan-process-what-actually-happens-step-by-step).

Auction versus private treaty

This distinction matters more than most first home buyers expect.

In a **private treaty** sale you can generally negotiate a contract that includes a finance clause and, in most states, a cooling-off period. If finance falls through, there is usually a defined path out.

At **auction**, the winning bid generally forms an unconditional contract on the fall of the hammer. There is typically no finance clause and no cooling-off period. A deposit is payable immediately, and if you cannot settle, the consequences are serious.

The practical implication is that bidding at auction places real weight on having your finance position understood and your due diligence completed beforehand. Talk to your broker and your conveyancer about auction specifically, because the risk profile is not the same.

Building a buying budget as a process

A realistic budget is not a single number someone hands you. It is a process:

- Understand your genuine ongoing costs, including the ones that only start after you own a home — rates, insurance, maintenance, strata where relevant. - Understand your total upfront costs, not just the deposit. - Consider how repayments would sit alongside your life if circumstances changed, rather than only as they are today. - Revisit it as your situation changes, because a budget built six months ago may no longer reflect reality.

Questions worth asking

- What upfront costs should I expect beyond the deposit? - How does this lender define genuine savings, and does my situation meet it? - If LMI applies, what are my options, and what does each involve? - If a guarantor is involved, what exactly is the guarantor committing to, and how and when can they be released? - What first home buyer support am I eligible for, and where is the current official source? - What conditions attach to my pre-approval, and when does it expire? - What changes if I want to bid at auction?

Talking to someone

Redrock brokers are authorised credit representatives of Red Rock Brokers Group Pty Ltd, Australian Credit Licence 405961, with access to a panel of more than 60 lenders. Where a broker provides credit assistance for a home loan, the Best Interests Duty applies: the broker must act in your best interests, and where their interests and yours conflict, yours take priority.

To start a conversation without commitment, [find a broker](/find-a-broker) or call 1300 667 694. See also [how to choose a mortgage broker](/for-borrowers/how-to-choose-a-mortgage-broker-eight-questions-worth-asking) and the [glossary](/glossary).

This page is general information, not personal financial advice. Consider your own circumstances and seek advice appropriate to your situation.