BELL POTTER

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FIRST HOME BUYER SCHEMES: OPPORTUNITY COMES WITH TRADE-OFFS

Buying your first home is a significant milestone and is often one of the largest financial commitments you will ever make. To help achieve home ownership sooner, the Australian Government offers several initiatives, including the First Home Super Saver (FHSS) Scheme, the 5% Deposit Scheme, and the Help to Buy Scheme. This newsletter explores how each scheme works and the key considerations associated with using them.

First Home Super Saver (FHSS) Scheme

The First Home Super Saver (FHSS) Scheme can help eligible Australians save for their first home sooner by taking advantage of the concessional tax environment within superannuation.

Because superannuation is generally taxed at lower rates than personal income, making voluntary contributions to super may help accelerate savings for a first home deposit.

Up to $50,000 per buyer can be accessed plus a deemed earnings amount. Where a property is being purchased jointly, each buyer can access their own FHSS amounts to put towards it.

Eligibility to use the Scheme considers a range of factors like age and previous property ownership.

Before contributing, careful planning and consideration must be taken. Super is a highly regulated environment with contribution limits, eligibility requirements, and tax rules that need to be managed.

Prospective users need be wary of the preservation rules too. Not all contributions can be released under the Scheme, meaning mistakes or changes in circumstances may result in otherwise available funds being locked away until preservation age.

The Scheme's administration, withdrawal timeframes, purchase deadlines, and tax on the released amounts add to an already complex and regulated environment. Importantly, any amounts withdrawn for a home deposit will no longer be available to support retirement savings.

While the Scheme can be an effective way to boost a first-home deposit, a balance between short-term housing goals and long-term financial security is required.

5% Deposit Scheme

Previously known as the Home Guarantee Scheme, the 5% Deposit Scheme can help eligible Australians buy a home sooner with a deposit as low as 5% (or 2% for eligible single parents and legal guardians). Buyers can be an individual or joint applicants.

Ordinarily, buyers with a deposit of less than 20% of a property's value are required to pay Lenders Mortgage Insurance (LMI), which can significantly add to the cost of purchasing a home. Although LMI protects the lender rather than the borrower, the cost is generally paid by the borrower.

Under the Scheme, the Australian Government provides a guarantee to participating lenders, allowing qualifying buyers to purchase a home with a smaller deposit while avoiding the cost of LMI.

A wide variety of residential property types can be purchased using the Scheme so long as the price is under the relevant location-based cap.

The 5% Deposit Scheme removes the cost of LMI, however, purchasing a home with a small deposit means relying heavily on borrowed funds. Financing up to 95% of the purchase price (or up to 98% for eligible single parents and legal guardians) increases exposure to interest rate rises and places greater pressure on household cash flow.

A larger loan balance may also result in higher interest costs over the life of the loan and increases the risk of negative equity, where the property's value falls below the amount owing on the mortgage.

Users of the Scheme need to be aware the benefits of the LMI cost saving could be eclipsed by the increased exposure to interest on the loan.

Help to Buy Scheme

The Help to Buy Scheme is designed to help eligible Australians purchase a home sooner with a deposit of as little as 2%. Under the Scheme, property purchases are funded through a mix of an Australian Government contribution, buyer's deposit, and home loan from a participating lender.

The Government's contribution is provided as a shared equity investment. This means the value of the Government's share will rise or fall in line with the property's value. If the property is sold, or the Government's share is repaid, the repayment amount is based on the property's value at that time.

Income limits and location-based price caps are some of the eligibility criteria which apply to this Scheme.

The shared equity structure involves ongoing obligations. Participants share future property growth with the Australian Government until its contribution is repaid, may face ongoing valuation costs, and require approval for significant renovations.

Ongoing eligibility requirements also apply, meaning changes in income or circumstances can affect continued participation in the Scheme.

The bottom line

Purchasing a property is a significant long-term financial commitment. While these schemes may help eligible buyers achieve home ownership sooner, each involves trade-offs that should be carefully considered. Understanding the eligibility requirements, benefits, limitations and long-term implications of each scheme is an important part of making an informed decision.



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Working with you and your Bell Potter Adviser, we can help with most financial aspects of retirement, including:

- Identifying your financial goals
- Structuring your existing assets appropriately
- Identifying your approach to investment and your appetite for risk, and
- Reviewing your current superannuation arrangements.

To create a tailored investment plan based on your needs and objectives call your adviser or 1300 0 BELLS (1300 0 23557).

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