

## Lesson 1.1

### Establish Your Budget

#### Lesson 1.1: Establish Your Budget

Lesson Time: 2min 44sec.

##### Key Takeaways:

1. Why being 'finance ready' before you start house-hunting is important.
2. Questions to ask yourself when determining your budget.
3. The importance of pre-approved finance before negotiations commence.

Before we start on the nuts and bolts of this course, we should mention first that the following lessons do assume that you are 'finance ready.' This is a crucial component of being 'buyer ready', because if you haven't established a pre-approval with a lender, or have a clear idea of your borrowing power, you should take care of that before you start the hunt to find a property. Please see the attached PDF "Property Finance: Common Questions" for more details.

So, once you've made a decision that you want to buy a property, you should talk to your mortgage broker to get the ball rolling and establish your borrowing capacity. You'll need to know what your precise budget is to hone in on the property that you plan on buying, otherwise you'll waste time chasing something outside of your capacity.

You'll also need to know what resources you have available to you to take advantage of the tips and tricks that we'll be sharing over the rest of this course.

Here are some questions you should ask yourself when determining your budget:

Do I really want to spend up to my maximum borrowing power?

How will that affect my daily life and budget once I own the home – will I end up living from paycheck-to-paycheck, or will I be able to build some savings while paying the mortgage?

What else does the property need before it's liveable – will I need money for furniture or repairs and renovations?

How much is home insurance, council rates, utilities and regular upkeep of a property such as gardening & cleaning? Is that in my budget?

Are there medium and long-term renovation works/upgrades, ongoing strata costs and so on that I need to also factor in?

Do I have some contingency set aside for a rainy day? Better to be safe than sorry.

Finally, is my finance pre-approved by the bank/lender?

#### Pre Approved Finance

Pre-approved finance, also known as conditional finance, is when the bank or lender has approved the finance, but only subject to the later valuation of the property. You'll generally be required to supply more paperwork to satisfy the lender, so while the bank does approve of the amount of money that you're looking to borrow, it hasn't been guaranteed for the specific property that you're looking to buy.

It almost goes without saying, but real estate agents and property sellers prefer to know that a prospective buyer has "pre-approved" finance, as it indicates the buyer is ready to transact and reduces the risk of the deal falling over due to funding issues.

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Therefore, make sure you have a “pre-approval” as you will be in a much better position when negotiating for that dream property.

#### Key Reminders

In 2020 the Australian average household expenses were just over \$100,000 per annum, which is equal to around \$2,000 per week. Where does all this spending in your household go? There is only one way to find out. Establish your budget!. Remember, those who fail to plan, plan to fail.

#### Downloads & Links

[Australian household spending statistics](#)

[Property Finance: Common Questions](#)