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Your guide to home loans

The home you are planning to buy is probably going to be your biggest asset and your biggest liability. Buying a home is not a decision to be taken lightly or without thorough research. If you are a first time home buyer, i.e. you are not currently a property owner, follow our step by step guide to better understand your options and responsibilities.

What is a mortgage?

A mortgage is a loan that is secured on immovable property, normally your home, hence it is also referred to as a ‘home loan’ or ‘bond’. The mortgage is lent to you in a lump sum to pay for the property and is legally bound to the property by the attorneys who register your mortgage bond.

If you move home or if you cancel your bond for any reason (say if you suddenly come into inheritance and want to pay it off) then you could be liable for a fee if you want to cancel it immediately. This is because most banks these days expect to be given 90 days’ notice about your intention to cancel the bond. This is a fact that home owners, who have a mortgage, often forget about.

How long do I have to pay the mortgage off?

You have to pay back a mortgage over a number of years, typically in the form on monthly repayments. This time period is usually 20 years, but it can vary between five and 30 years.

What happens if I skip payments or can’t pay?

'Secured' means that if you do not make your payments as you agreed, the lender has the right to repossess and sell your property in order to recover the money they have loaned you. But this can be avoided, especially if you contact your lender as soon as you find out you are having financial difficulties or if you go for debt counselling.

The initial amount you can borrow is called the capital, and there are two main ways of repaying this. You also need to pay interest on the capital you borrow, and again there are many payment options you can choose from.

How do the lenders structure a mortgage?

The lenders take the loan required (this is known as the principal sum) and then work out the interest you will owe them over the full term of the mortgage. This is, in effect, an additional sum you now owe the lender. For example, let’s say you wish to borrow R1,000,000 and will repay it over 20 years, and let’s say the interest rate (which can vary through the term of the mortgage) is 10%.

In reality you have now borrowed two loans from the lender. The first is the R1,000,000 principal sum. The second is the interest over that 20-year period. In this case this equals (before any

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repayments have been made) R2,000,000. This is calculated by the annual cost of the interest (R100, 000) multiplied by the term of the mortgage (20 years).

How much can I borrow?

Under the National Credit Act (NCA) lenders now have to base your eligibility calculation on your monthly 'disposable income'. To calculate this you need to take your gross income, less all the deductions like tax and UIF to get your net income. Then work out what your total monthly expenses are like groceries, utility bills, car insurance etc., and add that to all your monthly commitments to any debts you have, such as credit cards, vehicle finance or loan repayments.

Subtract this amount from your net income and the amount you are left with is your disposable income - this figure will be the maximum monthly mortgage repayment most lenders will allow. The banks normally add in a bit of a 'buffer' for unforeseen things such as interest rate increases.

Lenders will take into account other income that you may have, such as rental income, investments and dividends. Again, lenders vary in the percentage of other forms of income they will take into account. Therefore you should always speak to your mortgage consultant to assess your full range of options.

As a rule of thumb lenders will take into account 50% of your rental income on a rental property. It is up to you as the borrower to prove this income, by showing rental payments going into your bank account and lease agreements. The longer the lease, the higher the percentage of rental income the banks are likely to use.

You can also take into account 'contributions' from other family members if they are living on your property. If a partner or child is making a contribution to the 'family finances' then the banks will use it. Again, the onus is on you as the borrower to prove this.

Does the way I get paid impact my home loan application?

Commission - If you are a commission earner the banks will take this into account. However, the best way to prove this to the bank is to provide six months' payslips and calculate an average for the income.

Annual bonuses - These can also be taken into account, but once again you will have to prove them with entries on your bank statements and a letter from your employer.

Self-employed individuals - It is harder for banks to lend to self-employed workers because it can be difficult to prove the income. The better you manage your accounts (and the more accurately) the easier it is for the banks to lend to you. Proof of your income will have to be provided in the form of audited financial statements, latest management accounts and six months' bank statements, as well as a letter from your accountant verifying your income.

Partner's /spouse's income - If you are purchasing with a partner or spouse then lenders will also

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take their income into account. But they will also take your partners expenses into account.

Overall, the eligibility calculations are not an exact science, and all banks have different ways of calculating it. The most accurate method of establishing how much you are eligible to borrow is to complete an application form and get Justmoney do the work for you!

How easy is it to get a mortgage?

Since the inception of the NCA, lenders have been tightening their credit policies so as not to fall foul of the 'reckless lending' practices as laid out in the Act. This means if you already have a lot of debt it's unlikely that the banks will lend you more money. Other loans and obligations have been increasingly factored into whether or not a bank will give you a home loan.

Do I need a deposit to buy a house?

Whenever you sign an offer to purchase you will be asked to put down a deposit. This will range from a few thousand Rand to 20% of the property price depending on what the bank requirements are. The act of 'putting down' a deposit is purely an act of goodwill and is a show of commitment as there is no legally binding obligation on your part to pay a deposit.

When and who is this paid to?

The deposit is usually paid within a time period set in the offer to purchase. This time period is up to you to negotiate with the estate agent, but the norm is two weeks from signature. Remember that this deposit does not go to the seller; it must be paid into the conveyancing attorney's trust account. Some estate agents will ask you to pay it into their trust accounts, but this is not recommended as some estate agents have come under criticism recently because of the way they have managed their trust accounts. These trust accounts will be interest bearing, so if your deposit is going to be sitting there for a long time before transfer (for an off-plan unit for example) make sure you ask what the rate of interest is on the trust account so you know how much you will be earning on it.

Can I qualify for a 'no deposit home loan?'

Banks do offer no deposit home loans to first time buyers. But usually they only offer this option to those within a certain salary band or for home of a certain value. Absa's MyHome Home Loan, for example offers an affordable home loan to those who earn up to R20 001 a month. FNB's Smart Bond is targeted at those earning a single or joint monthly income between R3, 500 and R25, 000 before deductions. Under the Smart Bond you will get 100% finance (no deposit required) if you purchase a home that doesn't cost more than R600, 000.

Some lenders will offer loans, particularly to first time buyers, to cover not just the price of the property, but also the additional purchase costs on top such as transfer fees and mortgage registration costs. Standard Bank's Jumpstart product includes your bond costs and deposit on your

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loan. You may qualify for a loan of up to 104% of the value of the property, provided the loan amount does not exceed R1 million. Your affordability and risk profile is also taken into account. The extra 4% may only be used to pay transfer and bond registration costs.

The deposit is offset against the purchase price of the property so the additional balance is paid on transfer of the property (normally from the mortgage).

Can I get my friends/family to help me with my deposit?

Increasingly, banks are aware of the fact that coming up with a deposit is not possible for some. So they've come up with some products that cater for people who can't scrape the money together. Absa, for example, have the Family Springboard home loan product where it allows family members to help you as the home loan applicant with your deposits.

Does the size of the deposit matter?

Generally the larger the deposit (as a percentage of the value of your house) that you put down, the better the interest rate you can negotiate with the bank. This is because lenders know that if you default on your loan and they repossess the property, then it will mean that there is more chance of lenders getting their money back when the property is sold because it should be sold for more than they have loaned you – hence less 'risk' to the lender. It also shows the bank that you are willing to invest your own hard earned cash into the property.

Therefore the larger the deposit you put down, the lower the rate of interest you are likely to get. A larger deposit also reduces the risk of you going into negative equity. This situation occurs when the value of your house falls below the amount of money you have borrowed. Negative equity makes it difficult to move because if you sell up, the proceeds will not cover the amount you owe to your mortgage provider, and you would need to find additional funds from elsewhere.

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