Affordability

It is advisable to calculate your affordability before applying for a home loan or looking at a property to buy. You will need to have a good idea of the properties you can afford, and the size of the home loan you will be able to apply for and manage, over the lifespan of your home loan.

As a prospective home buyer, you can make use of affordability calculators available online to run calculations and determine the size of the bond you can afford. You can find out how much you can afford to spend on a new home based on your income and any deposit you have available.

When planning on buying a home, it is essential to know exactly how much you can afford before you start your property search. A bond affordability calculator uses your monthly income to determine the maximum home loan amount that you could get from a credit provider. The home loan amount you qualify for is usually calculated by looking at:

- **Gross monthly income:** This is your total income before deductions like tax, medical aid, and pension.
- **Net monthly income:** This is the income you receive after all deductions.
- **Total expenses:** These are all your monthly payments like car repayments, internet costs, satellite TV costs, etc.
- **Interest rate:** This is usually set by default to the prime lending rate. Depending on the credit providers lending criteria, you may qualify for an interest rate that is higher or lower than prime rate.
- **Repayment term:** This is the number of years it will take to repay the loan.

When purchasing a home, it is essential to know how much you will need to pay into your bond every month. A bond calculator helps you figure out your monthly repayments on a property, the total interest you will pay and the total repayment amount, which is calculated using the following:

- **Purchase price:** This is the price of the home that you are interested in buying. The higher the purchase price, the higher your monthly repayments will be.
- **Deposit amount:** The deposit is the amount of money that you will need to have available to secure your dream property. Although credit providers do, in some instances, grant 100% home loans, in most instances you will need at least 10% of the purchase price as a deposit.
- **Repayment term:** The repayment term is how long you choose to repay the bank for the property. Most new bonds are over 20 years, but you can choose a shorter or longer term.
- **Interest rate:** This is the rate at which the credit provider lends you the money to purchase a home. The rate that the credit providers charge you is based on a variety of factors.

According to the South African National Credit Act your monthly repayment typically cannot be more than 30% of your gross monthly income and cannot exceed your net surplus income (i.e. net monthly income less total expenses). This means that, credit providers cannot offer you credit to purchase a home if you cannot afford it.

Credit providers are obligated to ensure you'll have enough money left over to cover your additional living expenses after paying your monthly instalment towards your home loan. Therefore, it is recommended you do a credit check and calculate your affordability before you apply for a home loan.

Remember that a bond affordability calculator is a useful tool to determine the maximum loan value and monthly repayment that you qualify for, but it does not a guarantee that you will be granted a home loan. You will need to apply for a home loan, and it is at the discretion of the credit provider to grant the home loan or not.