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OVERVIEW OF PURCHASING A HOME LOAN

Home ownership is a major life goal for most people and there's a reason why the residential property market continues to attract many first-time buyers every year, this is because of the social and psychological benefits of owning a home. Home ownership creates long term savings and wealth because property prices generally grow over the long term, so as people repay their home loans, they grow their savings and when property prices increase, they generate even higher returns. The "social imperative" of owning a home encourages home owners to take a greater interest in their neighbourhoods and communities and therefore participate in the joint activities to protect and improve their communities.

There are different types of home ownership, so when choosing a home suitable for your needs or family make sure you understand the difference between "freehold", "sectional title" and "share-block" developments:

- **Freehold or full title** describes the transfer of full ownership rights when you own a property, which includes the building and the land it is built on. These kinds of properties include free- standing houses, cluster house etc.
- **Sectional title** describes separate ownership of units or sections within a complex or development. When you buy into a sectional title complex, you purchase a section or sections and an undivided share of the common property. These are collectively known as units. Sectional title dwellings comprise of mini sub-type houses, semi-detached houses, townhouses, flats or apartments and duet houses. Before buying sectional title property, read the body corporate rules.
- In a **share-block** the property is owned by a company and each flat is allocated several shares in the company. Very few credit providers will bond share-block flats, and those that do normally require a hefty cash deposit and will often charge a higher lending rate than they would for a sectional title flat.

Home ownership can be a complex process however by understanding the key role players involved in becoming a home owner can better prepare you. Some of the key role players are:

- **Estate agents**: the seller usually appoints an estate agent to market and sell their property on their behalf at an agreed fee, which is generally calculated as a percentage of the sales price. An estate agent is usually an area expert with a good track record. They are responsible for the listing of the property on various property portals and arranging a range of marketing activities to attract the right buyer. They also facilitate and negotiate a sale between the seller and buyer to both of their satisfaction. Thereafter, they will manage and monitor the transfer process, from bond application right through to transfer. Though not common, a buyer can also appoint an estate agent to look for a home for them.
- **Home loan provider**: a financial institution that enables you to fund the purchase of your new home by providing a loan that covers most and sometimes the whole purchase price. Each home loan provider has different lending criteria and service levels, so there are benefits to shopping around for the best deal.
- **Attorneys**: the conveyancing attorney is appointed by the seller and is responsible for the transfer the ownership of the property from seller to buyer. The bond attorney is appointed by the home loan provider and is responsible for registering the "new" bond or cancelling an existing bond upon full settlement.

Buying a home can be daunting, so we've put together a Guide that will give you all the info you need – in the language of your choice.

AFFORDABILITY

It's advisable to calculate your affordability before applying for a home and looking at a property to buy. Firstly, you'll want to have a good idea of the properties you can afford and the size of the home loan you'll be able to apply for and then manage over the life 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 they 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 a higher or lower than prime rate.
- number of years – same as repayment term above.

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 charges you is based on a variety of factors.

According to the South African National Credit Act your monthly repayment 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 can't provide you with 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 is 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.

CREDIT HEALTH

A credit report is a summary of your financial status with regards to how you pay for your debt and what your spending habits. A credit report contains a complete record of your financial history including account information, payment history, amounts owed, age of accounts, judgements, defaults, and a list of occasions on which credit providers requested to view your credit report. This report indicates to credit providers your attitude towards debt, whether you can afford the debt you have, what it is that you spend your income on and whether you have faced legal action initiated by other previous lender due to lack of payment. A good credit record is most important when buying a house because a good credit record improves your chances of being approved for a home loan.

How to ensure a good credit report:

1. ***Paying your debts on time:*** ensure that you pay off all your debts in full when they become due for payment. To help you not fall behind with your payments, you can make use of resources such as automatic payments, for example debit orders or scheduled payments, to make sure that every payment is made on time when due. Remember that information about your missed or late payments remains for 1 year on your credit report.
2. ***Open new accounts only when needed:*** opening too many accounts may lead you into temptation, which over time will result in overspending, thereby leading to an accumulation of debt on your part. Do not get more debt than you can afford.
3. ***Minimize your inquiries:*** anytime a check is made on your credit profile, that can have a negative impact on your credit score points. Try not to shop around too much for credit at the same time. Too many simultaneous applications could indicate that there has been a significant change in your financial circumstances. It is therefore not advisable to conduct too many inquiries on your credit record as these will also last on your credit report for a period of 2 years.
4. ***Keep your credit balance low:*** by maintaining a low credit balance on your available credit facilities, you are suggesting to your lender that you know what it takes to manage credit well and you never gone beyond your credit limits.
5. ***Get your free credit report:*** every South African is entitled to check their credit report, at no cost, once a year. This can be done through any of the registered credit bureaus, ensuring that you check your credit record at least on annual basis and not when you are applying for a home loan.

How to repair a bad credit report:

1. Commit to not taking any more debt during the time you are in the process of repairing your credit record.
2. Review your free annual credit report and check which of your accounts are likely to be causing your credit report to look bad. Also check for any errors on your credit report and you may dispute that incorrect information with the relevant credit bureaus.
3. Start paying off these identified accounts, focusing on accounts with very high interest rates.
4. Keep ensuring that you pay the minimum instalment when due and in full and be sure to snowball the money from other paid off debts as you’ve settled them in full.

Remember repairing a bad credit report won’t be achievable overnight, as you need ample time, patience and discipline to repair your credit report and making sure it doesn’t slip in the process.

COSTS OF BUYING A HOME

It is important to be aware of the various costs involved in buying of a home, especially as you are preparing to buy a new home so that you are able to save up the money or arrange a loan to cover these costs. The estimated costs involved in buying a new home, besides the purchase price, include a few once-off fees many of which are legal or administrative costs, which you need to be financially prepared for. Over and above the legal and administrative costs, the purchase of a new home comes with a string of new bills which you may not have had to pay when renting or staying at home.

Once-off taxes and fees you can expect to pay when buying a new home:

- **Transfer duty** - this is a tax paid to SARS every time a property changes ownership and is based on the value of the property. Properties with a value of R1 million or less are exempt from paying transfer duty. Properties purchased from a developer are exempt from transfer duty but will incur VAT on the purchase price.
- **Transfer fees** – these fees are payable to the transferring attorney for transferring the property into your name and are calculated on a regulated sliding scale based on the purchase price. The transferring attorneys will also charge you for smaller variable costs such as FICA fees, instruction fees and postage. Note that the R1 million exemption does not apply to 'transfer fees', only to transfer duty.
- **Bond registration fees** - you will also need to pay the bond attorney for registering your bond with the Deeds Office.
- **Initiation fee** – levied by your home loan provider as a once-off fee for processing your home loan application.

This table provides approximate costs to give you an idea of what to expect. These amounts include VAT but may vary from attorney to attorney:

Purchase price	Transfer Duty	Transfer fees	Bond registration fee
R500 000	R0	R16 263	R10 292
R700 000	R0	R20 216	R12 773
R1000 000	R0	R25 876	R16 225
R1 500 000	R18 750	R31 530	R19 671
R2 000 000	R50 250	R35 210	R21 879
R2 500 000	R91 000	R41 201	R25 662
R3 000 000	R146 000	R44 881	R27 870

*as at 1 July 2020. Excludes any costs associated with clearance certificates for sectional title properties.

On-going home loan costs you can expect to pay after purchase:

- Monthly home loan repayments,
- Monthly levies (if you're in a sectional title property), and
- Monthly utilities including the deposits required (rates, water, electricity and domestic refuse).

With the following costs involved in the maintenance of your new home:

- Bond protection – an insurance cover that covers home owners and their families if they are unable to meet their monthly bond payments, due to disability, retrenchment or death.
- Home Owner's Cover (HOC) – an insurance that covers against possible loss or damage to their property. Having an HOC policy is usually mandatory if you have a home loan.
- Household insurance – an insurance that covers the contents of your home.

- Home maintenance – these costs are for regular home upkeep which is a very important part of home ownership. Budgeting for scheduled or unforeseen maintenance work will take the financial pressure off therefore looking after your property investment over the long term.

MAKING AN OFFER

Once you have decided on which type of property and have identified the house you want to buy and are ready to start the purchasing of your new home, the following will happen:

1. You will have to sign an Offer to Purchase as a willing buyer to formally indicate your intention to purchase the property of the seller.
2. Once you have signed the offer to purchase, you will present to the seller to accept the offer by signing the offer to purchase.
3. Ensure that an 'offer expiry date' is included. This puts pressure on the seller to accept or reject the offer within a reasonable amount of time. Decide on an 'occupation date'. This can either be on transfer of the property into your name, or at an earlier date, in which case 'occupational rent' will be charged. 'Occupational rent' will be negotiated with the seller and should be in line with the market- related rental for the property.
4. Sometimes buyers will pay a deposit as a sign of good faith. The 'Offer to Purchase' must state that the deposit will be held in an interest-bearing trust account until transfer, and that the buyer will be entitled to receive the interest earned when the deposit is released. It is advisable to use only Attorney accounts for this deposit.
5. A cooling-off period of five days is generally included on properties with a value of R250 000 or less. In cases where a cooling-off period is included in the 'Offer to Purchase', the buyer has the option of withdrawing the offer within the five-day period.
6. A 72- hour clause is often included in an 'Offer to Purchase'. This clause allows the seller to continue looking for an alternative buyer even after the 'Offer to Purchase' has been accepted. This applies to offers that are subject to conditions (e.g. bond approval/sale of buyer's current house). If the seller accepts another offer, the buyer will have 72 hours to fulfill the conditions on the original 'Offer to Purchase'.
7. Make a list of items that should be included with the sale such as automatic pool cleaner, garage remotes, blinds, etc. Be very specific and detailed.
8. The signed offer to purchase becomes the new deed of sale. In the deed of sale, there may be certain suspensive conditions such as raising funds to bond the house, and once these conditions have been met, the contract between the purchaser and the seller will be binding.
9. The deed of sale is then sent to a conveyancer or (also called a transferring attorney), who will take care of all the financial arrangements and ensure that all finances are in place and secure.
10. Before the transaction can be submitted to the Deeds Office, the conveyancer will prepare all the documents. Once these documents have been submitted, the transfer process will begin.

11. A municipal clearance certificate for rates and taxes is then requested by the conveyancer from the municipality.
12. The purchaser is required to pay the transfer duty and registration costs before the documents will be submitted to the Deeds Office, while the seller will have to provide a Tax Clearance Certificate acquired from SARS.
13. At the time agreed upon in the Offer to Purchase, a cash deposit for the balance of the purchase price will have to be made into the conveyancer's trust account.
14. If the property has a mortgage bond, a bond attorney will have to cancel the bond registration.
15. The transfer process can take some time to be finalised and the purchaser will be kept up to date on the progress of the transfer by either the agent or the conveyancer.

LOAN APPLICATION

Once you have found the home of your dreams and you've signed the offer to purchase and has been accepted by the seller, now to apply for a home loan. The time it takes for a home loan application to be approved depends on several factors that impact both the buyer and home loan provider.

When applying for a home loan, this is the process you should anticipate when a home loan provider is processing your home loan application:

- You will need to provide the home loan provider with the following minimum documents, of which they will validate if all are in order:
  - Application form with your personal details
  - Proof of identification
  - Latest proof of income – this will vary between employed and self-employed applicants
  - Latest three months banks statements
  - Copy of a deed of sale agreement

  Note: The above is a non-exhaustive list of requirements when a home loan provider is assessing an application. It may differ slightly from one home loan provider to another.

- The home loan provider will assess your application considering, the location and market value of the property, as well as your affordability and credit health status.
- You will then be contacted by the home loan provider to advise you of their decision to approve the application "in principle". The approval will be subject to the home loan provider doing an assessment of the property ensuring it is in good condition and that the sale price is aligned to its market value.
- The home loan provider assigns a valuer to evaluate the property. If the valuation has been successful. The home loan provider will prepare a formal contract detailing the terms and conditions of the home loan, as well as the interest rate to be charged.

The interest rate charged will depend on how much of a risk your home loan provider considers you to be and the market forces. A combination of a high deposit and a good credit score can improve the interest rate a home loan provider charges you.

Interest rates can be charged at a fixed or variable rate. A variable interest rate means the interest rate on your home loan will rise and fall with the market, while a fixed interest rate stays the same regardless of market forces for an agreed period. After your bond is registered, you have the option of asking the bank to fix your interest rate.

The factors that play a role in whether your home loan will get approved include:

- **Your credit score:** this is a single most important factor that tells a home loan provider how much of a risk you are. If your credit score is low, you should consider working on increasing your score to improve your chances of approval.
- **Size of your deposit:** home loan providers consider you less of a risk if you can put down a sizeable deposit toward your home. The more money you deposit the higher your chances of your home loan approved. Although deposits help, not having a deposit does not mean you will not be approved for a home loan.
- **Value of the property:** if the value of the property is less than the home loan amount you are applying for, the home loan provider may not approve the home loan, alternatively they may approve a lesser amount.

HOW A HOME LOAN CAN WORK FOR YOU

Once you have a home loan, it is worthwhile to improve your understanding of how you can use your home loan responsibly in order to make the most of the low-cost borrowing that it offers.

Home loan interest rates are almost without exception the lowest cost form of finance that any consumer can access, this provides an opportunity to use your home loan as a flexible money management tool. Here's how you can achieve this:

- **Further lending:** is a particularly underused tool which can give you access to the equity available in your home to use for some pressing needs. Equity is the difference between the value of your property and what you owe on the property, and you can use further lending to access this equity through your home loan. This means you can have access to low-cost credit to use for home renovations, education costs, large hospital bills and other important costs, instead of going for a high-cost short-term loan. The different forms of further lending are:
    - Accessing any portion of the total capital amount that you have pre-paid on your home loan.
    - Accessing funds that exceeds the current registered home loan amount but lower than the value of your home. It must be noted that this type of access funding may require a higher bond amount to be registered at the Deeds office before the funds are paid.

- **Paying extra:** with home loans being structured in such a way that you only pay interest on the outstanding balance, any extra funds paid into your home loan will effectively earn you a return on the interest rate you will ultimately pay. By paying a little extra monthly or periodic lump sum payments, you can reduce the interest payable as well as the repayment period of your home loan. Here are some smart and easy ways that you can paying extra into your bond without tearing your wallet – remember every little bit helps:
    - Allocating additional income received from your annual salary to increase into your home loan repayments.
    - Put a portion your bonus received into your home loan account.
    - When interest rates decrease, contact your home loan provider and ask them to maintain the installment you were paying prior to interest rate drop.

- **Consolidating your debt:** with the interest rates charged on home loans being the lowest the rates you will pay for vehicle finance, credit cards and store accounts, it therefore makes financial sense to consolidate these debts into your home loan. However, the home loan term is much longer than these other short-term loans, so it's imperative that you maintain the installment you were making, on the other debts, prior to moving the debt across to your home loan in order to pay it off over the same time period. Paying a short-term loan balance off over the full life of the home loan can end up costing you a lot more in interest**.**

- **Switching your home loan:** contrary to popular belief, you do not have to stay with the same home loan provider until the home loan is paid off. Your home loan can be switched from one home loan provider to another so that you can get a lower interest rate or to access equity from your home. Switching your home loan to a different home loan provider doesn't have to be a costly or complicated exercise. In fact, a switch can save you money. Even a small reduction of 0.5% in interest rate could save you thousands of Rands over the term of the home loan. However, when switching you do need to keep an eye out for any hidden costs and any possible penalties, so make sure you are comparing apples with apples by using home loan switching calculators.