

YOUR GUIDE TO BUYING A HOME



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WELCOME

Are you considering buying your first home?
Not sure where to start, how much deposit
you need or what the process involves?

As your mortgage adviser, I'm here to help
and guide you all the way. No question is
a silly question and when working together
communication is key. We're here to
coach you through the process step by
step working your behalf with the lenders
to ensure the process is as seamless as
possible.



This guide gives you some practical information to help you navigate the
home-buying process. It will take you step-by-step through the preparation
in buying your first home, from gathering your deposit funds to presenting
your financial situation as best as possible to the lender. You'll also learn the
different ways to buy a house, various home loan options and the roles of the
professionals you'll need along the way.

The key benefit of working with a mortgage adviser is that we provide you
with independent advice alongside access to numerous lenders including
second tier options. Home loan solutions that best meet our client's needs are
what we pride ourselves on.

Looking forward to helping you on your journey to home ownership.

Fiona & Amy
NZ Mortgage Advice



SAVING FOR A HOUSE DEPOSIT

There are several things to consider when you're thinking of buying a house – what size deposit you'll need, how you'll save for your deposit, and how you'll afford your ongoing home loan repayments. It might seem a bit back to front, but rather than starting with the type of house you want, try starting with the level of home loan payments you'll be able to afford.

Initial steps:

- **Work out what payments you can afford** - find out how much you will be able to put towards your home loan repayments by doing a budget to see how your weekly, fortnightly and monthly expenses compare to your income.
- **Calculate how much you'll need for a deposit** – If you are a first home buyer looking to purchase an existing home, in most instances you will be required to have a deposit that is 20% of the home's value. If you have a deposit of less than 20% of the home's value you may still be able to get a loan. However, due to the Reserve Bank of NZ loan-to-value (LVR) restrictions a few more terms, conditions and fees may apply.

TYPES OF DEPOSIT FUNDS

There are several things to consider when you're thinking of buying a house – what size deposit you'll need, how you'll save for your deposit, and how you'll afford your ongoing home loan repayments.

- **Personal Savings** – Putting away a chunk of your income regularly not only takes you closer to a deposit but also demonstrates to the bank that you have the commitment you'll need for a home loan.

Good habits:

- *Keep track of your spending.*
- *Before you buy something, ask yourself 'Do I really need this?'*
- *Automate your savings so your money is out of your account before you get a chance to spend it.*
- **Kiwisaver** – You may be able to withdraw money from your Kiwisaver to buy your first house – you'll need to fill out the paperwork with your provider and have the funds pre-approved for withdrawal before offering on a house. If you don't know what KiwiSaver provider you're with, you can call Inland Revenue and they'll be able to tell you.
- **Gifted funds** – Family members can gift you a sum of money that helps with any shortfall you may have with your deposit funds. The bank will require a gifted letter confirming these funds.
- **Guarantees** – A family member can provide a guarantee over your loan if you have little or no deposit. This allows them to use their equity without having to provide any money upfront. However, if you fail to make a repayment your guarantor is then liable.



TYPES OF HOME LOANS

With most types of home loans, you can choose either a fixed or a floating (variable) interest rate. Revolving credit home loans and offsetting home loans have a floating interest rate.

Fixed interest rate – A fixed interest rate will not change during the period (term) that you choose. At the end of your fixed interest rate term, you can either choose a new fixed rate from those available at the time, move to a floating rate or restructure your lending to meet your new needs.

Things to consider:

- *Fixed rates may be lower than floating rates*
- *You will have certainty of knowing exactly how much your repayments will be during the fixed term.*
- *You might have to pay a break fee if you choose to make additional repayments or pay off your loan faster than initially discussed at the start of the fixed interest rate term.*

Floating interest rate – A floating interest rate may go up and down as interest rates in the wider market change. You can opt for a fixed interest rate at any time, although some types of loans are only available with a floating interest rate.

Things to consider:

- *You have the flexibility to make lump sum payments of any size at any time without penalty.*
- *If interest rates go down, you can potentially pay off your loan faster by keeping your repayments at the same level.*
- *As the rate is floating it may go higher than fixed-term rates.*
- *If the interest rate goes up, so will your repayments which could put a squeeze on your budget.*

Revolving Credit – A revolving credit facility provides your home loan and everyday banking all in one account on a floating rate. When your salary is paid into your account, it reduces what you owe on your loan – resulting in paying less interest. Revolving home loans are best suited to those who are disciplined in their approach to money.

Offset Home Loan – An offset home loan allows you to utilize the balance of your eligible transaction and savings accounts to offset against your floating home loan. This way, you only pay interest on the difference. This could save you thousands on your interest repayments and cut the years off your home loan. It's crucial to discuss your requirements with your adviser when finalizing your new home loan, as not all banks provide offset loans.

An offset home loan is for you if:

- *You wish to reduce the amount of interest you pay.*
- *You want to reduce the length of your loan.*
- *You have the ability to save as well as pay off your home loan.*
- *You'd like to keep your home loan and savings in separate accounts.*
- *You're comfortable with a floating rate knowing that interest rates could change.*

Redraw Loan – A redraw loan offers the flexibility to make additional payments on your loan which can be redrawn on later if needed. This type of loan allows you to 'redraw' the additional funds you've paid above the minimum payment, giving you access to funds should you have any unexpected expenses. By making additional payments, you decrease the principal balance, which in turn reduces the interest you pay over time.



PREPARING FOR YOUR HOME LOAN APPLICATION

The biggest factor in how much you can borrow is determined by deducting your outgoings from your income. But there are other tweaks you can make which will improve your 'lendability' or how likely your loan is to be approved.

These include:

- *Displaying regular savings each pay period.*
- *Paying off/avoiding debt such as hire purchases or buy now pay later facilities. Also, try to clear any other high-interest debt as it is expensive and it reduces the amount of money you have available to service your home loan.*
- *Reducing the number of credit cards you have, and/or their limits. Even if you pay your cards off in full every month, a high limit reduces how much you can borrow. For instance, having a credit card with a \$10,000 limit can reduce your borrowing ability by as much as \$50,000 – regardless of the balance. Consider replacing your credit cards with debit cards instead to strengthen your financial position.*
- *Maintaining clean account conduct – this means no unauthorised overdrafts, no gambling and all payments made on time.*
- *Regularly review your subscriptions, and assess if all payments are necessary.*
- *Check your credit rating. This way it can be assessed with any red flags resolved before applying to the lender. Visit creditsimple.co.nz to get a free credit report.*
- *Clear any outstanding debt owed to Inland Revenue, as it could prevent you from getting a home loan.*

APPLICATION APPROVAL PROCESS

To source a home loan pre-approval you will need to provide supporting documents and information as a part of the application process. This includes but is not limited to:

- *Photo & Address identification.*
- *Current payslips or evidence of your annual income. If you're self-employed the lender will need your latest two years of financial statements and your latest inland revenue personal tax summary.*
- *Three months statements of all your bank accounts including your credit card statements and any short-term debts you have.*
- *Confirmation of your deposit fund.*
- *A copy of a registered valuation (if applicable).*

Once a pre-approval is in place this will be available for 60 – 90 days depending on the lender. We can then request the bank to roll over the approval for another period of 60 – 90 days. We would just need to confirm nothing has changed with the applicant's financial state of position.

CONDITIONAL APPROVAL

Conditional approval is an agreement in which the lender has agreed to lend you up to a certain amount of money, as long as you meet the conditions the bank has provided in the agreement. A conditional approval is an indicator of how much you can borrow. It does not guarantee that the lender will lend you that money on any property.

UNCONDITIONAL APPROVAL

An unconditional approval is provided by the lender once all of the conditions in the lenders agreement have been met.



LOAN TO VALUE RATIOS (LVR)

A loan-to-value ratio (LVR) shows how much you owe on a house compared to its value. For example, if you owned a \$500,000 house with a \$400,000 loan, your LVR would be 80%. If your loan was \$200,000 on the same house, your LVR would be 40%.

Your LVR is important as lenders have rules around what they can lend to homeowners – and some of those rules are set using LVRs. These rules are designed to protect New Zealanders from taking on too much debt and to reduce the risks for banks themselves.

From time to time your existing bank may allow you to apply with a deposit of less than 20%, this is what we call borrowing at high LVR.

FIRST HOME LOAN

Establishing a deposit for your first home can be a struggle, with most lenders currently requiring a minimum 20% deposit. But with a First Home Loan via Kāinga Ora you only need as little as 5% deposit which makes getting into your first home is that much easier.

First Home Loans are issued by selected banks and other lenders, and underwritten by Kāinga Ora. This allows the lender to provide loans that would otherwise sit outside their lending standards.

To be eligible for a First Home Loan, your combined household income for the last 12 months must be \$95,000 or less for an individual buyer without dependants; or \$150,000 or less for an individual buyer with one or more dependants; or \$150,000 or less (combined) for two or more buyers, regardless of the number of dependants.

Other criteria:

- *You must live in the house you're buying.*
- *You cannot own any other property (excluding the ownership of Māori land).*
- *You'll need to pay a Lenders Mortgage Insurance (LMI) premium of 1.2% of the loan amount.*
- *You must be an NZ Citizen or Permanent NZ Resident.*
- *Minimum 18 years of age.*
- *You must have been in the same job for a minimum of 12 months, or same industry.*

INSURANCE

Having home insurance is a condition of your home loan. It covers you in case something happens to your house, such as a fire or flood. It's a good idea to have contents insurance to protect your personal belongings as well.

You may also wish to consider life insurance or income protection. Each protects you against outcomes that could put you or your family at risk.



THE BUYING PROCESS

Buying a home can be both exciting and stressful. You don't want to pay too much for a house and feel like you've cost yourself money. Then again, you don't want to miss out on a house you love by \$2,000 and end up spending six months searching for another one.

Doing your **due diligence** means gathering together all the important information about the specific property you're hoping to buy. If you're buying at auction, you'll need to do this before the auction date. If you're putting in an offer, your offer will include a period of time to allow for you to complete your due diligence, ideally 10 working days. This is known as a 'finance condition'.

Your Due Diligence may include a range of checks; the most common and important aspects to check are:

- **The LIM report** – This land information memorandum is a report from the local council. It provides vital property information such as whether building work is consented, whether the property is subject to resource consents and so on.
- **A Building Inspection** – A builders report will give you more details about the structural condition of the house. If the report shows a defect that needs repairing, you may be able to negotiate with the vendor to have it fixed or have the price reduced.
- **A Valuation** – You may need a valuation by a registered valuer to show that the house is worth close to what you are planning to pay for it. If you are borrowing with less than 20% deposit, sourcing a registered valuation may also be a condition to be met by your bank.
- **Title, easement and covenants** - Your lawyer will assist with reviewing all these documents and will make recommendations. Always get legal advice before you make an offer on a property.
- **Home Insurance** – To purchase your new home you will need to confirm that you can put home insurance in place.

WAYS TO BUY

There are three main ways to buy a home: by negotiation, at auction or by tender (often listed as a deadline sale) You could also buy a house in a private sale.

By Negotiation – Negotiation is the most popular sales method across New Zealand. You put in a written offer and the real estate agent presents it to the vendor. Your offer is either accepted, rejected or moves to a negotiation discussion.

By Auction – Auctions are popular with real estate agents because they put an end date on the sales process and create a sense of urgency for buyers. To bid at an auction you would need to have an 'unconditional' finance approval in place. Meaning all your conditions have been met prior to partaking in the auction.

By Tender – A house is listed with no price and all the interested buyers put in their offer to the agent. The vendor accepts the offer they like best – usually (but not always) the highest one. The **deadline sales** process is almost the same as a tender process except there is more opportunity for negotiations.

By Private Sale – Both the vendor and buyer will consult their lawyers in a private sale scenario. The sale & purchase agreement is drafted by the vendor's solicitor. In most instances of private sale, the lender will require a registered valuation to be provided to confirm the property value.



The role of a solicitor

Your lawyer protects you by checking your contracts, explaining your rights and ensuring your property's title is in order. The lawyer will also transfer the property into your ownership, a process known as conveyance.

Always get legal advice before you make an offer – your lawyer will check your documents, make sure you have the right conditions to protect yourself and help you understand any legal issues. They may also be able to advise you on completing your due diligence and negotiating the price.

Unconditional offers

An 'Unconditional' offer, also known as a 'clean' offer, is one where the buyer is ready to purchase without needing finance pre-approved or needing to sell another house before settlement. To put yourself in this position, you need full approval on your finance, with all your due diligence completed. If you make an unconditional offer and it is accepted, you are committed to completing the sale. Always speak to your adviser and solicitor before making an 'unconditional' offer.

Can't buy yet? Keep saving

There are lots of hurdles to overcome before you can buy your first home. If you're determined to get onto the property ladder, you can make it happen, it may just take longer than you were first expecting. When you've been house-hunting for many months or years, it can start to feel as though you're on a treadmill of disappointment.

Try not to feel so disheartened that you give up on saving all together and spend all your hard-earned cash on toys or travel. By continuing to make sensible financial choices you should be able to find a path to homeownership in your future. There are many roads to home ownership and yours might include some unexpected turns.

Wherever you are on your path, as a mortgage adviser I'm here to help guide you.

HOME LOAN REPAYMENTS

Home loan repayments can be set to weekly, fortnightly or monthly depending on your lender. They can also be 'principal and interest' meaning your loan will reduce with each repayment or in some instances 'interest only' in which you will only cover the interest cost. Please note your loan size will not reduce while on interest-only terms.

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LENDING SOLUTIONS TO SUIT YOUR NEEDS



'Work with the best and have an experienced mortgage advisor on your side...let's talk solutions.'

- 🏠 FIRST HOME LOANS
- 🏠 RESIDENTIAL LENDING
- 🏠 COMMERCIAL LENDING
- 🏠 FIXED RATE RENEWALS
- 🏠 HOME LOAN TOP UPS
- 🏠 ASSET & CASH FLOW FUNDING
- 🏠 DEBT CONSOLIDATION
- 🏠 PERSONAL LOANS

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