

LoanMarket 

First Home Buyer Guide





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INTRODUCTION

Buying your first home can seem daunting
but it doesn't have to be.

At Loan Market we specialise in helping first home buyers find the right loan. We're experts in how you can use your KiwiSaver funds to buy your new home and know exactly which lenders will support you.

We believe a mortgage is a relationship, not a transaction and aim to personally help you manage your finances for the life of the loan.



It's tempting to dive straight into looking at properties and short listing suburbs but the best place to start is with your finances.

There are two main commitments to consider:

1. How much can you contribute as a deposit?
2. What can you realistically and comfortably afford to repay on an ongoing basis?

We'll talk you through the many different finance options and work out which solution is best for your situation.

You don't always need a 20% deposit, it could be enough to put down 10% or even 5%. We even help arrange 100% if you have a guarantor.

Guarantor supported loans are not as scary as they used to be. Many Banks now offer very 'user friendly' terms, talk to us to find out more.

As your local adviser we know the ins and outs of how to secure finance and can guide you every step of the way.

HOME LOANS

Deposits



KiwiSaver

At Loan Market we encourage first time buyers to increase their borrowing potential with their KiwiSaver.

The majority of lenders can only arrange a loan for up to 90%-95%, which means you must have a deposit of at least 5%-10%.

In most cases this deposit needs to be from genuine savings (an account which has held money for the last three months and has a record of regular deposits). This is where your KiwiSaver can really help.

If you've had KiwiSaver for a minimum of three years and paying at least the minimum required contributions from your salary (currently 3%), you can withdraw funds for a deposit on your first home. This money will only come from your contributions and your employers'. The government portion of your KiwiSaver cannot be withdrawn.

To use your KiwiSaver funds as a deposit you just need a statement from your provider that outlines the details of how much you can withdraw.

First Home Buyers Grant

As well as your KiwiSaver money there's also a one off First Home Buyers Grant available from the government. For every year you qualify you can receive \$1000 per borrower, up to a maximum of \$5,000 per borrower. To be eligible you must meet the following criteria:

- ▶ Proof of contributing the minimum required percentage to your KiwiSaver for at least three consecutive years.
- ▶ A certificate or statement detailing the previous 12 months earnings.
- ▶ Maximum income of \$80,000 for individuals and \$120,000 for two or more borrowers.
- ▶ Property value thresholds apply depending on where you want to buy.

Welcome Home Loan

The government sponsored Welcome Home Loan is available through approved banks* and provides up to 90% finance to buy your first home.

To qualify you must meet all of the strict criteria, including:

- ▶ Full time employment in your current job for a minimum of one year.
- ▶ Maximum income of \$80,000 for individuals and \$120,000 for two or more borrowers.
- ▶ No more than \$15,000 or 10% of your income (whichever is closer) in other debt, eg. car loan.
- ▶ Spotless bank account and credit report history.

The Welcome Home Loan is for first time owner-occupied properties only and you can't own any other property when you apply. The amount you can borrow varies depending on where you want to buy. Property thresholds start at \$300,000 and are capped at \$485,000.

* Kiwibank, Westpac SBS Bank and Co-op Bank.

* Please note there is a second chance option for both FHBG and WHL for buyers in a similar financial position to qualifying first home buyers.

Other options

It's still possible for you to borrow 100% of the purchase price if you have a guarantor (usually family) for at least 10% - 20% of your loan.

HOME LOANS

Mortgages



Principal and Interest

- ▶ Most common type of loan.
- ▶ Both the interest and amount borrowed is repaid.
- ▶ Term can be up to 30 years.
- ▶ Payments can be made weekly, fortnightly or monthly.

TIP Try to pay as much as you can, over and above the minimum amount, in the early years of your loan. It will save you paying extra in interest and reduce the overall term of your loan.

Interest Only

- ▶ Only interest is repaid.
- ▶ Repayments are a lot less than a Principal and Interest loan.

! Not recommended for owner-occupied properties as you'll still owe the original amount of the loan at the end of the term.

Line of Credit

Mortgage is used like a bank account - all your income is directly credited into the mortgage.

A credit card (up to 55 days interest free) is used for all your expenses and then repaid at the end of each month with a direct credit from your mortgage.

TIP This type of loan is worth exploring if you have surplus monthly income and a good discipline for how you spend your money.

Fixed interest

- ▶ Interest rate is fixed for a set period, from six months up to five years.
- ▶ Repayments won't increase during the fixed term.
- ▶ If interest rates go down you won't be able to take advantage of a lower rate until your fixed term ends.

! If you repay your loan in full, or pay off a large portion at once you could be penalised with an early repayment fee.

Variable interest

- ▶ Interest rate goes up or down in line with the rise and fall of official rates.
- ▶ Payments will increase or decrease depending on how often official rates change.

TIP You can change to a fixed rate at any time with no cost.

As a general rule it's good if you can to pay extra payments over and above the required monthly amount. This means you'll have the benefit of redrawing those extra payments if you have an unforeseen emergency and need money on a short term basis.

It's also important to consider all fees and costs associated with the loan, not just the interest rate. Establishment, valuation, account keeping, portability, repayment holiday, discharge and loan re-fixing fees can all add up.



What you'll need

This checklist shows everything you'll need for the home loan approval process.

- Proof of income (two payslips, letter of employment or financial statements).
- Proof of deposit or your Kiwi Saver statement.
- Bank statements from the last three to six months.
- Two types of formal identification and a recent household statement.
- Information on assets you own.
- Details of any debts.
- Sale and Purchase Agreement (if at that stage).

Location and property

Once you know how much money you can borrow it's time to think about where you'd like to buy and what kind of property you can afford.

Shop around to narrow your search and consider some of the basics, such as:

- ▶ Infrastructure - check out local schools, shops, transport, medical facilities, social and sports clubs.
- ▶ Property type - think about what best suits your situation, a villa, bungalow, townhouse or something modern.
- ▶ Location - wide open spaces, beach, backyards or inner city chic, what's your lifestyle?

Once you've found possible properties, ask yourself questions like:

- ▶ Why is the property on the market and how long has it been listed?
- ▶ What's the government valuation and is it still relevant to the current value of the property?
- ▶ Is the sale price similar to other comparable properties in the area?
- ▶ Has the property had any recent alterations, are they legal and does it need any further or urgent repairs?
- ▶ What does the certificate of title or L.I.M (Land Information Memorandum show? Are there any restrictions or rights on the property?



PURCHASE PROCESS

For complete confidence throughout the purchase process it's vital you have your finance formally approved in writing. This is confirmation your loan has been approved and is legally binding once the contract is signed.

There are three main ways of buying:

Offer and Acceptance

- ▶ Most common option.
- ▶ Offer is made on a sale and purchase agreement.
- ▶ Seller accepts your offer, or amends your offer and sends it back for you to agree. The negotiation process can continue before an agreement is reached.

Auction

- ▶ Open bidding process.
- ▶ There's usually a reserve price which if not reached means the house is 'passed in' (it doesn't sell).

- ▶ Bids are unconditional, so do your homework and only bid if you really want the property and know you can afford it.
- ▶ A deposit (usually 10%) is required on the spot if yours is the winning bid.

Tender

- ▶ Similar to a blind auction although offers are not required to be unconditional.
- ▶ You place your best offer in writing to the seller.
- ▶ Seller collects all offers by a set date then chooses the best one.
- ▶ The property can still pass in if the seller doesn't receive an offer they like, and a negotiation process can start.

We recommend that any offer you make is subject to at least a satisfactory Land Information Memorandum report, or your solicitor's approval of the contract.

FORMALITIES



Legal

It can be a costly mistake if you don't have a solicitor when buying a home. Their advice and services are crucial throughout the process, including:

Advising on ownership structures, such as a family trust, joint tenant purchase or tenants in common.

Checking the purchase documents to make sure all is in order and letting you know what conditions there might be.

Accessing certificate of title searches and arranging for a Land Information Memorandum on the property.

Advising on the full terms and conditions of the mortgage documents and managing the settlement process.

Talk to us if you need a referral for a solicitor to represent you.

Insurance

Once you've bought your new home it's important to not only look after the property, but also the person paying the mortgage.

Insuring your property is compulsory. Your bank or lender won't advance your loan if the property isn't adequately insured.

While property insurance is compulsory, ensuring you have suitable life and mortgage repayment insurance is essential.

How will you meet your mortgage payments if you are too sick, have an accident that prevents you working for a period of time or worse, if you or your partner dies?

This is an area of home buying that many Kiwis ignore to their peril.

We specialise in making sure you are protected, ensuring your home will always be safe for you and your family.



Using a MORTGAGE ADVISER

Getting quality advice and securing the best finance deal takes time and effort, a process many Kiwis find stressful and time consuming.

At Loan Market we'll do the legwork for you, giving you time to concentrate on finding the perfect property.

As your local adviser we specialise in matching your situation and needs with the most appropriate finance package.

With access to New Zealand's widest range of lenders that you know and trust we'll negotiate on your behalf to make sure you're getting the right deal on your loan structure.

All Loan Market advisers are registered financial services providers and up to 98% of the time our service is completely free*.

Contact us today for a no obligation appointment.

*It's only in extremely rare cases where we're not remunerated by a lender, eg. development finance or unusual commercial transactions.



