Home Buyers' Finance Guide

Buying a home is an exciting time. We're here to help.

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Introduction

Buying a home is an exciting time. Whether it's the indoor-outdoor flow, veggie patch or proximity to cafes and shops that you're looking for, finding your dream home is a special experience.

However, negotiating with home loan lenders, insurers and vendors can take patience and skill. What starts out as an exciting experience can often become blighted with frustrations, complications and nerves, as we try not only to clearly understand what our options are, but to make sound, informed decisions.

Understanding the financial implications of home buying is a critical part of the process. You need to be able to answer questions such as, what are your living costs? What can you afford? How much would a bank be willing to loan you – and how much debt are you prepared to take on?

Interest rates, changes to the official cash rate and loan structures can determine how much interest you pay over the long run, and ultimately, how long it may take you to repay your loan.

This booklet is intended as a reference guide to help take you through the process. As mortgage advisers who deal in this industry on a daily basis, we've pulled together the most important aspects of what we think you need to know. We've also included plenty of tips from our mortgage advisers from across the country to help inform your decisions, and make the process as easy as possible.

How Mortgage Express Can Help

As a home buyer, you will most likely be spending your weekends visiting open homes and trawling the internet for property listings. It is a time-consuming process, and can be simply heart-breaking when a home you have set your sights on falls through your grasp, meaning you must start the search all over again.

Taking Out The Legwork

While we can't help with finding that dream home, our mortgage advisers can help you secure your property by ensuring you are in the best position to move quickly and confidently when making an offer.

At Mortgage Express, we have access to a wide range of insurers, lenders and products, which means we can save you a lot of legwork by bringing together all the options in one place.

By sitting down together, we can offer broad advice on the latest lending climate, interest rates and home loans, and find a package tailored to your specific situation. Our service is professional and comprehensive, and we can remain your trusted adviser over the coming years by also advising on re-financing, purchasing investment property and insurance.

Our Credentials

Mortgage Express is owned by Harcourts, New Zealand's leading real estate firm. Having recently celebrated its 125th birthday, Harcourts is a trusted and well-known brand in the real estate industry.

Mortgage Express is part of the Harcourts success story. All Mortgage Express advisers are either Authorised or Registered Financial Advisers, adhere to a professional code of conduct and regularly undergo professional development.

Integrity and professionalism are important to us and helping you into your dream home is what we strive for.

For a free, no-obligation discussion, please contact us today.

Freephone: 0800 226 226

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How Much Can You Borrow?

Knowing how much you can afford is an important first step before even visiting your first open home. Home buying can be a very emotional process, so before you fall in love with a house, it is important that you have a full, rational overview of your financial situation.

Adviser Tip: "Mortgage Express has several mortgage calculators on its website, where you can calculate what your repayments would be according to specific criteria. There's one for home loan repayments, split loans, extra repayments and even one to help you work out your borrowing power."

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An adviser will help you drill down your full financial position in more detail, but here are some of the factors you need to take into account:

- **Income**
  - Salary or wages (net)
  - Rental income
  - Other income
- **Expenses**
  - Existing debt, credit card or motor vehicle repayments
  - Living expenses: childcare, groceries, insurances, petrol, power, phone, water rates, land rates etc

Adviser Tip: "If you are single or in a relationship, what would happen if you or your partner is made redundant, becomes ill or cannot work for another reason? Or, if you are planning to have a baby, could you afford for one partner to stay off work for a period of time to care for your child? Think about how much debt you are comfortably prepared to take on, and seriously consider insurance to protect yourself."

Pre-approval

Put simply, pre-approval is conditional approval from a lender that they will lend you up to a certain amount for your home purchase. It generally lasts for 180 days, is free to set up and easy to renew.

We recommend that you have pre-approval before starting on your property search, as it gives you a very clear indication of how much you can reasonably afford to borrow and how much a lender is prepared to offer. It means you know exactly what your limit is when shopping around. It also speeds up the process considerably once you do find a house that you'd like to make an offer on.

Ensuring you have a pre-approval offer, and also negotiating for a competitive interest rate is where a mortgage adviser can help you. We work with many lenders every day, so are well versed in negotiating a deal that will best suit you, as we can easily compare between different lenders.

Finding the best home loan for you

There are several different types of loans on offer. These days, home loan lending is a competitive business, so it's wise to compare products and see who will offer you the best deal.

Determining which home loan is right for you, the term of the loan, and how you could apportion your debt are all big decisions - decisions that could potentially save you thousands in interest repayments. So make sure you do your homework: read the newspapers, talk to family and friends, and consult your Mortgage Express mortgage adviser.

Types of loan

Mortgages typically fall into the following categories:

- Fixed: Where you 'fix' or lock the interest rate for a period of six months to five years. At the end of the term your loan reverts to the floating rate or you can choose to fix the rate again for a set period or change to a different loan structure.
- Floating: Where your interest rate can increase or decrease as interest rates in the market change.
- Split: Where you can divide your loan between fixed and floating rates.

Interest rate type	Advantages	Disadvantages
Fixed interest rate loans	• You know exactly what your repayment will be, making it easier to plan your budget • Often there are some good 'special' fixed term rates • You can lock in a good fixed term rate if the market interest rates are rising	• Can be more difficult to make extra repayments • Floating rates could drop and you would stay on a higher fixed rate • You are locked in for the period you signed up for and could incur 'break fees' to terminate early
Floating/variable interest rate loans	• You can make a lump sum payment or extra payments at any time without penalty • You can refinance the loan at any time without penalty • If interest rates drop your loan repayments will reduce	• If interest rates rise, your mortgage repayments will increase as well • The interest rate may be higher than a fixed rate mortgage
Split interest rate loans	• Can make extra repayments without penalties on the floating rate portion • You have certainty over the fixed portion of the loan • It gives you a mix of interest rates so any rises and falls will not cause big changes in your repayments	• Rising interest rates will affect the floating portion of your loan • You need to decide how much to put in each portion

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Finding the best home loan for you

Repayment structures

- Table loan – Otherwise known as a Principal and Interest (P&I) loan. The most common type of loan, usually set for a period of 25-30 years. Interest repayments are high and principal repayments are low at the outset of the loan, but this is reversed as you near the completion of the loan period.
- Revolving credit loan – A loan account that is similar to an overdraft, as all your income and expenses come out of the one account and you can redraw up to the limit at any time.
- Reducing loan – Also called straight line mortgages. You pay the same amount of principal with each repayment, but a reducing amount of interest each time.
- Interest only loan – When you only pay interest, and no principal. These loans are often used for property investment.

Case study

Dave and Sue put in an offer of $455,000 on their dream home. However, the vendor wouldn't drop any lower than $475,000. Dave and Sue couldn't afford a mortgage greater than what they were already paying, which was $250,000 P&I at 7.10% p.a for 30 years, equating to $1,680 per month. If they increased their offer, they would be carrying a $270,000 P&I loan, which they would need to repay at $1,814 per month.

Just before they walked away, they consulted a Mortgage Express adviser. After evaluating their position, the adviser recommended a split loan into an interest only portion of $220,000 and a P&I portion of $50,000. This meant their mortgage repayments would actually decrease to $1,653 per month; they could secure their home and still live within their means.

Repayment structure	Advantages	Disadvantages
Table loan	• Can set up to 30 years with most lenders, which helps you stretch out your repayment amounts • Can plan and budget for repayments • Can be fixed or floating interest rates or a mixture of both.	• Little flexibility with repayment options
Revolving credit loan	• Can pay less interest because all your income is automatically paid into the mortgage and interest is calculated daily • You can easily make extra repayments	• No fixed repayments means you must be disciplined to not keep withdrawing funds up to your credit limit
Reducing loan	• You often end up paying less interest because you start paying off principal quite early in the loan period • Suits borrowers who expect their income to fall in the future, so they want to pay more up front	• You may end up paying more interest in the short/medium term because you have higher initial repayments • The initial payments are generally higher than under a table loan structure
Interest only loan	• Because you're not paying principal, you can free up cash for other things	• You still need to repay the loan amount after the interest-only period has expired

What if? The importance of insurance

Insurance is an important part of the home buying process. Most lenders require evidence of a house insurance policy before they will advance the loan. We also recommend that you give serious consideration to risk insurance, to protect yourself and your loved ones should something go wrong.

Mortgage Express can help you with the following forms of insurance:

House and Contents insurance

- House: Covers your house if it is damaged by fire, earthquake, flooding, burglary or other event.

- Contents: Covers damage and loss of your belongings, often including ‘third party’ cover if you damage someone else’s belongings in the house you are living in.

Risk insurance

- **Life:** Provides a lump sum of money if you die. You can apply for different levels of life insurance, which will cover you for a fixed number of years (for example, the length of your mortgage), or whole of life policies.

- **Health:** This insurance will protect you if you become sick or injured and are unable to work. Health insurance can provide cover for things like critical illness, disability and medical bills.
    - Mortgage insurance: will pay for your mortgage repayments if you cannot work.
    - Income protection insurance: to protect your income on an on-going basis.

Adviser tip: “It may seem unthinkable, but premature death or illness does happen. Risk insurance is an investment in your family’s future, and while we can’t plan for everything, we can do our best to make sure we’re as prepared as we can be. I urge all my clients to seriously consider taking out some level of risk insurance.”

Since the Christchurch earthquakes, insurance has become a complicated (and expensive) trap for the unwary. The industry uses a lot of jargon and terminology that can be daunting, seemingly like a new language that must be learnt.

Mortgage Express has specialist insurance advisers who can walk you through the process, clarifying and explaining your options at every step of the way.

Tool #1: Meeting checklist

Below is a handy checklist to help you get the most out of your meeting with your Mortgage Express mortgage adviser:

How much can I borrow?

My borrowing capacity

- I can likely borrow up to $ ______________________
- My repayments would be $ ______________________
- Next steps ______________________

Which type of loan is best for me?

Different types of home loans to discuss

- Fixed ______________________
- Floating ______________________
- Split ______________________

Which loan repayment structure should I choose?

Different repayment structures to discuss:

- Table / Principal & Interest ______________________
- Revolving ______________________
- Reducing ______________________
- Interest only ______________________

Pre-approval

Details ______________________

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Insurance

What are my options? ______________________

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Tool #2: Personal Risk Estimator

Life doesn't always go to plan.

If you died or became unable to provide an income, what financial support would your family need? Use this template to work out your personal risk.

Expenses

Immediate expenses

Hospital and medical fees	$
Funeral costs (typical cost: $5,000)	$

Short and long-term expenses

Mortgage repayments	$
Personal loans/hire purchases	$
Overdraft, credit card debt	$

Ongoing income requirements

Household income required	$
Estimated annual income required by your family – also consider how many years it will be required	$
Education for dependents	$

Total Expenses **$** ____________________

Income

Assets your family could sell if you died (eg house, boat, car)	$
Existing life insurance or inheritance	$
Other sources of income Eg. Partner's income, rental income, working for families/social welfare, interest from savings	$
Retirement/Kiwisaver funds	$
Potential ACC income For accidents only	$

Total Assets & Income $ ____________

A Mortgage Express Insurance Adviser can explain how insurance cover works and make recommendations based on your specific situation. Our advisers are well-trained and up to date with current regulations, and can present you with options from a range of insurance providers.

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Tool #3: Budget planner

This is a short, handy guide to budget planning to help you get you started. For a more comprehensive planner, please ask your mortgage adviser.

Monthly Income

	Annual Gross	Monthly Net
Applicant 1		
Wage / Salaries		
Self Employment		
Other:		
Total		

	Annual Gross	Monthly Net
Applicant 2		
Wage / Salaries		
Self Employment		
Other:		
Total		

Total Gross Rental Income	**Monthly**

Total Monthly Income (A):

Monthly Expenditure

	Per Month
Other Mortgage Repayment(s)	
Other Loan Repayment(s)	
Hire Purchase	
Credit / Store Card Payments	
Overdraft	
Student Loan	
Other Liabilities	
Child Support	
Day Care	
Rent	
Board	
Life / Trauma / Medical Insurance	
Mortgage Protection Insurance / Income Protection Payments	
House Insurance	
Contents Insurance	
Motor Vehicle Expenses	
Power / Gas / Phone / Water	
Rates / Section Lease	
Living Expenses Adults	
Children	
Education Costs Adults	
Children	
Superannuation	
Other:	
Proposed Mortgage Repayment(s)	

Total Monthly Payments (B):

Total Monthly Income (A):	
Less Total Payments (B):	
NET Monthly Surplus:	

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A Guide to Buying a House – for first home buyers

1. Decide what you're looking for in a home

- Determine a wish list for what you require in a home. This could include factors such as size, location, aspect/view, proximity to schools, shops and transport, garaging etc.

2. Work out finances

- Consult with a Mortgage Express mortgage adviser to seek advice on the buying process, determine your borrowing power, and help arrange pre-approval.

3. Choose your real estate agent

- A good real estate agent will keep you well informed, provide you with information, and find appropriate properties for you to view.

4. Determine overall costs involved

- Consider additional expenses, such as property valuation, solicitor's fees, insurance, moving expenses, property inspection reports, LIM reports etc.

5. Find the right home

- Work with your real estate agent to find the right property for you.
- Keep your mortgage adviser in the loop with your progress -they can assist with advice on smart buying, how to purchase at auction etc.

6. Make an offer

- Once you have found the right home, you can make an offer. Make sure you allow enough time before finance date to arrange valuations and building inspections if required. Your mortgage adviser will provide guidance on this. Your real estate agent will work with you to complete an Offer to Purchase.
- Let your mortgage adviser know about your offer so they can be ready to assist.

7. Finalise the legal requirements

- If your offer is accepted, your solicitor will check all the details and prepare the necessary documentation. You will need to sign mortgage documents and arrange for payment of the balance of the purchase price.
- Your mortgage adviser will assist with liaising between your lender, real estate agent and solicitor.

8. Finalise insurance

- Most lenders require house insurance to be in place before advancing the loan. An insurance adviser will be able to provide advice on your options.

9. Pre-settlement inspection

- This is your last opportunity to view the property before you instruct your solicitor to release the funds to the seller's solicitor. Check for any changes or damage that may need remedy before finalising the sale.
- Your real estate agent will accompany you on your visit.

10. Settlement and possession day

- Settlement is when you pay the purchase price in full and collect the keys - you now have legal ownership of your new home.

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