



LUGTONS 'IN THE MARKET' SERIES | BOOK 2

FINANCING YOUR FIRST HOME

 **Lugtons**

Paving the way to purchasing your first home

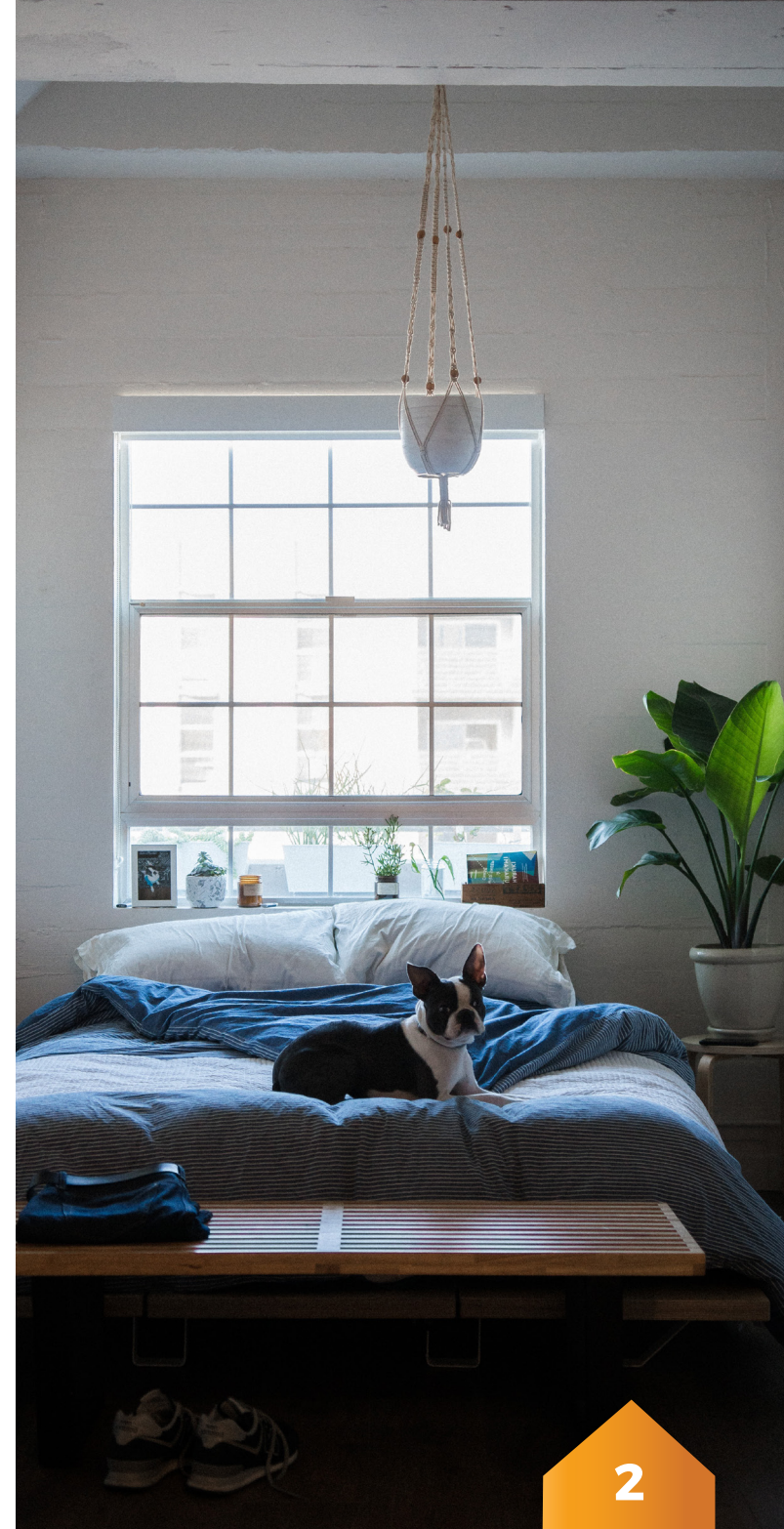
Congratulations on stepping out on the pathway to home ownership. This exciting stage in your life will create many memories, but it will also require significant investment - of your time, your money and your resources. But that's where this guide is here to help.

A major step towards buying your first home is making sure you have the finances ready for when you sign on the dotted line. To begin with there's a deposit, then there's the need to get pre-approval from your mortgage lender, not to mention actual D-day when the money and keys change hands.

As overwhelming as all this may sound, there is a way to simplify the process and it starts by knowing exactly how much you can afford. Establishing a savings plan early on will certainly help further down the track, but knowing what your budget is and what you can get for that budget, will help to make the house-buying process that much easier - and enjoyable.

In this eBook, the second in our series for first home buyers, we'll take you through the process of financing your first home, from saving for a deposit to securing the best deal on your mortgage.

We hope you find this guide useful.





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Your finance options

When it comes to financing your first home, it's important to remember the 80:20 rule. It doesn't matter how big or small your home is, or how much it costs, most lenders will require you to put down 20% of the value of the home as a deposit.

The remaining 80% is borrowed from the bank as your mortgage which you'll be required to pay back, with interest, over a set period of time.

To successfully finance your first home, look around for different providers to find one that will give you the best deal. And continually review your finances to get the most out of them, as this could also help speed up the savings process.

-  Savings
-  Inheritance
-  KiwiSaver

20%
Deposit

+

80%
Bank loan

=



Saving for your deposit

A deposit is the amount of money you are required to put towards the cost of your home when you first purchase it. Home loan lenders usually require the deposit to be 20% of the value of your home. This means, if you are buying a \$500,000 home you'll need a deposit of \$100,000.

However, for many first home buyers, having \$100,000 to put down on a home seems out of reach. This is where getting the best from your savings becomes important and setting smaller targets can make the goal more manageable.

Make your savings work for you

For most people, savings is money in a bank account. It's simple, straight forward and there's minimal paperwork (if any) required to set up an automatic payment into your savings account every pay day.

Now set yourself a smaller financial goal. For example, every time you save \$5,000 move it across into a high-interest term deposit account and fix it for a period of time that will give you the best return.

Most banks have a minimum \$5000 deposit for term investment accounts so this is a good goal to start with. While you're saving your next \$5,000, your term investment will be earning money without you needing to touch it.



Small deposit, big risk

There are some lenders out there who will only ask for a 5% deposit. While saving 5% seems much more appealing than 20%, consider the fact that you'll then have a mortgage worth 95% of the value of your home, plus interest. This puts you at risk should the value of your property drop. If this did occur, you could end up owing more on your home than it's worth.

Offsetting your mortgage

Your mortgage is the total price of your house minus your deposit. This money is borrowed from the bank and you will need to pay it back with interest. This means the larger your deposit the less money you need to borrow and the smaller your mortgage. In other words, the more you save, the less you need to beg, borrow or steal.

Different lenders offer different mortgage rates so shop around. If the bank you have been with since you first signed up to that free university student account doesn't have the best deal on a mortgage, look elsewhere. In many cases, your bank will match other rates in the market. You just need to ask.





Saving with Kiwisaver

When saving for a deposit for that special first home of yours, you're not on your own. Yes, setting up regular payments to go into your savings account is important (and it will also set you up in a good routine for when you start making regular mortgage payments), but there are other funding options out there that will reward you for your savings.

A popular option is KiwiSaver. Set up by the New Zealand government to make it easier for people to save for retirement, KiwiSaver encourages individuals to make regular savings contribution by getting their employer to pay a percentage into your account as well. The amount of money your employer puts into your account varies between companies, but the minimum contribution is 3%.

KiwiSaver HomeStart

KiwiSaver also has a scheme where you can choose to put your savings towards the deposit for your first home. It's known as KiwiSaver HomeStart and if you have been contributing to KiwiSaver for three or more years, you will be eligible.

This means you can withdraw however much you need for a deposit, providing you leave a minimum of \$1,000 in your KiwiSaver account. HomeStart grants vary depending on your situation.

> Existing home	\$3000-\$5000, based on \$1000 per year of KiwiSaver contributions.
> Build or buy brand new	\$2,000 per year of KiwiSaver membership to a max of \$10,000 for five years per member
> Buying as a couple	Max \$10,000 for existing house or \$20,000 for a new build.



Home Loans

For most of us, when we buy our first home we also need to take out a home loan. There are a few different loan types out there, and while your preferred lender will talk through these with you, it's a good idea to know what they are ahead of time.

Table loan

A table loan is calculated over the term of the loan, which means when you're starting out you'll be paying off interest before you hit the loan principal later on. You'll need to make regular payments, which you can align with your pay day. If you choose a fixed interest rate, the amount of each payment will be the same each cycle.

Revolving credit

Your loan acts as an overdraft. Your pay goes in and reduces the amount of interest you pay that month. Make lump sum repayments or withdraw money back out. If you're committed, great! If not, this may be a dicey option.

Reducing loan

Good - Your repayment includes the same amount of principal with every interest payment, decreasing the overall interest you'll pay.

Bad - As your interest is higher to begin with, your loan repayments will be much higher at the start.

Interest-only

This only covers your interest, so if you're not making lump sum payments on your loan, you won't be paying off the principal at all.



Pre-Approval

It's common practice here in New Zealand to apply for conditional approval and can be helpful for first home buyers who may not know how much money they can borrow.

What does pre-approval mean?

Pre-approved finance means you've been approved as a borrower providing nothing changes for you, and the home you choose meets the loan provider's lending conditions. This conditional approval tells sellers you're a serious buyer, and if you want to bid at auction, conditional approval is a must-have.

Pre-approval is normally valid for 90 days and means you'll know what you can afford, giving you the ability to quickly decide once you've found a great property.





How can we help?

Lugton's' real estate sales people are trained in all aspects of real estate, including negotiation and real estate law, which means their expertise will help you purchase your new home for the right price and avoid any buyer mistakes.

Once you've achieved pre-approved finance and you have your budget to hand, we'll help you in your search for you perfect first home!





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