

## eLAN PROPERTY EDUCATION MODULE

### MODULE 6

## Banks & Bonds

### 6.1 THE CONCEPT OF A MORTGAGE ORIGINATOR

A mortgage originator is well versed on mortgages and acts on your behalf when you apply for a home loan. Their task is to find you your home loan requirements and offer you an array of options to suit your needs. Because they receive commission directly from the banks, their services are free of charge.

The mortgage originator gets all the necessary information from you and submits it directly to all four the bank. If all the paperwork is in order, your bond should be approved in about seven days. This is a one stop shop for you, and they source you the best deal at no cost.

### 6.2 CALCULATING AFFORDABILITY

The key provision of the NCA is that financial institutions are now obliged to perform a thorough affordability assessment before granting credit to their customers. Therefore someone applying for credit has to prove their financial standing to ensure they can afford the loan. Under the NCA, the banks will generally offer you a loan where the monthly repayments are not more than a third of your gross monthly income, and you have sufficient disposable income (after all expenses paid) to service the loan applied for.

In the past, people were pre-approved for their home loans. This is no longer allowed and the banks now have to assess your financial situation by looking at your monthly income, living expenses and the value of your assets.

First let's look at income. The following types of income are acceptable to the various banks:

- Monthly salary - gross monthly income before tax, pension and medical aid deductions
- Car allowance - a percentage of this benefit may be included
- Housing subsidy or a housing allowance
- Commission - this is based on your average earnings over a six month period provided it is continuing
- Maintenance - in cases of divorce, three months proof of payments are required. A copy of the court order stating the maintenance amount and proof that payments are received on a regular basis are required if these are to be included in your income calculation
- Overtime - based on your average earnings over a six month period provided this is permanent
- Rental income - copy of the lease agreement, and bank statements as proof of rental received.

Joint income can also be taken into account if:

- The income is shared by a company, close corporation or trust
- The property is registered in the names of all the people whose incomes are taken into account
- The income is shared by a husband and wife - either can sign surety
- The income of the person standing surety for your instalments

*With your monthly income, living expenses and bond repayments established you are in a very good position to make an offer and sign the dotted line.*

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### 6.3 APPLYING FOR A BOND

The key to applying for a bond successfully is to do it one step at a time.

1. Assess your financial position and calculate how much you can afford by using our handy calculator.
2. Find the property you want to buy. This can be a slow process and it is worth taking the time to find the right property for you.
3. Sign an Offer to Purchase – If the seller accepts and signs the Offer to Purchase, the transfer process begins.
4. Submit application and obtain finance – You can do this yourself or approach a bond originator company that will submit your application on your behalf acquiring the best rates.
5. Ensure you have the required supporting documentation
  - Copy of each applicants ID
  - Copy of offer to purchase
  - Three month's bank statements for each applicant,
  - Recent salary slips if employed
  - If you are self-employed you will need three months personal bank statements, six months company bank statements, up to date company finances and a letter from your accountant verifying your monthly salary, management accounts.
6. Valuation – the bank will send someone out to assess the property and decide whether the purchase price coincides with the assessed value of the property.
7. Final Grant – This will be issued once the valuation has been done and all other conditions have been met.
8. Pay deposit – This is paid to the transferring attorney.
9. Registration – Transfer of the property in your name will take place as well as the cancellation of the seller's bond. Once registration has taken place, your bank will pay the seller or their bank and your home loan will come into effect.
10. Taking occupation – As per the date on the sale agreement, you may then take occupation. You will be liable for occupational interest.

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### 6.4 FEES

When buying a property, a transfer fee applied by the government is payable by you when the property is transferred into your name. The fee is based on the purchase price. It is charged on a sliding scale depending on the price of the property:

- Legal entities (companies, close corporations and trusts) \_\_\_\_\_ 8%
- Natural persons: On the first R500 000 \_\_\_\_\_ 0%
- R500 001 to R1m \_\_\_\_\_ 5% of value above R500 000
- R1 000 001 and above \_\_\_\_\_ R25k + 8% on value above R1m

*Transfer fees do not apply when you buy property direct from the developer, as the seller, being the developer will be a vat vendor.*

Because a property transaction is the single largest and most important transaction you will ever make, the law stipulates it should be undertaken by a qualified conveyancer. This is to protect the public's rights as well as the South African land registration system.

So over and above your transfer fees, there is also a conveyancing fee. These costs are also calculated on a sliding scale depending on the purchase price. (e.g. R1, 000, 000 = 0.9%, R2, 000,000 = 0.6%, R3, 000,000 = 0.5%)

In addition, there is also a bond cost which is a flat rate also charged by the conveyancer. The bond cost is calculated on the value of your bond to be registered.

These costs are due prior to transfer of your property.

### 6.5 INTEREST RATES AND CAPPING

**Interest Rates** – This is the cost of borrowing money from the bank. The rate is usually expressed as an annual percentage on the amount borrowed. (Perhaps to go in glossary)

There are a variety of different home loan options offered by the banks.

**Prime Rate** – This is the basic interest rate charged by the banks. You can get loans below prime depending on your credit status.

**Variable Rate** – This is linked directly to the prime lending home loan rate, and is therefore subject to fluctuation as determined by the reserve bank. Therefore your home loan interest rate fluctuates, could go up or down.

**Fixed Rate** – In this instance you and the bank will agree on a rate that is 'fixed' regardless of the market conditions., normally 12,18,or 24 months.

**Capped Rate** – Here you will be able to fix your rate at a certain point. A capped rate may not increase if the variable rate increases but it may decrease. This rate is used very seldom.