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MAKING IT FUN

A guide to buying your First Home in New Zealand

(and other tidbits!)

By Claire Williamson

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A guide to buying your first home in New Zealand (and other tidbits!)

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Some of the names and identifying details have been changed to protect the privacy of individuals.

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Making it Fun

Over the past five years, I have spoken with a massive number of first home buyers like you. I've come to realise that you need a decent resource and handbook where you can gather all the information you need, in one place, in an easy to understand format.

There are no decent resources available to first home buyers who wish to learn about the whole buying process and that's not good enough! At the moment, you're trying to navigate a tricky Kainga Ora website to find out more about KiwiSaver, the First Home Grants, the First Home Loan and read *Stuff* articles about the doom and gloom of a rising and falling property market. Add in well-meaning advice from your workmates or friends and it's hard to know who's right!

I wanted to create a coaching programme for you. As such, this is my way of sharing valuable information so you can have a great, easy home buying experience.

I've made this super easy! I have broken it up into sections so you can see how the different parts of the process fit together. By the end of this book, you'll be armed with a heap of information, so your first home buying experience becomes incredibly easy, smooth and most importantly, FUN!

Buying a house is the biggest purchase you'll likely ever make, and no one wants you to be stressed.

Young first-time buyers often turn to their parents for information. While this is awesome, it's often 20-30 years since they bought their first home and times have changed a lot since then. Because we're out there doing it day to day, we keep 100% up to date with any changes and make the process easy for you.

I've guided more than 50 first home buyers into their new homes. I have seen all the pitfalls, solved all the problems, and had a lot of fun doing it. This book is my way of sharing that journey with you; by reading this book you will learn more about the process and get the benefit of some inside info too!

Please keep in mind that all of this is my own experience and those of some of my clients. There are no hard and fast rules for succeeding in purchasing your first property. Nor is this book intended for you to follow the process alone.

In November 2014, my partner Mike and I purchased our first home; a massive, run-down, slightly smelly, overgrown, brown and white house in Glenview, Hamilton. We spent our first night in the house cleaning it, but nothing could curb our enthusiasm about actually owning our first piece of "paradise" and we spent two years slowly but surely making it beautiful again.

In August 2016, we found a dream piece of land just outside Cambridge and we decided the time was right for us to sell our beloved first home and take on the next challenge – building our dream home! More about that later.

So, sit back, take it all in, and get ready for a fun ride to your first home….

First things First

Where are you at right now?

Before you can even decide to buy your first home, we need to work out where you're at. I strongly recommend you don't skip this step. Like building a house, you need to create solid foundations, to ensure that you are totally ready for the responsibilities that come with homeownership.

Owning a house requires a certain amount of stability, certainty of income and commitment. Don't get me wrong, if you want to buy your first home and then head off on an OE (Overseas Experience), you can totally do that. However, it does require a bit of forward planning and advice to make sure you get that balance right. What I'm saying is, don't enter into this lightly as you will lose a small amount of freedom and spontaneity.

Okay, now that we've got that disclaimer out of the way, let's make a plan!

The four most important things

The most important thing (unless you're buying a house with cash in the bank) is to be seen as an attractive borrower to a bank. Here are four of the most important factors in achieving this goal:

Your income

What do you earn and how do you earn it? A person on wages or salary is treated differently to someone who is self-employed, a contractor or owns a business. Some banks have rules about how long you need to have been working before they'll let you buy a property. As a general guide, you need to be outside of a 90-day trial period if you are in employment. If you are self-employed you usually need to have been trading for a minimum of 12 months.

Your current debt

This is a big one, and something a lot of people overlook. By debt, I mean ANYTHING at all that you're paying off; whether it's to a car finance company, a bank, a holiday on GEM visa, anything interest-free or Uncle Sam who lent you some money last year. We must prove you can afford to buy a house and still pay back the money you currently owe. As a rule, the less existing debt you have, the better.

Your credit rating

This means, "How many times you have borrowed money and shown you can pay it back?" Any time you apply to borrow money (whether it's a car loan, a credit card or a mortgage) it will be noted on your file. If you don't pay that money back (i.e. you stop making repayments or something unforeseen happens and you can't afford it, like a relationship break up) the bank won't be stoked about it.

Missed repayments or going over a credit limit (amongst other things) will lower your credit rating which could affect how readily you're lent money in the future. If you're not sure about this or you think you might have a blip on your file, don't ignore it, find out what your report says. You can order your free credit file from https://www.mycreditfile.co.nz and you get the results back in a few short days.

Your deposit

I have devoted a whole chapter of this book to all the different ways you can find the money for a deposit. Keep reading to find out more!

Once you know the amount you can raise as a deposit this will tell you how much you need to borrow. We have an awesome mortgage repayment calculator on our website (www.mymortgage.co.nz/page/calculator/) which will give you an indication of what your weekly, fortnightly and monthly repayments might be.

Six easy steps to get into your first home faster

We all know that your home is one of the biggest purchases you'll make in your life. I want to make the path to you owning your own home as easy as possible for you, so I've put together some handy tips which we know work, to get you into a position to make it happen faster!

1. Make a Commitment

For any big purchase, and even more so with your first home, you need to set some savings goals and stick to them. Committing to your long-term goals is essential. It may (and most often does) mean you will need to cut back on some of your current spending habits. It doesn't mean you need to give up your Saturday brunches completely, just have them as occasional treats rather than weekly occurrences. This is the beginning of your journey to purchasing your first home, commitment is the key to unlocking the doors to your first home!

2. Set up a savings account at another bank

When you log into your internet banking and see all your accounts in one place your funds are a little too accessible. It's a bit too easy to access your money and spend it on impulse buys or other things that don't support your long-term goals. By keeping your savings in an account with a different bank (and not having an EFTPOS card) it makes it a little bit more difficult to access your money and you are less likely to spend it on a whim. Bonus - When you log in after a month or two you will see that your nest egg is growing!

3. Contribute a higher amount of your income to KiwiSaver

While this is not investment advice, contributing a higher portion of your income to KiwiSaver, like 8% rather than 4%, builds up your KiwiSaver funds quicker. You can't access this money unless you buy your first home or until you turn 65 so it's safely tucked away as part of your house deposit.

4. Increase your income

For some jobs, it's possible to pick up extra shifts, maybe during evenings or weekends, to increase your overall income. I've even seen some enterprising first home buyers make and sell products and do some odd jobs for friends or family to help them get ahead. This doesn't work for everyone and obviously needs to be managed well so you get some time to yourself too! However, it can be a great way to help you save a bit more towards your deposit and get you into your first home quicker.

5. Live with family (or others)

We all know that rent costs have increased recently and that can take a large chunk out of your income. Living in shared accommodation with parents or even having friends as flatmates can help you save a lot quicker towards your first home.

6. Be realistic

Get in touch with us and we can help you set an appropriate budget for your situation. Remember that your first home isn't your forever home and there will likely be things you may not love about it. Setting some realistic expectations, balancing what you can afford and what is sustainable for you in the long term, is really important. This way you're in a position to enjoy living in your first home and also enjoy living life too!

Who are you going to buy with?

For most first home buyers, having at least two people being involved in the purchase will open up a heap of options for you. This is very useful unless you have a very high personal income or a very good deposit available to you.

Here is a range of possible options open to you whether you are buying as a couple/group or alone:

Buy by yourself

Positives:

- ✓ You have complete control over the process
- ✓ You can make decisions without input from other people
- ✓ There are fewer risks as there are no other people involved

Negatives:

- × It will likely mean you have a lower budget than couples/groups
- × You may need more time to save up the deposit
- × You have to make all of the necessary decisions on your own

Buy with a partner, husband or wife

Positives:

- ✓ It will likely mean you have a higher budget than a single buyer
- ✓ A higher budget will give you more choice of properties
- ✓ You have shared income and expenses

Negatives:

- × You may need to make a plan between buyers if deposits are unequal
- × Shared decisions could lead to disagreements
- × You may need to make compromises

Buy with a sister, brother or another family member

Positives:

- ✓ You could contribute family money knowing it will be safe
- ✓ You could buy your first home as a family investment
- ✓ You can make decisions together lessening the stress of buying

Negatives:

- × You need to get along well especially if you are planning to live together
- × Differing opinions and values may put a strain on your relationship
- × If you or your family member has a change in circumstances it can be difficult

Buy with a good friend

Positives:

- ✓ A larger, shared deposit (of 20%+) could get you a better interest rate
- ✓ The arrangements might suit you both well and leave you with more disposable income
- ✓ Less likelihood of having a serious disagreement with a good friend

Negatives:

- × Arrangements could get complicated if there are unequal deposit contributions
- × Any disagreements could risk a good friendship
- × There are many long-term issues to consider e.g. changes in circumstances

Buy with parents

Positives:

- ✓ Usually larger deposit or equity in parent's property (see deposit for more info on this)
- ✓ Therefore, you can get a cheaper interest rate
- ✓ Offers the opportunity to buy a slightly better property

Negatives:

- × Less choice, if Mum and Dad want to be in on picking the house!
- × Can be tough to unwind if Mum and Dad's property is used as equity for the purchase
- × Might be complicated if you ever wish to sell the house in the future

Finding your Deposit

Right, let's sort out some money for you to buy this house!

Firstly, tackling the deposit. Where might this come from?

Savings

Putting away money each week, fortnight or month may not be fun. However, it will make a big difference in how much money you have available to buy your first home. Try to commit to saving a regular amount (after you've set up a realistic budget) and stick to it. It's better to save a smaller amount than overcommit and then find you're short and have to dip into your savings. In an ideal world, you would label your account "house savings" (or something fun like 'Yes! I'm buying a house') and you never touch it!

KiwiSaver

KiwiSaver is the Government scheme which requires you to put away at least 3% of your wages for retirement. This is now a very common way for couples to get into their first home. This fund builds up over time and you can withdraw these funds to purchase your first home or when you reach (65) retirement age. You must also have been a member of KiwiSaver for at least 3 years before you can take money out of the scheme. The KiwiSaver scheme has now been running for over 10 years so a lot of people have a decent chunk of money sitting in their account.

There is no requirement to buy a property in a certain price range or have a certain amount of income to take advantage of the scheme. The eligibility criteria are pretty simple:

- ✓ You need to be in an approved KiwiSaver scheme for 3 years or more
- ✓ You need to be over 18 years old
- ✓ You need to be a first home buyer or in the same position as a first home buyer
- ✓ You need to live in the property you buy for at least 12 months

To apply for a withdrawal, you will need to contact your provider. This could be a standard bank, an investment company or a KiwiSaver specific scheme. Once you have called them and made the request, they will send you a letter showing you the funds available for withdrawal.

First Home Grant

The First Home Grant is money from Kainga Ora to assist you with your deposit to purchase a property. You can receive between $3K - $5K for an existing property and between $6K - $10K for new homes depending on how long you've been contributing to KiwiSaver (3, 4 or 5 + years).

This money is non-repayable, but there are a few boxes to tick, so check out our guide for the criteria you'll need to meet alongside the KiwiSaver criteria above:

- ✓ Earn under the income threshold of $95K for an individual or $150K for a couple
- ✓ Be a permanent New Zealand resident with no visa travel conditions or an NZ Citizen
- ✓ Have at least 10% deposit
- ✓ Meet the house price caps for your region (see table below or resources with link to updated table)

House price caps

Region	Existing/older properties	New properties
Auckland	$625,000	$700,000
Queenstown-Lakes District	$600,00	$650,000
Kāpiti Coast District, Porirua City, Upper Hutt City, Hutt City, Wellington City	$500,000	$550,000
Hamilton City, Tauranga City, Western Bay of Plenty District, Waipa District, Hastings District, Tasman District, Napier City, Nelson City	$525,000	$600,000
Waimakariri District, Christchurch City, Selwyn District	$500,000	$550,00
Waikato District, Dunedin City	$425,000	$550,000
Rest of New Zealand	$400,000	$500,000

Regions are defined by city and district council boundaries. Table accurate as at 1st June 2021.

The First Home Grant application process is now all done online making it much easier to complete. You can find links to the website on the resources page at the end of this book or on our website.

You will need a few details to apply, including:

- ✓ Your IRD Tax Summaries for 2 years (log into MyIR by visiting http://tiny.cc/myir)
- ✓ Your KiwiSaver Summary to prove you have been contributing for at least 3 years
- ✓ ID - Driver's license(s) or Passport(s)
- ✓ Payslips for each applicant

- ✓ Bank Statement, Gift Letter or KiwiSaver printout showing your available deposit funds totalling at least 10% of the purchase price

If you apply for your KiwiSaver and First Home Grant nice and early you can secure pre-approval for both schemes. This will save a huge amount of time when you have actually agreed on a property to buy. I would strongly recommend you start this process early to ensure that it is nice and easy for you later on in the process.
The final stages of your KiwiSaver and First Home grant withdrawal are facilitated by your lawyer. They will write to your provider and Kainga Ora to let them know you're buying a property. They receive the funds into their Trust bank account to hold for you until the day you take over the property. More about this later.

First Home Loan

This is a nifty wee initiative by the NZ Government to help out first home buyers who only have a lower deposit amount available. To take advantage of this scheme you must have a deposit of at least 10% of the property value. This gives you access to borrowing at a lower cost than a standard 80% bank home loan.

Essentially the way it works is that Kainga Ora agree to guarantee the loan and they approve it as well as the bank who provides it.

How is it different from a normal Home Loan?

The First Home Loan works really well for those who have a smaller deposit. It is often used by first time buyers who have been gifted the full deposit amount by a relative or other person. This might also be of interest if you only have a small amount of KiwiSaver or First Home Grant funds to contribute.

Many lenders offer this product, the only fee being a lenders mortgage insurance fee of 1% (e.g. $3K for a $300K loan). Most lenders who offer the First Home Loan will do special rates for first-time buyers. This can make a massive difference to what you pay out week to week.

So what do I need to get a First Home Loan?

- ✓ Be a first-time home buyer and live in the new home you want to buy
- ✓ Be an NZ Citizen or Permanent Resident with no travel conditions
- ✓ Have been in your current job (or a similar job in the same industry) for at least a year
- ✓ Have a good credit record and low current personal debt
- ✓ A 10%+ deposit including gifted funds, your KiwiSaver and First Home Grant if required
- ✓ Earn less than $95K for an individual, or $150K for a couple
- ✓ Wish to buy under the house price cap for your city or region

- ✓ Meet the normal lending criteria - be able to afford repayments and meet all other financial commitments

The First Home Loan is a great product for the right borrower. It totally achieves the aims it set out to do; helping out first-time homebuyers who have a good job tenure, low income and low debt levels get into their first homes.

Now might be a great time to start talking about how parents can help you with your first home. There are a few ways they can help but it’s not quite as easy as it used to be. Parents used to sign a bit of paper and voila!

Family Financial Support

In late 2013, the Reserve Bank made changes that forced many borrowers to have a deposit of at least 20 per cent. This, coupled with rising house prices in many of our city centres, has led to an increase in family members assisting first time buyers with their deposit requirements.

There are many options for family members to take advantage of and there are pros and cons to each of them. Below, I have detailed some of the more popular options:

Parental or Family Guarantee

This option was once very common but has fallen out of favour with many Financial Advisers and Lawyers in recent years. This involves parents or family members guaranteeing your home loan by securing it against their property and providing an assurance they will honour your loan contract obligations if you fail to meet them.

Pros

- ✓ Simplicity - There is often very little paperwork involved
- ✓ No cash changes hands between family members
- ✓ Peace of mind for the buyer

Cons

- × Restricts parents’ ability to secure future borrowing as the lender considers your loan to belong to them as well
- × You must use the same bank as parents which may lead to less preferential deals
- × Complex to unwind once you have sufficient equity to standalone

The biggest risk is that you fall behind in mortgage payments and the bank choose to send both your property and your parent's property to a mortgagee sale.

Joint Ownership

This option is becoming much more common. In this situation, your family choose to buy the property 50/50 with you and therefore you have joint liability for any lending.

Pros

- ✓ Part ownership of a property without a large deposit
- ✓ Guidance from your family as experienced homeowners
- ✓ The opportunity to buy your family's share once you have increased equity

Cons

- × Joint borrowing means a shared loan account and therefore lack of privacy
- × There is a cost involved in taking full ownership of the property in the future
- × Your parents will be liable for the debt if you do not honour the loan agreement

Loan for deposit

This is becoming the most popular way for parents to help their children buy their first property. Parents could choose to lend you the money and have you pay it back in regular repayments, when the house is sold or when you are in a better financial position. The key to success is setting this up with a proper loan agreement. This way your parent's money is safe and they know they will get it back and the bank is happy that you don't have long term obligations to repay the loan.

If your parents need to borrow the money for this, they can do so using a Revolving Credit account alongside their existing home loan. You can then make payments directly to this account and the interest is charged only to that account. That way it is just like repaying your own loan but it is in your parent's name.

Pros

- ✓ The risk to parents is limited only to the amount they are lending you
- ✓ Easy management of repayment of the loan
- ✓ Excellent flexibility as a borrower since you have cash available

Cons

- × Some people feel funny about transferring money and prefer a guarantee
- × Your parents may have to take out additional credit to fund lending you the money
- × A minor inconvenience for parents if they have to complete a loan application for deposit

Gift for deposit

Last but definitely not least!

This is a great option if you have access to it. The pros are obvious, you're going to get a head start on your home loan and we will be able to secure you an excellent deal.

The only cons are when this isn't an option for you... see above!

Your Finances

Valuations

GV/CV

This one goes by all manner of different names. This is the Rating Valuation for your property. It's the value the council used to approximate what your property is worth. This valuation gives you an indication of the value of your property but is by no mean accurate due to how it is calculated. You will see this valuation on your rates demand letter or on your council website.

A “Desktop Valuation”

Sometimes banks attribute the value of a property using a desktop valuation. Normally this is a bit of a hit and miss kind of situation. A few random factors will determine the given property valuation. It’s loosely based on the value of other properties the bank holds as security in your local area.

RV/RVR

This is a Registered Valuation. Technically called a "Registered Valuers Report" because the valuer is registered, not the valuation itself. This is a detailed report on the value of your property. Unlike the GV/CV, it requires a full inspection of your property with specific details of your property listed and comparable sales in the area noted. This is the most accurate way of valuing a property and the bank requires a Registered Valuation in many cases (definitely if you’re borrowing more than 80%). This is the most common requirement when buying your first home.

The Purchase Price

The purchase price is used by the bank to establish the value of a property and they’ll use this number for the first 3-6 months. It’s quite common for people to ask if they buy “at a discount” whether the bank will lend them more money. The answer is they will use what you can prove. For example, if you buy a property for $450K, and get a Registered Valuation 3 months later for $480K, the bank should lend on the new valuation. This might be helpful to enable you to consolidate debt, borrow for renovations or reduce the margin on your lending.

Types of loans

There are many types of home loan available and this can make it confusing for first-time buyers. Here is a summary explanation of the main types of home loan that might be available to you:

Fixed interest rate loans

With a fixed-rate home loan, the interest rate you pay is fixed for a period of between six months and five years. At the end of the term, you can choose a fixed rate for a new term or move to a floating rate instead.

Advantages:

- ✓ You know exactly how much each repayment will be over the term
- ✓ Lenders often compete with fixed-rate special deals
- ✓ You can lock in lower rates if market interest rates are rising

Disadvantages:

- × Fixed rates often limit how much you can raise repayments or make overpayments without paying charges
- × Long-term, fixed-rate floating rates may drop below your fixed-rate at times
- × If you sell your property and/or break a fixed loan you may be charged a ‘break fee’

Floating (or variable) rate

Lenders of floating rate loans will lift or lower the interest rate as they change in the wider market. They are normally linked to the Official Cash Rate (OCR). This is why there is always so much attention to what the Reserve Bank is doing with the OCR, as it can affect mortgage rates, in particular floating rates because it means your repayments may go up or down.

Advantages:

- ✓ You have more flexibility to make changes (such as paying off the loan early or changing the loan term) without penalty
- ✓ It’s easier to consolidate other, more expensive debt into floating rate loans by borrowing more

Disadvantages:

- × Floating rates have historically been higher than fixed rates
- × When rates go up the repayments also go up, putting a squeeze on your budget

Table loan

This is the most common type of home loan. You can choose a term up to 30 years with most lenders. Most of the early repayments pay off the interest, while most of the later payments pay off the principal (the initial amount you borrowed).

You can take a table loan with a fixed rate of interest or a floating rate.

Advantages:

- ✓ Fixed-rate Table loans have a set repayment amount and term
- ✓ Table loans are available for up to 30 years terms lowering monthly repayments

Disadvantages:

- ✗ Fixed regular payments might be difficult for people with irregular income
- ✗ Floating rate Table loan repayments can be unpredictable

Offset loans

An offset mortgage setup can reduce the amount of interest you pay on your mortgage. Typically, interest is payable on the full amount of a loan. You can offset the interest you pay against money held in any savings or everyday accounts. For example, someone with a $400,000 mortgage and $20,000 in savings would only pay interest on $380,000. Subtract the savings from the total loan amount, and you only pay interest on what's left!

Only a few New Zealand banks offer this option, not all banks. And it's only useful if you have a decent amount of savings.

The more cash you keep in your linked accounts from day to day, the more you'll save because interest is calculated daily. Linking as many accounts as possible (whether from a partner, parents, or other family members) means you pay even less interest.

Advantage:

- ✓ You pay less in interest and pay off your mortgage faster. Typically, there is no fixed term

Disadvantage:

- × The linked savings accounts do not earn any interest when they offset a loan. That said, interest on the debt is typically higher than the interest you would earn on savings, which makes the offset worthwhile.

Interest-only Loans

With an interest-only loan, you only pay interest on the money you borrow. You are never paying off the principal loan so the payments are lower. Some borrowers take an interest-only loan for a year or two and then switch to a table loan.

With New Zealand banks, this is now only really offered to investment (rental property) loans or those who live in their own home and have a really good reason for requiring interest-only (like large renovations or renovating to sell).

Advantage:

- ✓ You will have more cash available for other things e.g. an investor may put the extra money towards another property deposit or doing maintenance

Disadvantage:

- × Ultimately it costs you more. You will still owe the full amount you borrowed until the interest-only period ends and you start paying back the loan.

Revolving Credit Loans

Revolving Credit Loans are becoming increasingly popular. However, in our experience, they are not being used to their full potential. Often, they are set up incorrectly and end up costing people more money than they should do.

What is a Revolving Credit Loan?

This account goes by many different names (e.g. Orbit, Choices everyday, Flexi, Go Home Loan) depending on your lender. The simplest way to explain a revolving credit loan is to see it as part of your home loan that operates like an overdraft facility. You have a certain amount of money in your account that you can withdraw and repay as it suits you.

However, bear in mind that you are charged interest on the amount of money you have 'borrowed' from your home loan. The interest rate on this borrowed money is usually not as high as a traditional overdraft because banks often use their home loan floating rate as the interest rate.

How does it fit with your home loan?

As an example, you may have a $250K home loan. Let's say you fixed $200K for 2 years. You could then take the remaining $50K and put this into a Revolving Credit (RC). The RC is a separate account that you can treat just like an everyday bank account. You would start with $50K owing on this account and would be paying interest on this loan at the floating rate. If you then transferred $10K into this account you would have those funds available to withdraw from the account at any stage and you would only be paying interest on the $40K remaining balance.

The main advantage of a revolving credit loan is the ability to reduce your interest costs and make lump-sum payments on your loan without penalty. Also, it gives you the flexibility to draw the money out again in the event it is required for something else.

It's important to understand that the appropriate amount of revolving credit is different for everyone. It depends on many factors including your income, loan amount, risk sensitivity, goals for repayment etc. This is why a "one size fits all" approach just doesn't work in this scenario.

I've heard I should put all expenses on a Credit Card?

Not necessarily. There is a mathematical advantage in doing your monthly spending on Credit Card (interest-free for up to 6 weeks), letting your salary reduce the limit of your RC (and therefore interest cost) over the month and then paying your credit card off in one lump sum.

However, my experience has shown that this approach only works well for a very small percentage of people. The main problem is it becomes difficult to keep track of your spending over the month and therefore it is unclear if this strategy is working for you. Most people find that when they come to pay off the credit card each month, they have not made the progress they had hoped for on their Revolving Credit.

Even if you don't put expenses on a credit card and simply have a Revolving Credit attached to your main current account you are still open to the above issues of not being able to manage your money as simply as you could.

How do I get the most out of my Revolving Credit then?

The answer to that is simple. Make sure that your overall loan structure is tailored to fit you, your income, expenses and financial goals. A small amount of time spent at the start, or upon reviewing your arrangements, can make things a lot easier for you and save you a lot of money.

For most people, we recommend the following...

- ✓ A small amount of Revolving Credit in a separate account to your main transaction account
- ✓ Setting the appropriate amount of Revolving Credit based on your overall financial goals
- ✓ Setting a household budget so you know how much extra you may have to pay into the Revolving Credit account
- ✓ Consider bonuses or any other windfalls you may have so that they can be paid into this account without penalty

The gains to be made by making extra payments and the interest saved on reducing your home loan can see you become debt free a lot faster. Revolving Credit is a powerful tool but it needs to be used correctly to get the most out of it.

The Buying Process

You've found a place you love and you just want to move in. But first, there might be a bit of negotiating to do and that huge long legal document we call a Sale and Purchase Agreement, which is 20 pages and contains a whole lot of crazy terms which I'll break down here for you.

The Sale and Purchase agreement is the contract between the seller (vendor) and buyer (likely you!) to transfer the ownership of the property. This must be signed and dated by both parties to be legally binding.

Conditions in the agreement

Many agreements will have some things for you to do before you commit fully to purchasing the property. These can be numerous and are listed as follows.

Finance

Most buyers will need approval from a bank to confirm they can buy the property. This is where we come in! This can also involve getting a Registered Valuation on the property, as well as confirming that you're eligible to receive your KiwiSaver and First Home Grants. Requiring finance is a very common situation and it normally takes 10 days to confirm financial arrangements. Talk to us or your lawyer about how long you need to allow for this stage of the process.

Builder's Report

Getting a builder to check the property out is highly recommended. They will confirm that the property is structurally sound, as well as checking for any moisture build-up or any potential problems you could face down the track. These are not cheap to get done but are a worthwhile investment given they could save you thousands of dollars down the track if there is something wrong with the property you don't know about. This will also reassure your lender that they are investing in a property that is an asset, not a liability since they own your home (or part of it) until your mortgage is paid off.

LIM Report

LIM stands for Land Information Memorandum. Essentially, this is a document which details the council history for your property. It includes building consents and other details which affect your property directly. We always recommend you get a LIM report and have it looked over by your solicitor.

Meth Test

Meth tests are becoming increasingly common in agreements, where purchasers want to ensure the property has not been contaminated with methamphetamine. Some of the most unlikely properties show up positive meth tests and it can be hugely expensive and stressful to resolve. Therefore, it's highly recommended to get a quick test done to make sure you know exactly what you're buying.

Solicitor's Approval

This is a clause which allows your solicitor to look over the title of the property. They will check there is nothing you are unaware of or did not consent to before you purchase. They will also ensure there are no legal problems with the property. Often buyers insert this clause into their contract if their solicitor has not had a chance to view the offer before it is signed.

As you will often be signing an offer with a Real Estate Agent, (most of whom are fantastic at explaining the process) ensure you ask plenty of questions about what you are signing, they insert the correct clauses into the contract and fully explain the agreement to you. Also, make sure your solicitor has a chance to look over the agreement before it's signed.

After your offer is accepted, your lawyer will help you meet the conditions, and when you are happy with all your reports and finance, they'll declare your agreement unconditional. This means, in my language - you're buying this house, congratulations!

After the unconditional agreement, you'll need to pay a deposit. There can be a bit of confusion around this so let's break that down too…

As mortgage brokers, we talk a lot about deposits, as do Real Estate Agents and Lawyers. But your deposit may come from several different sources.

When we talk about your deposit, we refer to the portion of your new home's value that you'll contribute. So, for a $400K house, you might contribute 20%, which is $80K.

This is the total amount that you'll pay personally towards the purchase, and it might be made up of some KiwiSaver/Superannuation, savings, a gift from parents, or the First Home Grant, as we've talked about earlier.

You may have heard that when you sign an agreement to purchase a property, there is also a "deposit" required. This is not a separate deposit. It's usually around 10% of the purchase price (which in our above example will be $40K), and this is normally paid to a Real Estate Agent's

Trust Account when your purchase has been confirmed (remember as above we call this unconditional).

This forms part of your total $80K, so once you've paid this, you'll have another $40K to pay on settlement, which is the day you officially own the property.

We're also often asked, "how do I pay my deposit to the bank?" Actually, you don't need to pay the bank. On settlement, your lawyer collects all the money (the total amount for the purchase) into what they call a "Trust Account". This is a special "holding account" where they receive the money you've borrowed from the bank, and your remaining deposit funds (either savings directly from you or money from your KiwiSaver account), which they then use to pay the vendor (the person selling) on the day you've agreed for the sale to take place.

As I've mentioned previously, part of what your lawyer will do is arrange for the transfer of your KiwiSaver and First Home Grant to their Trust account. Then all the money is ready to go when the settlement date happens and we all open some bubbles to celebrate!

Your Support Network

Mortgage Brokers

Over the past 5 years, I have become incredibly passionate about helping people to buy their new home. I feel honour bound to share this process with you. It is something I think many people don't understand all that well and this book aims to put this right!

What does a mortgage broker do?

Simply put, a Mortgage Broker is someone who acts on behalf of others to arrange and advise on the best home loan options for them. We do this by having agreements with banks which allow us to submit loan applications and negotiate the best deals.

That's not all we do. We also help by doing the following:

- ✓ Submitting loan applications to multiple banks - we do the hard work for you
- ✓ Recommending the best loan structure for you - we know what works!
- ✓ Negotiating the best deal for you - we have access to the best rates and cashback
- ✓ Explaining bank jargon in simple terms - LVR's, ERA's? We've got that covered for you
- ✓ Working with lawyers, accountants etc. to make things simple - having an awesome team is key and we love making it easy

What makes *My Mortgage* different?

- ✓ We are completely free – The banks pay us (how good is that!?)
- ✓ We embrace technology to make things smooth and fast. You will see us using apps on our phones, voice memos, Facebook and Skype. Everything is in the cloud and done online so we can work from anywhere
- ✓ We work for your best interests – Not for bank profits
- ✓ We're a small company – You know who you're working with and we put money back into your community through our projects
- ✓ We're out there doing it ourselves - our whole team owns their own home, most of us are property investors and we all know what it was like to turn the key in the door of our first house

Most of all we are on YOUR TEAM and will provide all the help and support you need to purchase your first home!

I hear many people giving reasons not to use a Mortgage Broker. Naturally, some of these are true and some of them are false. I will address some of these because, at the end of the day, you must be 100% comfortable with the service you receive.

Here are 4 common concerns:

1. I have been with my bank all my life and I don't want to move

Good News! You don't have to change banks. We manage the whole process for you, whether it is with your current bank or not. We will provide you with offerings from other banks so you can compare all the options available to you. Other banks might end up being cheaper and more appropriate for you but at the end of the day, the final decision is always yours.

2. My parents have a bank manager and they are going to handle my loan

This is totally fine! Sometimes discounts can be gained, and if your parents have a good relationship with the bank, that's great. Many banks have centralized a lot of business and rural banking relationships. In my experience, once Mum and Dad meet us and know that we are specialists in first home purchases, they are happy to let us do the work and get a great result. They have nothing to lose by speaking to us and potentially lots to gain.

3. Mortgage brokers only help when I'm buying my house

This is actually not true. We want to be your 'go-to' person for as long as you have your home loan and ideally until you have paid off your mortgage. We can help in lots of ways including:

- ✓ helping you into your second home
- ✓ reviewing your finances to ensure that you are taking advantage of the best rates available
- ✓ reviewing your loan structure to make sure it grows with you and your family
- ✓ topping up for renovations

The Moving Forward section towards the end of this book covers these topics in a little more detail.

4. It's easier to go directly to the bank

Maybe, but it depends on what is most important to you. We might ask for slightly more information upfront, to ensure we provide you with the best options for you, but really, it's the same after that. We operate under the same policies as banks.

Here are some of the benefits of using a mortgage broker:

- ✓ We are experts in putting loan applications together that get results with a large panel of lenders
- ✓ We are specialists in home loans, not insurance and credit cards
- ✓ We are keen to get the best results for you
- ✓ We are looking to build a long-term relationship with you
- ✓ We want you to feel happy, comfortable and stress-free so (wherever possible) we will communicate with you by your preferred method be it phone, email or in-person
- ✓ You can bounce ideas off us and we will do all we can to answer all your questions and find solutions that suit you

Stepping stones to long term goals

When you are using stepping stones to cross a river there are many possible routes to your destination. The same can be said for finding the best route to buying your first home.

When you are buying your first home, you want a place to live in that you can call your own. Sometimes that might not be your dream home, but it could be a "stepping stone" to something you've always wanted.

At *My Mortgage*, we often talk about making a plan that will be best for you in the long run and putting you in the best position we can long term. That might mean starting smaller and building up to your dream property. We love chatting about your long-term goals and working with you to make them into a reality. Part of that process is to make a 2 to 5 year plan for you, ask you about your financial goals and what you'd like to achieve over that time. It's super important to us.

Case Study: Jake & Laura

Jake and Laura are both 23 and earn $50K and $43K respectively. They have saved hard over the past 3 years and have savings of $49K along with KiwiSaver of $14K. They are also eligible for the First Home Grant of $7K combined. So, their total available deposit is $70K.

They want to find some land and build a small house in the Waikato but they are struggling to meet the total project cost of a new build within the First Home Grant cap of $450K. After some lengthy discussions about the best way forward, we suggested a 5-year plan to help them achieve their goal.

This is how the 5-year plan looked:

Year 1

By spending a little less now, it will allow you to build up savings of around $10K over the next year. If you bought a property for $350K and added a little bit of value to sell for $370K, that's adding another $30K to your current deposit. Plus, you can now take advantage of the First Home Grants scheme, because your purchase is under the purchasing cap of $400K. It also gives you some breathing space. If interest rates increase you are not overstretched and can still do the things you want to do. This might be an overseas trip (and even maybe Airbnb your place in the meantime to offset the costs!), getting married, having a baby etc.

Year 2 & 3

As above, if you can use a combination of saving with a lower cost of living, as well as growing some equity in your first property, in year two or three you are in a position to sell and realize that gain to say $100K total (your original $70K plus $30K in equity and savings). This gives you a 20% deposit on a $500K property leading to a lot more flexibility when buying a section and building. The banks will be a lot more lenient and you can save money by not needing to have a house and land package or a turnkey contract. You can spend the year looking at options so you can hit the ground running when the time comes to build. $400K borrowing at 80% is more like $475/week rather than the $500/week as above.

Year 4 & 5

In Year 4 and 5, you can then pay down your home loan and continue to build some equity by landscaping your Stage 1 home and continuing to save. At the end of Year 5, the goal would be to have realized another gain of $40K so you can build Stage 2 for another $200K and get to a finished home with good equity and a final home loan of a maximum of $600K (or less).

This plan allowed Jake and Laura to realise their dream of building a home by putting a clear plan in place and getting them onto the property ladder. With this plan, we have created a better long-term outcome for them, achieved growth in their deposit and freed up some of their income in the early stages to make sure they still have some time and money for fun!

You are absolutely smashing it!

You've got your pre-approval, have made an offer and met all the conditions on your agreement.

Now it's time to confirm your unconditional agreement, and BOOM - you just bought a house, and the fun starts!

At *My Mortgage*, our motto is “Options, Advice, Service and Price”. So many people think getting a cheap deal is the only thing, but for us, it’s hugely important to get the right deal for your situation.

We often get asked, “What’s the best bank!?” In all honesty, it depends on your situation because different banks have an appetite for different kinds of lending. We will give our advice based on your best interests and are not allowed to pick favourites.

Getting really good advice about how to set up your home loan is, in my opinion, one of the most important factors in securing your financial future. During the first few years, we will be keeping it super simple whilst you get used to owning your own place. We are doing this deliberately to ensure that your structure suits you in the long term.

I thought it would be useful to give a few hypothetical structures. It is incredibly important that you get advice from a qualified professional who can tailor your structure to your specific situation. These examples **do not** contain advice that is designed to be followed in the real world.

1. A Young Couple

A young couple with a combined income of $100K/year (and no other debts) want to complete $20K of renovations on their property over the next 12 months. They are good savers and manage their money well. For this couple, the best solution might be to fix a large portion of their lending with a longer-term loan. The $20K needed for renovations could be put on revolving credit allowing them to place all of their disposable income into this account. They could gradually complete their renovations. Once the work is completed, we might review their structure and use some of their savings to pay off current lending.

2. A Family with one child and another on the way

A single income family with one child and another on the way. They have good equity having bought their property five years ago. I would be considering certainty for them while their family income is lower. So we might consider fixed loans but perhaps structure them over different time periods, like a ⅓ for 1 year and ⅔ for 3 years. Depending on the interest rate environment, this is often a good way to make the most of cheaper shorter-term rates, but also give enough certainty during a period where there is not likely to be a lot of spare money around.

3. Another Young Couple

A young couple with $150K/year income has purchased a house that was in reasonable condition. At the time of purchase, they had a 10% deposit. This is a very common scenario. A lot of young couples are now looking at renovated houses because it is a bit simpler than trying to borrow money for immediate renovations or saving over a period of time. Buying something completed (or new) means you initially spend more and pay a slightly higher rate. However, if you can afford to make repayments then it does allow you more flexibility. For a couple like this, if they were comfortable with the repayments, I would be considering a shorter-term loan. This would enable them to raise their equity from 10% to 20 over 1-2 years. They would then have access to cheaper lending rates.

There are a million ways to set up your loan and these are only three common ones. I cannot stress enough how important it is to have someone review your situation and ask questions about your future plans to make sure you're set up for the first 1-2 years of homeownership. Of course, plans can change but there are plenty of scenarios (like renting your house out, a new baby, a wedding, a big move, or an OE) which can be planned for financially in advance.

Specialist Lawyers

When you buy your first home you need a lawyer who is experienced in the purchasing of properties. We call these specialist lawyers conveyancers. When choosing your conveyancer ensure they are experienced in dealing with your personal circumstances. For example, if you have a KiwiSaver, First Home Grant or a gifted deposit let them know early on. Be wary of working with a lawyer just because your parents use them. They are most likely family lawyers who do not necessarily deal with property transactions very often at all.

I mention this because it makes the process SO much easier if you've got an absolute boss lawyer or legal executive. I've seen some massive differences from one to another particularly with the negotiation of price, changes to purchase price after reports showing work to be done, and the efficient withdrawal of KiwiSaver and First Home Grant.

Making an offer on a property is one of the most exciting parts of buying a home, and this is the first time your lawyer gets involved.

Your Dream Home

Auctions

As the property market has fired up over the last 12 months, we are seeing more and more properties going to auction and at the same time, we're encountering more and more people frustrated by the process of buying at auction. But it shouldn't be frustrating. We want to make things as easy as possible for you should you decide to buy at auction.

Preparation is key

The hardest thing about an auction is that you have to be prepared to buy the property without any conditions on auction day. However, this shouldn't be a problem if you get all your ducks in a row beforehand.

The key things to do before the auction are:

- ✓ Understand your limit. Have a budget and stick to it!
- ✓ Get pre-approved. Make sure you have approval for the lending required before you fall in love with a house if possible!
- ✓ Get the checks done. Your Real Estate Agent and Lawyer will help with this.
  (Often things like LIM and building reports will already be completed on the house.)
- ✓ Get your deposit ready - As you'll have to pay a deposit on auction day it's important to make sure you are prepared.
  (If you don't have the funds readily available, we can often arrange a temporary advance for you to pay the deposit on auction day.)

What if I don’t have a 20% deposit?

If you don’t have a 20% deposit (or higher) you would benefit from a little extra preparation before attending the auction. We can fully support you with this to make life as easy and stress-free as possible for you.

- ✓ You'll likely need to use your KiwiSaver so you will need pre-approval for this before auction day. We can help to guide you in the right direction.
- ✓ You may need a Registered Valuation before the auction to set your maximum bidding amount. We can arrange this on your behalf so that you can bid with confidence.
- ✓ There may be more conditions applied to your loan agreement. Banks often impose a few more conditions to loan approvals when borrowing over 80% but we can help you meet these.

What is the minimum realistic deposit I need?

To get a decent Home Loan you really need at least a 10% deposit. There are some options available to those with less than this but you need to be buying cheaply or earning a lot of money to make them work, and they are REALLY expensive.

The good news is that you don't need to have 10% in cash! If you've got a KiwiSaver account then you may be able to use that as a deposit. You may also be eligible for the First Home Grant which we've already discussed earlier.

What do you need to know about borrowing with less than 20% deposit?

There are a couple of extra hoops to jump through when you've got a lower deposit but we're here to guide you through the process and make it as easy and as cost-effective as possible for you.

Some common things to consider are...

- There will a "Low Equity Fee" or higher interest rate often up to 1% of your loan
- The bank will require you to get a Registered Valuation. This will cost around $700
- Most banks don't provide "cashback" at this level so you'll need to budget for lawyers' costs. Normally around $1500 for a purchase

If you are contributing a deposit of less than 20% to your house purchase you may not be able to borrow as much from your lender. This is, in part, due to lesser-known credit requirements concerning income, current debt levels and your credit history. Essentially, with a lower deposit, the bank is taking on a higher risk if you default on your loan. This, in turn, will make it more difficult for them to recoup their money.

Take Tom and Chloe for example. They earn $44K and $50K respectively, and they want to buy a $450K property in Matamata. They have a live car loan of $10K which they are repaying at $100 per week. They have some KiwiSaver and savings which total $45K, an equivalent of 10% of their loan.

The bank wants to know that Tom and Chloe can easily afford to make their loan repayments even if their interest rate is higher. So, they require Tom and Chloe to have at least $1000 per month available after all their expenses have been met.

This means that Tom and Chloe will have to lower the amount they borrow, being $300K rather than borrowing $405K, and they'll only be able to afford to buy a house for $345K rather than $450K.

Tom receives a $45K inheritance from his grandmother and so they now have a total of $90K for a deposit. With this additional deposit, the bank is happy for Tom and Chloe to have $200 per month extra after their expenses are repaid. So, they can now borrow $360K and buy their house for $450K.

Your borrowing ability when you have a lower deposit is therefore linked to your income as well as your other expenses. In short, this is why you can borrow less money when you have a lower deposit available.

The benefits of being ready to bid

We've all heard stories of bidding wars where properties have sold for $100K over the reserve and crazy things like that, but this is very rare. I've sat in many auction rooms with clients over the last few years and often there have been very few (if any) bids on properties. It's also worth considering all of those people putting the auction in the "too hard basket" so you could well be up against a lot fewer buyers than if the property was sold in the normal way. These things mean you may be able to secure a great deal on a property at auction.

If at all possible, you should have someone with auction experience in the room with you to help you with your buying strategy. This might be a friendly agent, family member or even someone like us. At the very least, pop down to an auction the week before so you know how it all works before the big day!

Building your own home

Moving into a home that is designed and built just for you is awesome. However, there are probably as many different finance options available to you as design decisions you have made during your home building process.

Every bank has a slightly different policy around self-build home loan arrangements. A really good mortgage broker can help provide some clarity on your available options and can explain clearly how the process works. I have outlined a few of the key things below as well as some of the questions I’m often asked about different parts of the process.

In 2017, I built a house and learned a lot during the process. I have included some of my experience in this chapter.

Types of build contracts

There are several different types of loans available to buyers wanting to build their own homes. Here are some of them:

House and Land Package

This is just like buying an existing home. You sign up to the package, the property is built and then you move in. It is only upon completion that you start making repayments. Most banks will lend up to 90% on these House and Land packages. They are common for first home buyers as many of the decisions around style, shape etc. are set and the buyer simply picks colours and smaller design features. It's a great introduction to self-building as many of the decisions are made for you. You normally pay a deposit to secure the package (10% of which can come from your KiwiSaver) and the rest of the funds are due upon completion.

Turn Key

This is very similar to the House and Land package although you may already own the land. You sign a contract with a builder, they build it and the next thing you have to do (after paying for it of course) is to turn the key and move in. Everything is taken care of including carpets/curtains etc.

Fixed Price Build

This is the most common arrangement and generally offered as a package by housing companies. You work with your chosen company to design your house, pay a deposit and then they start building the house. You pay in stages as progress is made. This arrangement is sometimes called a "progress payment build".

Normally certain aspects of the build will be excluded from the arrangement, such as carpets and landscaping, and you will need to cover the cost of these things yourself. Banks are wary of Fixed Price builds with too many exclusions so the more items included in your contract the better.

Owner Managed Build

This is where you contract all of the trades directly and project manage the construction yourself. If you've got experience doing this and a good deposit then the banks are happy to lend providing you've covered all of your bases and built in a contingency. As you can imagine these projects can (and frequently do) go way over budget. If you've got a small deposit and no experience project managing something similar, they are nearly impossible to finance. They are really only an option for those who are on their 2nd or 3rd build, and/or builders or those have worked in the construction industry.

Kitset

Similar to the above, this is where you buy just a kitset from a company then you hire all of the trades to put it all together for you. If you enlist a builder to give you a fixed price on completing the build from the kitset then this is workable. If not, then you will need to build a large deposit and have some construction experience.

Transportable home

These are becoming more popular as a cost-effective option for getting a small to a medium-sized simple house. The only issue with funding these is that the bank can't issue a mortgage over a house which is not on your land. We need to work with the building company to ensure your payments are structured in a way that makes this work for you. You also need to be careful to include **all** costs in your budget. A lot of people see $180K - $200K for a house and think those are the only costs, but it's only part of the story. Banks are beginning to realise that transportable homes are a cost-effective building strategy. They are responding by allowing certain builders to become “accredited” with them allowing funds to be advanced before the house is delivered to you.

Relocating an existing house

This is one of the cheapest ways of getting a house onto your land. As with the transportable option, the bank won't lend you money on the house until it's on your land. So, if you've got the money to pay for the house and get it onto your land, we can get you a mortgage to fund the rest, like renovating the home or providing funds for developing your section. Commonly, existing homes are quite cheap so you could conceivably have the cash to buy the house and get it delivered, but be mindful that you can't use your KiwiSaver for this purpose. There may be some options to help you out but they are dependent on your personal situation.

Build Finance Frequently Asked Questions

1. If I'm building a house using a fixed-price contract, will I need to pay rent and meet my mortgage payments at the same time?

The answer here is yes. Unless you have somewhere you can live rent-free during the build process you will need to cover both in the meantime. Bear in mind, the building can take up to 6 months! We may be able to help out here with an interest-only plan throughout the building period. We can arrange a structure that suits your circumstances and allows you to pay the minimum on your home loan until your move-in day arrives.

2. I've got mates who are ‘tradies’ and will do me a good deal. Can I just get the bank to pay them?

In a roundabout way, this may be possible if approached the right way. The best and easiest thing to do is speak to the builder who is providing you with a contract. They may be able to include your tradesperson as a subcontractor for your build and include this as part of their contract. This reassures your bank that the funds they advance will be spent on your build.

3. I've got KiwiSaver, and I heard the First Home Grant will also pay more if I'm building a new house.

Correct! If you've been in KiwiSaver for 3 years or more, you can use it to purchase a section and build. If you've been contributing for 3 years or more and meet the income and price caps for your region, you can also use the First Home Grant to purchase the section. Keep in mind you can only use these if you're buying a section or a house and land package. If you already own or inherit the section you won't be eligible.

If you have been contributing to The First Home Grant for more than 5 years you might be eligible for up to $10K per person. See the section about KiwiSaver and the First Home Grant, and caps for further details.

4. Is it easier to fund a build rather than existing property if I don't have a 20% deposit?

New builds are actually exempt from the LVR (Loan to value ratio) restrictions placed on banks. Therefore, funding for builds over 80% is much easier than if you are buying an existing property. However, all of the usual requirements around higher LVR loans still apply. The bank needs to be satisfied you have the funds to cover the build expenses, ideally low current debt and a good credit and savings history. If you tick all of these boxes, the banks are usually happy to lend. Have a chat with your mortgage broker if you have any further questions about how banks will assess your loan application.

5. There are so many options. I don’t know what to do!

I know the feeling!

If you don’t know anyone who has built a home before then it’s difficult to know where to start.

Here are a few tips from someone who has completed a build of my own and seen countless clients successfully build their own homes.

1. How much deposit do you have?

While this might sound like a bit of a strange first question, it dictates the type of build you’ll likely wind up with and narrows down the possible builders to those offering watertight (nothing not included) fixed-price contracts and/or House & Land packages.

2. Choose your builder wisely

I cannot stress this enough. Your builder MUST be an excellent project manager. A good place to start is a Registered Master Builder or a Certified Builder. If they don't have either of those qualifications you will find it difficult to secure finance. There are some excellent non-registered builders but it's a good idea to ask why they are not registered. If you have the luxury of time, speak to other people they've worked with to get a good sense for whether they stick to timeframes and do what they say, as well as solve problems quickly and efficiently.

3. Make sure you know the cost

Many people get excited about a cheap price for a build or head down the route of a transportable home or a less reputable builder to save money. Yes, I know that the cost is a big factor. But, saving money in the short term can cost you more in the long term. You might end up spending hours of your own time fixing issues or the project may take longer. In my experience, one way or another you are likely to lose money.

4. Don't underestimate or overestimate the value of your own time and skill

I have lost count of the times I've had people say "Oh, don't worry we won't include that in the building contract, we'll do it ourselves". If you are painting and you are a painter or have done it a lot, that's absolutely fine. If you're an accountant and intend to do your own tiling, think carefully about how much time it's going to take you to "learn" that skill and carry it out, and also how it fits in with the build as a whole. Tradies installing your shower will be annoyed if you didn't get round to the tiling at the weekend and they are held up for a week. Almost everyone I have spoken to who has "tried to do things themselves" says if they did it again, they'd pay the professional. In some cases, like lawns or landscaping, doing it yourself might work, but often it's more trouble than its worth and does not save you money.

5. Seek help to get your finance sorted

While this might seem like a bit of a plug (and it is, but only a little bit!) it's really important to have someone give you advice about the best way to structure your finance. They might be able to save you money on valuations, fix a portion of your land finance so the cost is less, and will make getting the money to your builder a bit more straightforward. I have seen some absolute shockers over the years with inexperienced bank staff so it's super important to get that right and not put yourself under undue stress financially.

6. Try not to get bogged down in the detail

When you're building it's easy to think "I want this to be perfect!" but perfect is different for everyone. Trust the designers you're working with (if your builder/building company doesn't have one I highly recommend paying the $500 or so to get a consultation; see the resources page for the person I recommend in the Waikato) and make decisions quickly or you might be waiting years for your new home!

7. Look after each other and work together

For couples, building a property can be one of the most stressful things you'll do together, but like a child or a wedding, it will all be worth it in the end. Make decisions together and try to have one point of contact with your builder or project manager so there are no hold-ups, as long as you keep everyone in the loop. There could well be delays, things like the wrong colour painted in your lounge or a kitchen that takes 4 months to fit. Take it in your stride and keep calm!

8. Budget the "in-between" well

For almost everyone who's building, there will be an "in-between" time where you may have sold a previous home or are still renting and you have not yet moved into your brand new house! Ensure that you save funds for this or are totally comfortable with the repayments on your building loan plus your existing situation. Even better if you can stay with family or friends while you build.

9. Manage the "end"

Some banks can be funny about releasing the final portion of your money for the build before the Code of Compliance is issued. Occasionally, it can be a chicken and egg situation with the builder not sending for the Code of Compliance (or your keys!) until they've been paid. There are also final valuations to organise. Make sure everyone's on the same page here so you don't have delays with moving in.

10. Fix your loan!

Most banks will advance progress payment funds interest only and on a floating rate. At the time of writing, this is set at about 1.50% above the best fixed term rates. Ensure your Mortgage Broker or bank negotiates you the best rates to fix your loan. This, along with appropriate advice for your situation, ensures that you make the quickest progress along your journey.

Back My Build

Back My Build is a new product offered exclusively by ASB and AIA/Sovereign which offers a super low 1.79% variable home loan rate for new builds in an effort to stimulate the appetite for people buying or building new homes.

So, let's dive into some of the commonly asked questions!

How can they offer a rate this low?
The Reserve Bank of New Zealand recently introduced the Funding for Lending Programme which allows eligible banks to borrow cheap cash directly from the RBNZ at the Official Cash Rate. What this means is that the interest rate you pay will be determined by OCR changes.

What happens if the rate goes up?
We are getting asked this very often! If the Back My Build variable rate goes up beyond what we can fix the lending for, then we will stay in close contact with you and look to fix the rate. For example, the 1 year rate as of June 2021 is 2.19% - if the variable rate rose beyond this, we would consider fixing your lending.

Can this be used exclusively to purchase land?
No. Back My Build cannot be used exclusively to purchase land. However, you can purchase land with a facility such as a revolving credit or floating rate and once conditions are met for the construction of the home (i.e. fixed price contract, builders risk insurance, plans, specs, consents etc) you can refinance to Back My Build upon construction commencing.

Can I buy a house & land package with Back My Build?
Yes. House & Land packages qualify so as long as you meet lending criteria you'll be eligible for this too.

Can I buy a rental with Back My Build?
Yes. You can build a house you intend to rent out. It is not available for commercial builds or developers. Note that as the exemption to the LVR restrictions, and the requirement for 40% deposit, does not apply to new builds you can still build a rental with a 20% deposit. Policy can vary slightly with regards to affordability so check with us if you'd like to build a rental and we can provide some advice around what's best for your situation.

What if the house we want to buy is brand new?
Yes. You can use Back My Build to buy spec homes (that no one has occupied yet) provided that the property is purchased from the developer within 6 months of the construction being completed (date that Code of Compliance Certificate issued).

Can I use it to renovate my house?
No. All renovations, no matter the size of the renovation, are excluded.

Does a low equity margin apply to Back My Build?
Yes. LEM's are the slightly higher margins charged when you have less than 20% deposit. 0.75% is charged with an LVR of 85% - 90% and 0.25% is charged with an LVR of 80-85%. These LEM's are applied to the Back My Build rate but this would still be cheaper than the standard rate at this point in time! For example, a low equity margin of 0.75% added to your 1.79% Back My Build rate would be 2.54% versus the 2.94% you would get on the current lowest 12 month fixed rate of 2.19%.

Can I get cash back?
The short answer is no. There is a $2000 cash contribution being offered if you can prove you intend to build a 6 Homestar rated home (or higher). There is a fee to have your build assessed by the NZ Green Building Council assessor so this is worth taking into account.

When considering cash back versus a lower interest rate it is worth thinking about what the better interest rate will save you over the long term, for example:

$400K @ 1.79% = $7,160 interest p/a
$400K @ 2.19% = $8,760 interest p/a
This is $1600 / year therefore savings over 3 years equate to $4800.

I already own land but have a loan with another bank, what should I do?
The best course of action is to get in touch with us to discuss your individual circumstances and we can assess whether Back My Build is the right fit for you. If you have an existing loan approval with another bank we will be in touch to see if that is still the right fit for you. In some cases, small variations in policy around affordability may mean another lender is still the best fit.

Buying Investment Property

You've bought your first home and you're absolutely stoked. A place to call your own, an excellent and well set up the home loan and a financial plan for the future.

What's next?

For plenty of Kiwi's the next investment they wish to make, other than their KiwiSaver (which may be looking a little less healthy now you've bought a home!) is an investment property.

Let's look at the things you need to have in mind when buying your first investment property. There are many specifics which will be unique to you but these are some great starting points:

1. Equity

This is your biggest consideration, especially given the rules around LVR (Loan to Value Ratio) which the Reserve Bank has in place. At the time of writing, you can borrow up to 80% on your own home (where you live) and 70% against investment properties. In reality, this means to buy a second property, you have to magic up a 30% deposit, and most of the time this comes from equity. I've put together an example below of Tim and Charlotte who purchased their first home with me 5 years ago and have just bought their first investment property.

2. Servicing Costs

Any bank will assess your ability to borrow your existing home loan, plus the money for the new rental property. You will, therefore, need a reasonable amount of income to be able to service the debt overall. Banks usually "scale" rental income by 75% to allow for times when you might not have the place rented or rental income coming in.

3. Rental Income and costs

How much money will you receive in rent and what will your outgoings be? Consider interest costs (from a bank loan), as well as things like maintenance, property management, and any other extras.

4. Location

Where will you buy? This is really important and something overlooked by a lot of investors chasing believed cash returns. A property in Whanganui or Te Kuiti (traditionally a little bit cheaper to buy upfront) has the same maintenance costs as one in the centre of Hamilton that rents for an extra $200 per week. Consider these things very carefully and ensure you have a budget in place. Also, look for things like educational institutions (University of Waikato) or large employers (Waikato Hospital) where there will be plenty of people looking for places to rent.

5. What type of property will you buy?

Are you looking for a 2-bedroom flat which will house an elderly couple or a home near a university which will rent to students? Consider your ability to manage the property as well as how much risk you're willing to take on. If you buy something in a slightly less desirable area you might have tenants who will take more energy to deal with. Paying a bit more for a nicer area but a smaller property could be better for you.

6. Accounting and Tax

Even considering some of the recent changes to tax legislation for people with investment properties, there are still some big benefits to ensuring your ownership structure and home loan are set up appropriately when you purchase your first investment property. Please get advice from an accountant, because you can get into trouble if you aren't sure what you're doing!

What do you look for in an investment property?

While this is not advice about how to find the right property, these guidelines will help steer you towards the best type of property to buy, so that you can get maximum returns with minimum stress:

- ✓ Low maintenance
- ✓ Simple
- ✓ Clean and tidy, ideally with a fairly new interior
- ✓ In a decent area
- ✓ Has an "upside"

Case Study: Tim and Charlotte

Tim and Charlotte purchased a home in Te Awamutu in June 2015 for $350K and borrowed $280K. They had a rate of 5% and have paid $25K off their loan in the last five years.

Their property has also increased (rather significantly) to now be worth $480K, an increase of $130K.

Let's see what their LVR position is currently:

- Their property is worth $480K and they can borrow 80% of that, $384K.
- Their existing loan balance is $255K so the difference between possible and existing is $129K.
- This is the number we use as "equity deposit" for the new property. If we divide $129K by 0.3 (or 30%) we'll get $430K, which is their borrowing power for a new property.

To be clear, Tim and Charlotte aren't actually "taking money" out of their home. They are using their equity growth to allow their borrowing percentage to be high enough that they can borrow for a new property. So, they will still need to borrow the full $430K for the new property unless they have an additional cash deposit.

Moving Forward

Keeping your Home Loan Healthy

A few simple checks could save you thousands on your home loan. Your Home loan is like anything, it needs a little bit of love and attention occasionally for it to thrive.

Despite the best intentions (and maybe even if all intentions are good!), it always amazes us how the quality of loan structure and interest rates on a Home Loan can deteriorate over time. Even the best set up home loans can be totally wrong for you 2 years later.

Any good Mortgage Broker will review your existing home loans to ensure you continue to have the best structure, you are achieving your financial goals and most importantly that you are getting the best deal.

There are five key things to think about when reviewing your home loan and giving it the annual warrant of fitness:

1. Is your interest rate as low as it can be?

If you didn't have your home loan fully reviewed when you last re-fixed your loan then you may not be taking advantage of the best interest rate. For example, a discount of 0.25% off the bank's standard 3 years fixed rate would save you over $2000 on a loan of $300K. A Mortgage broker will secure you an excellent discount in line with what the best banks are offering and ensure you've got the right rate for you.

2. When will your Mortgage be completely paid off?

If you don't immediately know the answer to this question then you need to review your long-term plan. Ensure you have set a budget and know which loan structure and payments will get you debt-free as quickly as you can.

3. Can you increase your fortnightly/monthly repayments?

Most banks will allow you to increase your payments and this is a great way to pay off the extra principal. If you've had a pay rise or paid off other debts since you secured your mortgage then adjusting your payments could be the way forward. Every bank has a different approach to this so it’s best to contact someone independent.

4. Is your loan structure working for you?

Were you forced into a Revolving Credit loan that isn't working for you? Do you have extra money but can't pay it off your home loan? Are you going to be debt-free as soon as you'd like? If so, it's a good idea to get your loan restructured, so that you're not paying more interest than you have to and to ensure you are achieving your financial goals.

5. Are you paying high interest on other loans?

If you've got credit card debt or personal loans then you may be able to pay these off faster by consolidating these into your home loan. With the short-term debt repaid earlier, it means you will have more money to repay your home loan faster in the long term. A win-win. Many lenders can consolidate this debt easily and we can take care of this for you.

We encourage everyone with a Home Loan to have it reviewed at least every couple of years and every time you have a fixed interest rate expire. So, within a year of buying your first home is the first time you'll be reviewing your loan.

Along with all Mortgage brokers, we provide a free service and are happy to do this for you no matter where you are in the country.

Managing Debt

For a book on all the ins and outs of buying a house, I thought it would make sense to include a chapter on debt because it's a hugely misunderstood, misused, and sometimes a downright dangerous and life-ruining concept.

So, what is debt?

Debt was invented a really long time ago and refers to the borrowing of a physical thing, or the advance use of a service, which you are required to pay back. These days, most debt refers to borrowing money, so that's what we'll focus on in this chapter.

Good debt vs bad debt

This is a question I get asked a lot. What is "good" debt (is there even such a thing?) and what is "bad" debt?

Whilst being in debt is never the first choice, there are some situations where it makes sense to borrow money to further yourself and your education, asset base or income for the future and to set yourself up for the longer term.

I define "good" debt as money that is borrowed to acquire an asset which will generate you income or capital gain (increase in worth), or allow you to further your career.

Some examples:

- ✓ Purchasing property and using the property as security (taking out a mortgage). The property is a place for you to live in (decreasing an expense like rent) and it will most likely increase in value over time
- ✓ Purchasing a business (disclaimer: a business you have done your due diligence on and expect that you have the skills to run!) and/or shares in a business
- ✓ Borrowing money for education (a student loan) which will theoretically allow you to earn more money in future

Most other debt falls into the category of "bad" debt or it is just not defined as good. Examples of this are:

- × Personal loans
- × Credit Cards. Some people pay these off in full each month, so if it's well managed that's fine.
- × Hire Purchases or anything that is paid off over time with an interest rate
- × GEM Visas, Q Cards (when not interest-free)
- × Afterpay, Oxipay, Laybuy, Genoapay
- × Car Loans or anything financed that is attached to a car (when not interest-free)

To be clear, a car or appliance is not an asset in the traditional sense. Yes, it can be sold for money, but it depreciates, rather than appreciates over time. Therefore, it cannot be said to be improving your position or making you money. It's a fact of life that most people need cars and everyday things like fridges but it's not always necessary to buy these items brand new and they do significantly affect your borrowing ability in relation to home loans.

Every single day, as a Mortgage Broker, I say to myself "I wish more people understood debt and how to beat it." People contact me to buy their first home and at least 50% of the time their capacity to borrow is significantly lessened by their existing debt. Sometimes, the bank will not lend them money at all because they are too high a risk, especially when their total debt is more than their deposit.

Don't get me wrong, I enjoy some luxuries like the rest of the population, but if I cannot afford to buy something for cash or have the cash to pay it within a month (like a credit card as above), I simply do not buy it.

While everyone's situation is different, these simple rules are something that will get you a long way in life. You might enjoy a new car or the latest iPhone or Fridge/Freezer. However, if you are buying it on credit **you sometimes pay up to 1.2 times the value of the actual thing you're**

buying, and it decreases in value the moment it leaves the shop. So, in the second month of owning it, you might actually be paying for something worth 80% of what you're still paying for!

If you lay out your loan amount, the term you are paying over and the interest rate, you might discover you are paying hundreds or even thousands in interest! You may simply look at the weekly repayment and think "I can afford that." Maybe you can. But can you really afford to lose that money you are paying in interest? Wouldn't that have been better put towards an asset that would generate you more money?

Buy now, pay later?

Buy now, pay later schemes have been around for a long time and are often known as Hire Purchases. Traditional credit cards are also essentially a Buy Now, Pay Later type of arrangement as well.

However, in recent years a new financial scheme has emerged that is taking the world of retail, especially online shopping, by a storm. These allow you to pay off your purchase with staged payments over a specific number of weeks, with no added interest to the purchaser, have started to appear on many online stores and in-store as well. Afterpay, Laybuy, Oxipay and Part Pay are some popular companies all with slightly different offerings and structures.

A brief explanation of how they work

Without going into specifics of all the systems and how they work, it goes like this:

- You make a purchase usually under $1000
- You sign up for an account with the specific buy now, pay later provider
- You enter your credit card details
- They charge the first payment to your credit card straight away
- Then over the next 5 - 8 weeks (depending on the service) they charge equal payments to your credit card until the purchase is paid off

Easy as that. And best of all, it is free (unless you miss a payment and then you are charged) to you the consumer. It always best to check the provider's website for associated charges.

Hang on, how do they make their money?

The cost is actually passed onto the person selling the goods to you. A normal credit card transaction might cost the seller 3.5% of the purchase whereas using a buy now, pay later system costs the seller around 5% in fees. Why would sellers do this? Well, the research shows people will spend up to 60% more when they have these buy now, pay later options available. With this in mind, sellers are happy to pay a higher percentage in return for larger and more frequent sales.

So, the service really is free to you, the consumer, unless you miss payments and then it can become expensive.

So, why do the banks even care?

Well, it all comes down to risk and liability. If a bank is lending you money, and normally a lot of money, they need to know about all your other liabilities (money owing) as well. This is because those liabilities can impact on your ability to pay them back. The banks always want to be the first in line to be paid and so other debts present themselves as a risk.

When the banks see these small repeating payments to things like Afterpay, Laybuy, Part Pay or Oxipay they factor them into their calculations as an outgoing in your budget even if they have a very close end date to them.

Why do they add them as a permanent cost when they have a short end time though? They think, and they are probably justified in thinking this way, that if you've used these types of services in the past, you'll probably continue using them in the future so they add that cost into your on-going cost of living.

Is this fair for them to add them in as an on-going expense? Maybe not but that is what they do and so you need to know that the "why not just pay it off? It's interest-free" mentality might actually hinder you when you wish to borrow your first, second or even 10th home loan.

Are these types of buy now, pay later schemes useful?

Absolutely, and they are interest-free for you which is great. As with any debt I've already covered, just make sure you can afford to buy the item, and you'll be fine. But be aware they can have an impact on your ability to secure a home loan.

Be careful of "interest-free"

Let's be totally clear. Nothing at all is ever interest-free if it's borrowed. People don't do things if they don't make money, that's how the world works.

So, there is simply a delayed interest cost and/or that cost is built into the price. If you're buying a fridge and you're offered "interest-free" find out what it might cost you if you pay cash for it. Most likely it will be less!

The same applies to ⅓ - ⅓ - ⅓ car deals when you're buying a new car. The car yard lets you pay some up front, for a very cheap initial rate and they will finance the other two thirds because 90% of people don't go away and save the outstanding balance after they've bought the car.

I am not here to lecture, but I am here to educate. And it's really, really important to me (in fact it's part of my job every day) that people understand what they are doing and why they are doing it. You must be prepared to pay both the financial cost and take responsibility for the impact that credit can have on your future borrowing ability and terms.

But I've already got debt - is all hope lost?

Absolutely not!

I judge no one for having debt, but it may restrict your ability to borrow for a home, and you'll need to understand that in the shorter term.

Luckily, I do have some strategies for eliminating debt forever and getting into the best position possible for the future. Here are some tips that might help you:

1. Don't be scared

This is a great first step towards helping you achieve really positive things in your life. So, approach the difficulties with a good attitude and don't feel bad about any past debt blunders.

2. Understand your current situation

The absolute first thing you need to do is look at where your money is going and when. The easiest way to do this is to download three months of your bank statements from your online banking into a spreadsheet. Then split the outgoings up into essential and non-essential expenses, like food/power/rent as opposed to buying coffee or big holidays. This can be a scary wake-up call but it's surprisingly empowering when you are doing something that gives you control of the situation.

3. Set a budget

Once you know where your money is going, it's time to set a **realistic** budget. If you have never done this, we have a template on our website you can use. I cannot stress enough that being realistic is going to get you so much further than being a scary matron wielding a big stick and living on 2-minute noodles. If you do that you will be unhappy and will be more likely to break your budget and overspend.

Be accurate with your essential expenses unless you can trim them a bit by reviewing utility bills or moving to a cheaper rental property. Next, aim to reduce your non-essential expenses by a third to a half. This will make extra money available to pay off your debt more quickly. Review your budget monthly and if you are totally smashing it, then look to reduce your outgoings slightly more. It's best to start with small steps and increase them once you've got the first wins. You will get a lot further, a lot quicker this way!

4. Review your debts

If you have several, rank them in order of the highest balance to the lowest balance, and then by the highest interest rate to the lowest interest rate. **You want to pay off the lowest balance with the highest interest rate first.** This might seem a bit strange, but if you have several debts, eliminating one of them will give you a boost and you'll be more likely to continue to pay off the others. Then the next target is the second lowest balance and second-highest rate. For most people, this means paying off high-interest hire purchases or credit cards, GEM visas or Q Cards and then targeting personal and car loans. Make sure that when you have finished paying them off, you remove temptation by getting rid of the card or available credit balance.

Some banks intermittently offer "balance transfers" on credit cards. This can be helpful if you are struggling to make headway due to the high interest which can feel like a bit of a never-ending treadmill! A balance transfer brings that debt down to 0% interest for a period of time which can help you to pay them off much faster. Ensure you don't miss any payments while taking advantage of an offer as it may revert to their standard rates.

5. Execute your budget and celebrate your wins!

I find that doing a monthly review is a great way to check you are on track. Don't stress if something has fallen off the radar and do reward yourself if you have done a great job. Make the most of your agreed non-essential spending and/or time with family or friends (or even alone time) and have a treat! Just not outside your budget or by buying something you don't need.

If you need help, find a Registered Financial Advisor (like me) or contact a family help centre who can provide financial advice, which is often free.

If you need an accountability person hit me up! My email is claire@mymortgage.co.nz and I am happy to support you!

What is an Official Cash Rate (OCR)?

The OCR is an interest rate set by the Reserve Bank of New Zealand which determines the wholesale price of borrowed money. This directly affects the commercial banks, which impacts on the rates they offer their customers. So, it affects the rates banks charge for borrowing (mortgages, loans, credit cards) and what they will pay customers for money in savings accounts and terms deposits.

The Reserve Bank reviews the OCR eight times a year. Monetary Policy Statements are issued with the OCR details on four of those occasions. Unscheduled adjustments to the OCR may occur at other times in response to unexpected or sudden developments. In reality, this has occurred only once following the 11 September 2001 attacks on the World Trade Centre in New York.

What the OCR does

The OCR influences the price of borrowing money in New Zealand and provides the Reserve Bank with a means of influencing the level of economic activity and inflation. An OCR is a fairly conventional tool by international standards. In the past, the Reserve Bank used a variety of tools to manage inflation, including influencing the supply of money and signalling desired monetary conditions to the financial markets. Such mechanisms were more indirect, more difficult to understand, and less conventional.

How the OCR works

Most registered banks hold settlement accounts at the Reserve Bank, which are used to settle obligations with each other at the end of the day. For example, if you write out a cheque or make an EFTPOS payment, the money is paid by your bank to the bank of the recipient. Many hundreds of thousands of such transactions are made every day. The Bank pays interest on settlement account balances, and charges interest on overnight borrowing, at rates related to the OCR. These rates are reviewed from time to time, as is the OCR. The most crucial part of the system is the fact that the Reserve Bank sets no limit on the amount of cash it will borrow or lend at rates related to the OCR.

As a result, market interest rates are generally held at around the Reserve Bank's OCR level. The practical result, over time, is that when market interest rates increase, people are inclined to spend less on goods and services. This is because their savings get a higher rate of interest and there is an incentive to save; conversely, people with mortgages and other loans may experience higher interest rates on their payments.

When people save more or spend less, there is less pressure on prices to rise, and therefore inflation pressures tend to reduce. Although the OCR influences New Zealand's market interest rates, it is not the only factor doing so. Market interest rates, particularly for longer terms, are also affected by the interest rates prevailing offshore. New Zealand financial institutions are often net borrowers in overseas financial markets. Movements in overseas rates can lead to changes in interest rates even if the OCR has not changed. (Source: taken from RBNZ website)

How does the OCR affect interest rates?

The OCR was introduced in March 1999 and is reviewed eight times a year by the Reserve Bank. The OCR is actually the interest rate for overnight transactions between banks. Among other things, the Reserve Bank acts as the central bank for most registered banks in New Zealand, which hold settlement accounts at the Reserve Bank.

To explain, if you write out a cheque or make an EFT-POS payment, the money is taken from your bank and put into the bank of the recipient. This causes the money within your bank and every other bank to go up and down each day according to what their customers are spending or depositing. Depending on daily transactions, individual banks can end the day in credit or debit.

Much like an overdraft account, the Reserve Bank covers the ups and downs by either paying or charging interest to banks depending on whether they are in credit or debit. Banks can borrow money from the Reserve Bank at a rate 0.25 percent higher than the OCR, or lend money to it at a rate 0.25 percent lower than the OCR.

Short term interest rates are therefore influenced by the OCR because banks are unlikely to lend money to people for rates less than they could receive from the Reserve Bank, or to borrow at rates higher than they would pay the Reserve Bank.

By affecting overnight rates, the Reserve Bank has a strong influence on short-term interest rates such as the 90-day bill rate and floating mortgage rates.

However, the impact isn't direct and may not be immediate. Whilst overnight interest rates will respond quickly, longer-term interest rates may not. Some overseas investors will respond quickly to changing interest rates, but most consumers and businesses won't.

Why does the Reserve Bank change interest rate?

The Reserve Bank is responsible for implementing monetary policy in New Zealand. It operates under the Reserve Bank of NZ Act 1989 which states that the Bank must maintain price stability. The Bank also operates under the Policy Targets Agreement (PTA) that it signs with Government.

The current PTA, signed in September 2012, defines price stability as annual increases in the Consumers' Price Index (CPI) of between 1 and 3 per cent on average over the medium term, with a focus on keeping future average inflation near the 2 percent target midpoint. The CPI is a list of 690 goods and services, whose prices are monitored by Statistics NZ to see if they are going up or down.

The Reserve Bank monitors the NZ economy and uses this huge bank of data to make predictions on where it sees the CPI and hence inflation is tracking. If the Reserve Bank believes that inflation is going to go beyond the range it has been instructed to keep within, it will use the OCR in an attempt to keep inflation within the range.

As interest rates rise, people spend less, either because there is an increased incentive to save rather than spend or people with mortgages and other loans have less to spend. When people save more or spend less, there is less pressure on prices to rise, and therefore inflation pressures tend to reduce.

In addition to influencing interest rates, unfortunately, the OCR also affects other economic factors. As interest rates increase, NZ becomes more attractive to overseas depositors, who buy NZ dollars to take advantage of the higher interest rates. This increased demand for the NZ dollar increases its value compared to other currencies which makes NZ products more expensive in overseas markets.

One reason the Reserve Bank introduced restrictions on Loan to Value Ratios (LVR) was to influence inflation. The theory is that if people are required to have higher deposits when buying property, this will encourage them to save more to get a higher deposit. This reduces spending as well as the risk of over-borrowing, while not affecting the exchange rate.

As with anything the Reserve Bank does there will be winners and losers as a result of these restrictions.

The Bottom line

The OCR is often discussed a lot in our circles and it’s worth understanding, but the best advice I can give is to leave nothing to chance. When fixing your interest rate or deciding on a structure, ensure you get the best result set up for your circumstances, regardless of rate rises or falls.

What are credit checks?

One comment I get a lot from people is that they've "got a good credit rating" as they've had several loans in the past which have all been repaid. Some people even think they “have” to get a loan early on in life to “set up” their credit rating for the future.

How does your credit rating affect your mortgage application?

The reality is that banks assess any loan application on a multitude of different criteria. They don’t just take into account equity and income. They may take into account more obscure things like your job or even your drinking habits! The criteria used vary from bank to bank and one bank was found to take 47 different factors into account. Only one of these criteria was your credit history.

So, what are the banks looking for?

There are some key things that banks are looking for when it comes to your credit report.

Here is a list of the most important things to consider:

Credit Defaults

Generally, the banks want to see no credit defaults at all within the last 5 years. These defaults occur when you miss a series of payments and your outstanding loan/bill is sent to a collection agency like Baycorp.

Borrowing history

If you've been consistently borrowing small loans over a period of time then the bank may assume you are going to continue to do this in the future. This could impact negatively on your chances of approval.

Types of inquiries on your credit file

Everyone needs a phone or power account and they'll check your credit for these. Maybe you've bought a car and some furniture and borrowed money, that's fine. But if you've been making regular applications with payday loans or questionable lenders, particularly if you've been declined for one reason or other, then the bank will want to check your position in more detail because they may see you as higher risk.

What if I have defaults?

If you have had credit defaults then it may not stop you securing a home loan. It really comes down to the overall strength of the loan application that you are presenting. That's where a good Mortgage Broker (code: us!) really helps present the best case and give you the highest chance of securing loan approval.

Some credit agencies will give you a credit score, of up to 1000, based on the information recorded on your credit file. Generally speaking, a score above 500 is considered very good. However, a high or low score doesn't necessarily say anything about your chances of getting a home loan. As stated above, banks take plenty of factors into consideration when making their decision.

Want to know what your score is? Check out the Resources page, and there is a website address where you can get a free report within 10 days.

This is really important to do if you think you might have something negative noted on your file or a low credit score. The first step to overcoming a poor credit profile is explaining it well upfront, and not waiting for a bank to find out with no explanation.

For 95% of people, their credit rating won't affect their chances of buying a house.

The key things to remember are:

- ✓ Present a good application to give you the best chance of approval
- ✓ Ensure you make the required payments on all loans and bills on time
- ✓ Try to avoid taking out lots of loans and credit/store cards if you can

Bringing it all together

Like anything in life worth doing, buying your first home can be a challenge. But there is absolutely no reason why it cannot also be fun.

My approach has always been to equip my clients with the best information possible so they enjoy the buying experience and most importantly **understand** what's going on and have all the tools to be successful in their first property purchase, and beyond.

Other professionals (and even other Mortgage Brokers) can assume that because they're the expert the client doesn't need to be involved or kept in the loop. While we absolutely don't mind if you would prefer for us to take care of everything, it makes me sad to hear that clients have a structure and they don't really know why… how can they ever succeed in paying it?

Being informed about the process is the start and then you just have to get out there and do it.

Proof the process can be awesome is in the hundreds of emails (and some stunning bunches of flowers) I've had over the years saying "thanks" for making it easy.

Now this book is out in the ether, I hope that many more first home buyers feel confident in their knowledge and the process. I hope you have gained a good understanding of not only buying a property but how to manage debt, budget, plan for the future and set up your home loan in a way that it supports your long term goals.

So - First Home Buyer - from me to you, I can't wait to hear your story about achieving your goal of buying your first home and smashing it! Email me anytime - claire@mymortgage.co.nz

Claire Williamson (2021)

Useful Websites & Contacts

Useful Websites

My Mortgage Website - https://www.mymortgage.co.nz/
Loan Repayment Calculator - https://www.mymortgage.co.nz/page/calculator/
Credit Check - https://www.mycreditfile.co.nz
First Home Grant house price caps - https://kaingaora.govt.nz/home-ownership/first-home-grant/check-property-criteria/
First Home Grant application form - https://hera.power-business.co.nz/hnz/HomeStart.nsf

Recommended Professionals

This is a list of (mainly Waikato based) professionals who I have worked with and who consistently deliver great service to customers...

Accountants
Braithwaite and Pearks - https://www.bpca.co.nz
Evans Doyle Accountants - https://www.evansdoyle.co.nz/
Coombes Smith Property Accountants (Investment Specialists) - https://www.cswaikato.co.nz/

Builders
Heartland Homes - https://heartlandhomes.co.nz/ (Putaruru based, services Waikato and BOP)
Kit Markin Homes - https://kit-markinhomes.com/ (Cambridge based, new builds and renovations)
Holah Homes - http://www.holahhomes.co.nz/ (Hamilton based, new builds and commercial builds)

Home Designer
Deanna Hills (The Designery Room) - https://thedesigneryroom.co.nz/

Independent Building Architect/Designer
Enderwick Design - https://www.enderwick.co.nz/

Lawyers
Chatwin Legal (Hamilton) - http://www.chatwinlegal.co.nz/Article.aspx?ID=564
CB Lawyers (Hamilton) - https://www.cblawyers.nz/
Brent Kelly Law (Te Awamutu) - https://www.kellys.co.nz/
Magill Earl (Matamata) - https://magillearl.co.nz/

Valuers
Please check with your lender before you order a valuation directly as most banks have specific requirements concerning this service.