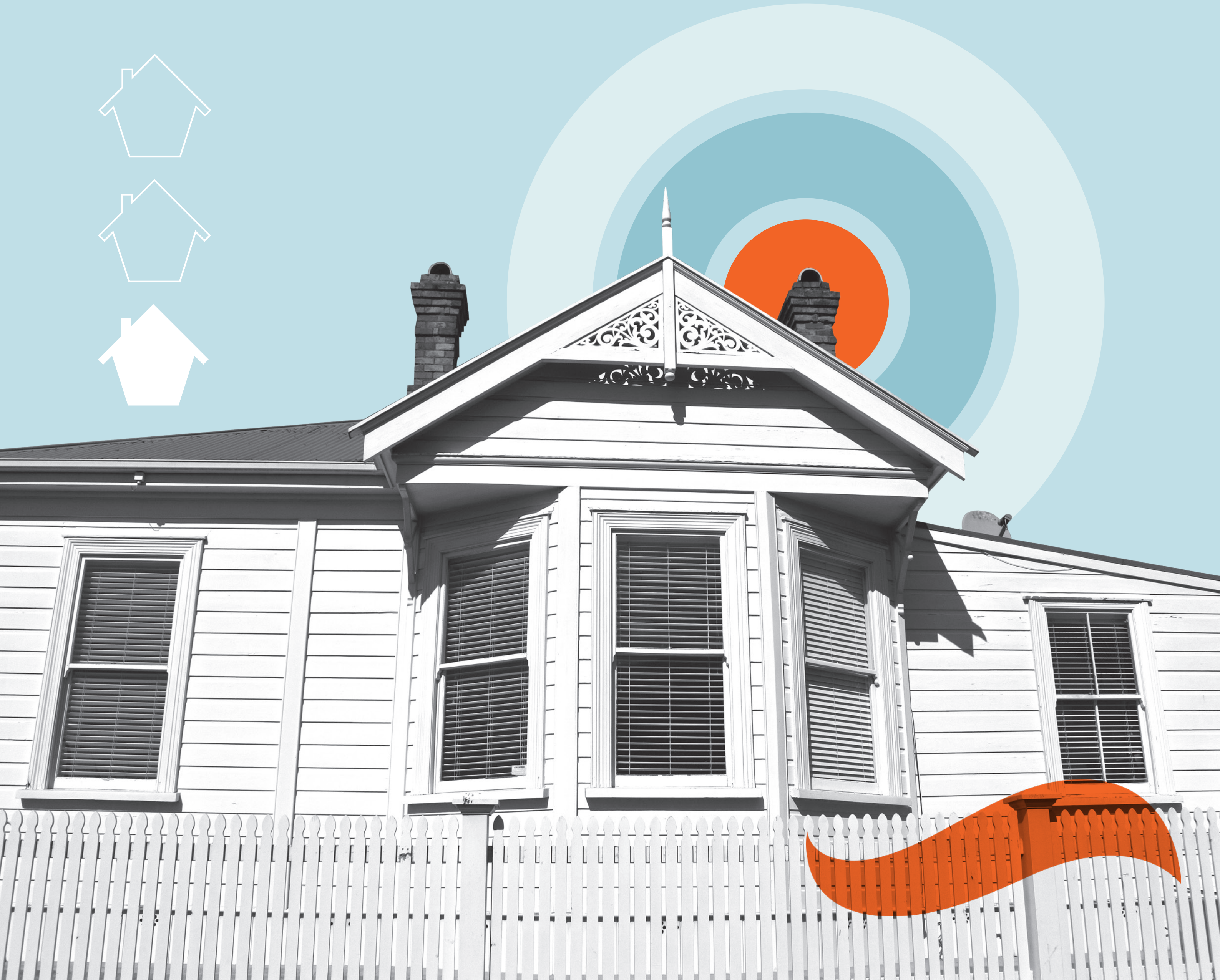
Squirrel

First Home Buyer? Look no further.

First Home Buyers Guide



Looking to get into your first home? We can help.

If you're stressing about buying your first home, you're not alone. The good news is, we've helped thousands of Kiwis into their first homes and we can help you too.

We'll arm you with all the info you need, help you steer clear of the traps and sort you out with the best possible deal from the bank.

Buying your first home can be tough without help. That's where Squirrel comes in handy. We've built our entire business around making sure the house buying process runs as smoothly as possible for you. Leaving you to get on with other stuff, like planning your first BBQ.

So let's get started.

Contents

Why Squirrel?

We do a lot more than most because we understand that you've got other things on your plate. Plus, our advisers are on a salary. That means they won't force you into a loan you don't want or can't service because they are unbiased.

What else we do to make the house buying process easier for you:

- Help you figure out how much you can afford to borrow
- Work out where to buy your first home
- Access property reports on potential homes
- Help arrange inspections and valuations
- Look over your LIM, Sale and Purchase agreement and building inspection reports
- Get you a great deal from the bank and the best structure for your mortgage

Some useful tips to get you started.

There's a lot to take in before you get started, so here are our top tips to get you underway.

Get your ducks in a row so you can jump on the right deal

If you've got all the legal and financial stuff sorted early you'll get in first on the great properties. Almost makes you feel sorry for everyone else. Almost.

Interest rates aren't everything

When we're talking hundreds of thousands of dollars, a fraction of a percent change in interest or repayment rates can save you a packet. Having said that, life's not all about money and sometimes it's better to go with the lender that works for you long-term rather than saving some dollars in the short-term. We can help you make the right choice.

The banks will do anything to make you choose them

Don't fall for their free-tv-cash-back-free-groceries-for-a-year trickery – choose the right mortgage, and you'll be able to buy your own TV.

Try living with your mortgage before you buy

To give you an idea of what you can afford in real terms, try setting up a bank account so that your savings (+rent) equate to your probable mortgage repayments. You'll find out pretty quickly if you can cope or not.

Common questions

You've probably got a lot of questions. Here are some of the questions we find ourselves answering pretty often:

Will I be able to get a loan?

Short answer: probably. Lending criteria is different from bank to bank so we'll help you shop around for the best deal. If you go direct to your bank you'll have less chance of securing the right loan (or any at all) because they can only give you one solution.

What paperwork is required?

Quite a bit, but we try and reduce it for you. First you have to fill out a form with all your assets, debts, income and expenses. You'll need to prove your income, that you have a deposit saved and three months of bank statements. The bank and your Squirrel mortgage advisor might also run credit checks.

Which bank has the best rate?

Free TVs and cash in the hand seems like a sweet deal. Don't be fooled though, there's more to this decision than which room you should turn into a cinema.

Why use a mortgage broker at all? Why not just go straight to the bank?

Good advice and a ton of experience. We help you through the whole buying process (not just the mortgage). Property will be one of your largest financial investments. When it goes wrong, it can go horribly wrong! Mortgages (and helping people like you buy property) are what we do – so we know all of the things to look out for. As mortgage advisers we also have more options available to us when it comes to finding a mortgage solution. Lenders have very different credit policies. By only talking to one lender you are potentially selling yourself short and getting a poor deal. Why take the risk when our service to you is free?

Can I borrow 100%?

In short – no! Most banks now only lend up to 80%. If you have good income we can possibly get you to 90% and for some 95% but the borrowing costs are higher. Other options to think about are to use you parents as a guarantor or vendor finance.

How fast is it to get finance?

It normally takes less than three days to arrange finance but it pays to get organised ahead of time. Every now and then, the banks can be a bit slow, especially if the mortgage is over 80% of the property's value. So, if you are borrowing over 80%, allow for 5-7 working days to get an approval. Bottom line is, the earlier you talk to us and get things rolling the easier it'll be for all.

Where should I live?

When you're deciding where to live there are lots of things to consider.

Some of it's rational, but lots of it will be emotional. If you're a couple buying together you'll probably have differing priorities, so finding a middle ground can be a fantastic lesson in compromise. You'll need to consider how you want to live and how long you're planning to stay. Do you want to be close to friends and fun places to eat out? When it comes to commuting, how far is too far? If you have kids or are planning them, are the schools and community to your liking?

Whatever you decide, there are a few more things to take into account:

Location, land and community

It really is true that it's better to buy the worst house in a good street – and it's not just because the value of your house will go up. You may not realise just how much impact your community can have on you – horrible neighbours can make life hell.

Follow the sun

Amazing what a difference a bit of sun can do for even the most run-down property. Make sure you double-check the aspect of any house, so you know where it gets the sun and what rooms will be the warmest.

Do your research

Get your sleuthing hat on so you know everything about the house before you buy. Talk to neighbours, run Google searches on the house, street and area, check at night for street lighting and noise.

Questions to ask yourself are:

› What is the neighbourhood like?

› Is it quiet at night?

› Is there much crime in the area?

› What happens when it rains?

› Are neighbours aware of any future development activity?

What are the different types of properties to consider?

From the Kiwi quarter-acre dream to the inner-city loft, properties come in all different shapes and sizes. Finding what's right for you is all part of the fun.

Freehold

This is where you own the whole lot, including the land. Long-term, the value of your property will be in the land.

Leasehold

With leasehold you own the building but you don't own the land. Banks will generally only lend up to 65% on leasehold property.

There are typically two types of leasehold. Church and Maori leasehold tends to be lower risk and better quality because they've been around longer and are more consistently priced. Commercial leasehold is riskier. Many of the inner city apartments that have developed recently have used low "honeymoon" lease costs that jump up as much as 100% at the next ground rent review date.

Your key considerations are how long it is until the next review and how much will they increase?

Leasehold can be really useful in some cases. It allows people to live in areas and in a quality of building they otherwise could not afford. The most important thing is making sure that it's priced properly.

Cross-lease

This was popular in the 70s and 80s as a cost effective way of subdividing properties. Essentially you own a share of the freehold title. The only thing to be aware of with cross-lease is that it may need sign-off from other owners before you can change the footprint of your house. Although uncommon, there could be other restrictions on the title that need to be checked out by your lawyer.

Strata or unit title

This form of ownership is common for apartments, townhouses and units. It is used to ascribe ownership within a development. You will have ownership of your unit and an undivided share in the ownership of common areas.

There will be Body Corporate fees associated with unit titles that pay for the upkeep of the common areas and services.

Types of buildings

House

Usually has a roof, windows and a door. Like Playschool, only real life.

Townhouse/units

These are semi-attached and usually on a cross-lease or strata title. Banks are a little more nervous about town houses in larger developments so may restrict lending to 70%. They tend to be more favourable towards properties built in the 70s and less favourable towards anything built after 1985. Clearly, they don't make them like they used to.

Apartments

Apartments are increasingly popular with buyers because of the low entry prices, though they're not viewed positively by lenders. This can make it much more difficult to get a mortgage on an apartment, but has also seen the price of apartments drop. Some banks are not lending on apartments at all anymore, so it's worth talking to us first if you're thinking of grabbing an inner city pad.

Apartments are a bit of a weird beast. Often banks won't lend on the cheapest places at all because they're too difficult to rent. For apartment like these, which tend to be less than 50sqm or leasehold, you'll probably need a 40% deposit. Larger apartments with two or more bedrooms that are freehold will need at least 20%-30% deposit as long as you have a good stable income.

To really educate yourself on apartments, spend a night at a tired, old, cheap hotel (just take your own pillow). You'll notice what happens to apartments that are cheaply made and not well maintained – it feels really run down, shared areas will be scruffy, views blocked by newer buildings and street noise will be very noticeable. Apartments with potential will be soundly built and mostly owner-occupied, with safe entry and exit from the building at night and great proximity to supermarkets, parks and transport.

Building era

Pre 1940

Built with native timbers these were built pretty solid so last fairly well.

Things you should watch out for:

- Some insurers will need old wiring to be completely replaced before they'll sign off on replacement-cost policy. You'll generally need this kind of policy to get your home loan so make sure you check this out before going Unconditional.
- These houses often need to be re-roofed, costing around $10k and re-piled, around $15k.

1940 - 1960

This period tended to have small windows and cramped living spaces to trap in heat. You'll often find the layout in these places are at odds with modern living, so you'll need to move to walls around. That makes them expensive do ups.

1960 - 1985

Not only are houses in this era pretty fashionable at the moment, they're made from enduring materials and are often positioned well for sun with great indoor-outdoor flow. Asbestos was widely used in the 1960s and 70s. Asbestos is safe if you just leave it alone (kind of like a pimple). Check whether or not internal ceilings are asbestos because some lenders will restrict lending to 80%. Asbestos ceiling can be removed by specialists for around $5k.

Insulation only became compulsory in 1979, so houses built before then might not have any. Brick and tile houses will be particularly cold and have issues with mould – look for it on south-facing walls.

1985 - 2003

This is the era of dodgy building practices and the infamous "leaky building", so it pays to be careful.

Things to look out for:

- Monolithic cladding systems ("plaster houses" and panelling)
- Lack of eaves (roof overhangs)
- No window flashings (integrated metal trim above a window that deflects water)
- Balconies integrated into the cladding system ("solid")
- Cladding or framing touching the ground

2003+

New building codes fixed the dodgy practices of the previous decade. Enough said.

How to buy your first home

There are many different ways to buy property in New Zealand. Auctions are still quite common, but check out all the different ways you might be able to secure your first home.

Auction

An auction is where you get into a room and yell about buying a house. If you win, it's considered an unconditional purchase, so you need to do all of your due diligence homework beforehand. The real estate agent will have given you a copy of the sale and purchase agreement, title and maybe the LIM report. You may need to do a building inspection and valuation. This can get a wee bit expensive if you keep bidding at auction, so it's best to be choosy.

You'll also need to register your interest in the auction before the day and be able to front up with a 10% deposit if you win.

Auction checklist:

- Register your interest with the agent before the day
- Agree any changes to the deposit or settlement day with the agent before the auction
- Have your solicitor check the title
- Get your finance fully approved
- Read the LIM report and do any other due diligences
- Do a building inspection or valuation (if required)
- Arrange your 10% deposit (check out our page on deposit bonds for help with this)

Negotiation

This is when properties are advertised with a price, a price band or by negotiation. You make an offer on the property and negotiate with the seller on price.

Tender

A tender is like dating. You put in a written offer with a specified timeframe and the vendor considers your offer alongside others. You can put conditions on the offer but this might make it less appealing than others.

Private equity

A private treaty is buying by negotiation and lets you put conditions into the sale and purchase agreement.

Private sale

Private sales are the same as Private Treaty but are worth covering separately because you'll be negotiating directly with the vendor. Because no one will be managing the process and spotting the issues early there's more chance that something will go wrong. If you buy privately you'll need a registered valuation and should have your solicitor check the agreement before you sign. The alternative is to insert a solicitors' clause, which is like a Get Out of Jail Free card – if the solicitor's not happy, you have three days to get out of the agreement.

Sale and purchase agreement

Once you find a place you want to buy you'll need to sign a sale and purchase agreement. This is basically just a template where you can insert your own purchase conditions.

We've outlined the main conditions below:

- Subject to finance – generally 5 to 10 working days
- Subject to building inspection
- Subject to LIM report
- Subject to solicitors approval – 3 working days (insert this if you are not confident about what you are signing)

Another popular condition is a due diligence clause that gives you full control on the purchase process – unsurprisingly, this isn't nearly as popular with agents as it is with buyers. Remember though, this is a legal contract and the point of no return; once you go unconditional you're committed to purchasing the property. It's mostly not as ominous as that sounds.

Paying the deposit

You might find that you don't actually have the deposit available when you buy a property. Rather than searching down the back of the couch to make up the difference here are the rules and the process you should follow:

- The amount of a deposit is completely negotiable.
- Auctions are set at 10% deposit, but you can negotiate with the real estate agent before the auction if you don't have it on hand. Agents and vendors will want as many bidders as possible at the auction so will generally agree to a lower deposit.
- With private treaty (by negotiation) sales you set the figure when you sign the sale and purchase agreement. 5% is usually enough. With bigger purchases you can usually cap the deposit at a set amount, say $25k, which is pretty handy.

When is the deposit paid?

You normally agree to pay the deposit once the sale goes unconditional. Occasionally real estate agents ask for the deposit upfront but this isn't all that common.

Although it is best to pay the deposit on the day you go unconditional, this is often not possible because of the amount of paperwork required to get temporary facilities in place. If this is the case, you can go unconditional and just let the agent know that the deposit will be paid within 48 hours.

Always check with your solicitor – you have three working days from being served notice (by the vendor's solicitor) to pay the deposit. This means you have at least three working days from going unconditional to pay it. That's enough time to search through a few couches – or set up alternative arrangements.

Remember: The KiwiSaver rules changed recently to allow the early release of funds to be used as a deposit. This needs to be managed through your solicitor and is worth getting underway as early as possible.

How do I get a building inspection and valuation?

Once you've signed a sale and purchase agreement we can arrange for a building inspection and valuation and have these available for you before going unconditional.

What is a LIM report?

A LIM report is prepared by the council and is based on its property records. It will tell you whether or not the property has the right consents and a code of compliance. You'll have to order a LIM report from your Council, which will cost around $250-$350. It often takes up to 10 days to get it too, so order as soon as you've signed the sale and purchase agreement. Or if you like looking at heavy documents you can check the council's property file yourself.

Choosing a lawyer and signing contracts

Your lawyer is a necessary evil in the house-buying process. You'll find there's a huge difference in quality of service, advice and cost from all the lawyers out there, so it's really a question of what you need.

If personal service is important then pay extra and go to a reputable law firm. There are also a number of low cost transactional services available, which work great if you're an old hand and don't need lots of advice or reassurance.

Your lawyer will confirm that you would like to go unconditional with the vendor, check that the title of the property is clean, run through the mortgage documents with you, and settle the funds.

If you are outside of the city or overseas, they'll courier the mortgage documents. You'll need to sign them in front of a Justice of the Peace or Public Notary. For non-residents you don't need to come to New Zealand to buy property – just allow enough time for us to send the paperwork back and forth.

Important dates

Finance date:

5 to 10 working days from offer date.

Settlement date:

The day you take ownership of the house.

Can I use my KiwiSaver?

If you are a first home buyer you can withdraw KiwiSaver contributions made by you and your employer to use as a deposit towards your new home. You can only do this if you've been on KiwiSaver for more than three years.

In addition, if you earn less than $130,000 and are buying for less than $600,000 (or building new under $650,000) in Auckland, you may be eligible for a HomeStart Grant of up to $5,000 per borrower. See full eligibility below.

The HomeStart Grant is $1,000 for each year you've been in KiwiSaver, up to a maximum of $5,000 for five years. If you're a couple buying a house together and you both qualify for a grant, you could receive a combined grant of up to $10,000.

If you are off plan or building new then you could double your HomeStart Grant up to $20,000 for a couple.

To be eligible to withdraw some or all of your KiwiSaver you must:

- have been a KiwiSaver scheme member for at least three years;
- be planning to live in the house for at least six months, and
- be buying your first home.

To be eligible for the HomeStart Grant you must:

- have contributed at least 3% of your income to a KiwiSaver scheme for at least three years
- be planning to live in the house for at least six months,
- have a single income under $85,000 or a combined yearly income of $130,000 or less (before tax) two buyers,
- be buying a house under $600,000 (or building new for under $650,000) in Auckland, $500,000 in other major metropolitan areas, and $400,000 across the rest of New Zealand.

Getting your money out

You can now withdraw funds from your KiwiSaver to put towards your initial deposit (previously this was only possible upon going unconditional). If you have a conditional sale and purchase agreement you can choose to make your withdrawal at the point of deposit or when you settle.

If KiwiSaver isn't an option for you, then you'll want to make other arrangements for this amount such as a deposit bond, which we can also help you with.

Welcome Home Loan

With a Welcome Home Loan you only need a 10% deposit, which makes getting into your first home just that little bit easier.

Welcome Home Loans are issued by selected banks and other lenders and are underwritten by Housing New Zealand. This allows the lender to provide loans that would otherwise sit outside their normal lending standards.

To be eligible for a Welcome Home Loan you need to meet certain minimum criteria:

- Income cap: You can have a maximum yearly income of up to $85,000 (before tax) for 1 person. Or a combined maximum yearly income of $130,000 (before tax) for 2 or more people.
- Minimum deposit: You will need a minimum 10% deposit
- House price cap: The price of the house you are buying with a Welcome Home Loan must be less than the regional house price cap.
- NZ Citizen: You need to be a NZ Citizen or NZ Permanent Resident.

For more information and full eligibility criteria check out the Welcome Home Loan site. (welcomehomeloan.co.nz)

Get started with a 10% deposit.

Get into your first home with a 10% deposit - thanks to Welcome Home Loans.

Visit welcomehomeloan.co.nz to see if your'e eligible.

Your first mortgage

To arrange finance you can apply online now at squirrel.co.nz, or call us seven days a week on 0800 21 22 30.

Sorting out the financial stuff is different for everyone and our advisers will help you find the right solution, but here's some useful information if you fancy a bit of background reading.

Different types of mortgages

Getting your mortgage structured correctly is one of the most important pieces of the home buying process. Getting it wrong can cost you thousands over the term of your loan. Luckily, this is what our advisers are great at. We'll take your lifestyle into account and figure out what's going to work out best for you.

We'll explain it all to you, but if you want to get ahead on some of the jargon, here's a quick breakdown.

Maximum mortgage term

The maximum term for mortgages is generally 30 years. It can be set up on a reduced term as well if suitable (and we recommend this where possible).

Frequency

Loan payments can be made weekly, fortnightly, or monthly (depending on the bank) but from our experience it's best to pay your mortgage as often as you're paid. Paying more frequently can result in slightly lower interest costs but this varies between banks. Our staff can advise more on this.

Interest-only mortgage

Interest only terms are available to customers in most instances, provided they have an equity position of 20-30% of their current property value, although some banks won't allow interest only payments on lending secured by the family home. The interest only terms can vary depending on the lender to a maximum term of 5 years.

Fixed mortgage

Fixed rate mortgages give you certainty; you'll know what your repayment amount is for a fixed term of between 6 months and up to 10 years with some lenders. Even if interest rates go up or down you pay the same, so you could miss out on savings, or avoid paying increases. If you repay a fixed rate early (like if you sell the house) you may end up having to pay early repayment fees.

Capped mortgage

This mortgage type is generally way over complicated and not very common in New Zealand. Essentially you get a floating rate that is capped in the event that rates go up, but you pay a higher rate for that privilege.

Floating mortgage

Floating rate mortgages give you more flexibility to pay your loan off faster. The rate can go up and down at any time but this movement is closely tied to the official cash rate. With a floating mortgage you can pay it off as fast as you like without fees and some banks let you redraw funds if you have repaid more than their minimum requirement.

Revolving credit

This is essentially a giant overdraft on your transaction account where the overdraft is at floating mortgage rates. As long as you can resist the temptation of using all that credit for fun things like shoes and holidays, there are a couple of great benefits:

- It's better to throw all of your savings at the mortgage and have undrawn funds in a revolving credit which reduces your interest payable.
- Gives you easy access to funds and can smooth your mortgage if your income is lumpy or irregular. Can be a great option for self-employed/ contractors or if you're planning a family.

Off-set mortgage

An off-set mortgage gives you similar interest savings to a revolving credit, but rather than having to put your surplus funds in one pool lets you use up to 10 different savings accounts to off-set the balance on a floating loan linked to those accounts. This product is great if you like to keep separate accounts for different purposes such as holiday savings or renovation savings.

Low equity fee or margin

If you need to borrow more than 80% of the purchase price of your new home, banks will charge you either a low equity fee or a margin.

Both kinds of fees have plusses and minuses.

Low equity fee

A low equity fee is a one-off charge, which can be added to your mortgage so you don't have to cover it up front. The advantage of a fee is that you pay it and move on.

Lender	<90%	>90%
ANZ	*0.25% - 0.75%*	*2.00%*
Kiwibank	*0.25% - 0.50%*	*0.80%*

Low equity margin

A low equity margin is added to the mortgage rate and stays on the mortgage until you've gathered enough equity in the property. If you're able to pay off the loan quickly or get additional value into the property through renovation, this can be much less costly than a one-off fee. Most often, you can't remove the margin until your fixed rate is due which means that even if you happen to drop below 80% LVR you can't remove the margin unless you break your loan (which may incur break costs). The only exception to this is BNZ who will remove the margin mid fixed term.

Lender	80% - 85% LVR	85% - 90% LVR	90%+ LVR
ANZ	*0.25%*	*0.75%*	*2.00%*
ASB	*0.30%*	*0.75%*	*1.30%*
BNZ	*0.35%*	*0.75%*	*1.00%*
Westpac	*0.25%*	*0.75%*	*1.50%*
Kiwibank	*0.25%*	*0.50%*	*0.80%*

Ready to get started?

Give the team a call on **0800 21 22 30** or apply online at **squirrel.co.nz**

Get mortgage free faster

If getting a mortgage for 30 years scares the life out of you, there are ways you can cut down the time and the amount you pay. Here's how you can pay 40% less interest over the life of your mortgage and pay it off 10 years faster.

The thing to remember is that interest compounds. When you save money, this means you earn interest on the interest and so on. When you're repaying a mortgage this works in reverse – the less you owe, the less interest you pay (and the less you owe).

Sound complicated? What it boils down to is that small increases in your regular repayments will have a massive impact on your interest costs in the long run.

- Regularly paying a bit extra makes a massive difference
- Having the right structure and rates pays big dividends in the long-run

Example

In the example below the borrower will save $141,000 in interest on their mortgage and reduce the loan term by 10 years simply by increasing their repayments by $450 per month.

	Before	**After**
Mortgage	*$400,000*	*$400,000*
Rate	*5.25%*	*5.25%*
Payment amount (monthly)	*$2,209*	*$2,659*
Mortgage term (years)	***30.0***	***20.5***
Total repayments	*$795,173*	*$653,820*
Principal	*-$400,000*	*-$400,000*
Total interest	*$395,173*	*$253,820*
Difference		***$141,353***
Reduction in interest		***36%***

Ways to get ahead without feeling the pinch:

- Get a great mortgage rate (luckily we can sort that for you). A 0.50% rate decrease will reduce your term by 3.5 years and save $100,000 in interest.
- Keep your repayments the same when rates drop.
- Increase your repayments whenever you increase your income (a 3% increase in your repayment amount each year will reduce the loan term by 12 years).

10 Mistakes to avoid

Listen up rookie, you've got some learning to do. Luckily we're here to help you through the whole process, so check out our top 10 mistakes to avoid.

1. ***Poor account conduct***

   This is when being silly or forgetful with your money can come back to haunt you. Your home loan won't be fully approved until the bank has seen your bank statements. Dishonoured direct debits or going into unarranged overdraft can make you look like a risky prospect and you could be declined.

2. ***Looking in all the wrong places***

   A number of first home buyers start their hunt looking at properties (and going to auctions) well above what they can afford. Eventually they get buyer fatigue and end up buying the first thing they can, which is never a great way of approaching it.

3. ***Putting offers on the wrong houses***

   If a place seems too good to be true, it usually is. Do some basic checks yourself before getting an inspection – look under the floor for dampness or rot and look for repairs.

4. ***Not Checking everything works***

   A building inspection will throw up structural issues with a house but will miss the small stuff. It pays to check that everything works – heated towel rails, spa pool, dishwasher, dryer, drains, electric door to hidden lair, hot water, central heating, fans, and oven.

5. ***Not allowing for upfront costs***

   You will have between $1,500 and $3,000 of upfront costs when buying property. Make sure you factor this in to your budget.

6. ***Under estimating borrowing costs***

   Banks will approve you for more than you can reasonably afford. It is important to have a realistic budget and to plan on higher interest rates. Putting your head in the sand simply creates problems later.

7. ***Changes in circumstance***

   If you are going to have kids, travel overseas, go back to study, or join a hippie commune – work out what that means in advance. If you need insurance, we can help with that.

8. ***Paying the minimum***

   If you only pay the minimum mortgage repayment you won't get ahead and your mortgage costs will increase when rates go up.

9. ***Choosing the lowest rate***

   The lowest rate is often not the cheapest option – they can often come with hooks and hidden costs.

10. ***Buying "interest free" stuff for the house***

    Once you have a mortgage it gets harder to repay other debts. Although a hire purchase might be interest-free (and you might absolutely need it for your kitchen) at some point it needs to be repaid and will then impact

Mortgage jargon

Get down with the lingo so you can throw technical terms into dinner party conversations.

Maximum mortgage term

The maximum term is generally 20 years for mortgages over 80% of the purchase price and 30 years for mortgages under 80%.

Frequency

Most banks allow fortnightly and monthly mortgage repayments. The best idea is to pay your mortgage as often as you're paid – it's not true that you'll pay your mortgage off faster by paying fortnightly.

Interest-Only Mortgages

Interest-only terms can be for 5 or 10 years depending on the lender. Typically this option is only available to mortgages under 80% of the property value or purchase price.

Fixed mortgage

Fixed rate mortgages give you certainty; you'll know what your repayment amount is for a fixed term of between 1 and 5 years. Even if interest rates go up or down you pay the same, so you could miss out on savings, or avoid paying increases. If you repay a fixed rate early (like if you sell the house) you'll end up having to pay early repayment fees.

Capped mortgage

This mortgage type is generally way over-complicated and not very common in New Zealand. Essentially you get a floating rate that is capped in the event that rates go up.

Floating mortgage

Floating rate mortgages give you more flexibility. They can go up and down at any time but this movement is closely tied to the official cash rate. With a floating mortgage you can pay it off as fast as you like without fees and easily redraw funds if you have already repaid more than you need.

Revolving credit

This is essentially a giant overdraft on your transaction account where the overdraft is at mortgage rates. As long as you can resist the temptation of using all that credit for fun things like shoes and holidays, there are a couple of great benefits:

- It's better to throw all of your savings at the mortgage and have undrawn funds in a revolving credit.
- Gives you easy access to funds and can smooth your mortgage if your income is lumpy or irregular.

Buying tactics

There is no doubt that the process of house shopping is a challenging time. So what tactics can you use to become that smart buyer who has the upper hand?

It's a competitive world out there and only the tough survive, or in property terms, only the smart ones walk away with the right house at the right price.

Firstly – be first!

Make sure you are up to speed with the market as it moves day-to-day. Subscribe to email alerts from Trade Me Property and Realestate.co.nz and read them when they come in. If you act, you can be ahead of the game and make sure you have that extra time to undertake the due-diligence required on a property even before the first viewing. So much researching can be online, it's as simple as searching the address on Google.

Don't wait for the first open home

Call up the agent and be forward, state your desire to view the property. Don't be put off by talk of waiting to queue up with all the others at the weekend. If the property is on the market, then it should be ready to view at any time.

Acting in this forward manner may be the opposite of what people tell you in 'not being too keen and hold your cards close', but being assertive can be a powerful tactic, it can de-stablise the meticulously planned campaign and programme of the agent!

Be prepared

Another aspect of being that smarter buyer is to make sure you have all your paperwork in place and have the financial arrangements confirmed with the lender. If you take this forward, confident approach, you want to be ready to act and act quickly to make an offer. A clean and ideally unconditional offer well ahead of anyone else is the key.

Fewer properties are going to auction these days as the heat has come out of the market, the heat that caused irrational behaviour last year with short notice auctions. Today sellers are being conditioned to expect a slower pace and property taking longer to sell. So get in quick. Inspect the property, do the due diligence and get an offer on the table before the rest of the mob have even been to the open home. Be aggressive with the offer, couple that with the pace of your action and you will have the agent telling vendors that they need to take this offer seriously – after all, you would not act so hastily if you were not serious.

The one thing that plays to your favour is the well-known expression shared with vendor by agents. "The first offer is often the best offer". Be sure to play that card to your full advantage and let the vendor consider the classic conundrum of a "bird in the hand is worth two in the bush".

Approach owners directly

Another idea, somewhat of an unusual approach you might like to consider is to actually approach the owners of a property which meets your criteria and based on your insight into the local market properties you think meets your budget. It may sound odd, but approached the right way it could pay off. Instead of knocking on the door and saying "have you ever thought of selling your house" to the person who opens the door, approach it in a more considered way, by writing a letter.

The letter should approach the situation from your perspective. Share your circumstances in respect of your desire to live in the area, your financial situation and your respect that the owners may need time to think about it. Offer the opportunity for a registered valuer to undertake a valuation of the property at your expense. Highlight how a professionally negotiated private sale could provide considerable savings for them and benefits to you. It is worth a try, you will never know unless you ask. People often wonder if someday, someone will rock up to their house and offer to buy it!

Write a letter

An idea for the smarter buyer is to add a personal touch to an offer. Try writing a letter to the vendors to accompany the offer. Sure we all believe that we will always take the best offer irrespective of the circumstances, but you would be amazed how much difference a personal handwritten letter can make. Share your desire to buy the house and explain why. People get attached to houses and it is not uncommon for owners to be keen to see the new owners as 'like-them' in some ways, a family to take care of the house. A touch of empathy can go a long way; and again, nothing ventured-nothing gained!

FAQ's

How does a mortgage adviser get paid?

For mortgages over $100,000 our service to you is free. For a standard mortgage we are paid an upfront commission of between 0.45% and 0.85%, which varies slightly by lender. Some of the lenders also pay us a small trail commission of between 0.15% to 0.25% per year to provide ongoing support to you. This commission is before our own costs and is also used to pay for any of our promotional offers to you. Squirrel Advisers are salary based and earn the same incentive regardless of which band they place business. Non-bank lenders (which we may use for credit impaired deals or commercial/development deals) will generally incur a cost to you as the client as these lenders do not pay commissions. This fee tends to be between 0.50% and 1.00%.

What is a pre-approval?

With a pre-approval you haven't borrowed any money or bought anything yet – it's just the bank saying they're happy to lend to you under a few conditions – normally this is a valuation on the house you're thinking of buying. A pre-approval is a great way of getting ready to snap up the right house when you find it – you'll know how much you can borrow and be in a better position to negotiate.

Can I borrow over 80%?

Yes, if you have a good income and no other debts. Below 80% you can borrow 5x your income. At 90% you can only borrow 4x your income because the lender will make you pay off your mortgage faster. Borrowing over 80% also costs more. The bank will either charge you a low equity fee of up to 2.5% of the mortgage value or they'll add a premium to your mortgage rate which will be 0.50%-1.00% more than a standard rate. The fee can be added to your mortgage so you don't need to find the cash right away. A registered valuation will also be compulsory, which will cost around $500 and you'll need ongoing mortgage or income protection insurance. One of our insurance advisers can help you organise your insurance.

What if I'm self employed or a contractor?

If you're self employed or a contractor there are a few more hoops you'll have to jump through. To borrow over 70%, you need to have been doing what you do for more than two years and have a record of your earnings. If you have low expenses and work in an industry that regularly uses contractors, like project management, IT or film, the bank will be more flexible, but will still usually need a 15%-20% deposit.

What if I can't prove my income?

Low-documentation (low-doc) mortgages have a lower threshold for proving your income, but in the current market we'll still need to see good proof of income coming through your bank statements. With a low-doc mortgage you sign a declaration of your income. This can be a really good option for self-employed people, especially if they have been in business for less than two years. The maximum loan for low-doc is currently 70% of the property value. This type of lending is not the cheapest and will usually be 1.00% - 2.00% higher than the standard bank rates.

Can I use a guarantee?

If you have less than a 20% deposit your family can guarantee the difference. This is limited to a maximum of 20% so Mum and Dad won't risk losing everything if you fall over.

How do second mortgages work?

Essentially it's putting two mortgages in place. The first is for 80% of the property, with a small second mortgage for a further 10%. This can be a very cost effective (and flexible) way of borrowing. We still do second mortgages but the market has become a lot tougher.

What is vendor finance?

Vendor finance is where the seller leaves equity in the property (as a second mortgage.) It is a loan that you'll have to pay back. Ideally the vendor finance is charged at a market interest rate. Vendor finance is trickier and only really works for people with no deposit but high incomes and no other debts.

How much can I borrow to buy an apartment, townhouse or bare land?

The maximum amount that can be borrowed for apartments, townhouses, and lifestyle blocks is 80% of the property value. With bare land it varies between 70% and 80% depending on the lender and location. Lifestyle blocks must be less than 10 hectares.

Building a new house

If you are building a new house you'll find most lenders will only go up to 80%, but we can often sort you out with up to 90%. With a new build you should get a fixed price contract with a master or certified builder so their work will be guaranteed.

Before the mortgage is fully approved you will need to get a registered valuation. Then along with the builder and the lender, we'll work out when progress payments will be made during the build. At each stage the bank may ask for an updated "as is" valuation. This is them checking that you haven't blown the budget – you'll need to stay below the lender's loan-to-value cap (generally 80%) throughout the build.

Most banks lend against the project cost. Sovereign is a bit different and lets us use an acquisition price that makes allowance for "reserves" and interest capitalisation. This makes them a good choice for these types of mortgages.

What if I don't live in New Zealand?

If you're a non-resident you'll only be able to borrow 70% of the property value. If you work in NZ but don't have permanent residency your maximum borrowing will be 80%.

Open home notes

Address ....

Agent .... Price $ .... or Auction? ☐

No. of bedrooms 1 2 3 4 5 6 No. of bathrooms 1 2 3 4

Stand out feature ....

What we like ....

What we don't like ....

Things that will need doing ....

Worth another look?

☐ Not at all ☐ No harm in having another look ☐ This could be the one!

How badly do you want it?

☐ We don't ☐ Could take it or leave it ☐ Let's go - this is the one!

Address ....

Agent .... Price $ .... or Auction? ☐

No. of bedrooms 1 2 3 4 5 6 No. of bathrooms 1 2 3 4

Stand out feature ....

What we like ....

What we don't like ....

Things that will need doing ....

Worth another look?

☐ Not at all ☐ No harm in having another look ☐ This could be the one!

How badly do you want it?

☐ We don't ☐ Could take it or leave it ☐ Let's go - this is the one!

Address ....

Agent .... Price $ .... or Auction? ☐

No. of bedrooms 1 2 3 4 5 6 No. of bathrooms 1 2 3 4

Stand out feature ....

What we like ....

What we don't like ....

Things that will need doing ....

Worth another look?

☐ Not at all ☐ No harm in having another look ☐ This could be the one!

How badly do you want it?

☐ We don't ☐ Could take it or leave it ☐ Let's go - this is the one!

Address ....

Agent .... Price $ .... or Auction? ☐

No. of bedrooms 1 2 3 4 5 6 No. of bathrooms 1 2 3 4

Stand out feature ....

What we like ....

What we don't like ....

Things that will need doing ....

Worth another look?

☐ Not at all ☐ No harm in having another look ☐ This could be the one!

How badly do you want it?

☐ We don't ☐ Could take it or leave it ☐ Let's go - this is the one!

Squirrel.co.nz

0800 21 22 30