A Proper First Home Buyers Guide

Are you a first home buyer searching for financial advice on how to get on the property ladder, properly?

Embarking on your first home purchase is exciting but can also be daunting. This First Home Buyers Guide equips you with information about getting a mortgage, the property market process, and how a Properli Financial Adviser to help you on the journey to first home ownership.

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What is a mortgage broker?

A mortgage broker will look at your financial situation, provide recommendations, advice on how to attain and structure your mortgage to best suit your needs. Mortgage brokers are a middle-man between you and a bank or a mortgage lender with expert knowledge to make sure you get the best deal. Mortgage brokers also do a lot of the heavy lifting for you through managing the application, timelines and negotiating interest rates on your behalf.

Why Properli?

Properli are Financial and Property Investment Advisers that enable you to unlock the potential of property ownership to secure a better financial future.

Properli Advisers offer tailored support and planning to get you started on your journey to property ownership. We simplify the process by removing the jargon and the heavy lifting with the banks and all the paperwork enabling you to get a clear picture of all options available to you.

What is a mortgage?

A mortgage is a loan from a lender to help you complete the purchase of a property. The lender will use the property as an asset for security. You get charged for this loan through an interest rate.

Different types of mortgages

Table loan is the most common type of home loan, and typically you can choose up to 30 years with most lenders. With a table loan, it means the early repayments you make are usually interest only (which is why an interest rate is so important). Towards the end of the loan, you're paying back the principal (the initial amount borrowed).

Revolving credit loans are essentially a giant overdraft and require a lot of self-discipline and organisation. This is where your pay would go in, bills are paid out when they're due, and you keep the loan as low as possible. Typically for these loans you pay less interest as lenders calculate the interest daily. This type of loan allows lump-sum repayments, which is great if you have come into a lump sum of money.

Offset loans can ultimately reduce the amount of interest you pay, as you can link your loan to any savings or everyday accounts you already have. You take your mortgage, less your savings, and have what you need to pay interest on. Our example here would be if someone with a $100,000 mortgage and $20,000 in savings would only need to pay interest on $80,000.

Interest only loans are where you pay for the interest-only part of the repayments, not the principal i.e. the rest of the loan. This option works great for a couple of years, and is super helpful if you are on a single income or have an investment property. However by having the loan on interest only you will pay more in repayments long term.

How do I structure my loan?

If you want to pay your home loan off faster or pay less interest, you need to look past your interest rate. This means, your loan structure is key.

While locking in a low rate is important, it's far more essential that your loan is structured in a way that's suited to your unique circumstances. Poorly structured loans come in many shapes and sizes. The loan term may be longer than it needs to be, the rate might be fixed when it should be floating or it might just be a standard off-the-shelf product that doesn't take into account your needs.

Whatever the problem is, a poorly structured loan is harder to pay off, more expensive and more likely to cause stress. On the other hand, a mortgage that's tailored to your situation and your goals will be the exact opposite – easy, stress-free and affordable.

Loan structures

Every borrower comes with their own unique set of circumstances, so every borrower needs a unique loan. Here are a few loan features that you should consider:

Fixed rate

The interest rate on your loan is fixed, meaning it can't go up or down, usually for a period of one, two, three, four or five years.

Pros

- + Repayments are the same amount every month.
- + Lenders often offer lower rates.
- + You're protected if market interest rates are rising.

Cons

- × Fixed rate loans may come with repayment limits of fees for making extra repayments.
- × If interest rates fall, you may find yourself overpaying.
- × Lenders sometimes charge break fees if you sell the property and discharge the loan before the fixed term ends.

Floating or variable rate

The interest rate on your loan can go up or down depending on what the market is doing.

Pros

+ You have more freedom to make extra repayments, repay your loan early or change your loan without incurring fees or penalties.
+ You may be able to consolidate debt into a floating rate loan.

Cons

× If market interest rates go up, so will yours.

× Floating rates are usually slightly higher.

Offset account

Usually, you have to pay interest on the full amount of your loan – the principal. But if you link a savings or everyday account to your loan, you pay interest on the principal minus whatever is in your linked or offset account.

Pros

+ You may pay less interest which might enable you to pay your loan off faster.

Cons

× You won't receive interest payments on the amount in your savings account.

Redraw facility

This is also referred to as Revolving credit facility. This turns your home loan into something like a giant credit card. Your pay goes into the account, all of your expenses come out and you can spend up to a certain limit. Interest is calculated on the balance throughout the life of the loan, so getting paid into the account should reduce the total amount of interest you pay. You can make lump sum repayments and reduce your credit limit to help pay the loan off faster.

Pros

+ If you're disciplined with your money, you may be able to pay your mortgage off faster
+ Putting extra funds into this account will reduce the amount of interest you pay.

Cons

× If you're not disciplined, it's easy to overspend with a redraw facility, which could make paying your loan off difficult.

Depending on your situation and what your goals are, you might need a loan with one or all of these features in any number of combinations (or other features that we haven't mentioned here).

Can I use my KiwiSaver as deposit?

Yes! You can submit a request to withdraw your KiwiSaver as part of the deposit for your first home purchase in NZ. Each KiwiSaver provider will have their own process, but you must fulfil certain criteria before being able to withdraw. This includes:

– You must have been in the KiwiSaver programme for at least 3 years.
– You must be a first-time property or landowner.
– The property or land must in New Zealand.
– You must be building or buying a home to be your family home i.e. not an investment property.
– It must be the first time you are withdrawing to buy a home.

How much can I withdrawal?

It's possible you can withdraw nearly all of the money in your KiwiSaver, including your own contributions, employer contributions, and any government top-ups you may have benefitted from. However, you must leave at least $1,000 in your KiwiSaver when drawing for a first home.

Other Home Grants in NZ

If you have been contributing to a KiwiSaver Scheme for at least 3 years, you could be eligible for a Home Start Grant offered by Housing New Zealand. This grant can be used to help purchase new builds or existing properties up to the value of the price caps in your region and as stated by Kaingaora. This also applies to any partner that may be purchasing with you, giving couples up to $20,000 to put towards their deposit for a new home, or $10,000 for an existing one. How much you receive will depend on your income and type of home you want to purchase.

Example: Mick is buying an established home by himself. He's been contributing to his KiwiSaver for 3 years. He qualifies for $3,000 through the First Home Grant.

Jen and Sarah are buying an off-the-plan property together. Both of them have been contributing to their KiwiSaver schemes for 5 years. Each of them qualifies for $10,000 each, bringing them a total of $20,000.

To see if you qualify for a First Home Grant, have a look on the Kaingaora website.

Helpful Tip! The First Home Grant is great, but did you know you can combine it with the First Home Loan too? In some cases, you can get the deposit from the Grant and use it for the loan without having to contribute any of your own cash! Effectively a 0% deposit, how good is that? Our mortgage advisers can help you with many tips and tricks.

The first home buying process

Now that you understand what a mortgage is and how a mortgage broker can help, let's get familiar with the typical process around purchasing your first home.

1

Feeling improperly informed? Do some research.

Research the property market, sign up for regular notifications on real estate websites, visit some open homes and attend some auctions to get a feel for the property market, the process and what is achievable within your budget. Tip – try not to visit any homes that are beyond your budget to manage disappointment later on.

2

Know your money

Fully understand your financial situation, usable income and expenditure. How much KiwiSaver do you have? Are you eligible for any home grants that can help towards a deposit? Based on the properties you have researched, can you borrow enough to purchase the home you have in mind? To get a proper idea of what is achievable, use our mortgage calculator to help you work out what you could borrow.

3

Get proper advice!

This is where Properli can help. We can help you determine your deposit and lending ability, find a mortgage provider with competitive rates tailored to your financial situation, structure the mortgage appropriately to fit your needs and assist you every step of the way. We deal with the banks so you don't have to!

4

Prepare properly

A loan application will need you to provide proof of any assets, debts, income and expenses you have at the time of borrowing. Any lender will also need to know that you have access to a 20% lending deposit (not always 20% deposit, could just put 'access to the required deposit') and view 3 months bank statements. After an application, there could be further info required for pre-approval (e.g. pay down personal debts) before the loan is approved and ready to use.

5

Good news! Your loan is approved

You're ready to start a proper search for your first home. Set a budget, choose your preferred location(s) and local amenity requirements, conduct your search and have a few options to view. If any become winners, make an offer within the approved lending available to you. There are a few ways to buy a property in NZ, read more below.

6

Due diligence

Before finalising the purchase, you will need to check over the property details; things like reading the title thoroughly, getting a building inspection done, check the LIM report, and go through the final documents with your lawyer and Properli Adviser.

7

Seal the deal

When you're happy with every aspect of the purchase, you will agree a settlement, a move in date and commence your loan repayments. Now it's time to protect your valuable asset.

8

Get proper protection

Insurance protects you from unexpected life events whether its property damage, income loss, the death of a loved one or illness.

Types of insurance Properli can provide for first home buyers (but not limited to) are Life Insurance, Income Protection Insurance, Mortgage Cover Insurance, Health Insurance, Medical Insurance, House Car and Contents Insurance and Business Insurance.

The process is easy and simple:

- Make an appointment with an Insurance Adviser.
- Together, work through your requirements.
- We'll provide some insurance recommendations.
- Cover any terms and conditions and apply for you.

Common Property Titles

When choosing your first home, as part of your due diligence it’s important to understand what the property title is and what that means you are purchasing. We give an explanation of each one used in NZ.

Freehold - the most 'simple' or basic form of property title you'll come across. Under freehold, you have no legally imposed restrictions to your ownership – you can use the house and the land and anything attached to that title as you like it. You are considered to have 'interest in the land' i.e. ownership.

That said, there can be some de facto restrictions on what you can do with it, including:

- Covenants, which dictate what type of property you can build on the land.
- Easements, which may give your neighbours or utility companies rights to use part of your land for the purposes of connections.
- Restrictions under the Resource Management Act 1991 or because the land is Maori freehold.

Other than these, the property is considered 'unencumbered'.

Cross lease, or more specifically, cross lease (fee simple) is where you have two interests in the property: a share in the ownership of the land, and a leasehold interest in the building or area that you occupy.

The best example of this is to consider a subdivided property or set of flats. If you purchase into a cross lease (fee simple) property title, you may own a portion of the land, but there are restrictions around how you can use it, usually to the tune of needing permission from all the other shared owners.

In other words, if you suddenly decided you wanted to paint the exterior of your flat, even if it was your flat exclusively, you may need to get permission from your neighbours. Cross leases are notoriously complicated and aren't used in modern times. That said, you still get plenty of homes sold under them, so be sure you know the precise details of the restrictions before you buy in.

Unit titles were introduced as a way to deal with the problems created by cross leases (i.e. a lack of prescriptive rules or guidelines around who can do what and when). They are extremely common with modern apartment buildings.

When you purchase a property under a unit title, you get two things: ownership of your unit and an undivided share in the ownership of common areas. You also usually become part of the 'body corporate'; the entity that manages these commons areas and gathers fees from the apartment owners to fund this management.

A property under unit title has some restrictions as a result. The body corporate manages the day to day of the apartment building, and you'll have a vote in what happens. You can't make those changes to the common areas yourself, however. Within your apartment, you are also usually beholden to the rules of the body corporate.

As a result, this can end up creating either very few or significant restrictions to you as a unit title owner.

Leasehold is essentially a very long term renting scheme. You don't take an interest in the land or the property on it, you just pay for the rights to use the property and the land – usually for a significant amount of time, such as 100 years. Over that time, you pay ground rent back to the actual owner of the land. Once the term is up, you don't own anything in the land or the property.

This makes leasehold unattractive for most property investors, even though it is much, much cheaper than freehold, as you don't get anything at the end of it.

Four different types of property titles with very different profiles. Before you rush off, remember: these are just the basics. Even a fee simple freehold property could have some covenants and easements you don't know about. That's why it's always important to include a lawyer in your property purchase – and that they can explain to you what your property title lets (and doesn't let) you do.

Ways to purchase a property

Auction: An auction is a method of selling a property through the process of public negotiations. Purchasing a property via an auction allows you to publicly negotiate the price and bid, which helps ensure you are paying the market value for the home at the time. This method of purchase is most commonly used. Buying at auction is buying unconditionally so you need to be sure you can meet the banks conditions (if any).

By Negotiation: A property will be advertised for a price or by negotiation with the vendor. Buyers are invited to make an offer on the property via the real estate agent, and negotiate the price.

By Tender: A real estate tender is where you purchase a property through the process of private and confidential offers made before a set deadline. Offers need to be submitted in writing on the standard tender document which is usually done through a real estate agent.

All tenders are opened at the same time by the owner in the presence of a real estate agent and/or auctioneer. Vendors have the right to negotiate with any tenderer, and most sales are finalised within the same day. If accepted the agreement is legally bound by the terms and conditions of the tender agreement.

Private Sale: A private sale simply means that you purchase a home directly from the owner, who is selling and marketing their own property without a real estate agent. You will each agree and sign a sale and purchase agreement and deal with your individual lawyers to get the sale finalised. The bank will generally always require a valuation of the property.

Key people involved in buying a property

Property Lawyer: They will check over the LIM, title, building report and build contract (if needed) and manage the documentation. They can provide you with unbiased legal advice and conveyancing. This usually costs, so check the fees.

Lender or Financial Adviser: You can go with a bank or chat to a financial adviser to help you figure out the best approach and lender for your home loan. They will help you out to see what budget you're working with, what you can borrow, and your financial situation. Which is better between bank vs. adviser?

Registered Property Valuer: Your lender or bank will often require an RV (registered valuation). If you have a good financial adviser, they can help you with this process. If not, you might have to do it yourself! A valuation will cost as well, so check you're into the property you want to get one of these for! We always order for the client as it needs to be done via a specific platform and can't be done privately so could re word to something like 'As your financial adviser we order this for you to ensure the banks will accept it'

A Surveyor Or Building Inspector: A building report is really for your piece of mind, and to sometimes make sure the lender is a happy camper. It will help you figure out any existing or potential issues with the property you're engaging with. Your legal team and financial adviser will review this and help you figure out if there's anything you need to look into. This will also come at a cost.

Additional costs

Over and above the actual purchase of the property, you might experience one or more of the below common one off and ongoing costs.

One off

- Lawyer costs
- LIM Reports & files
- Building inspection
- Registered valuation
- Moving costs
- Initial set ups and connections services

Ongoing

- Home loan repayments
- Council rates
- House and contents insurance
- Utilities
- Maintenance and repairs
- Body corporate fees (if buying apartment or house in a complex)

Frequency Asked Questions

How much can I borrow?
This is based on how much you can provide as a deposit. A Properli Adviser can begin with looking at your current situation, cashflow and together devise a proper indication on how far you can go.

How do I know what type of mortgage I need?
The most common mortgage in NZ is called a Table Mortgage. This is a 30-year term on principal and interest repayments. In the first 20 to 21 years of the mortgage, interest is dominant. At the back end of this 30-year mortgage is where you can pay off the principal. There are of course other ways you can pay off your home loan quicker, but learning the basics is a good start. See section in this document on different mortgage types.

Is there a cost to using a Properli Adviser?
For the most part, what we do is free! It depends on what we will need to do for you. All fees will be communicated upfront, so there's nothing sneaky. The first 30 min consult is free of charge, so all you need to do is reach out.

Can I borrow 100%, if I don't have a deposit?
No, the general rule is 20% but this can vary and be as little as 5%. If you do have less than 20% deposit then you may have higher interest rates/fees.

What type of information do I need to provide for a loan?
An application for a loan will need to provide a lot of information about themselves, some of which are a list of all assets, income, expenses and proof of income. Any lender will want to know that you have saved the required deposit for the loan you are applying for and 3 months bank statements. Properli Financial Advisers know the ins and outs, and are here to help you provide all the required info.

Glossary

Mortgage: A bank lends an individual or a couple money with an interest cost, in exchange for taking the security of the property.

Interest: What the bank will charge you on the money that you have borrowed, and is expressed as a percentage amount.

Interest rate: This is the fee you are charged for borrowing money and is based off the loan amount. These are the rates you see in the media being talked about.

Low Equity Premiums/Fees: These are dependent on your deposit and the lender you go with. You may incur an added cost on your interest rate if your deposit is less than 20%.

Security: This is a tradable financial asset. It's basically anything that is worth money and can be leveraged or traded.

Term: The duration of your loan, or the length of time that it will take to pay off your mortgage/home loan.

Loan to Value Ratio – LVR: This is the amount of your loan compared to the value of your property.

Deposit: The amount you need to have upfront to secure your home – usually a 20% payment on the property you want to buy.

Low deposit lending: A special type of deposit that requires only 10% of the total amount on the property you want to buy. We outline the ins and outs here on our podcast.

Principal: This is the total amount you borrow. The amount you repay is usually made up of principal and interest.

Conditional approval: This means you can put forth an offer based on conditions you specify before the sales goes through, such as finance approval or getting a building inspection. You will need to put down an agreed timeframe, e.g. 10 working days.

Unconditional approval: This is legally binding, and means you have to buy the property. Make sure you do your due diligence before buying a property unconditional. Bear in mind: auctions are unconditional!

Fixed-rate home loans: A fixed rate home loan doesn't change for the duration of the period you have fixed for (e.g. six-months).

Variable-rate: This is also known as a floating interest rate, and can go up or down depending on the market.

Rateable Value (RV): The value a council will use to work out rates, also known as the capital value. It's the market value of your property surveyed by a company. The bank usually approves up to the RV.

Land Information Memorandum (LIM) report: This report houses all of the relevant information your council knows about a property or section, and contains building permits, resource consents, issues with the property, rates, heritage building or trees, and any utilities or roads that may impact the site.

Code of Compliance Certificate: This is a certificate found in the LIM that says that the building complies with the Building Act. It's hard to get approval on a house without this.

Settlement: And this is the day you get your keys, and all the money goes through! Say hello to your loan.

Ready for home ownership?
Get in touch with us today.

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Click here to book a time slot now