YOUR
HOME OWNERSHIP
GUIDE

Attorneys, Notaries and Conveyancers
Cape Town | Bloubergstrand

CONTENT

1. INTRODUCTION & BENEFITS OF HOMEOWNERSHIP

1.1. Introduction

Purchasing a home will most likely be the biggest investment decision you make and one which comes with specific financial obligations. This document covers a number of key areas including, the benefits of homeownership, preparing financially and how best to select your home.

We would like to provide you with a few tips which may make things a little easier.

1.2. Advantages of Homeownership

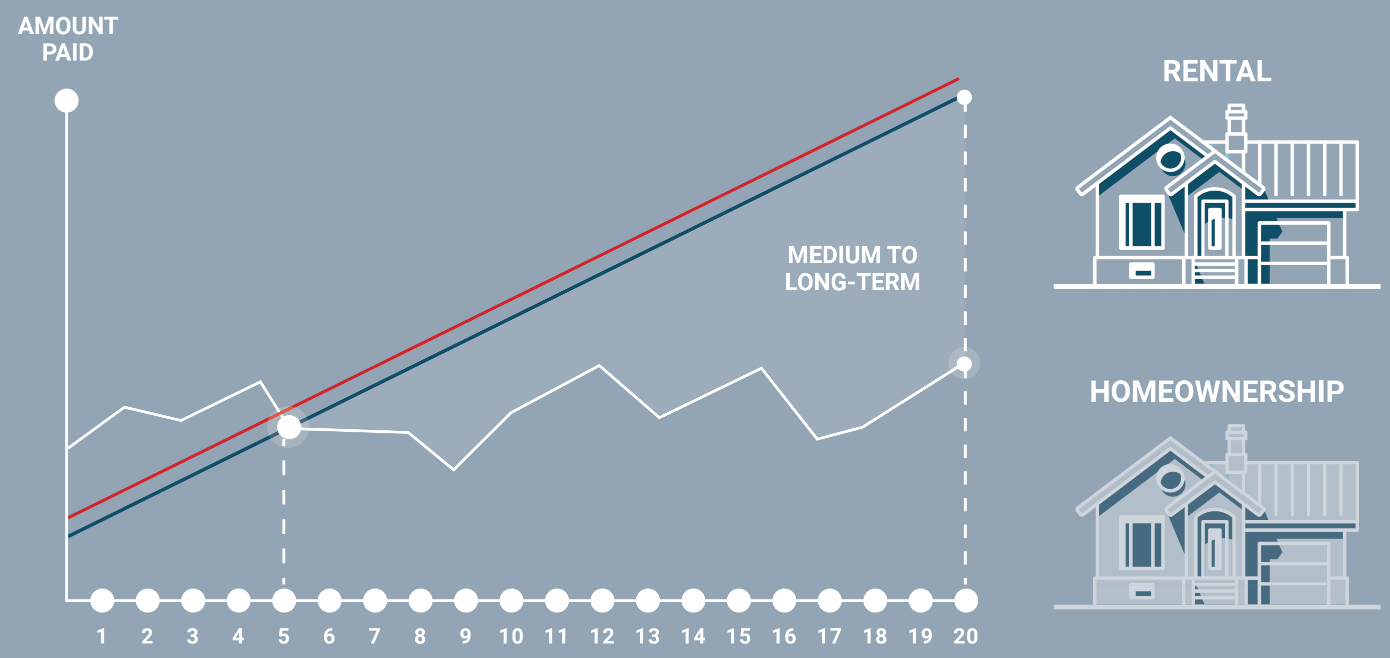
When you appreciate the benefits of Home Ownership, you will no longer see obligations such as repaying your loan or maintaining your home as a burden, but as a route to investing in your and your family's future!

There are many Benefits to homeownership:

1) In the medium to long term, costs related to homeownership will be lower than that of a rental unit;
2) Your home's value will in most instances grow over time; and
3) It provides independence and comfort for you and your family.

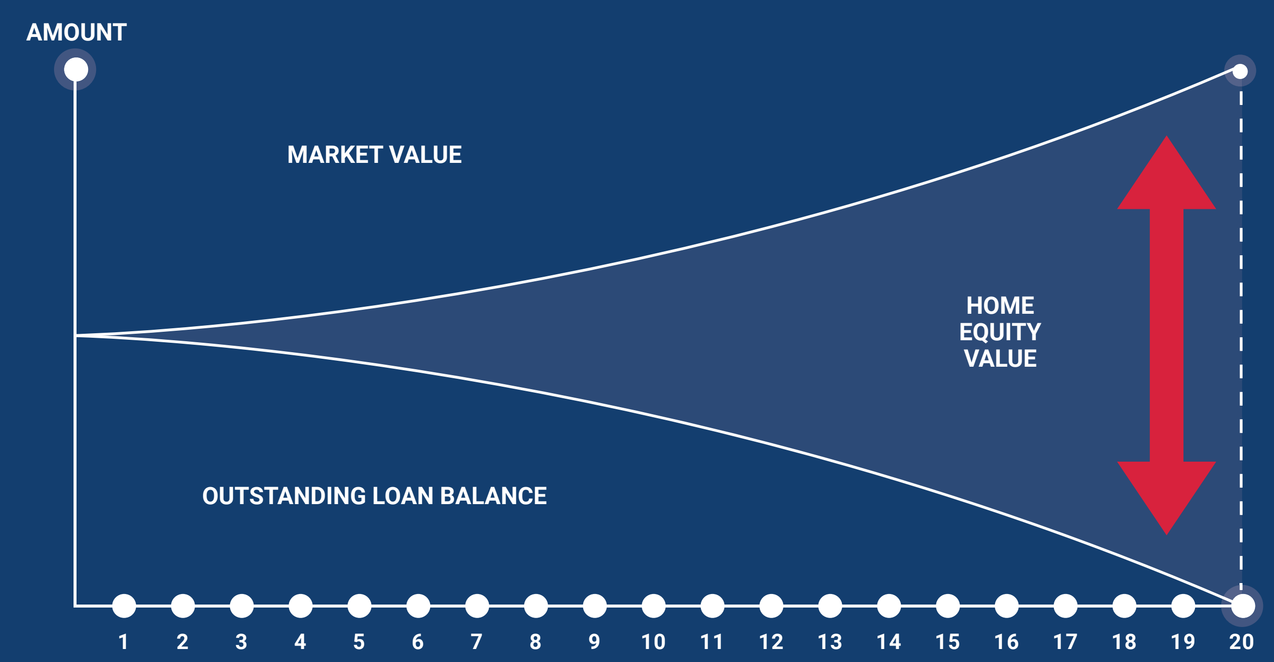
Let start by comparing the monthly payments related to two identical homes both in the same area. One a rental property, the other a home purchased with a loan.

You would most likely be aware that if you rent a property, the monthly rental will, as shown by the red line on the graph below, increase every year. The increases will often be in line with inflation for that period. The Home Loan instalment, as illustrated with the grey Line, will in the beginning be more than a rental payment and, will every now and again, increase or decrease as interest rates go up and down. You will however notice, that in the medium to long term you ***will generally be paying far less per month should you purchase a home and not rent.***



Another key financial benefit of owning your own home is that property prices have on average shown an increase in the medium to long term and the market value,

This example below shows a typical increase in a home's market value over time. The loan balance will on the other hand decrease every year as regular payments are made until it reaches zero at the end of the loan term. The difference between the Market Value and the Outstanding Loan Balance is called Home Equity Value. Should a homeowner, at any time, decide to sell his or her home they will be entitled to keep the difference between the Market Value and the Outstanding Loan Balance. Please however note, you will normally have to pay sales commission from this amount.



Even if you are not planning to sell, Lenders will more easily grant you a loan if you have Home Equity Value. This could mean that you can take out an additional loan to fund your children's education, or fund other expenditure such as start-up costs for a small business.

What about other benefits?

Owning your own home will give you the freedom to decorate and repaint your home in a style that suits you.

Every rand that you spend on improvements benefits you as it improves the value of your investment
Perhaps you are ready to settle down in your community, and want the feeling of permanence and involvement that comes with owning your own home.

A home of your own also provides a place of comfort for you and your family and gives you the flexibility to adapt your living space to your individual tastes and needs.

Now that you understand the significant benefits of homeownership, you will see that getting financially fit is not a burden, but rather the first step to financial well-being and peace of mind.

2. THREE FOUNDATIONS TO YOUR JOURNEY

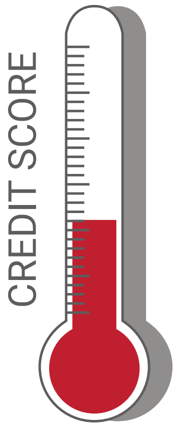
2.1. Introduction

Your journey to home ownership should ideally start by:

- Understanding your credit profile;
- Knowing how much you can afford; and
- Getting your documentation in order.

2.2. Your Credit Profile

As you may be aware, a higher credit score will in many cases result in banks and other home loan companies offering you a lower interest rate on your loan. This could mean that you can afford a larger house or have more cash for those new homeownership expenses! In addition consider this: calculations show **that if you are offered an interest rate of 2% above a typical lending rate, your repayment over 20 years can cost you an extra 32%.** That is why we advise that when applying for finance, you always approach the financier armed with an application that includes a credit report with a good score. Do you know what your credit score is, which factors have an impact on your credit score and, perhaps most importantly, how to improve your credit rating?



Your credit score is calculated by Credit Bureaus who collect and assess account information received from your creditors and also look at your financial behaviour! So what do Credit Bureaus factor in when calculating your score? **35% of your credit score depends on your payment history.** A good track record of regular on-time payments will improve your credit score. Missing payments or worse still only making payments 30 days after the due date, will lower your score. Here they are looking for a history of good behaviour in terms of making payments.

The next 30% of your score depends on your Outstanding Debt Percentage.

To explain let's use an example where a borrower has different loans and credit facilities, and where the original outstanding loan balances totalled ten thousand rand.

After a few years, the borrower has managed to bring the outstanding balances down to three thousand five hundred rand or 35% of the original R10 000 loan amount.

Lowering your Outstanding Debt Percentage by a large amount, will improve your Credit Score,

Failing to do so may decrease your credit score and that means a higher interest rate and/or qualifying for a smaller bond.

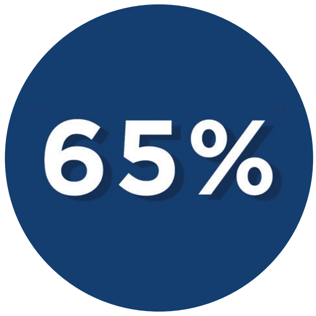
OK on to the third factor.

15% of your credit score depends on the age of your credit accounts. The longer the period you have had credit, the better your score will be.

Factor four. 10% of your credit score depends on just how many new loans, or enquiries for new loans, you are making over a certain period! If over, let's say a few months, you take out quite a few loans and/or regularly enquire about obtaining loans, your credit score will decrease. This is because to Credit bureaus, it looks like you are constantly 'shopping" around for credit applications and rely on debt to survive.

The last 10% depends on the types of loans you have. Typically Home loans or vehicle loans will have a better impact on your credit score than say credit card debt or short term revolving loans.

What most people want to know is **"how can I most easily improve my credit score?"**



*Well if you consider that **65% of your score** is influenced by just two factors, namely Payment History and Outstanding debt Percentage, the message becomes clear.*

One, pay your accounts regularly –- and on time and two have a disciplined approach to bring down your existing loan balances as quickly as possible … *yep like that! But here's the catch, without taking out new debt!*

A good tip is to put debit orders in place and ensure your payments go off in good time.

You may view your free credit profile by linking to our service providers My Bond Fitness programme and get an indication of your Credit Profile status.

Easy to read dashboard screens will assist you in understanding your credit score.

2.3. Affordability & Your Budget

When you apply for a bond, financial institutions will consider both your credit history as well as your affordability.

Drawing up an accurate monthly household budget will assist in determining what you can afford and where you could possibly adjust your budget to improve your affordability. Unlike what you might believe, budgeting isn't all about restricting what you spend money on or cutting out all the fun in your life. It's really about setting and meeting your financial goals by understanding how much money you have, where it normally goes, and then planning on how to best allocate those funds to reach your goals.

Your goals could include saving for a down-payment on a car, getting out of debt, saving for retirement, putting your kids through college, or traveling.

Without goals, your budget will just be a pair of handcuffs.

Now, list your income and using your last 3 months banks statements and even till slips, record all your monthly expenditure.

Cash spending is the biggest leak in most budgets. Cash disappears quickly and if you don't write down everything you spend it on, your budget will not help you much.

Identify good or bad spending patterns that you may not have been aware of when you weren't tracking your spending.

When it comes to working out your budget each month, you need to distinguish between those items you really NEED and the items you WANT to have… and then have the discipline to stick to the items and amounts listed in your budget.

2.4. Getting Started

Buy niwe you have most likely obtained your credit profile. This is an excellent base from which to start. If you have prepared your personal budget of income and expenses, you can compare your own budget with the budget as it will have an automated summary of your personal banking transactions over the past 3 months. This will be a good "reality" check for you. Once you're logged in, you can learn more about your credit profile and affordability, or start preparing to buy your home in 3 easy steps.

- Step one would be to know your credit profile.
- Step two would be to assess your affordability using an easy and quick and online process
- If you are ready to buy, the third and final step would be to upload key documents to your personal "Home Buyer profile" to potentially speed up the Home Buying process.

These will include your:

- o Pay-slip;
- o Identity document;
- o Proof of address; and
- o Sale Agreement [once you've signed it]

If you completed the first two steps we would already have your:

- o Credit report;
- o Affordability analysis;
- o Bank statements; and
- o Budget over the last 3 months in place.

3. IMPROVING YOUR AFFORDABILITY

3.1. Introduction

In this module, we would like to highlight three specific areas that can improve your affordability.

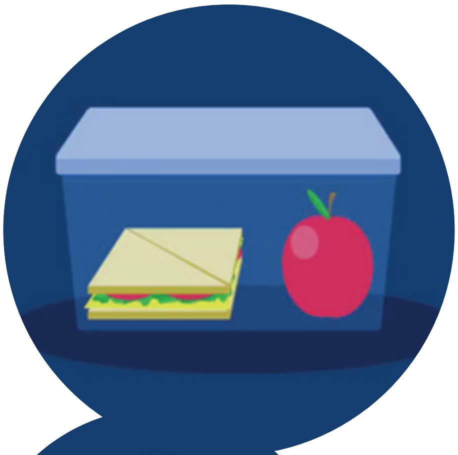
These are:

- Saving on common everyday expenses;
- Reducing Short Term Debt; and
- Applying for a FLISP housing subsidy for first time homer buyers, should you qualify.

3.2. Practical Tips

Here are some pointers to help.

- Pack your own lunch. Less takeaways can save you a fair amount per month!
- If you are traveling alone to work, join a lift club. Sure, you are forced to leave and return from work at specific times, but is convenience or saving the priority right now?
- Apply the thirty-day rule! When you think you need an expensive item, wait 30 days and then ask, “Do I really need it?" You might find that you really don't!
- Restaurants can be great, but why not rather invite friends round and eat at home! When your friends apply the same approach, eating out will be more social and much cheaper.
- Ok! While we are on the eating topic, consider cooking double or triple portions when you have time and freeze the extra portions. This way you avoid expensive takeaways for those evenings when you are running late or when you "simply do not feel like cooking".
- The Gym Membership! Where's the Gym again? Yes for many of us we pay, but we don't really play. Consider cancelling or not renewing your membership and rather exercise by walking or running.
- Pay cash for medical bills at your doctor or dentist. They will generally give you a cash discount. Sure, you will have to submit the account yourself, but your medical aid cover will no doubt stretch for longer, and the savings will keep on ticking up.
- The cell-phone can talk away your income quite efficiently as that monthly debit order rocks your bank account. Consider going to prepaid. The per-minute rate might be a bit higher but you kind-of think twice whether you need to make that call or send a WhatsApp instead.
- With vehicle insurance, insurance companies will always only pay out the market value of your car. Your car's value decreases every year. Contact your insurance broker and reduce the amount of cover to match your cars value.



3.3. Managing Debt

Keeping track of the money you spend each month on items you need, will help you manage your finances but more critically it will eliminate the need for costly credit.

Try our free mobile budgeting tool to track your spending – go to *www.mobile2budget.com* to register. You will them simply create your budget, capture expenses on the go and then check on a regular basis if you are living within or beyond your budget! Registration is free and the costs are 0.20 c per expense capture. Any type of phone can use this budgeting tool and after using it for a few months, you will most likely agree that this is easiest way to keep track of budget spending and the most affordable book keeping system for your own budget. You can even load the budget and mobile number of your partner so that you can both keep track of your total household budget expense. Compare your Mobile2budget each month with your actual spending and then adjust your mobile2budget to make sure that you are always on top of your budget.

While credit can be used responsibly, using credit cards or short-term loans to purchase non-essential items, is often costly in the long run.

But how can careless use of credit can impact you and your family?

You would normally buy groceries and other essential items every month. These would typically be cash purchases.

But why not buy that Flat Screen TV? Everyone seems to have one, and you are told you can pay it off over 12 months if you purchase it on credit. Out comes the credit card and you are now enjoying your TV-programmes in full HD.

Along comes month two. You still have enough cash for most of your groceries but you buy a little less, as you make that first instalment to pay off your new TV. You are of course, also paying the interest on the outstanding balance, and ...oh yes, don't forget the monthly admin fee.

"Well that wasn't so bad you say. Maybe I should get that PVR decoder. Then I can record all my programmes and watch them when I want to." you say. The credit card comes out again and you are the proud owner of a PVR Decoder.

Month 3 arrives, and the fridge is looking a little empty. You buy your groceries but realize you have to buy far less. You now have to pay the instalment for the TV, the PVR decoder and the interest and admin payments for both.

"Maybe I can buy some groceries on credit" you say.

You get the picture! ***Purchasing items on credit can be risky and over time you will have less and less money available for the items and services, you and your family really need.***

3.4. Escaping the Debt Trap

This simple approach can help you. Collect details of all your short term debt accounts. List these debts on a page or spreadsheet, from the smallest outstanding balance to the largest.

Keep on paying the normal monthly payments required for every account each month. Then use spare cash identified in your budget to pay extra on the smallest debt each month. Keep on doing this until it is paid off. We'll call this our Debt Busting Payment!

With that debt paid off, add what you were normally paying off on the smallest debt onto your Debt Busting Payment and start paying off the next smallest debt.
You get the idea. Each time you pay off a debt, you add the normal monthly payment to increase the size of your debt busting payment. Doing this will also save you interest, admin fees and credit insurance, but most importantly, you will more easily afford that dream home.

3.5. FLISP Subsidy

Another way to improve your affordability is to apply for a FLISP subsidy. FLISP stands for Finance Linked Individual Subsidy Programme. This is a Government subsidy that assists qualifying households by providing a once-off subsidy between the ranges now shown on screen.

The criteria to qualify for FLISP are basically as follows. It is targeted to households who earn between R3 501 – R22 000 per month [combined household income [income requirements as from July 2018]:

- Whose monthly household income ranges between the amounts now reflected on screen;
- Who are purchasing a property for the first time;
- Who have secured bond finance;
- Who have a dependent – spouse or child
- Who are South African and/or hold a permanent residency permit; and

We can help you apply for a FLISP subsidy, should you wish to purchase a home. Once your bond is already approved and you meet the qualifying criteria – go to *www.flisp.co.za* to apply.

4. FINDING YOUR HOME AND WAY FORWARD

4.1. Steps to take before buying

What steps and actions do you have to take before owning a home? Consider the following:

- **Have a deposit**
  Potential buyers should start saving for a deposit before house hunting. **The greater the percentage of the deal that the buyer finances themselves, the better the chances of getting bond approval and a good interest rate.** Remember that a FLISP subsidy can also be used as a deposit.
- **Make sure your debt is under control**
  A better credit score will in many cases result in the lender offering you a lower interest rate on your loan. **This could mean you can afford a larger house or have more cash for those new homeownership expenses!** Go ahead and get your free credit check with the My Bond Fitness application.
- **Start small and build up**
  Your first home may not be your dream home, but it's a foot in the door and you can always build on or move to a bigger home later. **Remember affording your home loan repayment is critical.**

- **Look at your budget again and make sure you have enough money in your budget for.**

  o The loan repayment;
  o Administration Fee
  o Life Insurance;
  o Home Owners Insurance;
  o Rates & Taxes linked to the property;
  o Water & Electricity Costs; and
  o If a Sectional Title Property, Levies

The lender should be able to give you a fairly accurate estimate of the items listed under the bank image on screen. Ask the agent or property developer to give you an accurate estimate of the other items.

- **Be prepared for the unexpected**

  Prepare financially for possible future scenarios such as an interest rate increase or any other unplanned costs.
  If you are buying a property – find out if the costs of the transferring attorneys and bond registration will be included in the purchase price – this will usually be the situation when you buy in a large property development. If not – work out how much these costs will be so that you can have extra cash available to cover them, as the transfer of the property onto your name, and the bond registration will not happen if the legal fees are not paid.
  To work out the legal costs and charges – go to the free website http://www.avidfirefly.com
  Also, factor in the raising fee of a bank to approve your bond. If you have to relocate also factor in the costs of the removal of your furniture.

- **Visit the Area**

  You must ideally know the general area you want to buy in and not just look at the house that you might want to buy. Getting a feel for the general area and actual selling prices is critical! Ask any qualified agent who knows the local property market for assistance in getting these details.

- **Inspect the Property**

  No matter how much you like the home or whether other buyers are also interested, make sure to take your time when viewing the property. Call in a professional home inspector if you have any doubts or questions. It is very easy to miss things when excited about a possible purchase. This could mean expensive repairs later on.

- **Deed of Sale**

  Make sure that you show the deed of sale – sometimes called an Offer to Purchase, first to a conveyancing attorney [a property specialist] who can help you to protect your rights before you buy. The conveyancer will identify shortcomings in the sale agreement and give you advice as how it may be rectified.

- **Check your Financial Fitness**

  o When you are ready to buy – first have a look at your profile and check:

    (1) whether your credit rating up to scratch to negotiate the best home loan deal?
    (2) Is your affordability in line with the property that you want to buy?

  Be ready in the starting blocks for your home loan application –have available your important documents like your latest proof of address (not older than 3 months), your latest pay-slip and identity document] you will be able be able to submit your home loan super–fast

4.2. Based Actions!

Get Motivated! With goals set, a basic budget in hand, a debt busting payment plan, and a whole lot of information, your goals should be within reach.

Remember, despite all of this it is not easy to change one's behaviour. **Your changed attitude to managing your money needs to be supported by a disciplined approach.** Keep on using the mobile2budget tool, even after you have become a home owner as it will be vital to adjust your new budget to accommodate the new home loan and expenses associated with owning a home. Remember that "Discipline is the bridge between writing down our goals and achieving our goals".

I would like to conclude with this old African Proverb. ***"If you want to travel fast, go alone if you want to travel far, go together."***

We hope that you will travel together with the advice of experienced travellers. So keep your goals in sight, remain disciplined and prosper.

5. ADDITIONAL INFO

5.1. Websites

- **Online credit & affordability check**
  - o Guides you through the full process of successfully getting applying for home finance.
- **www.mybondfitness.co.za**
  - o Mobile app to manage your monthly budget and expenditure www.mobile2budget.com
- **Subsidy for First Time Buyers**
  - o Guides you applying for subsidy finance should you qualify. www.flisp.co.za
- **MDW INC**
  - o Assists in calculating bond and registration costs. www.mdwinc.co.za
- **Rent2buy Indormation**
  - o Assists in calculating bond and registration costs. www.irent2buy.co.za

5.2. Budget Template

BUDGET FORM		
INCOME	MY INFORMATION	MY SPOUSES INFORMATION
Basic Salary		
Overtime pay		
Allowances		
Other income		
Other		
TOTAL INCOME		
PAYSLIP DEDUCTIONS	MY INFORMATION	MY SPOUSES INFORMATION
Pension		
Medical aid		
UIF		
Insurance		
TOTAL DEDUCTIONS		
HOUSING EXPENSES	MY INFORMATION	MY SPOUSES INFORMATION
Rent / Home Loan		
Rates / Municipal Services		
Electricity		
Water		
Security		
Home Telephone		
Cell Phone		
Furniture and Appliances (Cash purchases)		
Gardener / Housekeeper		
TOTAL		
FAMILY EXPENSES	MY INFORMATION	MY SPOUSES INFORMATION
School fees		
Nursery / Crèche Fees		
School costs (books, travel)		
Allowances for children		
Food – Daily e.g. lunches		

Food / Groceries – Monthly		
Pets		
Clothing (cash purchases)		
TOTAL		

TRAVEL EXPENSES	MY INFORMATION	MY SPOUSES INFORMATION
Public transport		
Lift Club		
Vehicle instalment		
Petrol		
Vehicle Maintenance		
TOTAL		

ENTERTAINMENT EXPENSES	MY INFORMATION	MY SPOUSES INFORMATION
MNet / Dstv		
Cinema / Movie Hire		
Dining Out		
Beer, wine, cigarettes		
Lotto / Casino / horse racing		
Annual holiday		
Hobbies / subscriptions		
TOTAL		

INSURANCE AND SAVINGS	MY INFORMATION	MY SPOUSES INFORMATION
Car and household insurance		
Life insurance		
Retirement funds		
Funeral plans		
Fixed deposit		
Stockvel		
Other		
TOTAL		

OTHER EXPENSES	MY INFORMATION	MY SPOUSES INFORMATION
Bank Charges		
Donations – Charities		
Donations – Church / Religious		
Credit Card		
Other Credit Commitments (i.e. short term loans)		
TOTAL		

SUMMARY

INCOME	MY INFORMATION	MY SPOUSES INFORMATION
Total Payslip Deductions		
Total Housing Expenses		
Total Family Expenses		
Total Travel Expenses		
Total Entertainment Expenses		
Total Other Expenses		
MONEY LEFT OVER / MONEY SHORT		

INNOVATION & HANDS ON

GIVE US THE MOST COMPLEX PROPERTY OR ESTATE PROBLEM
– WE CAN SOLVE IT.

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