

Home loan deposits can lead to savings - Kellerman

Ewald Kellerman, head of sales at FNB Home Loans, recommends that prospective home owners save for a deposit. If they do this, they will not only be more likely to obtain a loan, but will also be able to obtain a better interest rate, and will thereby save a considerable amount over the term of their bond.



"For many owners your home will be your biggest asset, so the more it can work for you and help you create wealth, the better. This starts as early as when considering buying a property and saving for a deposit," says Kellerman.

Up-front bond deposits recommended

Around half of all new home loan applicants are for 100% loans; which means that the applicant does not have the intention of putting a deposit down. First-time buyers are least likely to have a deposit available and they are increasing in prominence. According to the FNB 2013 Q2 Estate Agent Survey 22% of new buyers are first-time home buyers.

However, putting down a deposit, even a minimal amount, can greatly benefit a home buyer as people who demonstrate the ability to save are typically considered lower risk by the banks. "Saving for and putting down a deposit on a home loan is a very good way of saving for the future," says Kellerman. "There is no 'right' amount for a deposit; banks typically ask for anything from 10% to 20% deposit. However, if you are unable to afford such a high amount at the time, even 5% is better than no deposit at all."

One should also take into account that there are many other costs to consider when buying property like transfer duty, registration and initiation fees. "We find that many customers who have saved additional funds or have a surplus after selling their previous property still apply for a 100% bond with the view to deposit the additional funds after the bond is registered," says Kellerman.

While depositing funds after registration will bring down the capital and reduce the amount of interest charged to the bond, it is not the most effective way to use your savings; it is far more beneficial to put down a deposit for a bond up-front.

Downscaling for affordability

New home owners need to realise that owning a home can be expensive in different ways. "Rates, taxes and general maintenance on a larger free-standing house add up quickly and can sometimes end up getting to the point where it is no longer affordable," continues Kellerman.

First-time buyers seem to be much more interested in higher density units where some of the communal costs are shared while a number of existing owners are scaling down to save on the increasing running costs of a property.

"Many home owners scale down later on in life to access some of the capital saved in a property. This enables the funds to be reinvested somewhere else for better returns or help to top-up a retirement fund. Our 2013 Q2 Estate Agent survey estimates downscaling due to life stages makes up 21% of all residential property sales," adds Kellerman.

Tips for savings with a home loan

July is National Savings Month and there are other ways you can use your home loan to save. Some tips include the following:

- Change the instalment date to the day you receive your salary. As interest on home loans is charged daily, the earlier you reduce your balance, the less interest you end up paying in total. This movement is very small on a monthly basis, but compound interest makes this small change valuable throughout the entire term of the loan and is a great way to save on the total interest paid.
- Paying as little as a 10% additional payment per month into your bond could save approximately four years of repayments and R250,400 in interest on a R1m loan over the life of the loan. These calculations have been based on the current level of interest rates. The additional repayment is immediately set off against the capital value of the loan, thereby reducing interest paid and saving you in the long term.

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