

COMPARING HOME LOANS



What to look for when comparing Home Loan offers

It's great to have a selection of home loan quotes to choose from. You can save yourself significant amounts of money in the long-term by choosing the best home loan quote. But how do you determine which one is the best?

Use one of our bond originators to help you compare and negotiate the following terms and conditions in your home loan offers:

Loan amount / LTV

Be mindful of the loan amount offered. The bank will not always grant the loan amount requested by the applicant. Banks assess risk on a Loan-to-Value (LTV) basis – this is the loan amount divided by the property purchase price. The bank conducts their own valuation of the property, which may be different from the market value of the property. If the bank values the property at less than the market price, they won't grant you a loan for the full amount.

In addition, certain types of applicants will be deemed as higher risk (such as non-SA citizens, self-employed start-ups and individuals with poor credit history). The bank will have their own criteria for maximum LTV for each type of applicant. This is why it is important to apply at all the banks – where you may only qualify for a 75% LTV at one bank, another can grant you 100% LTV.

Interest rate

This is the main factor you should be looking at. Interest rates are determined primarily by two factors:

- the prime lending rate (in turn affected by the repo rate, which is set by the South African Reserve bank); and
- how much of a risk the bank considers you to be.

In addition, each bank may offer an additional interest rate concession if you move your banking. The criteria is usually met by opening a cheque account with the bank and signing a debit order for the monthly home loan repayment. These rate concessions can be quite substantial, ranging from 0.10 – 0.55% discount on the quoted interest rate (e.g. on a R1 million loan over 20 years, that's a total saving of up to R82,000 over the term of the loan!).

Loan term

This is the length of time over which you will be paying off the home loan with monthly instalments. The home loan term is usually 20 years, but you can get longer (25 to 30 year) or shorter (15 year) home loan terms. A 30-year term means you have more time to pay it, but the interest rates may be higher.

You may need a longer term to reduce your monthly repayment in the short term, but be in a better position to pay more in future. There are multiple options to offset the loan term, such as renegotiation or setting up an access/flexi bond. Ask your bond originator for more information.

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Discount on fees

There are many costs for the purchaser buying property to consider, the main ones being:

- Transfer attorney fee – guideline set by the Law Society of South Africa;
- Transfer duty – standard fee set by SARS which is non-negotiable;
- Bond registration attorney fee - guideline set by the Law Society of South Africa;
- Bond initiation fee – standard fee set by each bank.

The bank cannot offer a discount on the transfer attorney fee or the transfer duty, as they have no oversight on these processes.

However, they may offer discounts on the bond registration attorney fee. These attorneys are selected by the bank of your choice from their preferred panel attorneys. Each bank will have specific agreements with their bond registration attorneys. Some typical discounts you might see would be:

- ABSA/ FNB/Nedbank/SBSA first-time home buyers – 50% discount;
- Investec first-time home buyers – 27.5% discount;
- SA Home Loans – automatic 40% discount for all purchasers.

Note that these 'typical' discounts can be renegotiated at any time and therefore subject to change.

The bank can also choose to add certain fees – including the transfer fee and transfer duty – to the value of your loan (resulting in a maximum 105% LTV). The purchaser then ultimately pays these costs off slowly, with interest, over the course of the loan term. This option is typically only available to first-time home buyers.

Rewards

All banks have different reward schemes. They may be included in the home loan offer as an additional benefit, particularly for first-time home buyers. Some common rewards schemes include:

- ABSA – R5,000 cashback if you open a cheque account with ABSA;
- FNB – eBucks (10 eBucks ~ 1 ZAR);
- Nedbank – Greenbacks (36 Greenbacks ~ 1 ZAR); or
- Standard Bank – UCount Rewards (10 UCount points ~ 1 ZAR).

If rewards are issued, they are typically quantified by the size of your loan/repayment.

Special conditions

Look out for special conditions in your home loan offer that may impact your chances of the property transfer going through to registration. Some common ones include:

- Subject to sale of an existing property – the bank may grant you a loan only on condition that you sell one or more of your existing properties to improve affordability on the new loan repayments;

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- Loan retention amount – the bank may hold back some of the funds from the home loan until specific building work is completed. This could be damage to the property that the Seller is liable for, or where specific work for the Seller to do is noted in the Sale Agreement and/or Addendum to the Sale Agreement; or
- Letter of suretyship – sometimes required when the applicant is a juristic entity, the bank may request all directors to sign surety in the personal capacity and/or the business may need to sign surety for a self-employed applicant.

Our bond originators will be checking your offers and highlight any of these – as they are considered outside the realm of normal terms and conditions of a home loan offer under the National Credit Act.

Future Use Amount and/or Building Loan

The future use amount is an additional “pre-approved” loan amount offered by FNB. It is an indicative amount that you can access 6+ months after the first bond repayment on your primary loan. It is not fully approved yet and subject to a second application and credit check. The benefit is that the higher bond amount has already been registered over the property and thus the application and eventual payout can be expedited.

It is similar to any other building loan application you would do with another bank. In other words, you can't access the funds unless you are using it to increase the value of the house. It typically requires approved plans for the improvements/extensions to the property.

There are many things to look at when comparing home loans, but rest assured that your bond originator will help you better understand your options. Give yourself with a choice between multiple packages by applying for a home loan with Phoenix Bonds. We submit your application to all the most competitive banks, allowing you to compare the factors above and secure the best possible home loan deal.

Contact us now to get started!

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