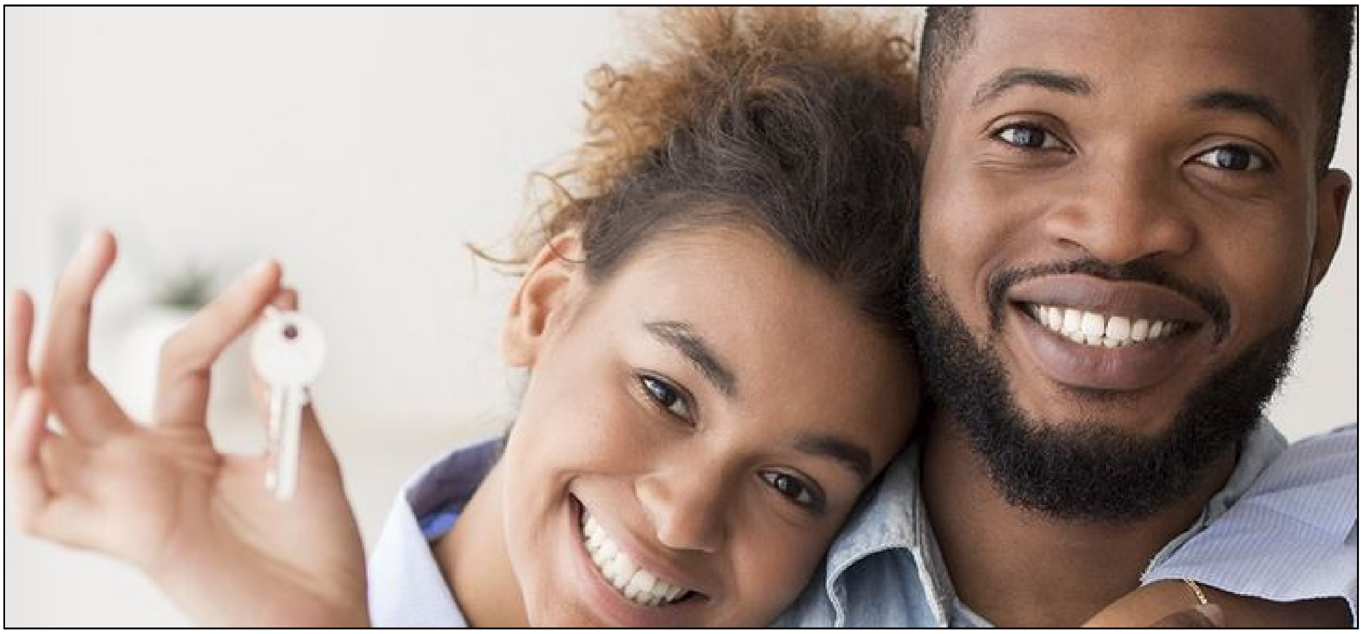
Your rights when purchasing a property – Interest rates and insurance costs



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The interest rates and insurances related to owning a property

Most of us dream of owning our own property, however, this is a costly endeavor and we may need to obtain a loan from a bank. We explain in this article your rights as a property owner and the two types of interest rates for such a loan as well as the various insurances involved in owning a property.

The loan is registered over the property with a bond which allows the financer to sell your property should you default on any payments. As with any loan, you have to pay interest on the amount that you borrow. When you obtain the loan, you are usually faced with the decision of whether your interest rate should be fixed or flexible (floating interest rate). Both options have pros and cons.

Fixed:

Fixed interest rates are usually set for the duration of your loan (however, they may change according to the duration of your loan). If you obtain a loan against a fixed interest rate of 8% per annum, you will be paying 8% over the period of the home loan (a home loan can be paid off in a minimum of five years, to a maximum of 20 years). This allows you to easily work out how much you will be paying from the beginning of the loan and thus, budget accordingly.

If you choose a fixed interest rate, and the markets push the interest rate higher, then you gain since you will still be paying the lower rate. The drawback of this is if interest rates decrease you will not benefit from that.

Floating:

A floating interest rate usually changes over time. It is uncertain, it fluctuates and it is typically linked to a specific percentage. A great example of this is the repo and prime interest rates. The repo rate is controlled by the South African Reserve Bank and is amended from time to time. The pros of floating interest rates are that if you bond at a time when the prime lending rates are high, you will pay lower interest rates as the markets improve, and vice-versa, if the lending rates increase, you will pay more interest.

When you obtain funding to purchase your property, the financer enters into a written contract with you in which they supply the funds to buy your property and

The insurances involved

In addition to interest, there are other long-term costs that most of us do not factor into our budgets. One of these costs is insurance. Below is a brief description of the different types of insurance that play a role when purchasing a property.

Building insurance

Building insurance protects your home from structural damage arising from unforeseen events such as fires, extreme weather or burst geysers and pipes. However, it does not cover your assets inside the house such as TVs, radios or clothing. As a general rule, anything permanently affixed to the property would fall under building insurance.

Life insurance

Life insurance is a contract between an individual and an insurance company where the company promises to pay a sum of money upon the death of the insured person or after a set period of time in exchange for a monthly premium. Thus, in our example of obtaining financing for your property, the financer might force you to take out life insurance to the value of the debt so that if you pass away, the insurance will pay them out to cover the debt so your family can retain the house.

Credit insurance

Credit insurance is a type of insurance that pays off existing debts in the event of a death, disability or even unemployment. It is extremely important to read the contract of such an insurance policy as it could be that they only pay a certain amount of instalments and not the entire debt.

Household insurance

This type of insurance is for accidental loss or damage due to fire, theft or damage caused by a third party and it may not cover specific individual goods such as cell phones, laptops or jewellery. This type of insurance is usually not for the structure of the property but rather the contents inside.

As with any contract, it is crucial to read your financing agreement and understand what is required from you as the debtor. Although you are not forced by law to have insurance over the property when buying a house, some institutions would force you contractually to have either building insurance, life insurance or credit insurance

Although insurance puts additional financial strain on you as the consumer, it also protects you from major losses and protects the financer as they know that you will still be able to service your debt.

Ongoing maintenance costs

On average, your annual home maintenance budget should average around 1% of the value of your property. If your home is valued at one million Rand, then you should expect to budget R10 000. This budget should include items such as domestic services for interior upkeep, garden services for the exterior, repair costs, and the regulation of any ongoing home improvements. Keeping a checklist is essential to stay on top of things.

What processes to follow if you are unable to pay your home loan

A big problem people face is the legal framework when they can't pay their home loan. This often results in the bank selling the asset below the market value as quickly as possible and still leaving the borrower with an outstanding debt.

Applying for a payment holiday

Advantages

- **Ease the financial strain:** If you are in a temporary financial rut, a payment holiday might just be the right thing for you and your family.
- **Ease the mental and emotional pain:** Whilst the pause on payment is temporary, it will give you more time and energy to focus on getting back on track financially without worrying about the money for the time period of the payment holiday.

Disadvantages

- **Kicking the can down the road:** If you are going to be earning less for a substantial amount of time, and will not return to your previous income level, a payment holiday may not be suitable because you're not ceasing payments, you're only delaying them.
- **Increase in debt:** A payment holiday will continue to increase interest, and you risk having to make higher payments in the future.
- **A new normal:** Getting used to paying less is easy, getting used to paying more again is not.

What options do you have if the bank issues a foreclosure?

It is a scary thought to be in a position where you are unable to maintain your monthly loan repayments which will inevitably result in your bank issuing you a ensuring you have a safe landing, negotiating with your credit providers and helping you retain your property.

How we can help at different stages of missed payments

When you miss payments, you are likely to receive a Section 129 letter (which is part of the National Credit Act 34 of 2005). We can assist with the following:

- With a Power of Attorney, we will correspond with your credit provider and attempt to arrange a new payment option that suits both you and your creditor. This is the most viable option if you can continue to pay the new agreed upon amount.
- If payment cannot be sustained, we can attempt to renegotiate a lower instalment or longer payment period, however, the creditor may take a more strict approach and proceed with repossessing your property.

Our negotiating process is strategic by presenting your creditor with the following:

- Your current salary and existing expenses;
- A new, revised payment plan that can be sustained; and
- Ongoing communication and legal negotiations until a final agreement is in place or negotiations fail.

Should negotiations be unsuccessful, we can provide you with alternative solutions.

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