



The
Mortgage Whānau



How to get into your first home

With easy to understand and tangible steps

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The Mortgage Whānau

Kia ora!

Kia ora and welcome to the first step of your journey to becoming a homeowner. Before we dive headfirst into talking about deposits, budgeting and pre-approvals, we wanted to take a moment to introduce ourselves.

Louis Namana is the founder and owner of the Mortgage Whānau. At the core of our company is a passion for helping whānau get into homes. The small but dedicated team includes Louis, Sharnee, Lesly and Heidi. Throughout this workbook we will guide you every step of the way - and don't worry, getting into a home is not as difficult as you may think it is!

Right now you are probably sitting with a myriad of questions. Do I really need a 20 per cent deposit? What about my credit card debt? And what exactly is the deal with my KiwiSaver? Buying a home can feel overwhelming to say the least! Hopefully, this workbook will answer all of your questions (or at least most of them) and provide you with the essential guidance and information needed on your way to homeownership. But fear not, we will not leave you to your own devices after you finish this workbook - we can work together one on one to continue to guide and support you. But more on that later!

Let's get started!





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Chapter 1: Introduction to Homeownership

You have probably heard people go on and on and on about how owning property is important. You may be scratching your head thinking, yeah, that's all good, but why? Allow us to put you out of your wonder and give you some clarity on this topic.

Owning a home is not just a financial decision; it's the cornerstone of stability and financial wealth for you and your whānau. In fact, owning a home offers an array of benefits. Let's explore them.

- **Stability:** One of the primary advantages of homeownership is the stability it brings. Having your own home provides you with a sense of security, permanence and stability for both you and your whānau. This is especially true, in a property climate where there is a housing shortage and finding a place to rent is becoming increasingly harder for many Kiwis.
- **Equity building and no capital gains tax:** Equity building is another fantastic reason to get on that property ladder. But let's just briefly look at what equity is. In plain English it's basically the portion of the property's value that belongs to the owner. It is the difference between the property's market value and the amount still owed on the mortgage. So, as the value of your property increases over time (and you pay down your mortgage), the equity in your home increases as well. And now, for the other wonderful (and very unique!) thing about New Zealand: there is no capital gains tax. This means if you buy your home for \$600,000 and sell it for \$800,000 you get to pocket those \$200,000. Not too bad, right?
- **Long-term investment:** Real estate has again and again proven to be a secure and profitable investment, outperforming many other types of investments. With a strategic approach to property ownership, you not only secure a roof over your head but also create a valuable asset that can be passed down through generations - or you can sell and use the money for your retirement (the possibilities are endless).
- **Connection to whenua:** Homeownership can be a strong connection to whenua, heritage and community. Owning a home is not just about bricks; it can also foster a sense of belonging and contributing to the hauora of your whānau in a meaningful way.

Myth busting

When it comes to property and owning a home, there is no shortage of myths and misconceptions. So let's get some of them debunked so they won't hold you back anymore!

- **You need a 20 per cent deposit:** One of the most common misconceptions when it comes to the property market is the belief that you always need a 20 per cent deposit. This does not apply to first home buyers. In fact, first home buyers only need a 10 per cent deposit, and in some cases you can get away with just a 5 per cent deposit! Feeling a bit more optimistic now? Great! We'll go more in depth about this later on so hang tight!
- **You should only buy your forever home:** Wouldn't it be brilliant if we could all live in a 10-bedroom house with marble countertops, mahogany floors and a big pool? Oh, and let's throw in a walk in closet for good measure. Don't worry, you don't need to buy your dream home (or your forever home) from the get go. In fact, most people (not even the richest of the richest) do this. Buying a starter home as a stepping stone onto the property ladder can be a financially savvy decision. It allows you to build equity and gain experience in homeownership, and most importantly; you get on the ladder. Then once you're on the Forbes 500 list, you can get that pool of yours.
- **It's cheaper to rent than to own a home:** Contrary to popular belief, owning a home can often be more cost-effective than renting in the long run. While the upfront costs of purchasing a home may seem substantial, monthly mortgage payments can be comparable - or even lower - than monthly rental expenses. Additionally, as property values increase, homeowners benefit from building equity and potentially enjoy a more stable housing cost compared to fluctuating rental prices.
- **You can't get a home loan if you have other debt:** This myth suggests that having other forms of debt, such as a car loan, disqualifies you from getting a home loan. In reality, banks consider various factors when assessing mortgage applications. While existing debt is a consideration, it does not necessarily exclude someone from securing a home loan. Banks often evaluate the overall financial picture, including income, credit history, and the borrower's ability to manage multiple financial obligations.
- **I don't make enough money (I have to be rich to buy a home):** The misconception that one must be ultra rich to purchase a home is a significant barrier for many potential buyers. In truth, there are various entry points into the property market, and financial circumstances can be addressed strategically. Government schemes, shared ownership arrangements, and careful financial planning can make homeownership accessible to a broader range of income levels. With realistic budgeting and a clear understanding of available options, people with various incomes can become homeowners.

Take some time to reflect and journal on the below questions. These questions will help you gain clarity, and if you lose motivation they are great to come back to to remind yourself why owning a home is important to you.

1. Why do you want to own a home? Get really clear on your why as this will be your main motivation. Is it creating generational wealth? Having your own home for your whānau? Is it having a “nest egg” for retirement?

2. What type of home are you looking for? E.g. 4 bedrooms, 2 bathrooms and walking distance to a school.

3. Where do you want to buy a home?

Chapter 2: Understanding Income for Mortgages

In this chapter, we'll take a look at how banks look at various income sources, how banks assess income for mortgage eligibility and strategies for maximising your income. Let's get into the nitty gritty!

How banks look at various income sources

- **Employment income:** Typically the bank will require a three-month employment history. However, there can be ways we can work around this if you have a permanent contract.
- **Self-employment income:** For self-employed people things are a little bit different. Here you will need to have been in business for one financial year before the banks will use the income. Banks always use your net profit (profit after expenses).
- **Bonuses/overtime:** While most of us love bonuses, banks view them a bit differently. Usually, bonuses are shaded by the bank. However, it can depend on which bank you go to. The same goes for overtime. Tip: If you can get your bonus as a part of your income that is much better as it then won't get shaded.
- **Board income:** Most banks will let you use between \$200-250 per week. This can actually get you up to another \$80,000 in borrowing.

How banks assess income for mortgage eligibility

We are going to begin by looking at something as exciting as the UMI and its significance in mortgage approvals. We know, we can hardly contain our excitement either!

UMI stands for Uncommitted Monthly Income, and it is basically how the banks assess whether or not you can borrow money. Here, the banks look at your "leftover" income after expenses and debt commitments on a monthly basis. So as you can see, UMI is actually very important. The banks basically want to know that you will be able to repay your mortgage and still pay off your car loan, put gas in your car and feed your children. A positive UMI demonstrates that the borrower has the capacity to pay the new financial commitment of a mortgage without jeopardising their overall financial well-being.

Strategies to Maximise Income for Mortgage Approval

Wouldn't it be lovely if you just had millions rolling into your bank account every month? While these strategies and tips and tricks may not make you an overnight millionaire, they can help bump up your income to help you get over the line to get a mortgage.

- 1. Negotiate your salary:** When was your last pay rise? Perhaps it is time to go knock on the boss' door and negotiate your salary.
- 2. Get creative:** Explore income sources that can supplement your current income. It could be part-time work, freelance opportunities or similar. Here, you will often have to think a bit outside the square - and remember, you don't need to work part-time at the coffee shop forever!
- 3. Get bonuses as a part of your salary:** As mentioned earlier, banks shade bonuses. Therefore, it is much better to get your bonuses as a part of your salary. So, if possible, have a chat with your boss and see what you can work out.
- 4. Extra work and overtime:** We know that you probably don't want to do 50-hour work weeks indefinitely, but taking on extra hours and working overtime temporarily to increase your income, may just be what gets you over the line and into your own home.

Case studies

Case 1: Mr and Mrs Smith has a combined income of \$120,000 and total monthly expenses of 2,000 dollars. In their current situation they can borrow \$534,701. Mrs Smith gets a part-time job at her favourite clothing store. This pays \$30,000 per year. Now their income is \$150,000 per year. Now Mr and Mrs can borrow \$695,062.

Case 2: Miss Applebee makes \$80,000 per year as a journalist. Her total monthly expenses are \$2,000. She can currently borrow \$348,283. Miss Applebee now takes up some freelance work and makes another \$20,000 per year. With a year income of \$100,000 she can borrow \$433,677.

1. Use the below online calculator from BNZ to calculate how much you can borrow if you make no changes to your current situation:

www.bnz.co.nz/personal-banking/home-loans/calculators/how-much-can-i-borrow

2. Now, play around with different numbers and scenarios. What happens if you get a part-time job that pays \$40,000 per year? What if you get your bonus as a part of your salary? What if you get a \$10,000 pay rise? Write down the different scenarios and how much you can borrow so you have it in writing.

www.bnz.co.nz/personal-banking/home-loans/calculators/how-much-can-i-borrow

Chapter 3: Building a strong financial foundation

Having a strong financial foundation is crucial when purchasing a home. While you certainly don't need to be a millionaire to buy property, you do need to know how much money is coming in, where the money is going, how much you can afford to save, invest and so forth. You don't want to sit in your new home and realise you can no longer buy your favourite coffee beans at the supermarket. In this chapter, we will explore budgeting, managing debt and expenses and more.

Budgeting for Homeownership

We have all seen the Excel spreadsheets with income in one column and expenses in another column. There is nothing quite as exciting as a good old-fashioned budget. In all seriousness, while you don't need an Excel spreadsheet (because who can actually figure out how Excel works anyway?) having a budget is important. Especially, if you have no clue where your money is going.

Let's look at why budgeting is important if you want to purchase a home:

- By creating a budget, you will know exactly how much money you can put aside for a house deposit every week/fortnight/month. Instead of just transferring \$200 here and \$500 there and then taking back \$300 because you realised you actually needed the money (we've all been there), you will know the exact amount you can put aside for the house deposit on a regular basis (without having to take it back five minutes later).
- It generally gives you clarity around your finances, and it will also show the bank exactly where your money is going and how much you are making (and that you can stick to a budget and manage your money).
- By creating a budget you know exactly how much money you have every month. This helps you set realistic goals and expectations and make informed decisions based on your income and expenses. This ensures that you don't commit to a property that could lead to financial stress.

How to create and maintain a realistic budget

Often, when people hear the word budget they think they have to deprive themselves. Goodbye take away coffees, brunch with friends and basically anything fun. However, that's not how you should make your budget. Your budget needs to be realistic - if it's not realistic, it won't last. Do you love watching Netflix every night? Then unsubscribing from Netflix probably won't be very sustainable. While there probably are some expenses that can be cut down (do you really need a to-go coffee *every single morning?*), it should not be so tight that you can't do any of the things you love and enjoy. Hence, the word realistic.

You need to assess all income and expenses as the very first thing. This might seem scary, but trust us, it'll be even scarier to look at in 10 years so you might as well look now. Look at utilities, rent, groceries, entertainment, phone bills, debt, discretionary spending... Everything. Are you living within your means? You should be spending less than you make. Is there anywhere where you can cut expenses? Again, you should not feel deprived. But perhaps you don't need a subscription to Netflix, Disney+, Neon and Amazon Prime. Maybe one or two will do? Can you make your own coffee instead of buying it? Is the daily pie really bringing you that much joy? There is no one size fits all so do what works for you, but ask yourself this: Is it a need to have or nice to have?

Managing Debt and Expenses

Let's delve a bit deeper into the topic of debt and expenses.

The impact of existing debts on mortgage eligibility is a critical consideration for aspiring homeowners. Banks assess an individual's debt-to-income ratio (DTI) to determine their ability to manage additional debt like a mortgage. Here's why understanding this is important:

- 1. Credit Card Debt Impact:** Every \$10,000 in credit card debt can reduce your mortgage eligibility by approximately \$70,000. Banks take into account your existing monthly commitments, and high credit card balances may limit the amount you can borrow for a mortgage. Take a look at [this article](#) from Opes Partners for more information about this.
- 2. Monthly Commitments:** Banks evaluate the total of your monthly debt payments, including car loans, personal loans, and credit cards. This influences the amount they are willing to lend for a mortgage, as they want to ensure borrowers can comfortably manage all their financial obligations.

Strategies for Debt Reduction and Management

Managing and reducing debt is crucial for improving financial health and getting a home loan. Let's explore some strategies for this:

- 1. Debt Consolidation:** Consolidating multiple debts into a single loan with a lower interest rate can make debt more manageable. This simplifies monthly payments and may result in lower overall interest payments. Please note, that typically car loans will be kept separate.
- 2. Use of Debt Reduction Calculator:** Using this [debt calculator](#) from Sorted, play with how fast you can pay off your debt. E.g. allocate an extra \$100 per week toward debt repayment and see how much faster this means you will have paid off your debt.

How to Prioritise Expenses to Save for a Deposit

Prioritising expenses is crucial when saving for a home deposit. Here's how to distinguish between essential and non-essential expenses:

- 1. Nice to Have vs Need to Have:** Categorise expenses into essential needs (e.g., housing, utilities, groceries) and discretionary wants (e.g. dining out, entertainment). Focus on cutting back on non-essential expenses to redirect funds toward savings.
- 2. Create a Budget:** Develop a budget that clearly outlines income, necessary expenses, and savings goals. We have already talked about the importance of a budget above.

Deposit vs Paying Down Debt

This is always going to depend on your unique situation, but let's look at some general rule of thumbs:

- **Good Income, Small Deposit:** If you have a solid income but a small deposit, prioritise saving for a larger deposit. A higher income may better accommodate both mortgage payments and existing debt.
- **Good Deposit, Limited Income:** If you have a substantial deposit but limited income, consider allocating funds to pay down existing debt. This lowers monthly obligations and enhances your financial position when applying for a mortgage.
- **Small Deposit, Limited Income:** Here you definitely want to pay down debt first. There are also schemes where you can get away with just a 5 per cent deposit, but start by paying down debt before going house shopping.
- **Minimising Expenses:** Regardless of the situation, actively work on minimising unnecessary expenses to free up funds for either debt repayment or saving for a deposit.

How to Minimise Expenses

Let's look at bit more at how you can minimise expenses, as we all know this one can be a hard one:

- **Cut Discretionary Spending:** Identify and cut back on non-essential expenses, such as dining out, subscription services, or impulse purchases.
- **Negotiate Bills:** Negotiate with service providers for better rates on utilities, insurance, phones and other regular expenses.
- **Explore Cost-Saving Alternatives:** Look for cost-effective alternatives without sacrificing quality, such as cooking at home instead of dining out or bringing your own coffee to work instead of getting a to-go coffee.
- **Review and Adjust Budget Regularly:** Regularly assess your budget to identify areas for further savings and adjust spending habits accordingly.

Saving for a Deposit

Without a deposit, no house. For most first home buyers, the standard minimum deposit is 10 per cent of the property's purchase price. E.g. the property costs \$500,000 so you need \$50,000 in a deposit. However, the Kāinga Ora First Home Loan provides eligible buyers to access a mortgage with a 5 per cent deposit. We will explore Kāinga Ora First Home Loan much more in chapter 4. Set realistic savings goals in your budget, but you can already start keeping an eye on the property market now.

1. With all the budgeting talk, it's time for you to create your own budget. Set aside some uninterrupted time, where you can do this task. You can play around with numbers. Remember to reevaluate your budget so you tweak it to suit your needs and income.

Here's a really straightforward and good budgeting tool from Sorted:

sorted.org.nz/tool/budgeting-tool#/welcome

2. Now, factor in future house related costs such as rates, mortgage costs and insurance (remember to exclude your current rent from this budget) to see if your budget is still sustainable and affordable. How much uncommitted monthly income do you have left?

Chapter 4: KiwiSaver and Kāinga Ora First Home Loan

Perhaps you have heard about people using their KiwiSaver for their first home. Or maybe you are curious to know more about the Kāinga Ora First Home Loan we mentioned in the previous chapter. This is where you'll learn it all.

What is KiwiSaver and How Does it Work?

KiwiSaver is a voluntary, long-term savings initiative in New Zealand designed to help individuals save for their retirement. It operates as a savings scheme where you contribute a percentage of your income to a KiwiSaver account, and your employer may also make contributions. Additionally, the government provides certain contributions in the form of member tax credits.

For KiwiSaver, you typically contribute either 3 per cent, 4 per cent, 6 per cent, 8 per cent, or 10 per cent of your gross salary or wages, and these contributions are deducted directly from your pay. The funds are then invested in a range of assets, such as shares, bonds, and property, by your chosen KiwiSaver provider.

While the primary purpose of KiwiSaver is retirement savings, there are provisions that allow members to withdraw funds for specific purposes, such as buying a first home.

Benefits of Using KiwiSaver for a Home Deposit

- **First Home Withdrawal:** One of the significant benefits of KiwiSaver is the ability to make a one-time withdrawal from your KiwiSaver account to contribute towards the purchase of your first home. This withdrawal can include both your contributions and your employer's contributions, as well as any investment returns earned on those contributions.
- **KiwiSaver HomeStart Grant:** In addition to the withdrawal, eligible first home buyers may also qualify for the KiwiSaver HomeStart Grant. This grant is provided by the government and can significantly boost your home buying capacity by contributing additional funds towards your deposit. The amount granted depends on your individual circumstances, but it is a valuable incentive to help make homeownership more accessible.

When it comes to using KiwiSaver for a first home purchase, note that there's a requirement to leave a minimum of \$1,000 in the account after the withdrawal for the home deposit. This ensures that some funds remain in the KiwiSaver account to continue growing and serving its long-term purpose.

If you are applying for a KiwiSaver first-home withdrawal determination as a previous home owner, you need to meet certain eligibility criteria, which you can [read here](#).

Step-by-step Guide on Accessing KiwiSaver Funds for a House Purchase

- 1. Check Eligibility:** Before proceeding, ensure that you meet the eligibility criteria for a first home withdrawal. See all the criteria above.
- 2. Confirm KiwiSaver HomeStart Grant Eligibility:** If applicable, check if you qualify for the KiwiSaver HomeStart Grant. Eligibility criteria may include income limits, the type of property you're buying, and the region where the property is located.
- 3. Contact Your KiwiSaver Provider:** Reach out to your KiwiSaver provider to request the necessary forms for a first home withdrawal. They will guide you through the process and provide the required documentation.
- 4. Complete Withdrawal Application:** Fill out the withdrawal application form, providing details such as the property address, purchase price, and confirmation that you meet the eligibility criteria. Attach any supporting documents required by your KiwiSaver provider.
- 5. Obtain a Solicitor's Confirmation:** You'll need a solicitor or conveyancer to confirm certain details, such as the property's title and whether it qualifies for withdrawal. This step ensures compliance with the KiwiSaver rules.
- 6. Submit Application to KiwiSaver Provider:** Submit the completed application, along with any supporting documents and the solicitor's confirmation, to your KiwiSaver provider. They will review your application and, upon approval, process the withdrawal.
- 7. Receive Funds:** Once approved, the funds will be transferred to your solicitor's trust account. These funds will be used for the property purchase, including the deposit.
- 8. Complete Property Purchase:** With the funds secured, proceed to complete the purchase of your first home. Your solicitor will handle the necessary legal aspects, and the funds from your KiwiSaver account will contribute to the overall property transaction.

Tips for Maximising KiwiSaver Contributions for a Larger Deposit:

- **Contribute at the Maximum Rate:** Consider contributing at the maximum rate allowed by KiwiSaver, which is 10 per cent of your gross salary. Higher contributions can accumulate more funds over time, providing a larger deposit when you decide to purchase a home.
- **Leverage Employer Contributions:** Ensure that you take full advantage of your employer's contributions. KiwiSaver requires employers to contribute at least 3 per cent, but some may contribute more. Maximising these employer contributions can significantly boost your overall savings.
- **Make Additional Voluntary Contributions:** Explore the option of making additional voluntary contributions to your KiwiSaver account. This can be a lump sum or regular contributions, providing an extra avenue to increase your savings.
- **Monitor Government Contributions:** Keep track of your eligibility for government contributions, such as the member tax credit. Ensure that you contribute enough annually to receive the maximum government contribution.

Kāinga Ora First Home Loan

As earlier mentioned, usually first home buyers need a 10 per cent deposit. However, you may also recall we mentioned that with Kāinga Ora First Home Loan some first home buyers may only need a 5 per cent deposit. Let's dive into this some more!

The Kāinga Ora First Home Loan stands out for its commitment to supporting first home buyers. With this scheme first home buyers only need a 5 per cent deposit. This can be an absolute gamechanger to some people!

Eligibility Criteria

To qualify for the Kāinga Ora First Home Loan, there are certain eligibility criteria that applicants must meet. These include:

- **Citizenship or residency:** Applicants must be either New Zealand citizens or residents.
- **Income limits:** There are specific income limits depending on the region, and applicants must fall within these limits to be eligible.
- **First-time buyers:** As the name suggests, this loan is exclusively designed for those purchasing their first home, making it a valuable resource for those navigating the property market for the first time.

[This brochure](#) is a must-read if you are interested in the Kāinga Ora First Home Loan. Everything is thoroughly laid out in this brochure, including the application process. So please take a good, long look and read through this brochure.

Other Deposit Strategies and Options

There are other ways you can consider to help you bump up your deposit. Let's explore them!

- **Increasing KiwiSaver Contributions to 10 per cent:** KiwiSaver is a voluntary, long-term savings initiative in New Zealand, designed to help individuals save for their retirement. First-time home buyers have the option to boost their KiwiSaver contributions to 10 per cent. This increased contribution rate allows them to accumulate funds more rapidly, providing a potential source for their house deposit.
- **Gifts from Parents:** Many first home buyers receive financial support from their parents in the form of a gift. Parents may contribute a lump sum to assist with the house deposit, helping their children get a foot on the property ladder sooner. It's important to note that gifts for the purpose of a house deposit are common and can significantly impact the buyer's ability to meet the required deposit amount.
- **Parents Assist Loan Under Parents' Name:** Some parents choose to actively participate in helping their children secure a home by co-signing a loan or providing a guarantee. In this scenario, the loan is often under the parents' name, but the first-time buyers make the repayments. This strategy can be beneficial for those who may not qualify for a loan on their own or are looking to leverage their parents' financial standing to secure more favorable loan terms.
- **Buying Together:** Pooling resources with a partner, friend, or family member to buy a property together is another strategy. We will go into depth into this in the next chapter.

1. What is your current house deposit?

2. What deposit do you need for the type of house you would like to buy?

3. You already made a budget in the previous chapter, so by now you know exactly how much you can put towards your house deposit every week/fortnight/month. Now, it's time to figure out how much you actually need in that deposit account, and then you need to figure out how long it will take you so you have a timeline. Also, make sure you look at how much you can use from your KiwiSaver and if you are eligible for Kāinga Ora First Home Loan.

Let's look at two examples:

Case 1: Mr and Mrs Smith want to buy a home that costs \$600,000. They are not eligible for the Kāinga Ora First Home Loan. This means that they need a 10 per cent deposit = \$60,000. They will use Mrs Smith's KiwiSaver which is \$15,000. That means they have to save \$45,000. They are saving 2,000 dollars per month towards their house deposit. This means that they will be able to buy a home in just under two years.

Case 2: Let's look at another example. Mr and Mrs Applebee want to buy a house for \$600,000. They qualify for Kāinga Ora First Home Loan, so they only need a 5 per cent deposit. They already have \$15,000 saved up. They receive \$5,000 from the government (Kāinga Ora). This means they only need to save up another \$10,000 to hit their deposit goals. They save \$200/week, meaning that in just a year they will have the full deposit.

Chapter 5: Buying Together and Credit Cleanup

In this chapter, we'll explore the pros and cons of buying a house with friends or family, the importance of a good credit score and more.

Buying Together: Friends and Family

As mentioned earlier in this workbook, you may want to consider buying with others if you struggle to get a mortgage approval or come up with a deposit. It may mean buying your first home with a friend or a family member. Let's look at the pros and cons of this and the implications involved if you decide to buy with others.

Pros of Buying a Property with Others:

- **Increased Buying Power:** When you buy with others, you have more money, meaning you have a higher buying power. This opens up the market as you can now look at properties that you individually (or as a couple) cannot afford.
- **Shared Expenses:** By buying with others, you share costs related to the property, such as mortgage payments, utilities and maintenance. This can be a true game changer for people who may struggle to meet mortgage payments on their own with their current income.

Cons of Buying a Property with Others:

- **Financial Dependency:** Co-ownership may lead to financial interdependence, and if one party faces financial difficulties, it could affect the property and put stress on the others. This is why you need very clear legal agreements.
- **Conflict Over Finances:** Disagreements may arise over financial decisions, such as renovations, upgrades, or selling the property. Again, clear communication and legal agreements are essential - even if it is your best mate.
- **May affect future borrowing capacity:** You are liable for the full loan, which may affect your ability to borrow money in the future. We go into detail about this on the next page.

Importance of Clear Communication and Legal Agreements

We have already mentioned how important clear communication and legal agreements are if you decide to buy with others. Open, clear and transparent communication is crucial. Discussing expectations, financial commitments and long-term plans can help prevent misunderstandings and conflicts. Basically, you need to know what happens if the dishwasher breaks, if the roof starts to leak or what happens if one of you breaks something. Of course, all of this needs to be written down in actual legal agreements. No, a verbal agreement over a beer is not going to cut it. Everything needs to be written down in a legal agreement to avoid any future disputes.

Speaking of legal agreements, when considering property ownership structures, it is essential to understand various co-ownership arrangements, such as tenants in common or joint tenancy. Additionally, when determining the legal title, clarify how it will be held. Specify ownership percentages and individual responsibilities to ensure a clear and legally sound framework for co-ownership. Otherwise, the process of buying with another person is very much like if you were buying a property on your own. The process as such is not different.

Components of a Co-ownership Agreement:

- 1. Ownership Percentages:** Clearly define each co-owner's share in the property to avoid disputes over equity and decision-making authority.
- 2. Responsibilities:** Outline the responsibilities of each co-owner regarding property maintenance, repairs, and financial contributions.
- 3. Exit Strategies:** Establish procedures for selling or transferring shares if one party wants to exit the arrangement, preventing complications in the future. It is often helpful to put this into real life context, e.g. partner 1 gets married and the partner wants to buy into the property - what happens in that scenario?

Impact on Future Buying Power

When buying with others, there is one important thing to keep in mind. You are liable for the full debt. This means that if the mortgage is \$500,000, you are liable for the full debt - even though you share it with another (or multiple) people. This can potentially affect your individual buying power in the future, should you decide to buy another property. Therefore, it is important to talk about financial goals and think long-term. Also bear in mind that any late payments can impact everyone's credit scores. This is all very well explained in [this article from Opes Partners](#).

Credit Cleanup for Mortgage Approval

It is very important that you have a positive credit history, when you want to buy a property - it certainly makes everything a lot easier! A positive credit history is crucial for securing mortgage approval from banks. It demonstrates financial responsibility and reduces the risk for the banks. A lower credit score might force you to seek financing from second-tier lenders, often resulting in higher interest rates and less favourable terms.

Tips for improving creditworthiness

If you have a low credit score, that is something you need to work on (don't worry, it's the assignment for this chapter so you'll get to make a plan in a minute!). Below are some tips and strategies to help you improve your credit score and also general tips on how to keep your credit score low.

- **Timely Payments and Debt Reduction:** Prioritise making all payments on time. It really doesn't look good if you are always paying bills late.
- **Avoiding Credit Cards:** Be cautious with credit card usage, as even the card limit can affect your lending capacity (see chapter 3 where we discussed this). In fact, avoid having a credit card altogether if possible.
- **Debt Collection Impact:** Avoid letting any debts go to collection agencies. This can negatively impact your credit score and ability to borrow money for up to five years, regardless of the debt amount.
- **Eliminating Afterpay Accounts:** We cannot say this enough: get rid of any Afterpays you may have and avoid them in the future. If you cannot afford to pay for the dress or the new hunting gear in full, don't buy it. Remember: live within your means and spend less than you make.
- **Communication with Creditors:** If you have debt, make sure you communicate with creditors. Open communication can lead to negotiated settlements, payment plans, or even debt forgiveness in some cases.
- **Debt Consolidation:** We already talked about the importance of debt consolidation in chapter 3. But if you have debt, consolidate it as it will most likely get you a lower interest rate, and it will make paying off your debt much more simple and manageable.

1. Download your personal credit report. You can do that here:
www.centrix.co.nz/my-credit-score.
2. Identify any issues in the report. Your credit score will be between 1 and 1000.
The higher the score, the better. If your score is low, identify where the issues are.

3. Build a plan for how to address these issues, e.g. consolidating debt, making sure you pay bills on time, closing Afterpay accounts etc.

Chapter 6: Exploring Mortgage Options, Making offers on properties and pre-approval process

Now that you have your credit score in order, you have a realistic budget and you have saved up your deposit, it's time to look at the actual mortgage, making offers and how to get pre-approved. When you have all your ducks in a row and you're ready to go house shopping, this is the chapter you want to refer back to.

Understanding A Mortgage

Let's begin this chapter with taking a closer look at what a mortgage actually consists of and what you need to consider.

Fixed vs Floating Rates

There are two primary types of mortgages available: Fixed-rate mortgages and floating-rate mortgages.

Fixed Rates

Fixed-rate mortgages offer a stable interest rate for a predetermined period, providing predictability in payments. This means that when interest rate fluctuations your interest rate will stay the same which makes budgeting easier. However, keep in mind that if interest rates drop you will still be at the same (now higher) interest rate. This is good for creating certainty around payments.

Floating Rates

Floating-rate mortgages, on the other hand, have interest rates that can fluctuate based on market conditions. The main advantage of floating-rate mortgages is the flexibility to benefit from potential interest rate decreases and also the ability to make lump sum payments, increase your repayments and restructure at any time with no penalty. Think of it as a very flexible loan - similar to a no contract phone plan. However, the payments may increase with rising interest rates, leading to budget uncertainties. The floating rate also tends to be higher, on average at least 1 per cent, which can be a massive cost over the life of the loan.

To learn more about fixed and floating rates, check out [**this blog post**](#) we wrote about the topic.

Choosing the right mortgage for individual needs

- **Affordability:** Evaluate your budget to determine what you can comfortably afford in weekly, fortnightly, or monthly mortgage payments. Consider your long-term financial goals and lifestyle to strike a balance that ensures financial well-being.
- **Loan Terms:** A mortgage is typically a 30-year loan, but it can be shorter.
- **Floating vs fixed:** Consider how long you want to fix your mortgage for. If you want ultra certainty, you may wish to fix your mortgage for longer, whereas you can fix for a shorter period of time if you believe the interest rates will come down, and you know you can afford the repayments on your mortgage should the interest rates increase.
- **Professional Advice:** Seek advice from financial advisors or mortgage brokers to navigate the complexities of mortgage options. Professionals can assist in assessing your financial situation, recommending suitable mortgage types based on your unique circumstances.

Making Offers on Properties

When making an offer on a property, there are some key things to know. Understanding property listings, recognising key information, and identifying potential red flags are all important in this process. Below, we'll delve into the details, so you are well equipped to make an offer.

Understanding property listings

1. **Listing Details:** Thoroughly read the property listing to understand key information. Pay attention to the number of bedrooms, bathrooms and other essential features. Understanding the property's size, layout and any additional amenities is also important.
2. **Location and Neighborhood:** Depending on your needs, research how close the house is to schools, public transportation, supermarkets etc. If you're not familiar with the neighbourhood, you can also research the neighbourhood's reputation and overall safety.
3. **Property History:** Check if there is any history of renovations or significant modifications.

Key Information to Look For

1. **Market Analysis:** Analyse recent sales data for similar properties in the area to determine a fair market value. Consider the current market trends and how they might influence property prices.
2. **Legal Considerations:** Verify the property's legal status and ensure there are no outstanding legal issues.
3. **Builder's report:** We highly recommend getting a builder's report to avoid any unwanted surprises later.

Identifying Potential Red Flags

1. **Time on the Market:** Properties that have been on the market for an extended period may indicate underlying issues (or the price is too high). Therefore, it's always a good idea to ensure the property is up to standard (again, a builder's report is a must).
2. **Compare Prices:** Compare the asking price with recent sales and similar properties in the area.
3. **Seller's Motivation:** Understand the seller's motivation to gauge negotiation flexibility. A motivated seller may be more willing to negotiate or address potential issues with the property.
4. **Neighbourhood Trends:** Stay informed about the overall trends in the neighbourhood's property values. Sudden drops or fluctuations could be red flags for potential issues affecting the area.

Pre-Approval Process

In this part, we will look at the importance of a pre-approval, the documentation required, and the step-by-step process of applying for pre-approval.

Importance of pre-approval

There are several reasons why having a pre-approval before you go house shopping is a good idea. Let's look at the three main reasons why you really should have one before you go house hunting:

- **Clarity on Budget:** A pre-approval provides a clear understanding of the budget, helping buyers focus on properties within their financial means. No need to fall in love with a house only to discover it's way outside your budget.
- **Negotiation Power:** Sellers often prioritise offers from pre-approved buyers, considering them more serious and financially prepared. This can help enhance negotiation power, potentially leading to better terms and prices.
- **Streamlined Process:** Accelerates the overall homebuying process by having financial groundwork in place. A pre-approval also allows for quicker decision-making and responsiveness during property transactions.

Documentation required for pre-approval

- **Proof of Income:**
 - Recent payslips, employment contract, or tax returns to validate income
 - Proof of additional income sources, such as bonuses or investments
- **Financial Statements:**
 - Bank statements demonstrating savings, investments, and regular financial transactions
 - Details of existing debts, loans or credit card balances
- **Identification and Residence:**
 - Valid identification documents, such as a passport or driver's license
 - Proof of current residence, like utility bills or rental agreements

How to apply for pre-approval

- 1. Select a Bank:** The first step is finding a bank. It can be very beneficial and helpful to work with a mortgage broker when applying for a pre-approval, as they will take care of everything for you.
- 2. Gather Required Documents:** Organise all necessary documents, ensuring completeness and accuracy. This is where a mortgage broker will be very helpful, as they will make it much easier and present the application in the best light to give you the best chance of getting approved.
- 3. Submit Application:** Complete the pre-approval application form provided by the chosen lender. Attach all required documents to facilitate a smooth evaluation process.
- 4. Common Challenges and Solutions:** Address any credit issues beforehand, and be prepared to explain them to the bank. Ensure all required documents are provided, and be willing to provide additional information if requested. Again, a mortgage broker will build the story and use the fancy language that banks love.
- 5. Expectations During the Pre-Approval Process:** The bank will review the submitted documents and verify the information provided.
- 6. Conditional Approval:** Upon successful review, a conditional pre-approval may be granted, outlining any additional requirements.

1. Here is a checklist of the documents required for a pre-approval:

Proof of Income:

- ✓ Recent payslips, employment contract, or tax returns to validate income
- ✓ Proof of additional income sources, such as bonuses or investments

Financial Statements:

- ✓ Bank statements demonstrating savings, investments, and regular financial transactions
- ✓ Details of existing debts, loans or credit card balances

Identification and Residence:

- ✓ Valid identification documents, such as a passport or driver's license
- ✓ Proof of current residence, like utility bills or rental agreements

2. Now that you have completed all the assignments in this workbook, and you have your new budget, credit score and everything else, it's time to take action. Create 3 action steps that you can go away and do (besides sticking to your new budget). Examples: Ask my boss for a payrise, increase my KiwiSaver contributions to 8 per cent and consolidate my debt.

Action 1.

Action 2.

Action 3.

Chapter 7: Additional Resources and Thank you

This workbook is coming to an end, but your property journey is just getting started. You have already done a great job by completing all the assignments and taking the first steps towards buying a home. At the Mortgage Whānau we believe it's important to continue to educate yourself. Whether you prefer reading books, articles online, listening to podcasts or something else, continue to learn. Even if all you do is follow a couple of people in the industry on Instagram, that's better than nothing. This will also help keep you motivated, especially when the initial honeymoon phase is over and the budget doesn't seem as fun as it first did.

Here are some of our favourite resources to keep you inspired, motivated and continue your property education:

- The Mortgage Whānau [Instagram](#) and [Facebook](#)
- [First Home Buyers Hub by The Mortgage Whānau](#)
- Website: [Opes Partners Learning Centre](#)
- Book: [Wealth Plan: How to Invest in New Zealand Property And Retire On Real Estate](#)
- Podcast: [The Property Academy Podcast](#)
- Book: [Buy Now: The Ultimate Guide To Owning and Investing In Property by Lloyd Edge](#)

Thank you!

We'd like to take a moment to thank you for trusting us on your property journey. We love seeing whānau succeeding and getting into homes. We hope this workbook has provided you with insights and also given you takeaways and tangible actions steps.

If you would like to work with us, you are more than welcome to [book a kōrero with us](#). You can also connect with us through [Instagram](#) and [Facebook](#).

Thank you for reading!