



THOUGHT ABOUT

OWNING A HOME?

A GENERAL GUIDE TO
HOME OWNERSHIP



TAKE THE TIME TO READ THIS

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COSTS OF OWNING A HOME

Before you decide whether you want to buy a home, you need to think about what you can afford, and how much it will cost you now and into the future.

Repaying a home loan will take a long time – 15 to 30 years. You'll need to make payments on time each week, fortnight or month for the duration of the loan.





WHAT CAN YOU AFFORD?

Before you start looking for a home, you will need to work out what you can afford to pay each month.

Budgeting is a good skill to have to help you manage your money and make sure the bills are paid.

You'll need to pay your rates on time, keep up with any repairs and maintenance and cover living costs like food, gas, electricity, phone, school fees, doctor's visits, car maintenance or bus/train fares.

Your budget can be used when you apply for a home loan, as your lender will want this information as well.

WORKING OUT

A BUDGET

1. Work out what money is coming in each month (your income).
2. Work out your living costs for the month (food, phone, power, car expenses, clothing, etc) and subtract it from your income. Don't include the rent you currently pay.
3. Take away other payments you need to make, such as hire purchases, credit cards, student loans, insurance and medical bills. Remember, if you've got fortnightly payments, you'll need to multiply them by 26 and divide by 12 to accurately work out the monthly payments.
4. Take away any other expenses you can think of (don't forget to allow a little for unexpected costs) that arise each month.

The amount you have left over will help you work out how much you have each month to go towards paying for a home and its upkeep.

IMPORTANT

Remember, a home can increase or decrease in value. Therefore, it's important that before you buy, you consider the potential resale price and the likelihood you may need to sell sometime in the future.

If you were to sell, the costs of selling are likely to include real estate agent fees, legal fees and removal costs.

Sample budget:

1. Monthly household income after tax	\$2,940.00	1
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2. Take away living costs		
Food	\$650.00	
Phone	\$110.00	
Electricity/Gas	\$125.00	
Clothing allowance	\$125.00	
Transport – bus fares and car expenses	\$150.00	
Total	\$1,160.00	2
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3. Take away other monthly payments		
Refrigerator hire purchase	\$65.00	
Credit card repayments	\$150.00	
Insurance	\$80.00	
Total	\$295.00	3
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4. Take away any other costs		
Entertainment (e.g. movies)	\$100.00	
Allowance for unexpected costs	\$120.00	
Total	\$220.00	4
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5. Total Expenses (2+3+4)	\$1,675.00	5
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6. Amount to go towards a home (1-5)	\$1,265.00	
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My budget:

1. Monthly household income after tax	\$	1
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2. Take away living costs		
Food	\$	
Phone	\$	
Electricity/Gas	\$	
Clothing allowance	\$	
Transport allowance	\$	
Other	\$	
<hr/>		
Total	\$	2
<hr/>		
3. Take away other monthly payments		
Hire purchase	\$	
Credit card repayments	\$	
Insurance	\$	
<hr/>		
Total	\$	3
<hr/>		
4. Take away any other costs		
Entertainment (e.g. movies)	\$	
Allowance for unexpected costs	\$	
<hr/>		
Total	\$	4
<hr/>		
5. Total Expenses (2+3+4)	\$	5
<hr/>		
6. Amount to go towards a home (1-5)	\$	
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THE ACTUAL COSTS OF BUYING A HOME

As well as the deposit (if you have to pay one), there are a number of other costs you need to know about when buying a house.

Each lender will have different fees – ensure you understand exactly what fees are applicable for your loan, shop around and find out which lender's fees suit you the best.

A **Registered Valuation**. Your lender will ask for this so they know the value of the house you want to buy. You can get one of these by contacting the New Zealand Property Institute. See page 15 for details.

You'll also need to pay a **land registration fee**. This records the change in ownership of the property. Usually your lawyer will include this fee into their bill.

You need to allow for **lawyer's fees**. It's their job to advise you when buying a house. They'll check contracts, do a title search, explain your rights and do the legal paperwork. They can also help you to negotiate the price and other terms with the owners. If you don't have a lawyer, family or friends may be able to recommend one. Otherwise, ask the New Zealand Law Society Property Law Section. See page 15 for their details. Check the white pages in the phone book for contact details. **Most importantly, talk to your lawyer before you sign any papers.**

It's a good idea to get a **Land Information Memorandum (LIM)** report from the council. You pay the council to get it, or you can visit the council yourself to check the records. The LIM will tell you what the council knows about the property. For example, whether the council issued permits for any work. Check with your lawyer that the LIM covers everything you need to know.

When borrowing more than 80% of the value of the property, you will need to pay a 'one time' **Lender's Mortgage Insurance** premium. **Lender's Mortgage Insurance protects the lender, NOT YOU**, if they have to sell the property because you haven't kept your payments up to date. **This insurance is to cover any gap between what you owe at the time of sale and the sale proceeds.** You can pay that fee as a lump sum when your loan is drawn down or add it to your loan. Ask your lawyer to explain this before you sign up to the loan.

You may be able to get **Borrowers' Loan Insurance**, to cover you if anything happens. For example, loan insurance could mean your loan could be repaid if you die; or if you can't work because of illness or injury, your loan repayments could be paid for you for up to two years. Make sure you read the insurance policy carefully and check it with your lawyer before you sign.

When you find a house you want, it's a good idea to get it checked by a **suitably qualified and registered building surveyor** before you proceed any further. Make sure you ask for an intrusive property inspection. This will give you information about the property's current condition, both inside and outside. This inspection will also reveal any repair and/or maintenance work that may be needed and how much it could cost.

You may be able to negotiate with the seller to make any repairs you've agreed are needed before you move in.

You'll probably have **removal costs** for moving to your new home. These could range from hiring a van, to using a removal company to do the moving for you. You can get insurance to cover you in case anything is damaged while it is being moved from your old house to your new home.

You may need to pay bonds and/or fees for connections to **power, phone and gas**.

In summary, the start-up costs could be:

Loan Fees	This depends on each lender, talk with them about what the loan costs are.
Registered Valuation Report	From \$400.
Lawyer's fee	About \$1,000.
LIM Report	A LIM can cost from \$160-\$400.
Lender's Mortgage Insurance Fee	1% of total home loan. For example, if you get a \$100,000 loan, the Lender's Mortgage Insurance Fee will be \$1,000. A \$145,000 loan will have a Lender's Mortgage Insurance of \$1,450.
Builder's Report	About \$400.
Removal costs	About \$700.
Bonds and connection fees	About \$100.
Land registration fee	About \$100.

Also, remember to put money aside if you want Borrowers' Loan Insurance.

You will need to have saved enough money to cover all of these costs. Usually only the Lender's Mortgage Insurance Fee may be borrowed from your lender.

ANNUAL COSTS OF OWNING A HOME

Don't forget, there are annual costs as well as the initial start-up costs.

Rates

Rates must be paid to your council for services, for example, rubbish collection. The amount varies between councils. Remember, you'll need to pay some of the rates on settlement day.

House and Contents Insurance

You need to insure your new home from the day you take ownership, along with the contents. All borrowers must have full replacement home insurance cover on their new home. This means that if something happens to your home and it can be repaired, the insurance company can restore your home to an 'as-new' condition regardless of the age of the house. House and contents insurance automatically includes earthquake cover.

Look around for a good deal – you may be able to get a package deal with house, contents and car insurance.

Remember, you'll need to pay some or all of the insurance on the day you move into your new home.

Body Corporate Levy

If you are buying a unit or an apartment in a block or complex, you may need to pay a Body Corporate Levy. This is your contribution to the costs of maintaining the common areas. Ask the real estate agent how much this will be. You'll also need to comply with Body Corporate rules and regulations.

Repairs and maintenance

Keeping up to date with repairs and maintenance helps keep costs down and maintains or improves the value of your home. Make sure you put money aside for repairs and maintenance each year. Some things you'll need to think about are:

- Keep the outside of your house clean, this helps prolong the life of exterior paint.
- Replace damaged exterior cladding to prevent rot and leaks.
- Keep gutters clean to prevent gutter overflow and stop leaks.
- Make sure the roof is maintained and any damage or rust repaired quickly.
- Ensure any new putty on re-glazed windows is painted within two weeks of installation to prevent leaks.
- Make sure you keep concrete paths around the house clear of moss.
- Insulate the house and wrap hot water pipes and the hot water cylinder to keep the house warm and power costs down.
- Keep the house well ventilated to prevent condensation and mould.
- Don't store rubbish under the house – it's a fire risk and health hazard.
- Put smoke detectors in each living area and check they are working at least twice a year.
- Keep trees trimmed and clear of the house, power and telephone lines.

Remember, a well maintained home with tidy lawns is worth more than one in need of repair. If you need repairs done, get them done sooner rather than later as this will save you money.

In summary, the ongoing annual costs could be:

Rates	Allow about \$1,200 a year.
House insurance	For a three bedroom house with a floor area of about 120 square metres and a single garage, house insurance would cost about \$300 a year.
Contents insurance	About \$60,000 worth of cover would cost about \$400 a year.
Body Corporate Levy	About \$3,600 a year.

And remember to put money aside for repairs and maintenance.

ARRANGING FINANCE

It's a good idea to get finance sorted out early, so when it comes to making an offer this part happens quickly and smoothly.

The amount you can borrow depends on a number of things, including how much you can afford to repay. Your lender will let you know how much money you can borrow.

They may also be able to give you a 'borrower approval certificate'. This means they could approve a loan before you buy, so you know what house price you can afford. You should still get a lawyer to check the details for you before you sign any loan offer.

You may also want to contact Work and Income to see if you are able to get an Accommodation Supplement to help with your home loan payments.



HOUSE HUNTING

Before you start house hunting, you need to know what you want. Buying a house is a long-term commitment, so it's really important that you think of the future as well. Is location important? Do you need to be near shops or a school? Do you want to live near family, work or public transport? Or maybe you want to live somewhere sunny? Somewhere quiet? Do you want a garden or a garage?



Make a list of things you must have and things that would be nice to have.

This will make it easier to narrow down your choices. Once you know what you're looking for, here's how to go about finding it.

You could find a real estate agent to help you look for a home. Tell them what you're looking for, where you would like to live and how much you want to spend.

Newspapers have real estate sections on Wednesdays and Saturdays. These include private sales and also list the open homes. There are free weekly real estate publications and remember to check the internet as well.

Have a good look around to find out what's available and what you can afford. Don't rush to buy. Take your time and make the right choice.

It's a good idea to look more than once at the house you're interested in buying, just to be sure. If you are looking on your own, take a friend or family member with you so you have someone to talk it over with.

Talk with the neighbours and make sure you ask the real estate agent lots of questions.

When you find a house you like, you should check the general condition and also think about location and the potential resale value. If there are any problems, get professional advice before going any further.

- Do all the doors and windows open?
- Is there any damage?
- Is the roof in good condition?
- Are the gutters and downpipes in good condition?
- What repairs are needed?
- Are the kitchen and bathroom in good condition – these rooms are expensive to fix if work is needed.
- Do all the taps work?
- Does the shower work?
- Does the toilet flush?
- Are there enough power points?
- Is there enough storage?
- Does the house smell damp?
- Has it got insulation or heating?
- Are the plumbing and electrics in good condition? Depending on the age of the house, you may need to get an insurance certificate to confirm the wiring is OK.
- When does the house get the sun?
- What features (usually described as chattels) are included in the sale price? For example, appliances (such as a dishwasher), telephone, TV/digital dish, carpets, curtains/drapes, shelving.
- Is there damp under the house?
- Is it noisy or near industry activity or aeroplanes?

INFORMATION AND ADVICE

- If you need some advice, or are not sure of the advice you've been given, visit your local **Citizens Advice Bureau (CAB)** website www.cab.org.nz or call 0800 367 222
- Looking for information about buying a house, including mortgage rates and up-to-date surveys of house prices in cities, regions and neighbourhoods? Visit the **Real Estate Institute of New Zealand** website www.realenz.co.nz or call 0800 732 536
- Looking for a property lawyer? Visit the **New Zealand Law Society Property Law Section** website www.propertylawyers.org.nz or call 0800 745 754
- Looking for a registered valuer? Visit the **New Zealand Property Institute** website www.property.org.nz or email national@property.org.nz or call 04 384 7094
- Looking for information on property insurance? Visit the **Insurance Council of New Zealand** website www.icnz.org.nz or call 04 472 5230
- Looking for budgeting advice? Contact a budget service. Members of the **New Zealand Federation of Family Budgeting Service (Inc)** are listed in the white pages of your telephone book under 'Budget Advice Services'
- Looking for a suitably qualified and registered building surveyor? Visit **The New Zealand Institute of Building Surveyors** website www.buildingsurveyors.co.nz or call 0800 11 34 00

MAKING AN OFFER

When you find the house you want, you'll need to make an offer in writing. The real estate agent or your lawyer will prepare the sale and purchase agreement. If it has not been prepared by your lawyer, make sure they check it before you sign. The offer will outline what chattels go with the sale (this may include curtains, light fittings and dishwasher). You may be able to negotiate other chattels. It's helpful to make a list of any chattels you want to include in your offer to buy.





Most first offers are 'conditional'.

This means you are making your offer subject to one or more conditions being met. Conditions may include:

- Finance being approved.
- A satisfactory independent valuation.
- A satisfactory title search.
- A satisfactory building inspection.
- A satisfactory Land Information Memorandum.

The seller may not accept your offer and could come back with a counter offer. This means they may want you to raise the amount you've offered, or change some of the other things you've asked for. This may happen many times before you agree on the final price and terms, but make sure you stay within your budget.

Once you've agreed the sale price, settlement date and conditions, you'll have an agreed period of time to get the reports and finance you need to allow the contract to go unconditional and be finalised.

There are other types of house sales, but they are more complex, such as auction and tender.

House buying is a lengthy process, and it can take a while to find the right place for you. Don't be disappointed if it doesn't work out with the first house you find.

Moving in

Now you'll need to start the countdown of things to do in preparation for moving into your very own home! Some things you'll need to think about are:

- Giving notice to your landlord if you're renting.
- Arranging house and contents insurance for your new home.
- Sending a change of address notification to friends, family, the bank, dentist etc.
- Arranging disconnection and reconnection of your power, phone, gas and television.
- Redirecting your mail.
- Finding out when your last rent payments are due. Once payment has been made, cancel automatic rent payments.
- Organising final reading of your power meter before you move out.

COMMON WORDS

When you're a first time buyer, there are lots of words you may hear.

A Body Corporate: relevant if you are buying a town house or apartment and the title is a 'unit title'. The Body Corporate makes arrangements for maintenance of common areas and helps resolve any disputes. A Body Corporate Levy will normally be charged to cover things like maintenance.

Certificate of Title (CT): this is held at Land Information New Zealand (LINZ) and records all the legal interests in the land. When you buy, your lawyer will register a transfer of the land to you and your name will be recorded as the owner on the Certificate of Title.

Chattels: the items in a house that will come with it as part of the sale.

Commission: the fee the seller pays the real estate agent when the house sale goes ahead.

Conditional agreement: an agreement that is subject to conditions. You should discuss these with your lawyer.

Cross lease title: a form of ownership that often applies to town houses and flats. All the owners have a share in the ownership of the land, but have a lease of the town house or flat they live in and (often) exclusive rights to use specific pieces of land or a garage.

Easement: an easement is a right someone else has to use your property for a particular purpose. Some easements give another person the right to use a drain on your property. Your lawyer should tell you if there are any easements on the title and what these mean.

Equity: if the value of your home is greater than the amount of your loan, the difference between the two is referred to as 'your equity' in the home.

Fixtures and fittings: items attached to a house which are legally considered to be part of it. When the seller leaves the house, unless you have agreed, they cannot remove fixtures and fittings. Light fittings are not regarded as fixtures, but a built-in firebox may be. If an item in the house is not on the chattel list and you expect it to come with the house, make sure it is a fixture and fitting before you sign the agreement.

Freehold: ownership of the land and the house with virtually no restrictions on your ownership rights, apart from those covered by laws or regulations.

Government Valuation (GV): refer to Rateable Valuation.

Home loan agreement: the agreement that outlines what money the lender will lend you, what the repayments are, and how often they are made.

Instalments: weekly, fortnightly or monthly payments of principal and/or interest off your loan.

Insurance Certificate: a certificate issued by your insurer that confirms the assets you have covered and the maximum amount that can be paid out in the event of a loss.

Interest: the amount the lender charges you for lending you the money. It's a percentage of the amount you actually borrow. There are different methods of calculating the interest rate on a mortgage:

Fixed: the interest rate is fixed for a set period. This means you know how much you need to repay at each instalment.

Floating (sometimes called Variable): the interest rate goes up and down depending on market conditions. Your loan repayments may also alter as the interest rate changes.

Land registration fee: the charge payable to LINZ to record the transfer of the land to you.

Land Information Memorandum: the document you can get from the council that tells you the information they hold about the property.

LINZ: Land Information New Zealand is the government department that holds the land registration records.

Legally binding: can be enforced by law.

Market Value: the price a home is likely to sell for.

Mortgage: the legal document that allows the lender to sell the property to recover the loan. The term can also mean a loan to buy a house. The 'mortgagee' is the lender and the 'mortgagor' is you, the borrower.

Mortgagee: the organisation that lends you the money.

Mortgagor: you. The person who has borrowed the money.

Principal: the initial amount you borrow.

Rateable Valuation (RV): the council's estimated value of your property. The council uses this value to work out the rates on the property.

Rates: fees you pay to the council for services, for example rubbish collection.

Right of way: if you share a driveway with a neighbouring property, then the rights to do this are called a 'right of way'. It means that either you have the right to cross over neighbouring land to get access to your property, or another person has a right to cross over your land to access theirs.

Sale and Purchase Agreement: the legal document that records the agreement to sell and buy a house. It is legally binding when signed by the buyer and seller.

Settlement date: the day that money transfers from the buyer to the seller and the home actually becomes yours.

Table loan: the repayments remain the same for the life of the loan (assuming there is no change to the interest rate). At the start, most of each repayment is interest and, near the end, you're mostly repaying principal. This is the most common option.

Unconditional agreement: a legally binding agreement that has no conditions.

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