



**MORTGAGELAB**  
.CO.NZ

# BUYING YOUR FIRST HOME

A Comprehensive eBook Guide



# BUYING YOUR FIRST HOME

Buying your first home is an incredible milestone, often described as a dream come true. The journey may be filled with anticipation, excitement, and sometimes a touch of anxiety. Proper guidance and an in-depth understanding of the process can transform this complex journey into a smooth and fulfilling experience. At Mortgage Lab, our mission is to educate and support you through every step of the home-buying process.

This eBook offers comprehensive insights into financial considerations, property choices, legal requirements, and practical tips. From understanding mortgage terminologies to securing your deposit and finalizing your purchase, we cover it all. With the right information, you can navigate the road to homeownership confidently and competently. Let's embark on this journey together!

## In this book, you'll learn:

- The mindset you need to get into your first home
- Understanding Loan-to-Value Ratios (LVR)
- How Much Deposit Do You Need to Buy Your First Home?
- Where to Find Your Mortgage Deposit
- Buying a Home with Friends: Pros and Cons
- The Importance of Mortgage Pre-Approval
- New Build vs. Existing House: Which is Right for You?
- Apartments: The Low-Down on High-Rises



# THE MINDSET YOU NEED TO GET INTO YOUR FIRST HOME

Before diving into the logistics of home buying, adopting the right mindset is crucial. Purchasing your first home requires a blend of patience, resilience, and a willingness to adapt and compromise. It's important to recognise that this journey may take time, and there may be bumps along the way. Stay positive, be prepared to make informed decisions, and understand that the process involves financial and emotional readiness.



There may be instances where you need to balance your dream home vision with what's realistically attainable. Setting realistic expectations, staying within your budget, and being open to different areas or types of properties can ease the journey. Visualise the long-term benefits of owning your home, and keep that goal in mind throughout the process.

Remember, every step brings you closer to holding those keys in your hand. This mindset will keep you grounded and determined throughout the home-buying process. Regardless of the challenges, staying focused on your goal will ultimately lead to success.





# UNDERSTANDING LOAN-TO- VALUE RATIOS (LVR)

One of the fundamental concepts in mortgage lending is the Loan-to-Value Ratio (LVR). LVR represents the percentage of your mortgage compared to the value of your property. For instance, an LVR of 80% suggests that you need a 20% deposit. Banks prefer an LVR of less than 80%, but higher LVR loans are available, particularly for first-time buyers, often backed by additional risk mitigations like mortgage insurance.

Understanding LVR helps you know how much you need to save for your deposit and helps set realistic expectations for your borrowing capacity. It's also important to understand that a lower LVR can sometimes attract more favourable interest rates. This ratio affects not just how much you need to save initially but also your monthly payments and overall mortgage terms.

Lenders will assess your LVR as part of the approval process, so knowing this metric helps you prepare better. Being informed about LVRs will allow you to plan more efficiently and make better financial decisions. We recommend discussing LVR expectations with your mortgage advisor to tailor a savings and borrowing plan suitable for your circumstances.



## HOW MUCH DEPOSIT DO YOU NEED TO BUY YOUR FIRST HOME

In New Zealand, the traditional requirement for a home deposit is 20% of the property's purchase price. However, homeownership schemes, certain lenders, and first-time buyer incentives might allow lower deposits, sometimes as low as 10% and very occasionally as low as 5%. It's imperative to understand that a larger deposit can lead to better mortgage terms, lower interest rates, and reduced monthly repayments.



Careful planning and disciplined savings strategies can help accumulate this essential deposit. Start by examining your current financial situation and setting a savings goal. Automated savings plans, cutting unnecessary expenses, and utilising high-interest savings accounts can accelerate your progress. Additionally, utilising KiwiSaver can be a significant boost to your deposit.

Always research available financial assistance programmes, such as KiwiSaver, to maximise your deposit potential. Consulting with a mortgage advisor can provide clarity and help tailor a savings plan to meet your home-buying goals. Planning ahead and staying committed to your savings plan will pave the way to securing your first home.

## WHERE TO FIND YOUR MORTGAGE DEPOSIT

Gaining a mortgage deposit can seem daunting, but knowing where to look can ease the process. Savings are the most straightforward source, emphasising the need to start early and save consistently. Setting up a dedicated savings account specifically for your home deposit can help keep you focused and motivated.

KiwiSaver is another significant resource; eligible buyers can withdraw most of their KiwiSaver funds for a first home purchase. Additionally, gifts from family can supplement your deposit, provided they meet lender requirements. Ensure that any gift is documented correctly to meet the lender's guidelines, often requiring a deed of gift or similar legal documentation.

Occasionally, selling an asset or receiving an inheritance can also contribute. Each option has its own set of considerations, so it's crucial to analyse your circumstances carefully and seek professional advice to ensure the most effective strategy. Diversifying your deposit sources can provide a solid and reliable financial foundation for your home purchase.



## BUYING A HOME WITH FRIENDS: PROS AND CONS

Purchasing a property with friends can make homeownership more accessible and potentially allow you to buy a better property than you could afford individually. Shared costs mean lower individual financial burdens, and having multiple incomes can strengthen your mortgage application. This arrangement can accelerate your entry into the property market.

However, this arrangement comes with its own set of challenges. Disagreements over finances, lifestyle choices, or future plans can create tension. It's essential to have clear, legally binding agreements outlining each party's responsibilities, contributions, and contingency plans for situations such as one party wanting to sell their share. Legal advice is crucial to safeguard everyone's interests.

The financial implications extend beyond monthly payments. Consider how ongoing costs such as maintenance, repairs, and upgrades will be managed. Establishing a joint fund for these expenses can prevent conflicts. While buying with friends can be a rewarding and practical solution, thorough planning and transparent communication are vital to its success.



# THE IMPORTANCE OF MORTGAGE **PRE-** **APPROVAL**

Obtaining a mortgage pre-approval is a pivotal step in the home-buying process. It provides a clear picture of how much you can borrow, allowing you to narrow down your property search within a realistic budget. Pre-approval also demonstrates to sellers that you are a serious and financially capable buyer, which can strengthen your bargaining position. This step adds credibility to your offers and can expedite the buying process.



The pre-approval process involves a thorough assessment of your financial situation by the lender, including income verification, credit checks, and evaluation of your deposit. Having pre-approval in hand can expedite the purchasing process and give you peace of mind as you navigate potential offers and negotiations. It also helps identify any financial weaknesses early, giving you time to address them before final mortgage approval.

Remember, pre-approval is not a guarantee but a strong indication of your lending capacity. It's essential to keep your financial situation stable; avoid taking on new debts or making large purchases until your mortgage is finalised. Pre-approval typically lasts for up to 90 days, so keep this timeframe in mind as you search for your new home.



# NEW BUILD VS. EXISTING HOUSE: WHICH IS RIGHT FOR YOU?



Choosing between a new build and an existing house is a decision that hinges on your priorities and lifestyle preferences. New builds offer modern designs, better energy efficiency, and lower initial maintenance costs. Typically, they come with warranties on construction, providing an added layer of security. Another advantage is the ability to customize features to suit your taste and needs.

However, new builds can be more expensive and often require waiting for construction completion, which can also introduce unforeseen delays. On the other hand, existing houses provide the charm of established neighbourhoods and potentially larger land sections. They may be situated in more desirable locations with developed infrastructure and community amenities.

Existing homes might require renovations and ongoing maintenance, which can be costly and disruptive. It's essential to consider factors such as location, community amenities, future growth prospects, and your willingness to handle repairs or renovations. A thorough comparison will guide you to the choice that best suits your needs and financial situation. Consulting with a real estate agent can provide additional insights tailored to your specific circumstances.





# APARTMENTS THE LOW-DOWN ON HIGH- RISES

Apartments can be an excellent choice for first home buyers, particularly in urban areas where standalone houses are cost-prohibitive. They often come with lower purchase prices and maintenance responsibilities compared to houses. Additionally, apartments usually provide desirable amenities like gyms, pools, and security features, which can add convenience and value to your living experience.



However, you must consider body corporate fees, which cover shared facilities and maintenance but add to your monthly expenses. It's also important to understand any restrictions enforced by the body corporate, which may include limitations on renovations or owning pets. Make sure to review the body corporate's rules and financial health to avoid any unforeseen surprises.

Apartments may also come with restrictions regarding modifications. Ensure the apartment aligns with your lifestyle and long-term plans. Apartments can be ideal for those seeking a low-maintenance lifestyle, but it's essential to weigh these factors carefully to ensure it's the right fit for you. Research thoroughly and consider all angles before making your decision.



# THE ROLE OF FLATMATES IN YOUR MORTGAGE JOURNEY



Having flatmates can significantly ease the financial burden of mortgage repayments. The additional income can make homeownership more affordable, allowing you to manage your budget effectively and even accelerate your mortgage payoff. Flatmates can contribute to utilities and other shared costs, making overall expenses more manageable.

However, this decision carries responsibilities and potential risks. It's essential to ensure that you have a clear and legally binding tenancy agreement, outlining all terms and conditions. This agreement should cover aspects such as rent amount, payment schedule, responsibilities, and the duration of tenancy to avoid misunderstandings.

Consider the dynamics of living with others and choose flatmates wisely to avoid conflicts. Proper vetting and clear ground rules can help maintain a harmonious

living environment. Moreover, transparent communication and mutual respect are key to maintaining a harmonious living environment. While financially beneficial, the personal and legal aspects must also be carefully managed.

Finally, while additional income from flatmates is good to pay down your mortgage, not all banks will account for this income when assessing your mortgage affordability. This is primarily because a mortgage is for 30 years and banks don't often want to assume you'll have a flatmate for that whole time. The general rule is that if you have more than 20% deposit, the banks will allow a small amount of income to be added to your application (typically ~\$150 per week).



# WHAT YOU NEED TO KNOW ABOUT CONVEYANCING

Conveyancing is the legal process of transferring property ownership and is an integral part of buying a home. It involves several steps, including contract reviews, title searches, and ensuring all legal documents are in order. A conveyancer or solicitor specialises in this process, ensuring that the transaction is legally sound and protecting your interests.

Their role includes checking for any potential issues with the property, such as unpaid rates or undisclosed problems, and facilitating the transfer of funds. They ensure that all terms of the sale are met and that the transaction complies with local property laws. The conveyancer will liaise with the seller's representatives and other parties to ensure smooth completion.



Engaging an experienced conveyancer or solicitor is vital, as their expertise can prevent costly mistakes and ensure a smooth, legally compliant transaction. They can also provide valuable advice on any legal implications or obligations that arise during the purchase. Investing in a knowledgeable conveyancer can save you time, stress, and potential legal problems, making it a crucial step in your home-buying journey.



# 3 STEPS TO GET READY FOR YOUR MORTGAGE

Preparing for your mortgage involves three critical steps: reviewing your finances, improving your credit score, and saving for a deposit. Each of these steps is essential to enhancing your readiness for homeownership and increasing your chances of securing a mortgage.

## 1 REVIEW YOUR FINANCES:

Assess your financial situation to ensure you have a stable income, manageable debt levels, and a budget that accommodates future mortgage repayments. Understanding your finances strengthens your mortgage application. It's also important to account for additional costs such as insurance, rates, and maintenance.



## 2 IMPROVE YOUR CREDIT SCORE:

A good credit score is crucial for mortgage approval and securing favourable interest rates. Pay off outstanding debts, avoid new credit inquiries, and ensure timely bill payments to boost your credit rating. Regularly check your credit report for accuracy and dispute any errors promptly.

## 3 SAVE FOR A DEPOSIT:

Consistent saving is key. Explore all avenues, from setting up a dedicated savings account to utilising KiwiSaver for your deposit. Start early and maintain discipline to meet your financial goals. Establish a realistic savings plan and monitor your progress regularly to stay on track.

Following these steps diligently will enhance your readiness for homeownership and improve your chances of securing a mortgage. Consulting with a mortgage advisor can provide additional tailored advice based on your financial situation.

