



First Home Buyers **GUIDE**

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MORTGAGES



INTRODUCTION

So you have decided to buy your first home.

How exciting it is looking for and buying that first home. Apart from putting a roof over your head property has historically proved to be a very good wealth creation asset for many New Zealanders.

It is a process that is full of twists and turns.

There's the researching, looking at houses, negotiating the purchase, missing out, finding and dealing with lawyers, building inspections, insurance and some would say most importantly having the cash to purchase. Be prepared to have to compromise on the features that you want in your first home.

For many a housing loan, often referred to as a mortgage, is required along with a deposit to complete a purchase. This is a significant financial commitment to enter into and should not be taken lightly. There is a lot to consider; term, interest rate, fees, legal costs, and structure amongst other things.

Getting on the real estate roundabout is a challenge - it always has been. Nothing comes easy in this life!

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MORTGAGE
BROKER

WHY USE A BROKER?

We do the leg work for you to obtain finance.

You have enough to do on the time consuming process of finding a house to buy. We cannot help you with that apart from advising on what property types to avoid.

There's that old saying it's not what you know it's who you know! At Kris Pedersen Mortgages we can source finance from a wide range of lenders. We can also assist with insurances so we make the process easy with a 'one stop shop' service .

We offer unbiased advice. We meet with clients and discuss the appetite of lenders at any one point, interest rate environment and talk through structure options. We are able to negotiate the terms and conditions of the loan including of course pricing. That extra % off may not seem a lot but over the life of a loan can mean thousands saved.



WHAT DO BANKS LOOK AT.. *The 5 Cs*

Often referred to as the cannons of lending:
character, capacity (to repay), collateral (security), conditions and capital.



Banks will only lend to people that they consider will repay the debt. They have to make an assessment of character; in other words integrity.

Some of the things which will influence the character assessment are:

- Credit checks (whether clean)
- Assets/savings relative to age
- Occupation and stability
- Residency status and stability
- Debt levels and repayment history
- Check of Bank statements-spending patterns



This is a test that the lenders apply to satisfy themselves that the borrower can repay the loan that is being applied for.

In simple terms they take total monthly NET income and deduct living expenses along with credit commitments. Provided there is a reasonable surplus then they may be happy to approve a loan.

Whilst finance might be approved the borrower needs to be fully aware of the commitment that they are entering into. It would not be unusual for loan repayments to exceed rent that a party might be paying. Of course there is also rates, insurance and maintenance costs to factor in once you own a house



This refers to the mortgage (security over property) that the Bank will hold to secure the loan(s). Ultimately the Bank can sell the property to repay the loan(s) in the event that repayment of the loans have not been made for some time.



This refers to economic conditions. A good recent example of how this can impact is the global financial crisis. Early in that crisis Banks tightened up on credit due to market uncertainty. In other words finance was harder to obtain in some cases.



The amount of deposit or equity of the applicant/borrower. The more a borrower has of their own money in a property the less likely they are to walk away from the obligations.

PROPERTY TYPES DO MATTER.

Generally with standard residential property Banks will lend to 80% comfortably. For non-standard they will lend to lower levels; as low as 50%. Examples of non-standard property:

- Apartments under 40m²
- Serviced apartments
- Leasehold property
- Bare land without services to the kerb
- Boarding houses
- Multiple units on one title
- Leaky home

HOW MUCH DEPOSIT DO I NEED?

Banks generally are comfortable to lend to 80% of a standard residential property's value. Banks will look at loans up to 95% however at the time of writing this they can only lend 1 loan above 80% LVR to every 10 under 80% LVR due to current Reserve Bank regulation. So essentially loans over 80% are rationed.

Banks normally like to see genuine savings as the deposit. But it is of course possible to get assistance from family or friends. This may be by gifting or the other party being a guarantor or by a family loan. Kiwisaver is also a vehicle used towards deposit.

GIFTING/FAMILY HELP

This is becoming more common as property values have risen which in turn means that a 20% deposit is a significant sum to save. There are various ways that a family member can assist: gifting money, guaranteeing the loan or by way of a formal loan. There are pros and cons to each approach which your broker or your lawyer can explain.

KIWISAVER

Once you have been contributing to Kiwisaver for at least three years you become eligible to withdraw funds from your Kiwisaver balance towards your first home. You may also be eligible for a subsidy from the government (via Housing New Zealand).



BUILD LOANS

Along with above criteria Banks will look at construction loans. There are three main types. These can be turnkey, fixed price contract or material and labour basis. We can discuss the differences with you. Banks have relatively strict criteria on these loans.

STRUCTURE

In New Zealand there are three main facilities available from lenders:

- **Interest only loans** are available for up to 10 years with interest generally payable on a monthly basis. This type of loan is favoured by many property investors who want to defer paying down principle. This interest only option may not be available to above 80% LVR borrowers. You are not paying principal back so lowers outgoings. You will need to repay principal after the interest only period expires.
- **Table loans** with terms up to 30 years (usually limited to 25 years for loans above 80% LVR). The repayments are set to repay interest and principal over the term of the loan which can be good for budgeting. Repayments are typically fortnightly and monthly. Can be fixed and/or floating.
- **Principal reducing loan.** Also called straight line. Repayments are higher compared to table loan but reduce overtime as the interest cost diminishes with principal reduction.
- **Revolving credit.** This is like a big overdraft limit. Offers flexibility but does require a disciplined borrower to reduce the amount owing.



WHAT DO BANKS REQUIRE?

Banks require certain information in order to assess a loan applications.
Core information is:

- Signed loan application which will contain name , address, contact detail, occupation detail, marital status and nationality/residency status
- Statement of financial position/income and expenditure declarations
- Evidence of incomes
- Copies of main transactional statements
- Proof of deposit/savings history
- Copy of signed sale and purchase agreement
- Copy of trust deed if trust to be borrower and/or mortgagor
- Copy of gift certificate if applicable



ABOUT THE COMPANY

KRIS PEDERSEN - DIRECTOR & ADVISOR

Kris Pedersen founded [Kris Pedersen Mortgages](#) in 2007 after realising that the market was lacking quality financial advice for property investors.

After witnessing many new clients being set up in ways that were more beneficial for the bank than the actual clients, Kris set out to change this and quickly gained a reputation for finding property funding solutions where others couldn't.

By drawing on his personal property investment knowledge and armed with experience working at a market leading non-bank lender, Kris developed outside the box lending structures that allowed more applicants to get deals across the line.

In 2009 Kris and his wife Tennille made the decision to establish [Pedersens Property Management](#) company to best service his clients property management needs after purchase.

Kris maintains an active role in the New Zealand property market and frequently speaks at property events around country while regularly being asked to contribute to the NZ Property Investor Magazine and other publications each month.

Kris strongly believes his clients need to be dealing with specialists, that's why Kris Pedersen Mortgages offer specialist brokers for First Home Buyers, Commercial Property & Business Finance and Risk Insurance Cover.

Kris' specialist property team are available to help you whether you're just starting on the property ladder, are a sophisticated investor, or a large scale property developer.

[Click here](#) to hear from just a few of the happy customers we've been able to help along the way.



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