

Don't abandon your dreams of buying a home

Many South Africans have seen their dreams of owning their own home dashed over the last few years due to the difficulty in obtaining a home loan and the cost thereof. But, says Meyer de Waal of Oosthuizen & Co Meyer de Waal Attorneys, South Africans should not abandon their dreams of owning a home, but should rather look for solutions to the challenges they are facing.

A major challenge is that banks are declining almost half of all home loan applications, and those who are self-employed have very little chance of obtaining finance. The availability of finance for buying a home is likely to become even more constrained if the government's proposed credit amnesty comes into effect, which will make the banks even more stringent in their credit criteria as they will be unable to assess consumers' full credit histories.

It is also expensive to get a home loan, because the banks are no longer lending at the prime rate, which now stands at 9%, but apply prime plus rates, which impact the monthly repayments significantly. This often makes the repayments unaffordable in light of consumers' already tight budgets, given the skyrocketing costs of living, as well as the high level of South Africans' debt-to-income ratio. The recent surprise interest rate hike may well signal the upturn in the interest rate cycle, with higher interest rates coming sooner than expected, and this will further increase monthly home loan repayments.

In addition, prospective buyers must have substantial savings, because the banks are demanding deposits as high as 15%, and buyers must also cover the significant costs involved in buying a property, such as transfer duty and bond costs.

However, says de Waal, there are a number of ways in which South Africans can overcome these challenges. "The first is to manage your money prudently, ensuring that you can save a little every month after paying all your expenses and build a solid credit track record. This will significantly improve your chances of getting a home loan approved. The second is to look for alternatives, such as the Rent-to-Buy approach and instalment sales."

The Rent-to-Buy (R2B) concept allows home buyers to secure and occupy the home they want now, even though they cannot obtain a home loan. Essentially, the home buyer rents the property at a higher than average rental for a year or two, with the option to buy the property at the end of the rental period, but at a purchase price fixed at the beginning of the rental period. Over the rental period, the potential homeowner builds up a solid track record of paying a monthly rental amount equivalent to monthly bond instalments, which will provide the banks proof that the buyer can afford the bond repayments. In addition, the monthly amount paid above the market-related rental can be used to build up a deposit. In this way, buyers can secure and occupy their dream home now, while building up a payment track record and saving up a deposit which will greatly improve their chances of obtaining a home loan at the end of the rental contract.

Another option is an instalment sale, in which the buyer offers to pay the seller monthly instalments over five years to settle the purchase price. Often, the buyer will simply take over the seller's current bond repayments, with a commitment to settle the full outstanding bond amount within five years, either by paying additional amounts into the bond over the five-year period, or by obtaining a loan to settle the much-reduced balance before the end of the five-year period.

This approach is made possible through the Alienation of Land Act, which provides solid protection for both the seller and the buyer through a specialised contract between the parties. The benefit to the buyer is that he/she does not have to obtain a home loan, while the benefit for the seller is that

the property can be sold immediately, which is often the most important consideration for many distressed sellers who can simply no longer afford the property, need to relocate urgently for work purposes or want to vacate the premises as soon as possible following a death or divorce.

De Waal suggests that South Africans who are serious about owning a home and cannot obtain home loan finance should seek expert help to make their homeownership dreams come true. "Don't simply abandon your dreams of owning a home. There are alternative approaches beyond getting a bond application approved, and with the right expertise and assistance, you can make your dream a reality."

Prospective homeowners who want to improve their chances of obtaining a home loan can join the MyBudgetFitness (MBF) Club at www.budgetfitness.co.za, which includes rehabilitating credit records, setting up and maintaining a monthly budget through a mobile app (Mobile2Budget.co.za) and online resources, as well as benefiting from the guidance and assistance of a personal MBF trainer.

If you are interested in the Rent-to-Buy concept, visit www.irent2buy.co.za, where you can download a brochure on how to get started and view properties already available on this basis. For more information about instalment sales contracts, please visit www.oostco.co.za.

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Note to the editor

Meyer de Waal, a practising attorney and director of Oosthuizen and Co Meyer de Waal Inc (1998/23947/21), was admitted in 1988 as an attorney, conveyancer and notary in Cape Town.

The company's participation in raising funds and subsequently constructing houses in the Mfuleni township project, where de Waal gained first-hand experience of the challenges that potential homeowners had to overcome, was the inspiration to find a creative solution, which became the foundation of MyBudgetFitness (MBF) and Rent2Buy (R2B).

For more information please visit

www.oostco.co.za

www.budgetfitness.co.za

www.irent2buy.co.za

www.mobile2budget.com

www.consumerhousingeducation.co.za

www.oostcomeyerdewaal.wordpress.com

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