



Finance solutions for property buyers

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Over the last few years, many [South Africans](#) have seen their dreams of owning their own home dashed due to the difficulty in obtaining a home loan and the cost thereof.



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.

This is according to Meyer de Waal from Oosthuizen & Co Meyer de Waal Attorneys, who says however, 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 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 nine percent, 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 percent, and buyers must also cover the significant costs involved in buying a property such as transfer duty and bond costs.





However, De Waal says 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 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 simply can 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. He says 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, he says.

For more information, visit www.irent2buy.co.za.

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