Thinking of getting a mortgage?

Important points to consider for first-timers, with Michael Mbetse

Recent changes in economies across various jurisdictions owing to the containment of COVID-19 and the rebounding of employment have created perfect opportunities for people to reconsider taking up mortgage loans and buying homes. Interestingly amongst the segments of people who are becoming more interested in taking up mortgage loans are millennials in scenarios that go against the usual perception they are "renter generations" with a fixation for urban apartments only. This article thereby outlines important points to consider before taking a mortgage in a quick run-down with Status Capital's Managing Director, Michael Mbetse.

About mortgage loans

A mortgage also referred to as a mortgage loan is an agreement between you (the borrower) and a mortgage lender to buy or refinance a home in the event that you do not want to or cannot pay the full cost out of pocket. Mortgage loans often come with flexible repayment terms and often have lower interest than personal loans. In addition, they often come with reasonable interest rates, though this is dependent on the prevailing market conditions at the time that you acquire the loan. However, taking a mortgage loan is a major life decision that commits one to debt often over an extended period which should be taken as a very well thought out and plausible decision.

This is because a mortgage loan agreement also gives lenders the legal rights to repossess your property if you fail to meet the terms of the mortgage most commonly by not repaying the money you have borrowed together with interest. However, getting a mortgage can be a very enterprising and beneficial decision to take when you have a good mortgage plan set up which will help you to own your dream property on very flexible terms.

If you are a first-timer setting out to get a mortgage, consider the following rules very carefully.

Rules of thumb

Before the application

- **Conduct careful research** and know what you realistically can afford. In fact, as a general rule, try not to bind yourself to debt that takes up more than 43% of your income monthly.
- **Get your credit report** and check your credit score this is because your credit status will play a big part in determining the approval of your mortgage and getting a good deal on it. If your credit report is not in perfect condition clean it up

and boost it by paying the outstanding debt. You can also contact credit bureaus to get it updated.

- Don't apply for credit just before you apply for a mortgage as this will show up on your credit file and give the impression that you are struggling financially.

- Maintain a stable job and try and keep on your current job as lenders value job stability. Switching jobs around just before your mortgage application might also give lenders mixed impressions of your income circumstances in the long run. In addition, avoid making significant financial changes such as buying furniture on hire purchase, depositing or withdrawing lump-sum amounts in your bank account until your application is accepted and your mortgage is finalised.

- Get a mortgage prequalification which can give you an estimate of how much you can borrow based on your income, credit as well as bank account information or get a financial advisor who can guide you through the process and explain the different types of mortgages available in the market.

- Deeply consider your down payment amount and how many years you want to pay for as a smaller down payment might cost you in the long run. Therefore, consider how the length of your loan will impact the cost of the loan, for instance, a shorter loan of fifteen or twenty years will allow you to pay off your loan faster and save your money on interest charges. However, that would also translate to higher monthly instalments which might constrain your cash flow. On the other hand, you could extend the loan term out to thirty years or longer, which would help make monthly payments more affordable and even

allow you to borrow more. However, it is important to note that by increasing the number of years you spend paying back the loan you also increase the amount of interest paid over time.

- Budget and estimate the mortgage fees and also consider other costs that come with a mortgage such as interest, homeowners' insurance and property taxes amongst other costs.

- Know the expenses of your homeownership in order to plan and budget accordingly.

- Use a mortgage calculator to get a sense of what your monthly payment could end up being.

- Use an institution with flexible terms and read your mortgage contract thoroughly. Be sure to ask for clarity where you might need it as a mortgage contract is a binding contract that you should clearly understand. Lastly after you take up your mortgage, exercise financial discipline during the entire tenure of your mortgage as you take gentle steps to become a proud property owner.

About Michael Mbetse

Michael Mbetse is an experienced MBA graduate and veteran banker who worked for Meridian Bank, FNB, Standard Bank, Swaziland Building Society and currently Status Capital Building Society. He has 28 years of experience in financial services.