DOLLAR$ & SENSE

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MORTGAGES *PT1*

Owning a home features highly among many people's life goals. The path most taken to achieve this goal usually comes in the form of a mortgage.

A mortgage is a major loan provided by your bank specifically for the construction or purchase of property. This may be a newly constructed property, an already completed property, land, or a combination of house and land. If it is a new construction project, the bank will lend you a percentage of the value of the completed property. If it's an existing property, you will be able to access the current value of that property. Buying or building a house is not a quick in and out process. It is a major investment journey that requires reflection and significant planning. If you are new to this journey, you should know what to expect throughout various stages of the process. This is where your research and planning begin.

Understanding all the elements involved in undertaking this major commitment goes a long way towards planning for the property you will one day own love and call home. In part one of this two-part financial literacy installment on mortgages, we suggest preliminary planning steps, and also provide context for the burning question of whether to build or buy.

Here are early considerations:

Your Budget Threshold: Its never too early to speak to the loan representative at your bank. As a matter of fact, you should do this before seeking a plan from an architect. Too often people approach the bank with a competed plan, only to discover they do not qualify for the sum required to execute the plan. An initial discussion with your bank will include a review of your income, your current debt load and other financial obligations. Based on the information you provide; they will determine the amount for which you qualify. With this added insight, you will then be able to set guidelines with your architect and look into potential contractors. If saving has not been a habit, you will be empowered to begin this practice with help from your bank.

Professional Services:

Apart from the service provided by your bank, several other professional service providers must be consulted and included in the process. Your contractor will be your main service provider for the duration of your project. You want someone who understands your vision, fits within your budgetary considerations, and with whom you feel comfortable. The final choice of contractor rests with you.

When applying for the loan, however, the bank will request a minimum of three references from your selected contractor to ensure that the project is in competent and experienced hands. Start researching, reviewing and seeking testimonials from individuals who have used the professional services of architects, contractors and project managers. Pay particular attention to whether the individual or company you are considering has built a reputation for quality work, efficiency, honesty, and timely provision of services. If possible, get more than one opinion.

Associated Costs:

When seeking mortgage financing, it is important to note that preliminary costs all add up. Let's look at some of these costs. The application fee is usually 1% of the total completed value of the property you wish to own. (From now until September ECAB's application fee is only 0.5%) Your annual property tax could be up to 2.5%. Additional costs will include appraisal, legal and homeowners 'insurance costs which vary depending on the provider. With insurance fees in particular, the upfront cost for the first year is the main consideration. Your premium will depend on the amount you are borrowing.

With the costs mentioned, and with the bank not providing 100% financing, saving must be a major part of your planning. If you do not already have a saving practice, the benefits of starting now are twofold. Firstly, you are creating a habit of saving a set amount of money each month for eventual use as your mortgage payment. Secondly, you will become used to those funds not being easily accessible for other purposes. The most efficient saving strategy is creating a standing order that allows the bank to automatically debit your salary and place the funds into a savings account for which you do not have ATM access.

Once you have adhered to the preliminary steps suggested, you are ready to approach your bank with confidence.

Should you build or buy?

Social media construction hacks", DIYs and unlimited access to diverse property images have caused imaginations to soar. As a first-time mortgage borrower, the "build" option may be most desired. This would allow you to design your "dream home" filled with your unique essence and design qualities. You will have the benefit of selecting a contractor that aligns with your vision, and if you already own the land on which you intend to build, the upfront cost will be less.

For others, the "buy" option may provide less stress , more ease, and more peace of mind. You would be investing in an already completed structure possibly requiring only upgrades and personal design touches. In the current economy, the material and labour costs of building may seem daunting. The horror stories of construction going wrong and way over budget are not encouraging either. If buying an already completed structure, your costs will increase with transfer fees and legal costs. In addition to those fees, Inland Revenue also charges a percentage of the value of the property.

In part two of our financial literacy discussion on mortgages , we'll discuss the best time to get a mortgage, what your bank needs to begin the process, disbursement options, repayment terms and considerations if you plan on securing a loan with someone else.

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MORTGAGES *PT2*

In part one of our financial literacy piece on mortgages, we looked at preliminary steps, associated costs, and whether you should build or buy. In this second and final installment on the topic, you will learn why the timing of your loan is important, what constitutes collateral, disbursement options, repayment terms, and what you should consider when applying with another party.

Retirement may be the last thing on your mind right now. If home ownership is a goal however, the retirement age provides some insight into the duration of your repayment. In Antigua and Barbuda, the retirement age is sixty-five (65). Banks give a maximum repayment frame of thirty (30) years. This does not mean your loan must be thirty years. An early start means lower monthly payments, access to a larger loan amount and a longer repayment window. Starting later does not mean home ownership is impossible. It simply means your repayment time is significantly decreased causing payments to feel more burdensome.

To begin the process, the bank will need evidence of 2-3 years of continuous employment, a form of identification, a declaration of current loans at other financial institutions, your approved DCA plan if embarking on a new construction, an estimate from your contractor, and a form of collateral Collateral is what the bank holds in exchange for providing the loan. It can be either money or property. If cash is your collateral, the bank will require a minimum of 10% of the total value of the completed property. If property is being used as collateral, house and land stand on its own as collateral. If you are buying, it is determined by the value of the existing property.

Once you've met the requirements for securing your mortgage and received an approval, you will need to consider how you want the funds to be disbursed through the bank's stage by stage financing. There are two possibilities for how this can work. The sum required for each stage can be paid to your contractor who is entrusted to use this money to fulfil the requirements of each stage including labour and material costs. The other option is to pay your contractor for labour only while you maintain responsibility for purchasing the material. One option provides complete control of the funds and their use. The other is labour and time intensive. With support from your loans officer, you can establish realistically what works best so that you get the value you require from the process.

Repayment terms are the final consideration when securing your loan. Your financial capabilities will determine what those terms look like. If it is within your means to contribute a large deposit, this is a bonus as you are charged a reducing balance. Making extra payments to your agreed monthly payment is also beneficial. The less you owe, the less you pay.

Owning a home is not always a solo journey. Applying for a mortgage with a partner is a normal and frequent occurrence. The main benefit is that the combination of financial resources means you can qualify for a larger loan than if you are applying solo. On the other hand, the other aspects of joint ownership require independent legal advice to ensure things like ownership of the assets, land etc are clear.

In this two-part financial literacy installment on mortgages, we have armed you with knowledge that should get you well on your way to securing a mortgage. Your bank's loan officer is there to help you achieve your dreams. That person is your reality check and your support on the journey to your home ownership dream. Learn more about available plans and the best ways to save for this commitment of a lifetime by calling or visiting your bank. Whether you choose to build or buy, getting a mortgage is the best option for bringing your home ownership dream to fruition.