

# 6 reasons why you should pay a deposit when buying property

Mfundo Mabaso, head of growth at FNB Home Finance, shares six reasons why paying a deposit is important when buying property.



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“As a first-time home buyer, the most important thing to consider is whether or not clients can afford to take this big step. While it is still possible for a bank to grant clients a 100% home loan which does not require a deposit, we strongly encourage our first-time home buyers to consider putting down a minimum deposit of at least 10% of the value of the property to ensure that their home loan repayments are reduced and more manageable,” he says.

## Why paying a deposit is important

### 1. It demonstrates commitment towards buying the property.

A deposit demonstrates that clients have the financial means to make the purchase and are comfortable to take on some level of risk until the deal closes. It's also an excellent way to further prove that you are ready to take on the costs that come with home ownership.

### 2. It increases the strength of an offer/ or the chances of having the offer accepted.

Paying a deposit will also improve a client's chances of having your home loan application approved by the bank and will place them in a better position to negotiate for more favourable terms.

### 3. It reduces the risk of lending

The benefit of paying a deposit when applying for home finance is that clients are seen as providing equity into the deal, thus reducing the bond amount required. The bank thus views the deal more positively and it also reduces the client's instalment as they are borrowing a lower amount. By reducing the amount you need in a loan, you are also reducing the amount of home loan interest you pay over time.

### 4. It increases the customers' ability to negotiate a better rate.

Putting down a deposit will not only improve the chances of having a home loan application approved, but will also place the client in a better position to negotiate for a more favourable interest rate. This further reduces the amount of interest a client will pay over the term of the loan.

## **5. It allows saving on interest over the term of the loan and lowers monthly repayments**

The interest rates are currently at all-time record lows. Putting down a deposit for a home loan will further reduce the interest rate and monthly instalments, allowing clients to repay faster before the term completes. When paying a deposit, the overall value of your loan will be smaller, meaning that you will be able to pay it back sooner.

## **6. Saving for a deposit mentally prepares clients for a home loan repayment.**

Saving for a deposit sets the tone of what's to come. It is a great practise run for the commitment that will be required to ensure that clients have the required funds and mindset to fulfil the obligations of monthly repayments in the long term.

“Now is the right time to get into the property market. We encourage first-time home buyers to look carefully to assess their circumstances and work out how much they can afford to pay back each month. The earlier announcement by National Treasury to waive transfer duties for properties priced at R1m or less is further affirmation that now is the time to take advantage and invest in property,” concludes Mabaso.

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