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Title: Lower rates cut mortgage payments by thousands -here's how SA home-owners can save even more

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Lower rates cut mortgage payments by thousands - here's how SA home-owners can save even more

After another interest rate cut this week, the prime rate is now at 7.25% - from 10% at the start of the year. On a new car loan of R200,000 (for a loan over five years, two percentage points above the prime rate), this means you are now paying R300 less a month than at the start of the year. On a R20,000 personal loan (now at 18% over 24 months) you will save only around R30 since the start of 2020; the new instalment will be around R1,120.

But on a home loan, the cuts make a massive difference. If you took out a new R2 million home loan at the start of the year (at the prime rate, over 20 years), your monthly instalment has fallen from R19,300 to around R15,800 – a saving of R3,500.

For many people who have lost their income during lockdown, the monthly saving will bring huge relief. But if you don't urgently require the cash to stay afloat, there are two other ways you can make the rate cut work harder:

KEEP YOUR HOME-LOAN REPAYMENTS UNCHANGED

If you kept your bond payment unchanged and don't pocket what you save on instalments due to the lower interest rate, you will pay off your home earlier and save a massive amount in interest. Take for example a R2 million home loan over twenty years. Instead of allowing your monthly instalment to go down with this week's cut by about R610, you can keep it unchanged and stick to the current payment.

If you do it near the start of your mortgage, it could cut your home loan repayment period by a year and a half. And you will save more than R167,000 in interest. (And if you keep your instalment unchanged after the three recent rate cuts, you will pay off your house almost 6 years early – and save R640,000 in interest.)

It is simple to arrange, just contact your bank to keep your payment at the current level. Ideally, you should at the same time adjust the term of your home loan to shorten it, otherwise you may have to pay fees and charges even after you have paid off your home loan. A home loan needs to go through a cancellation process with a conveyancer in order for the property to be transferred into your name.

USE YOUR HOME-LOAN SAVING TO REPAY HIGH-INTEREST DEBT

You could also choose to channel your home-loan rate-cut saving to debt with higher interest rates, particularly credit cards and personal loans. On a personal loan of R20,000 over three years, at an interest rate of around 19%, you will pay interest of around R10,500.

But say you were a year into the loan, and you now have an extra R610 from your home loan thanks to this week's rate cut. If you added the R610 to your loan repayments, you could end up paying it off 12 months early and save more than R1,500 in interest.

HERE'S HOW MUCH LESS YOUR HOUSE MAY BE WORTH BY THE END OF 2020

The previously lukewarm South African residential property market will be badly hit by the coronavirus crisis. Widespread job losses and income uncertainty do not bode well for demand, while the supply of properties for sale is expected to rocket as households can't afford their mortgage payments anymore. Not even steep interest rate cuts – the prime rate has now been lowered from 10% at the start of the year to – will save the property market.

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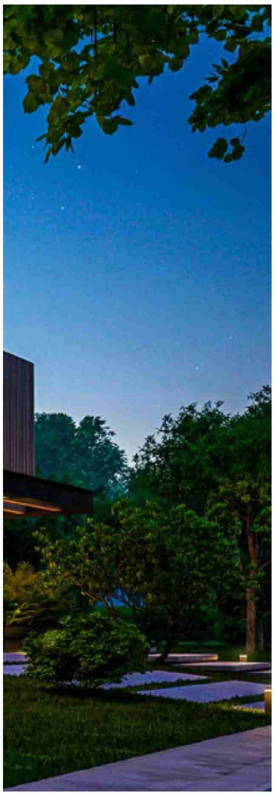

If the SA economy shrinks by 6% this year – the Reserve Bank is currently predicting a 7% contraction - the property research group Lightstone expects that average house prices will decline by 8.8%. In a worse-case scenario, where the economy contracts by 10% (as some economists think is more realistic) and the central bank starts to reverse its recent rate cuts as inflation heats up - house prices could lose 14.5% of their value. FNB expects a more moderate house price decline of around 5% - still a large decline compared to the last big slump of "only" 1.5% in 2009.

During South Africa's worst previous recessions after World War II, residential property prices fell by up to 10%. So it is quite possible that home owners who have recently bought houses with 100% mortgage bonds will by now experience negative equity (the market value of the house is lower than the outstanding mortgage bond), says Erwin Rode, MD of Rode & Associations, one of South Africa's largest property valuation firms.

"After the previous steep recessions, the market typically began to recover quite swiftly after reaching its nadir." But the current recession may be deeper and longer than any previously experienced in South Africa because the virus compounded the already existing problems in the local economy, plus the world economy is now in the doldrums and we have a very open economy, he adds.

An additional problem is that very few property transactions are taking place, and on top of that the deeds offices were closed for the larger part of lockdown. Estate agents will only be allowed to function fully under Level 2.

"So, we do not know what is happening price-wise, except that we know from anecdotal evidence that the number of transactions fell off a cliff," says Rode. There will be a big difference between how different kind of properties hold on to their value, experts say.

Higher-end and luxury properties will be worst affected, with Lightstone predicting a slump in luxury property prices of almost 20% under its worse-case scenario. "This is partly due to pre-existing supply-demand imbalances (excess supply) and depressed sentiment. In contrast, we expect a relative resilience in the affordable market, partly due to a structural supply deficit (i.e., demand is higher than the available stock)," says Lightstone's analytics director Paul-Roux de Kock.

Demand for cheaper properties will also be bolstered by the middle segments "buying down", which is common in such weak economic environments said FNB's Siphamandla Mkhwanazi, FNB Property Economist. He expects that house prices should rebound next year thanks to historically low interest rates, a decline in house prices and lower transfer duties (particularly in the middle-priced segment). Until then, prospective homesellers will have to be realistic about what their properties are worth.

"As the lockdown regulations are gradually lifted, we are already seeing an increase in requests for valuations from homeowners looking at selling for a variety of reasons. Being currently a buyers' market, correctly pricing a property for sale is key, especially as more stock becomes available to choose from," said chief executive of the Pam Golding Property group Dr Andrew Golding, warning that now is the time to ensure that homes are correctly priced.

Source: Phumi Ramalepe - Business Insider SA