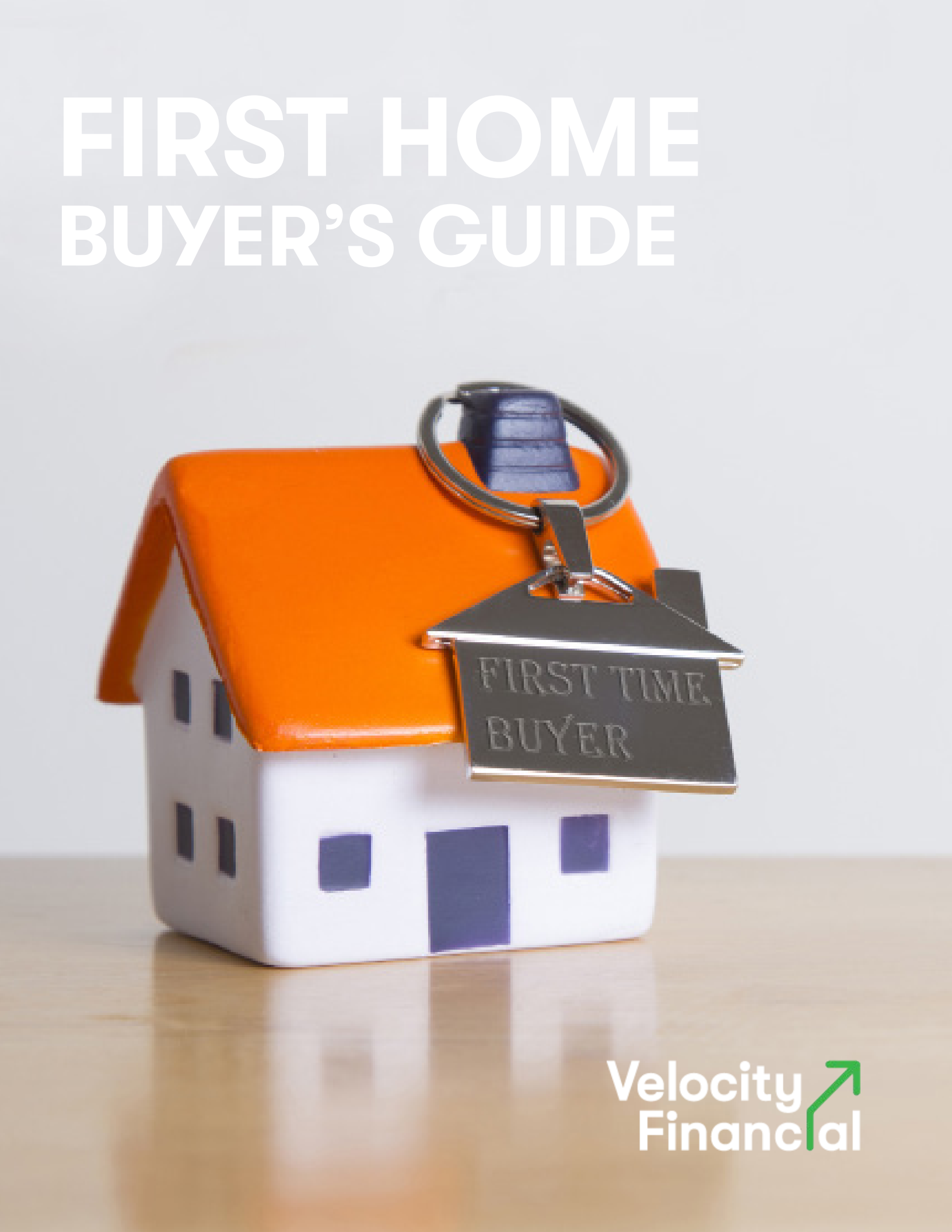
FIRST HOME BUYER'S GUIDE



Velocity Financial

TABLE OF CONTENTS

No investment decision should be taken based on the information in this guide alone. Talk through your options with a Velocity Financial (FSP95466) adviser. A disclosure statement is available at velocityfinancial.co.nz. Information in this guide was correct as at May 2021.

Velocity Financial

How a Mortgage Broker Can Help You

We are here for the long term

Many people think a mortgage broker is only here to secure their home loan. Au-contraire!

We can assist, give advice, and organise anything mortgage and insurance related - be it changing the structure, negotiating new fixed rates, mortgage top-ups or changing regular repayments, buying an investment property or setting you up for retirement.

We will ensure our clients and their families are financially protected for the future and provide an on-going service to them.

We know how the banks operate

We know how the banks operate and know how to find the right fit for you. Planning a baby? Travel? Renovations? We'll help you get the right loan and set the right structure in place to help see your plans realised. Let us guide you through everything from paper work to tender strategies.

No charge to you*

Best of all, our services are free* to you and often accompanied by a coffee, so it's a win-win!

*We are paid by the banks. However, if we are talking to a lender who does not cover our costs, you will be told before committing to anything.

"We think differently to create solutions tailored for you".

Velocity Financial

Our First Meeting

We will:

- Talk about your current situation and gather your financial information
- Complete a questionnaire and sign off our “authority” to work on your behalf
- Talk about the process from here
- Answer any questions you might have

What to Bring:

Before we meet, we will send you a link to our online application portall where we’ll ask for:

- The completed application form
- Proof of income (your 3 latest payslips, a letter from your employer or if you are self-employed, your Financial statements from the last two years)
- 3 months of bank statements for your savings account
- Confirmation of your deposit (such as a letter or email from your KiwiSaver provider confirming what can be withdrawn, **Kainga Ora** Home Start Grant Pre-approval letter, bank statements from the last 3 months showing your savings history)
- 3 months of Bank statements for all of your transactional accounts
- 6 months of statements for any secondary debt (i.e credit cards)
- *A copy of the Sale and Purchase agreement (if applicable)
- *Identification (such as a passport or Drivers Licence)
- *Proof of residency
- *Confirmation of any other income sources, like Working for Families/Accomodation Supplement

*If you have any trouble uploading these documents you can bring these to our first meeting

Do note, the bank will not accept CSV files or exported Excel bank statements

Options for First Home Finance

Save the Deposit

In some situations a 10% deposit is possible; however, a 20% deposit is going to be the cheapest option. Anything less than 20% will generally require a registered valuation and will incur extra costs - either a fee, or increased interest rates (or both).

The amount of loans with less than 20% deposit is currently 'rationed' at the major banks, we therefore have less certainty around this lending in the current environment.

The government backed 'First Home Loan' can be used with a 5% deposit, however income is means tested and houses need to be within a certain price range. KiwiSaver withdrawal and subsidies can be used as part of the 5% deposit.

Get Family Members to assist

- Gift the deposit (at most banks this needs to be 20%)
- Allow their house to be used as security (therefore no deposit needed)

  Under these options, purchases still need the provable income to service the debt, and a good credit history
- Purchase the property jointly with a family member

  This can assist with income and deposit - however all banks will treat this scenario differently
- Family member buys the house as an investment

  Children live in and pay costs, and agree to purchase when equity/income/credit allows

Use the Government Backed 'First Home Loan'

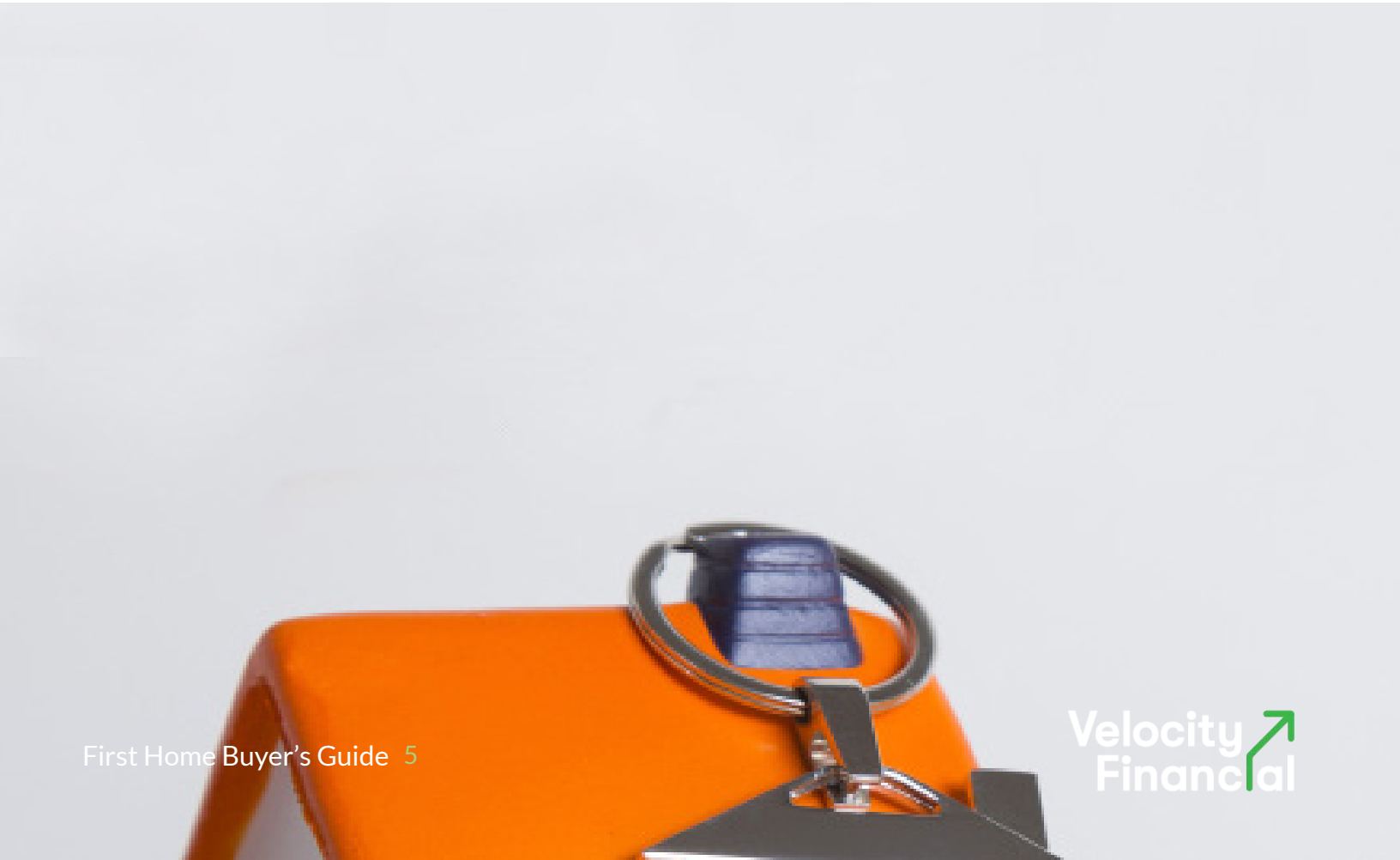
Underwritten by Kāinga Ora

A 5% deposit is required, income is means tested and houses need to be within a price range.

For more information visit https://kaingaora.govt.nz/home-ownership/first-home-loan/

Tips to help you get into your new home quicker

- Watch your "bank account conduct;" make sure you don't have unarranged overdraft fees on your bank statements
- Keep away from new debts and Hire Purchases
- Apply now for pre-approval for KiwiSaver withdrawal (through your KiwiSaver provider) and First Home Subsidy (**Kainga Ora**)
- Have a regular history of savings (even if it is a small amount)



Velocity Financial

Using KiwiSaver for your First Home Purchase

First Home Withdrawal

This can only be used for an Owner-Occupied First Home (not for an investment property).

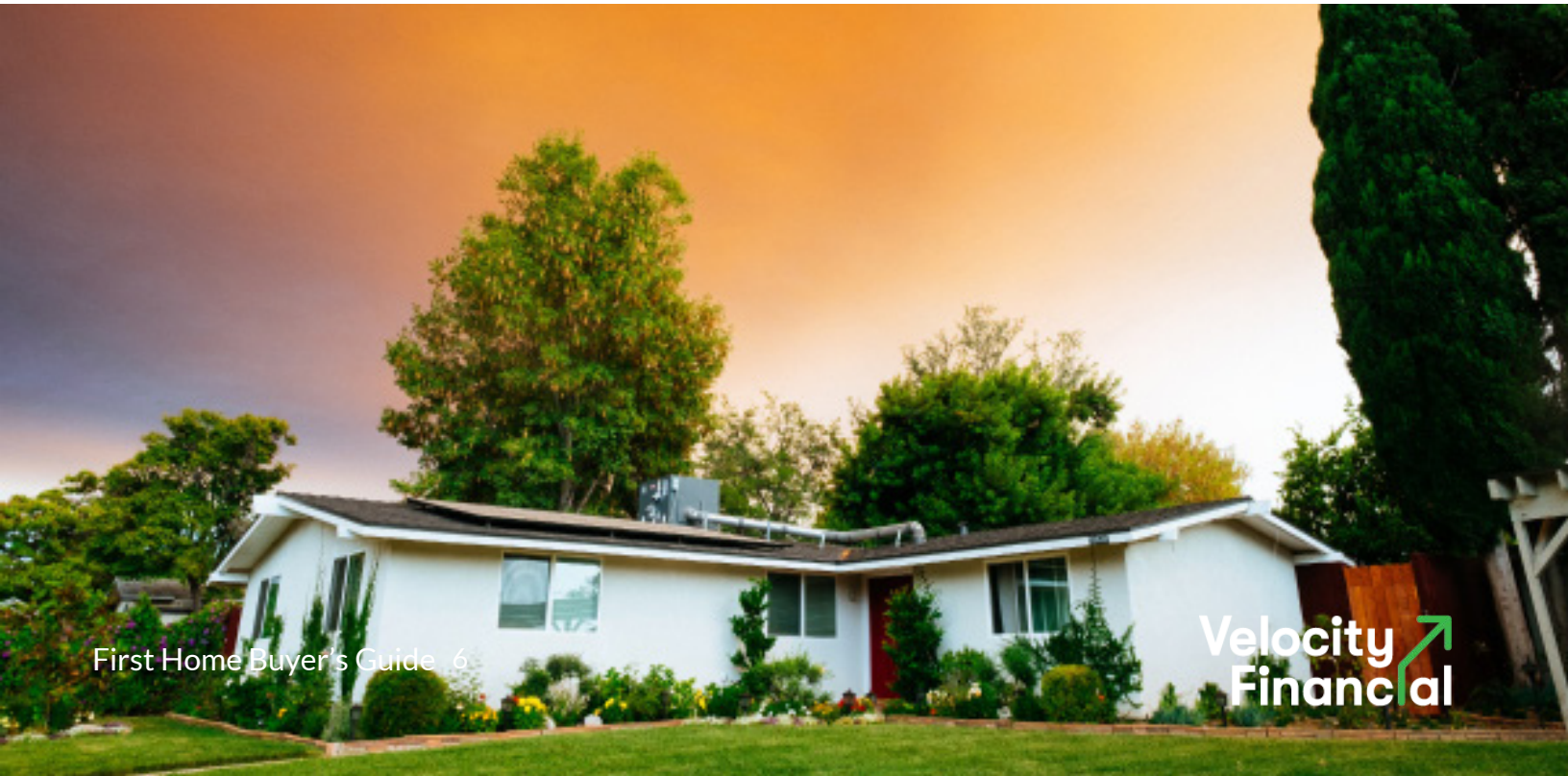
If you have owned a home before, in some circumstances you may still be eligible to withdraw your savings.

Your scheme provider may require you to contact Kāinga Ora to determine if you're in the same financial position as a first home buyer.

You can withdraw your contributions, your Employer's contributions and any investment returns. You cannot take out the Government $1000 kick start (as a guide, take your current balance less $1,000).

Eligible KiwiSaver members will be able to withdraw their available savings to contribute towards the initial **deposit** of their first home purchase or to buy land to build their first home (as opposed to previously only being able to utilise their savings at **settlement** by ensuring funds pass through a solicitor's or conveyancing practitioner's trust account, with an undertaking now required that the funds will be returned to the KiwiSaver provider if the sale does not proceed).

It can take a number of weeks, so check timeframes with your provider and allow enough time.



Velocity Financial

First Home Grant

First Home Withdrawal

After 3 years of contributing to KiwiSaver, you may be entitled to a KiwiSaver First Home grant. The grants are administered by **Kainga Ora** and will be paid to your solicitor.

For purchasing an existing home, the grant is between $3,000 and $5,000 based on $1,000 each year of KiwiSaver membership. For building or purchasing a new home, or for purchasing land to build a new home on, the grant is (in effect doubled to) $2,000 per year of membership in the scheme, up to a maximum of $10,000 for five years for each member. The home can be up to 6 months old. There are maximum values of grants payable for the purchase of a single dwelling, regardless of the number of eligible purchasers:

$10,000 for the purchase of an older property
$20,000 for the purchase of a new property

Getting a KiwiSaver First Home Grant

To be eligible for a KiwiSaver First Home grant you must:

- Have been contributing the required minimum amount to KiwiSaver for at least three years
- Be 18 years or over
- Be purchasing or building your first home (see Note below)
- Have a household income (before tax) of less than $95,000 per year (for one person), or less than $150,000 per year (for two or more people)
- Have a deposit that is 5% or more of the purchase price, including the addition of the grant
- Be planning to live in the house for at least 6 months from the settlement/completion of the property
- House price caps will apply

Note: If you've owned a home before, in some circumstances you may still be eligible for a First Home grant. Kainga Ora will need to determine that you are in the same inancial position as a irst home buyer. To ind out more, visit the Kainga Ora website or email them irsthomeenquiries@kaingaora.govt.nz or call them on 0508 935 266.

First Home Loan

The "First Home Loan" is a Government-backed loan underwritten by Kainga Ora, aimed at getting middle income New Zealanders into their first home without needing a large deposit. Some participating lenders also allow you to build a new home.

Criteria

- You are a New Zealand citizen or permanent New Zealand resident
- Have been in the same job for at least a year
- Or have been self employed with financial statements for 2 years
- Or have been in the same industry for over 2 years
- Have a maximum yearly income of up to $95,000 (before tax) for 1 person. Or a combined maximum yearly income of $150,000 (before tax) for 2 or more people.
- Haven't owned a house before, or be in the same position as a first home buyer – with good reason
- Must have clean credit
- Must have good "conduct on bank statements", for at least 6 months
- Secondary debt (credit cards, HP's, car/personal loans) must be less than $10,000 (this can vary between providers)
- You must live in the home you purchase; a Welcome Home Loan can't be used for an investment property.

Deposits

- A 5% deposit is required. The deposit can be saved, gifted or come from Kiwisaver
- Depending on your situation, the Government First Home subsidy may also be available as part of this 10%

You'll need to pay a fee of 1% of the loan account (the lender may also apply a loan application fee). Usually, these fees can be built into the home loan. Talk to your participating lender to see what applies.

The house price caps Region	House price cap for existing/older properties	House price cap for new properties
Auckland	$625,000	$700,000
Queenstown Lakes District	$600,000	$650,000
Wellington City, Hutt City, Upper Hutt City, Porirua City, Kapiti Coast District	$550,000	$650,000
Nelson City, Tasmin District, Hamilton City, Tauranga City and Western Bay of Plenty District	$525,000	$600,000
Waimakariri District, Christchurch City and Selwyn District	$500,000	$550,000
Waipā District, Hastings District and Napier City	$525,000	$600,000
Waikato District and Dunedin City	$425,000	$550,000
Rest of New Zealand	$400,000	$500,000

Considering Building?

All banks treat construction loans slightly different. It is our job to match the right bank and the right loan with your situation. As we have many banks to choose from, we aren't limited to selling one product, and we can find the best solution for you.

Terminology

Fixed Price Contract

A builder provides a single fixed price to complete a build deal. The contract is "all inclusive."

A Turn Key Loan

The property (house and land) is purchased once completed. A contract is generally entered into before building starts and a deposit paid at this stage. The ownership of the title of the property is transferred once the house is built.

Purchasing Land

In the current market, most banks will lend 80% against a piece of land, assuming it is zoned residential and has the services (power, water, sewerage) available.

Build Yourself

If you are a trades(wo)man and are building the home yourself, or you are project managing the build, banks will lend between 50% and 80% of the build costs.

Fixed Price Contract

Banks will lend between 80% and 90% on the cost of the project. A 20% deposit is generally required to purchase the land. Some banks will lend 95% of the completed project, as long as it's within the 15% of the cost of the project, and the applicant is considered 'strong.'

Turn Key Deal

Banks will lend up to 90% of the price of a 'turn key' project. Note that the banks will require a strong applicant (income, credit history, bank account conduct) to approve a deal at 90%.

THE HOUSE BUYING PROCESS

SECURE YOUR PRE-APPROVAL

FIND A PROPERTY

GET PROPERTY SIGNED OFF BEFORE MAKING AN OFFER.

ASK AGENT FOR SALE & PURCHASE AGREEMENT & DISCLOSURES (and send to Velocity)

COMPLETE AS MANY CHECKS AS POSSIBLE *

MAKE AN OFFER ON THE PROPERTY

ORGANISE YOUR HOUSE INSURANCE NOW (This can be cancelled if you are unsuccessful)

SECURE AN AGREEMENT

Satisfy the outstanding conditions (if any)

INSTRUCT YOUR LAWYER TO GO "UNCONDITIONAL"

PAY YOUR DEPOSIT TO AGENT

MEETING WITH VELOCITY FINANCIAL TO ORGANISE STRUCTURE & PERSONAL INSURANCES

LOAN DOCUMENTS ARE SENT FROM THE BANK TO YOUR LAWYER

BANK

APPOINTMENT AT BANK TO SET UP YOUR ACCOUNTS

SIGN LOAN DOCUMENTS AT YOUR LAWYERS

ADVANCE ANY REMAINING DEPOSIT TO YOUR LAWYER

COMPLETE A "PRE-SETTLEMENT" INSPECTION

SETTLEMENT DAY!

31

COLLECT KEYS! MOVE IN

VELOCITY

YOUR AGENT

ALL

Possible Checks/Conditions

- [ ] Builders Report (usually 5 working days)
- [ ] Finance (usually 3 working days)
- [ ] Valuation (5-10 working days)
- [ ] Title Search (24 hours)
- [ ] Sale of Existing House
- [ ] Council Checks (LIM Report) LIM is 10 working days, but PIM & BIM are less time.

* Even if you have pre-approval the property will still need to be signed off by the bank

Velocity Financial

The House Buying Process

Remember to organise your Pre-approval first

This gives you a specific price range to look within. Pre-approval generally lasts for 90-180 days, and will give you confidence when it comes to making an offer on a property as you'll know exactly what you'll be able to borrow. The bank will already have most of the paperwork, so it'll speed up the process once you've found a house you like.

Find a Solicitor

We recommend involving a solicitor as early in the process as possible. Not only for your home purchase, but to ensure you have the correct legal structure (especially if a trust or LTC is involved). This can also be a good time to organise your Will if you haven't already. Talk to us, we'll be happy to recommend one.

Get the Property signed off

Before you put in an offer on a property you like, it's important to ensure the property is acceptable to the bank. We'll need the following:

- A draft Sale and Purchase agreement from the agent (or the vendor if it's a Private Sale) if there are any disclosures on the property (ie an unconsented deck, asbestos)
- How much you are willing to pay for the property
- Body Corporate Fees (if applicable)

The bank will advise what conditions you will need to put in your offer (if any). This may be a builders report (particularly if there are disclosures on the property) or a Registered Valuation.

Arrange House Insurance

It's important you confirm insurance on your property before going unconditional. The bank won't advance the loan if the house is not adequately insured. Even if you aren't successful with your offer, it pays to arrange insurance first!

> "Having a pre-approval will give you confidence when it comes to making an offer on a property".

Forms of House Buying/Selling

Auction

A public sale of a property that is sold to the highest bidder when the owner's reserve is reached. Sellers have the ability to set a reserve price and a suitable settlement date prior to the auction. The auctioneer is not permitted to sell the property below the reserve price without authorisation.
Sales at auction are unconditional. You must complete all checks and have finance arranged, prior to auction. Once the hammer goes down, the property is sold.

Tender

A process of selling property, calling for purchasers to make their best offers in writing for that property by a given date.

Buyers' offers are collected confidentially and the seller chooses which offer is the most favourable. The predominant factor is price, however the conditions placed on the sale can also affect the decision as to which offer to accept .

A price is not advertised, allowing the "market" to decide the value. **You should only put in a tender offer on one property.**

Negotiation/Buyer Enquiry Over

An offer is made by the purchaser and negotiation takes place between the two parties. Hopefully a price is fin ally agreed on.

The property can be marketed as having a set price. Negotiation generally occurs below this fig ure.The house may be marketed as "B.E.O". Negotiation generally starts somewhere above this figure.

Private Sale

The deposit paid to the Lawyer, rather than the Real Estate Agent.
The banks will often require a Registered Valuation. There is no Real Estate Agent to broker the deal so the lawyer's role becomes increasingly important.

Making an offer

A written offer is made by you on an "Agreement for sale and purchase of Real Estate" form.

Decide on your conditions

There may be some conditions that are required by the bank, such as a Builder's Report or Valuation. You may wish to include the below:

Building report	(usually 5 working days)
Finance	(usually 5 working days)
Valuation	(5-10 working days)
Title Search	(24 hours)
Sale of existing house	(date to be mutually arranged)
Council Checks (LIM report)	(LIM is 10 working days, but PIM & BIM are less time)

There is often some negotiation between the parties as to the purchase price, and perhaps deposit amounts and settlement dates. If you are using the First Home Grant you will need to ensure there is enough time to send through the paperwork to them. Usually they need at least 4 weeks before settlement.

Your offer is accepted (hopefully) and the signed agreements are sent to their respective lawyers. If you have included some conditions in your offer, the property will be sold to you conditional on these being met.

Once the conditions have been met to your satisfaction, the sale will go unconditional. It is at this stage that the deposit is normally paid. The length of time you have to meet the conditions is negotiated between the parties, but is often 5 days. The deposit is normally 10% of the purchase price, but again can be negotiated. **Be cautious of this amount if your deposit is not available until after settlement.**

Once you have gone uncondtional we will request pricing from the bank and arrange a meeting to discuss your structure and insurances. We want to ensure you are financially protected for the future.

"Protecting you, your family, and your future".

Velocity Financial

Budgeting

What one-off expenses could you have forgotten?

Now that you've got an approval, you can begin building. But don't forget to budget for one-off costs.

The top expenses when purchasing a new house are:

Legal fees for conveyancing: $1,500 - $2,500
Building Report: $500 - $1000
Registered Valuation: $800 - $1,200
Moving costs: $500 or more
LIM: $370

What monthly expenses could you have forgotten?

There are also ongoing additional monthly expenses that you may not have had previously (especially if you were renting). These expenses can include:

Rates: $150 per month
Home and Contents Insurance: $200 per month
Life and Health Insurance: $2.5 - 4% of your salary
KiwiSaver
Subscriptions (Netflix, Spotify etc)

Paying off your mortgage

A question we often get is: does paying mortgage fortnightly get rid of your mortgage more quickly than paying monthly? This is a fact that the "Property Gurus" of the late 2000s bandied around to get people excited about investing in property. In fact, it is half true. If you tell the bank that you want a 30-year mortgage with fortnightly repayments, then your mortgage will last... 30 years. If, however, you tell the bank that you want a 30-year mortgage with monthly repayments (let's say $2,000 per month), but instead you pay $1,000 per fortnight, then you end up paying an extra $2,000 per year off your mortgage. This is because there are 26 fortnights in a year, not 24. So, technically, you will pay off your mortgage more quickly; however, some months you are going to have 3 fortnightly payments which can be a little hard if your salary is paid monthly.

We recommend setting the payments to coincide with your salary, if you are paid fortnightly, set the payments to fortnightly. However, always pay more than is required. If you are required to pay $1,000 per fortnight, try to pay $1,000. You will be amazed in how much you save in interest over the life of your loan.

Managing Your Accounts

There are several methods for paying off your mortgage quickly. All have them have value if they save you money on your total interest payments.

The Old Method

This older method is very good for paying down your mortgage quickly, but has a few flaws:

- You are supposed to set your Credit Card at your budget limit. So if you budget to spend $2,000 per month, then you set your Credit Card limit to $2,000. The flaw? Credit Card companies often allow people to overspend on their Credit Card limits (often well over) before notifying them.
- If you can't automate the process, or forget to pay off your Credit Card, you're up for some hefty interest fees. 1 month's forgotten Credit Card fees at 24% is the same as 4 months of mortgage savings at 6%.

We think we have a slightly improved way.

Our Suggested Method

We suggest that you begin putting your salary into your Mortgage Account. All your fixed bill payments are paid on AP from this account.

There's then another AP into your EftPos Account. From here, all your day-to-day expenses are paid (entertainment, food, clothes).

The benefits?

- You have no Credit Cards and no ongoing temptation to raise their Credit Limits
- The whole process is automated
- You can't overspend because EftPos accounts don't go into Overdraft easily
- Your EftPos account is with a different bank, meaning you're not tempted to spend the additional payments on your mortgage every time you log into Internet Banking

Life and Health Insurance

Insurance is about protecting the things that you can't afford to replace. If you lose the ability to earn income, how will you pay for your mortgage? If one of the income-earners of the family passes away, how will you feed your family?

If the answer to these questions is that you will be fine, then you don't need insurance. If you absolutely cannot live without your families' current income, you need to make insurance a priority for you.

This section is all about deciding how much suits you.

How much cover?

Our job is to make the decisions around personal insurance as easy as possible.
You should start with thinking about 3 levels of cover.

Full Cover

Life Insurance to cover all debts (including Financial Funeral Expenses): **Lump Sum**
Life Insurance to cover all living costs of survivng dependents: **Lump Sum or Monthly payments**
Total and Permanent Disability to cover all debts: **Lump Sum**
Trauma Insurance to cover half the debt: **Lump Sum**
Income/Mortgage Protection: **Monthly payments**
Health Insurance with Specialist Tests: **As invoiced**

Medium Cover

Life Insurance to cover all debts: **Lump Sum**
Trauma Insurance: **Lump Sum**
Income/Mortgage protection: **Monthly payments**
Health Insurance: **As invoiced**

Barebones Cover

Life Insurance to cover all debts: **Lump Sum**
Mortgage protection: **Monthly payments**

How much should I be paying?

We realise that with a new mortgage, it can feel like you need to cut other expenses. We recommend our clients budget for between 2.5 - 4% of their gross salary towards Life, Health and Medical insurance. Usually 2.5% would get the barebones package, and 4% giving them full cover. At 4% of gross salary, you should be able to sleep easy knowing that the most unforeseen events can be taken care of financially.

We recommend getting the full amount of cover that your budget can afford so that, when the time comes, you have the money you need.