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JOHN PRINCE

Purchasing a house as a farmworker

# Purchasing a House as a Farmworker



PURCHASING A HOUSE AS

A FARMWORKER

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Cover Picture  
by Nicola Jones, aged 8

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## INTRODUCTION

This Project is presented as one of the requirements for the New Zealand Rural Leadership Programme, Course X.

I chose the subject as I believe it is an important issue for Farm Workers.

Having personally experienced the purchasing of a house as a Farm Worker, I believe I am well acquainted with this subject.

While living in employment provided housing (Tied Accommodation) a house might not seem important but the opportunity to purchase a house presents itself.

Buying a house is one of the biggest investments most people will make. It will involve planning, making a financial commitment and it may involve sacrifices but it will be a commitment for the future.

In this Project, I intend to outline how a Farm Worker purchases a house while living in Tied Accommodation.

To ascertain what Farm Workers are doing about home ownership, I sent a Survey to 100 Farm Workers in the Wairarapa. The results are included in this Project.

Finally, I have compiled a Phamplet using the information obtained from the Survey.

I hope the Phamplet will be of some benefit to Farm Workers and aid them in their decision to purchase a house.

THE FARMWORKER

Farmworkers have been the backbone of the farming industry for years. However, with the decline in the industry, the number of farmworkers has also declined leaving a shortage today in the number of experienced, mature staff who can take on management situations. The shortage of farmworkers has occurred from not replacing retiring staff and the non-availability of farm cadetships.

The statistics below show the decline in numbers of people involved in the farming industry.

|                        | <u>June 1985</u> | <u>June 1989</u> | <u>Difference</u> |
|------------------------|------------------|------------------|-------------------|
| Lease/Shareholders     | 88,748           | 83,921           | 4,827             |
| Farmworkers(fulltime)  | 21,886           | 19,533           | 2,353             |
| Farmworkers(part-time) | 6,833            | 5,644            | 1,189             |
| Casual                 | 11,882           | 9,364            | 2,518             |
|                        | 129,349          | 118,462          | 10,887            |

The Labour Government announced on June 14, 1990 a financial package of \$3.5 million for farm cadet training which will help redress some of the present employment problems in the industry.

Another problem of encouraging young people into the industry is the remuneration for a farmworker.

Historically, farmworkers have been lower paid than most professions yet they remain the most productive workers both in skills possessed and hours worked.

The Award rates for Sheep, Meat and Wool Farm or Station Workers are:

|                             | <u>Inexperienced(less<br/>than 12 months<br/>experience)</u> | <u>Experienced(more<br/>than 12 months<br/>experience)</u> |
|-----------------------------|--|--|
|                             | <u>\$</u>  | <u>\$</u>  |
| Under 17 years of age       | 123.12   | 130.08   |
| 17 years and under 18 years | 143.63   | 151.79   |
| 18 years and under 19 years | 168.72   | 178.28   |
| 19 years and under 20 years | 186.94   | 197.53   |
| 20 years and upwards        | 203.94   | 214.40   |

Further allowances are paid for long service

The Award rate for Dairy Farm Workers is:

|                             | <u>Inexperienced (less<br/>than 6 months<br/>experience)</u> | <u>Experienced (more<br/>than 6 months<br/>experience)</u> |
|-----------------------------|--|--|
|                             | <u>\$</u>  | <u>\$</u>  |
| Under 17 years of age       | 124.77   | 137.28   |
| 17 years and under 18 years | 147.22   | 161.06   |
| 18 years and under 19 years | 168.79   | 184.60   |
| 19 years and under 20 years | 190.42   | 208.29   |
| 20 years and upwards        | 205.57   | 224.83   |

Additional payments are made on T.C.B. qualifications

NOTE-The Award rates above are per week.

Sheep, Meat etc workers are paid for a 40 hour week.

Dairy farm workers are paid for a 47 hour week.

| Unemployment rates are: | <u>\$</u> |
|-------------------------|-----------|
| Under 18 years of age   | 86.14     |
| Under 20 years of age   | 114.86    |
| 20 years/single adult   | 143.57    |
| Married-no children     | 223.22    |
| Married-with children   | 255.08    |

The remuneration for farmworkers may be less than in some other occupations but there are advantages or perks from working on the land.

Generally, accommodation is provided rent free or at a nominal rent, the provision of meat, firewood and telephone and in some cases the farmworker also receives electricity and milk. The opportunity may also be there to run a few sheep or bulls of their own.

According to a Property Consultant, a farmworker's wage of \$20,000 would be equivalent to \$32,000 for a worker living in town.

An example of this is set out on the following page.

|                |               |        |
|----------------|---------------|--------|
| e.g.           | \$            | \$     |
| Wages          |               | 20,000 |
| Perks per week |               |        |
| Meat           | 20            |        |
| Power          | 25            |        |
| Milk           | 10            |        |
| Telephone      | 4             |        |
|                | <hr/>         |        |
|                | 59            |        |
| Perk tax       | 29            |        |
|                | <hr/>         |        |
|                | 88 x 52 weeks | 4,576  |
| Rent           | 5,000         |        |
| Perk tax       | 2,500         |        |
|                | <hr/>         |        |
|                |               | 7,500  |
|                |               | <hr/>  |
|                |               | 32,076 |

However there are disadvantages or further costs that occur due to the isolation that some farmworkers face.

Vehicle costs include the constant wear and tear and petrol, whilst the distance may also necessitate in sending the children to boarding school if there isn't a school bus available.

While living in employment provided housing (Tied Accommodation) a home of their own might not seem so important to a farmworker but it is the best opportunity to save for a deposit and purchase a home. The rent received will cover the mortgage, rates and insurance (this will depend on how much the mortgage is) Historically this was easier to achieve as interest rates were lower than their present rate.

The advantages and disadvantages of purchasing a home while living in Tied Accommodation are:

#### Advantages

- ° Investment -The house and land may increase in value faster than the cost of living.
- ° Security -A house for retirement
- ° Independence-Eventually the farmworker will own their own home.

Disadvantages

- ° Financial Risk -Interest rates or other costs may rise.
- ° Longterm Commitment -Mortgage payments may go on for 20-30 years.
- ° Maintenance -Repairs can cost a lot of time and money.

The Housing Corporation of New Zealand has a scheme to allow Farmworkers to purchase a house while still living in employment provided accommodation.

HOUSING CORPORATION SCHEMES1. Tied Accommodation Lending SchemeBackground

The Tied Accommodation Scheme was introduced on October 1, 1977 to assist people in tied accommodation, particularly farm workers, who were approaching retirement age to obtain a first home even though they were unable to occupy the house immediately.

The number and value of loans has dropped dramatically over the last 5 years. This may be due to the unavailability of printed information and the lack of knowledge about the scheme from the employees of the Housing Corporation.

Number of Loan Approvals

| <u>1986-87</u> | <u>1987-88</u> | <u>1988-89</u> | <u>1989-90</u> |
|----------------|----------------|----------------|----------------|
| 50             | 40             | 21             | 11             |

Value of Loan Approvals \$m

|     |     |     |     |
|-----|-----|-----|-----|
| 1.8 | 1.3 | 0.8 | 0.4 |
|-----|-----|-----|-----|

Policy

The Scheme was designed to help people buy their own home if they were:

- ° Required to live in accommodation provided by their Employer as a condition of their employment, and
- ° A first home-seeker

The Scheme has been reviewed and confirmed as specifically targetting those people who do not intend to immediately occupy the property they are purchasing.

The review was completed in May, 1986 and the scheme was brought into conformity with the Housing Corporation's modest income policy.

Eligibility

The employer must certify details of the employees/applicants present accommodation on Application Form (J1/14)

To be eligible for a Tied Accommodation loan an applicant must:

- ° have lived in employer-provided accommodation for 10 of the last 15 years
- ° be a first homebuyer who does not intend to occupy the property immediately
- ° meet the Corporation's current income guidelines
- ° be unable to live in any other type of accommodation because of the location or type of work
- ° have somebody dependent on them for housing
- ° contribute 12.5% of the purchase price
- ° be able to satisfy the Corporation that they can meet the mortgage repayments

#### Finance

The applicant can borrow up to \$50,000 for a new house or up to \$45,000 for a previously occupied house.

The flexible maximum regional guidelines for loans to modest income applicants applies including additional discretionary amounts with a maximum term of 30 years.

The Interest Rate is higher than an occupied home and is reviewed annually. At present the occupied interest rate is 7.5% and the non-occupancy rate is 14.6%.

## 2. Homestart

### Background

Homestart replaces all previous deposit assistance schemes including Home Ownership Savings Schemes, Family Benefit Capitalisation and Building Suspensory Loans.

### Eligibility

To be eligible for the Homestart deposit scheme an applicant must:

- °be a first home buyer
- °meet the Corporation's current income guideline

### Finance

Homestart is a loan of up to \$12,000 at 3% interest. However for those applicants who do not occupy the home i.e. farmworkers the interest rate will be the current market rate.

Homestart is a 5 year suspensory loan which means no repayments or interest payments have to be made until 5 years from when the loan was approved.

After 5 years the interest plus the amount of the loan is repaid but if the applicant is unable to repay the loan they may be able to refinance the loan but at a higher interest rate determined at that time.

## STEPS TO HOME OWNERSHIP

The basic steps to Home Ownership are:

1. Save for a deposit. Although it varies it is usually between 12.5% to 33% of the cost of the house.
2. Arrange a Lawyer and discuss the mechanics of buying a house.
3. Discuss finance with the Lawyer or Bank Manager.
4. Decide:
  - °What you can afford
  - °What type of house you want
  - °The locality
5. Contact a Real Estate Agent.
6. When looking at houses check the exterior and interior -preferably for low maintenance.
7. Through the Real Estate Agent an offer is made.  
The Lawyer should check the offer before signing otherwise the offer should only be conditional.
8. The Lawyer will check the title.
9. Arrange a valuation if necessary.
10. Arrange the finance.
11. Legal documents will be drawn up.

## FINANCE

To purchase a house, the buyer needs to:

- °have sufficient money for a deposit. Although it varies it is usually between 12.5% to 33% of the cost of the house.
- °be able to borrow money (a loan).
- °be able to service the loan.

### Mortgages

There are 3 main types of loan:

#### 1. Table Mortgage

The set amount comprises both the principal and the interest calculated over the term of the loan and divided equally by the number of payments.

The advantages of a Table Mortgage are:

- °the initial repayments are lower
- °the amount of repayment is set during the life of the mortgage so budgetting is simpler.

#### 2. Reducing or Straightline Mortgage

The principal remains the same with a changing amount of interest as it is recalculated as the principal is repaid.

The advantage of the Reducing Mortgage is:

- °The total interest paid on the loan is reduced.

#### 3. Flat Mortgage

The Mortgage is usually for 3 to 5 years and the interest only is paid with the actual loan being repaid at the end of the term.

The Sums

|                                | \$                 |                                | \$           |
|--------------------------------|--------------------|--------------------------------|--------------|
| Deposit                        | 15,000             | Deposit                        | 20,000       |
| Mortgage                       | 45,000             | Mortgage                       | 40,000       |
| (Tied Accommodation<br>Scheme) |                    | (Tied Accommodation<br>Scheme) |              |
| Purchase Price                 | 60,000             | Purchase Price                 | 60,000       |
|                                | <u>Income</u>      |                                |              |
| Rent (\$130 per week)          | 6,760              | Rent (\$130 per week)          | 6,760        |
|                                | <u>Expenditure</u> |                                |              |
| Rates                          | 800                | Rates                          | 800          |
| Insurance                      | 200                | Insurance                      | 200          |
| Loan Repayments                | 7,146              | Loan Repayments                | 5,926        |
| (\$595.50 per month)           |                    | (\$493.87 per month)           |              |
|                                | <u>8,146</u>       |                                | <u>6,926</u> |
| Difference                     | 1,386              | Difference                     | 166          |

Additional Costs

- ° Application Fee for the Loan - most lending institutions charge a percentage of the mortgage. The fee may be added to the mortgage.
- ° Conveyancing Charges - the Lawyers fee includes the legal fees, land registration and the searching of titles.
- ° Mortgage Repayment Insurance - provides cover for full repayment of the mortgage in the event of the death/s of the insured. The single premium may be added to the mortgage.
- ° Fire Insurance - Adequate insurance is necessary.
- ° Rates - the Lawyer notifies the Local Authority of the change of ownership.
- ° Connection Fees for Electricity etc - may not be necessary if the existing tenancy is continued.

RENTING....

Renting The House

The Landlords, Tenants and the Residential Tenancies Act 1986 sets out both the tenants and landlords rights and responsibilities.

A Landlord can legally ask the tenant for:

- °Two weeks rent in advance
- °Four weeks rent as bond
- °The Real Estates agents fee (if applicable)
- °The Solicitors fee (if applicable)

The Landlord must:

- °Make sure the house is clean and in a fit and habitable condition at the beginning of the tenancy
- °Do any necessary repairs
- °Give the tenant 60 days written notice of a rent increase
- °Give 90 days notice in writing of the termination of the tenancy, although in some cases 42 days is allowable

A Landlord can get a Tenancy Tribunal order to evict a tenant if the tenant:

- °Is more than 21 days behind in the rent
- °Is responsible for damaging or fails to fix damage which the tenant has done to the property

The Tenant must:

- °Keep the house reasonably clean and tidy
- °Pay the rent on time
- °Repair or pay for the repair of any damage caused deliberately or carelessly by the tenant
- °Pay all charges for electricity, gas and telephone

The Tenant must not:

- °Deliberately or carelessly damage the house
- °Fix, renovate or alter the house except as the tenancy agreement allows or with the landlords written permission
- °Unreasonably refuse entry to the landlord when he or she is entitled to enter

### Bonds

A Bond is to cover any damage caused by the Tenant.

The Bond is returned to the Tenant when he/she leaves providing there is no damage to the property and the rent has been paid.

The Bond is paid to the Tenancy Bond Office of the Housing Corporation and applied for when the Tenant leaves by either the Tenant or the Landlord.

### The Tenancy Tribunal

The Tenancy Tribunal is a special court for deciding problems which landlords and tenants are unable to settle themselves.

A Tenancy Adjudicator listens to what each person has to say, hears any witnesses and evidence that each side wants considered and then makes a decision according to the Residential Tenancies Act. The Adjudicator's decision is a legal court order which both sides have to obey.

### Agents

Real Estate Agents offer a service (a fee may be required) to administer the property on behalf of the Landlord.

#### The Agent will:

- ° Select the Tenant
- ° Inspect the property
- ° Be approached by the tenant for any repairs that need to be done

### Renting and Taxation

As rent is a form of income, the Inland Revenue is interested in the activities of those who rent.

Accordingly, the owner is obliged to account for the rent in their income tax return.

However, any legitimate expenses incurred in generating that income is deductible. If a loss is incurred, that loss can be, in certain circumstances, offset against other income.

#### ° Depreciation

Building, at cost price; reinforced concrete 1%; concrete and brick 2%; wooden 2.5%.

There is no depreciation allowed on land.

Furniture, floor coverings, blinds, mattresses at 20 % diminishing value. Electrical appliances at 10% diminishing value.

#### ° Repairs and Maintenance

These costs may not be of a capital nature.

#### ° Travel

Costs occurred in collecting rent and the undertaking of repairs and maintenance can be claimed.

#### ° Interest

Interest payments on the loan are deductible but not repayments of capital.

If the property was sold within 10 years of purchase, the total amount of interest that was claimed as an expense or the profit that was made from the sale of the property was assessed as income.

In the July Budget this year, both the clawback interest rate and 10 year ownership rule were abolished.

#### ° Rates

Rates are fully deductible.

° Income Splitting

It is possible that the income of the property can be split with the spouse.

This is a definite advantage if the spouse is on a lower marginal tax rate.

° Loss

If a loss occurs from rental activities, it can in certain circumstances be offset against income from other sources. It is limited to \$10,000 per year but can be carried through to the next year.

° Tax

The income that is received from rental activities may be liable for Provisional Tax.

° Records

Accurate and full records of rental activities must be kept otherwise the Inland Revenue may disallow claims.

FARMWORKERS SURVEY RESULTS

Age: Under 20 -  
 20-30 11  
 30-40 13  
 40-50 5  
 50+ 1

Marital Status: Single 6  
 Married 24

Dependents: Ranged from 0 to 5

1. How long have you been a farmworker?

Ranged from 2 years to 35 years

2. How long have you been in your present employment?

Ranged from 3 weeks to 15 years

3. Is your income over \$10,000 2 (6%)  
 \$15,000 7 (23%)  
 \$20,000 6 (20%)  
 \$25,000 4 (13%)  
 \$30,000 11 (36%)

4. Do you own a house/property?

12 (40%)

If yes when did you purchase it?

Ranged from 1981 to 1989

5. Do you have a Home Ownership Account?

1 (3%)

If yes, what financial institution?

Post Bank

What year did you open the Account?

1985

6. Do you intend to purchase a house

in the next year -

2 years 4 (13%)

5 years 1 (3%)

don't know 11 (36%)

never -

7. Do you intend to purchase a farm

in the next year -

2 years 1 (3%)

5 years 3 (10%)

don't know 11 (36%)

never 9 (30%)

8. Where would you go to obtain the information regarding purchasing a house?

|                     |    |       |
|---------------------|----|-------|
| Bank                | 12 | (40%) |
| Housing Corporation | 10 | (33%) |
| Lawyer              | 8  | (26%) |
| Real Estate Agent   | 8  | (26%) |
| Lending Institution | 4  | (13%) |
| Rural Bank          | 2  | (6%)  |
| Family/Friends      | 2  | (6%)  |
| Building Society    | 1  | (3%)  |
| Consumer Magazine   | 1  | (3%)  |

9. What information would you want to know?

Information ranged from:

Mortgage rates and criteria

Loans available, terms etc

What legal aspects are involved

Cost of finance

Table loans

Interest rates and repayments

How to start and where to start

How much can you borrow

Special conditions for farmworkers

Tenancy Laws

Insurance and Rates

Pitfalls

Capitalisation of family benefit

### The Survey

The area surveyed covered the Wairarapa from Pahiatua to Pirinoa.

One hundred Farmworkers were randomly selected and sent Surveys in May.

Over a period of two months, 30 Surveys were returned.

## Case Studies

### 1. Mr and Mrs L Griffith

R.D.6

Masterton

Lewis Griffiths, in his fifties, has worked on farms since leaving school. He has been in his present employment for 15 years as a Farm Manager, income over \$30,000.

The Griffiths realised the necessity in buying a house and purchased their first house in 1981. Using the equity on their first house, they purchased a second house in 1988.

The houses were bought as an investment rather than for retirement.

The incentives available through a Home Ownership Account and two incomes enabled the Griffiths to buy their first house.

The Griffiths haven't had any problems with tenants but find they do not look after the house as well as if they owned it.

The longest tenancy has been for 3-4 years.

Tenants are chosen by the Griffiths themselves or through a Real Estate Agent.

Lewis Griffiths believes farmers can assist their farmworkers by giving them advice. He thinks the industry could be set up a bit better but realises people have 'to push their own barrell'

### 2. Mr and Mrs B Hewison

R.D.2

Featherston

Bazel Hewison, 62, has worked on a farm all his life. He has been in his present employment for 35 years, income under \$20,000.

The Hewisons thought about buying a house when they could capitilise their family benefit but at the time they were required to live in the house. Instead they entered into a Superannuation Scheme with Bazel's contribution being 4% and his employer contributing 6%.

The Hewisons have purchased a section in Greytown and intend to withdraw their savings within the next 12 months and build a house on the section.

Extra income from whitebaiting, running bulls and home sewing has made it possible for the Hewisons to have a home to retire to. Bazel believes that a farmworker should save towards a house as soon as they possibly can.

CONCLUSION

To make a commitment and purchase a house while living in Tied Accommodation is the dilemma Farm Workers must decide.

The commitment may be a financial sacrifice but it is an investment for the future.

Generally, property will outperform other forms of investment and is a means of keeping pace with inflation.

As capital growth is non-taxable it is still an area where a capital gain may be made without heavy taxation.

The decision is entirely up to the individual.

RECOMMENDATIONS

I would like to make the following recommendations which would be beneficial to Farm Workers when purchasing a house.

1. The Housing Corporation print information about the Tied Accommodation Scheme and make it available at all Branch Offices.
2. The reintroduction of the Home Ownership Account Scheme.
3. Lower interest rates.

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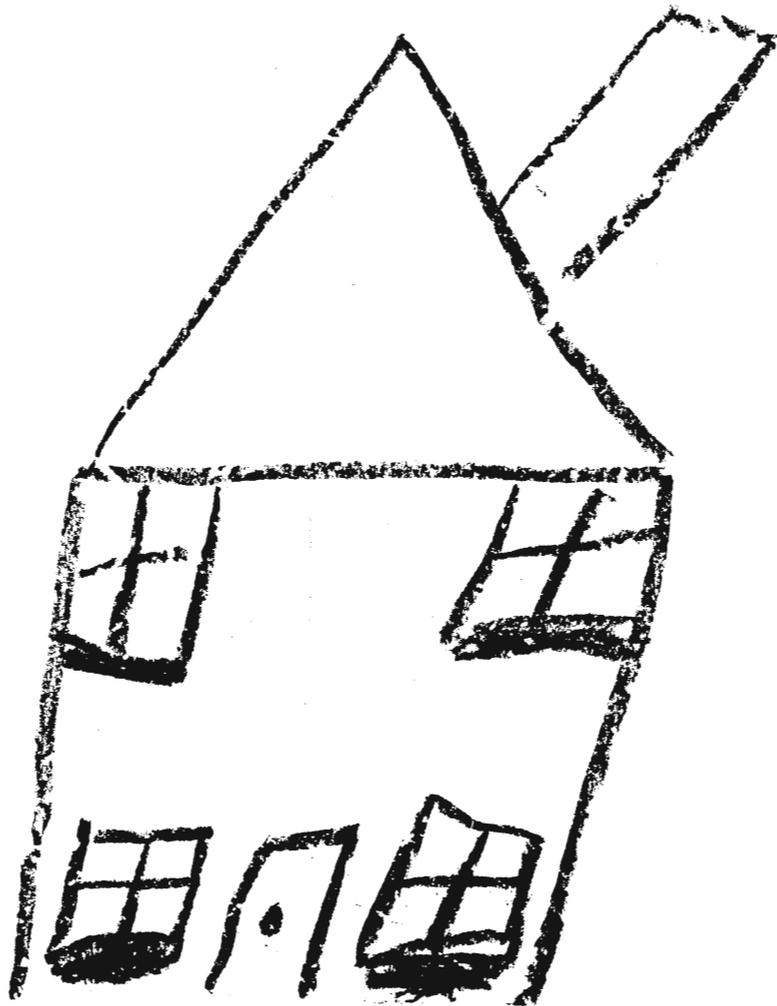
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# Purchasing a House as a Farmworker



Buying a home is one of the biggest investments most people will make. It will involve planning, making a financial commitment, and it may involve sacrifices.

The decision to buy a home depends on your housing needs now, your future housing needs and your financial position.

While living in employment provided housing (Tied Accommodation), a home of your own may not seem so important, but now is the best opportunity to buy a home.

It does not need to be a daunting or complicated task but it is a commitment for the future.

The advantages and disadvantages of buying your own home are:

## ADVANTAGES:

- *Investment* — The house and land may increase in value faster than the cost of living.
- *Security* — A house for your security.
- *Independence* — You will eventually own your own home.

## DISADVANTAGES:

- *Financial Risk* — Interest rates or other costs may rise.
- *Longterm commitment* — Mortgage payments may go on for 20 - 30 years.
- *Maintenance* — Repairs can cost a lot of time and money.

## STEPS TO HOME OWNERSHIP

- Save for a deposit.
- Arrange a Lawyer and tell the lawyer of your intention to buy a house.
- Discuss finance with the lawyer or the bank manager.
- Decide:
  - What you can afford
  - What type of house you want
  - The locality of the house.
- Contact a Real Estate Agent.
- When looking at houses check the exterior and interior — preferably for low maintenance.
- Through your Real Estate Agent make an offer. Have your lawyer check the offer before signing otherwise make it a conditional offer.
- See your Lawyer who will check the title.
- Arrange a valuation if necessary.
- Arrange your finance.
- Draw up legal documents through the Lawyer.

## FINANCE

To purchase your own home you need to:

- have sufficient money for a deposit. Although it varies it is usually between 12.5% to 33% of the cost of the house.
- be able to borrow money (a loan) for the house.
- be able to service the loan.

Saving for a deposit means setting a goal and making regular contributions to a savings account. Alternatives to saving accounts include Bonus Bonds and Insurance Bonds from Postbank. Financial institutions and Banks will give you the best advice on how to save for a deposit. Remember, the larger the deposit, the less you have to borrow.

## Mortgages — What are they?

The money you borrow is secured by a legal document called a mortgage.

There are 3 main types of loan:

- **Table Mortgage**  
You pay exactly the same amount each month during the period of the loan. The set amount comprises both principal and interest calculated over the term of the loan and divided equally by the number of payments.  
The advantages of a table mortgage are:
  - the initial repayments are lower
  - the amount of repayment is set during the life of the mortgage, so budgeting is simpler.
- **Reducing/Straightline Mortgage**  
With this mortgage you pay a set amount of principal each month with a changing amount of interest recalculated as the principal is repaid. The loan repayments start high but as more principal is paid off, the payments reduce accordingly.  
The advantage of the reducing/straightline mortgage is:
  - It reduces the total interest paid on the loan.
- **Flat Mortgage**  
This mortgage is usually for 3 to 5 years and you pay interest only over this period. The actual loan has to be repaid or refinanced at the end of the term, although it may be possible to make separate additional instalments during the term of the loan.

## Interest Rates

The interest rate is the amount the lending institution is currently charging for the use of their money.

A finance rate is the overall amount you will pay to borrow the money. It includes the application fee and the administration cost.

Some lending institutions offer interest at a fixed or a floating rate.

- **FIXED INTEREST RATE** — the interest rate can be set for a set term anywhere between one year and ten years. The rate is fixed regardless of what happens in the economy, i.e. increases and decreases in interest rates will not affect your repayments.
- **FLOATING INTEREST RATE** — interest rates can go up or down depending on the economy thus your rate will alter accordingly, i.e. if the interest rate goes up you will have to pay more, but if it goes down, you will pay less.

## Where do I go to apply for a loan?

- Housing Corporation of N.Z.
- Post Bank
- Banks
- Building Societies
- Finance and Insurance companies.
- Solicitors

## When Applying for a Loan ask . . .

- What is the interest rate?
- Is the interest rate fixed or floating?
- What are the fees charged and can these be added to the loan?
- How flexible is the deal?
- What are the penalties for early repayment?
- Can I change the amount of the payments?

Ask the bank to calculate several repayment options to help you decide on the most appropriate type of mortgage.

## Additional Costs

- An Application Fee for the Loan - most lending institutions charge a percentage of the mortgage you are seeking. The fee may be added to the mortgage.
- Conveyancing Charges — the lawyers fee includes legal fees, land registration fees etc and can range from approximately \$500 to \$1,000. Ask the lawyer for a quote.
- Mortgage Repayment Insurance — provides cover for full repayment of your mortgage in the event of death/s of the insured. Inquire if the lending institution will add the single premium insurance cover (one lump sum) to your mortgage.
- Fire Insurance — Lending institutions require that you have adequate fire insurance cover from the time you become the owner of the property.
- Rates — will be apportioned when you buy the house. The lawyer notifies the Local Authority of the new ownership.
- Connection Fees for Electricity, Gas and Telephone fees will not be necessary if you continue with the present tenants.

## HOUSING CORPORATION SCHEMES

### TIED ACCOMMODATION SCHEME

The scheme is available through the Housing Corporation of N.Z. and is designed to help you buy your own home if you are:

- Required to live in accommodation provided by your employer as a condition of your employment, and
- A first home-seeker.

The scheme applies even though you may not be able to occupy your home immediately.

### Who Qualifies?

You may qualify for a loan under the scheme if you:

- Are currently living in any other type of accommodation provided by your employer.
- Are not able to live in any other type of accommodation because of the location or type of work you do.
- Have lived in this type of accommodation for at least ten out of the previous fifteen years.
- Meet the corporation's current income guidelines.
- Have somebody dependent on you for housing.
- Contribute 12½ percent of the purchase price by way of your own deposit.
- Satisfy the Corporation that you can meet the repayments associated with the house purchase.

Your employer must certify details of your present accommodation on Application Form (J1/14).

### How Much Can You Borrow?

Up to \$50,000 for a new house or up to \$45,000 for a previously occupied house.

The exact amount available depends upon where you are living and your family's circumstances.

## Homestart

Homestart replaces all previous deposit assistance schemes (including Home Ownership savings schemes, Family Benefit capitalisation and Building Suspensary loans).

Homestart is a loan available from the Housing Corporation with no repayment or interest payments for 5 years. However, there is an interest rate of 3% per year for the 5 years. After 5 years, the loan and the interest must be repaid or refinanced at market rates.

Homestart is available to Tied Accommodation purchasers but at market interest rates.

Please check with your local Corporation office for further details.

# RENTING YOUR HOUSE

The Landlords, Tenants and the Residential Tenancies Act 1986 sets out both tenants and landlords rights and responsibilities.

A Landlord can legally ask the tenant for:

- Two weeks rent in advance
- Four weeks rent as bond
- The Real Estate Agents fee (if applicable)
- The Solicitors fee (if applicable)

The Landlord must:

- Make sure the house is clean and in a fit and habitable condition at the beginning of the tenancy.
- Do any necessary repairs.
- Give the tenant 60 days written notice of a rent increase.
- Give the tenant 48 hours notice of an inspection.
- Give 90 days notice in writing of the termination of the tenancy, although in some cases 42 days is allowable.

A Landlord can get a Tenancy Tribunal order to evict a tenant if the tenant:

- is more than 21 days behind in the rent
- is responsible for damaging, or fails to fix damage which the tenant has done to the property.

The Tenant must:

- Keep the house reasonably clean and tidy.
- Pay the rent on time.
- Repair or pay for the repair of any damage caused deliberately or carelessly by the tenant.
- Pay all charges for electricity, gas and telephone.

The Tenant must not:

- Deliberately or carelessly damage the house.
- Fix, renovate or alter the house, except as the tenancy agreement allows, or with the landlords written permission.
- Unreasonably refuse entry to the landlord when he or she is entitled to enter.

## Bonds

A bond is to cover any damage caused by the Tenant. The bond is returned to the Tenant when he/she leaves providing there is no damage to the property and the rent has been paid.

The bond is paid to the Tenancy Bond office of the Housing Corporation and applied for when the Tenant leaves by either the Tenant or the Landlord.

## Agents

Real Estate Agents offer a service (usually for a fee) to administer the property on behalf of the Landlord.

The Agent will:

- Select the Tenant.
- Inspect the property.
- Be approached by the Tenant for any repairs that need to be done.

Further details of renting can be obtained from the booklet 'Renting and You' which is available from the Housing Corporation.

## RENTING AND TAXATION

As rent is a form of income, the Inland Revenue is interested in the activities of those who rent, accordingly you are obliged to account for it in your income tax return.

However, any legitimate expenses incurred in generating that income is deductible; if a loss is incurred, that loss can be, in certain circumstances, offset against other income.

- **Depreciation**

Building, at cost price, reinforced concrete 1%, concrete and brick 2%, wooden 2.5%. There is no depreciation allowed on land. Furniture, floor coverings, blinds, mattresses at 20% diminishing value. Electrical appliances at 10% diminishing value.

- **Repairs and Maintenance**

Replacing sheets of tin on a roof is Repairs and Maintenance but replacing tin with 'Colour Steel' would be capital expenditure and therefore not tax deductible.

- **Travel**

Costs incurred in collecting rent, carrying out repairs and maintenance etc may be claimed. If you use your own vehicle to do this, you may, in certain circumstances, claim Public Service rates per kilometres. Otherwise actual expenses must be claimed.

- **Interest** Interest payments on your loan are deductible but not repayments on capital.

- **Rates** Rates are fully deductible.

- **Income Splitting**

It may be possible to split the income of the property with your spouse. This is especially an advantage where your spouse is on a lower marginal tax rate.

- **Loss**

If a loss is made from your rental activities, this can, in certain circumstances, be offset against your income from other sources.

You must keep accurate and full records of your renting activities otherwise the Inland Revenue may disallow your claim in total or in part.

For further advice, contact the Inland Revenue Department.

## CONCLUSION

Generally property will out-perform other forms of investment. Buying a house is a way of freezing inflation for yourself. You will get an income from the rent to help pay your mortgage and you will get capital growth.

As capital growth is non-taxable, it is still an area where you can make a capital gain without being hit by heavy taxation.

If still in doubt, ask for advice from your lawyer or the local branch of Federated Farmers.