Interest rate drop a relief for property owners

On the advice of the Monetary Policy Committee (MPC), the Reserve Bank decided this week to lower the repo rate by 25 basis points to 6,75%, which takes the prime lending rate and the variable mortgage rate from 10,5% to 10,25%.

This decrease, announced by Bank Governor Lesetja Kganyago, follows a steady decrease in the rate of inflation to 5,1% in June, and although small is good news for SA consumers as it will mean decreased monthly repayments on all kinds of debt - including credit and store card balances, vehicle purchase agreements and personal as well as home loans.

It will hopefully also help to raise consumer confidence and boost the economy out of recession, says Shaun Rademeyer, CEO of BetterBond, SA’s biggest mortgage originator, who notes that for those with an existing home loan, the drop in the variable mortgage rate will translate into a decrease of R16 a month for every R100 000 borrowed.

"On a home loan of R1m, for example, the decrease in the monthly bond repayment will be R160. Alternatively, it means that borrowers who are able to maintain their repayments at the current level stand to cut 12 months off their total loan repayment period, and save more than R81 000 in interest."

Meanwhile, for those currently planning to buy a home, he says, lower interest rates will increase their chances of being approved for a home loan. "Their disposable income will go further now because all their monthly debt repayments will decrease, and that will make it easier for lenders to confirm that they are comfortably able to afford a monthly bond instalment.

"On the other hand, the interest rate decrease could also enable some potential buyers to qualify for bigger home loans than they initially thought - although we would once again rather see consumers borrowing less and taking every opportunity to pay their loans off faster.

"Buying a less expensive home means a lower monthly bond instalment - and the opportunity to pay more than the minimum to speed up repayment of the whole loan. Smaller homes also cost less to run in terms of rates and taxes, utility costs, insurance and maintenance required, and that creates even more leeway for owners to divert spare cash into their home loan account.

"For example, taking a R900 000 loan instead of a R1m loan will reduce the monthly bond repayment by almost R1000, which the buyer can then use to accelerate the overall loan repayment period by about five years, and save more than R350 000 in interest."

As it is, says Rademeyer, housing demand in SA has remained surprisingly strong this year in the face of the ratings downgrades and a zero-growth economy, and many prospective buyers have been prepared to pay substantial cash deposits to secure the homes they want.

BetterBond Press Release