BY LETITIA WATSON

HIRE-PURCHASE HOMES

An option for would-be buyers struggling to be granted a bond

HIRE-PURCHASE is a new trend in the South African property market that has been popular for some time in America and England. It means renting a property you want to buy later but it differs from the kind of hire-purchase stores offer, where the item is bought and then paid for over a period of time. With property you're not immediately obliged to buy.

Since the advent of the National Credit Act it has been more difficult to get a home loan. Banking data shows almost half of bond applications are turned down.

Even people whose credit rating is only slightly erratic as a result of a record of slow payments or one or two bills not paid find it difficult to get bond approval.

Doctors, cellphone companies and gyms act quickly against clients who owe small amounts.

This is where hire-purchase comes in. It's aimed at people who can't get bonds but who aren't entirely uncreditworthy. They can afford to make bond repayments and, despite problems with their credit record, want to buy property and improve their credit ratings during the rental period.

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If you rent to buy you enter a written agreement to rent the property for a set period.

Thereafter the tenant has the right, but is not under obligation, to buy the property. The period is usually between six and 24 months, Meyer De Waal of Rent2Buy says.

The tenant pays rent to the seller and depending on the contract sometimes also property taxes and levies. Property insurance is usually paid by the seller because as the owner this remains his responsibility until the property is transferred.

The rent in a hire-purchase agreement is the same as the bond repayment on the property would be – about one per cent a month of the value of the property you're buying. The payments are therefore usually higher than the rent you'd usually pay, which on average is 0,5-0,6 per cent.

Should you buy the house the difference between average rent and your monthly payment is used to your advantage, because it accumulates monthly to serve as a deposit. Make sure the contract clearly states what amount will become part of your deposit when the rental period is over and you decide to buy. Should you decide not to purchase you will lose that money.

The advantage over renting the usual way is by your payments to the bank you can prove you can afford bond repayments should you apply for a mortgage shortly before the hire-purchase contract expires.

The contract usually bars the owner from selling the property while you're renting.

The downside for you as the buyer is that in spite of making higher monthly payments to get a loan the bank could still turn you down and you would lose the money that would have served as a deposit. Other factors might also scupper your plans to buy, such as if you were transferred.

Would something like this work for you? It's an option in this buyer's market when you have your heart set on a property but can't get a bond. It can also help to improve your credit record. De Waal says your chances of getting a home loan are much better if you've made hire-purchase payments timeously for a set period, and your credit record improves too.

A written contract is essential and must indicate your monthly rent and what part of it will go towards a deposit; who pays for maintenance and improvements; the selling price of the property; when the contract expires and whether it can be terminated before that. □

People are living longer than ever before, a phenomenon undoubtedly made necessary by the 30-year mortgage.

AMERICAN COLUMNIST **DOUG LARSON**

tip: **Establish what you can afford before you consider hire-purchase.**