

Use your pension as collateral when buying a home

Saturday Citizen reporter

South Africans should consider pension-backed home loans when financing a home, suggests Momentum Corporate business development manager of pension-backed home loans Tebogo Mphafudi.

The economy is buckling under the strain of load shedding, interest rate hikes and a steady increase of personal debt to cover day-to-day living.

A property purchase is the biggest investment most people will make but, so many South Africans struggle to get a loan to finance their dream home.

There is often minimal knowledge about alternative options to traditional bank loans.

A pension-backed home loan is a unique financial arrangement which allows you to use your retirement savings as security to access a loan for purposes relating to your home.

This approach enables prospective homeowners to use up to 60% of their pension fund as collateral for the loan, providing a source of security for lenders.

In addition to securing a loan to buy a house, a pension-backed home loan also allows you to renovate your existing home, buy land to build a home or even pay off an existing home loan.

Using your future to fund your present

The loan is typically repaid over an agreed on period, usually limited to your retirement age, with the understanding the pension fund serves as a guarantee.

This arrangement offers advantages such as potentially lower interest rates (when compared to other forms of unsecured lending) and increased accessibility to home financing for individuals who might face challenges in obtaining a traditional mortgage.

A pension-backed home loan offers compelling advantages, including no requirement to register a bond and pay the applicable registration costs to access the financing as well as no property assessment fees.

The application process is swift and efficient, with the potential for preferential interest rates. Monthly repayments are seamlessly and conveniently deducted from the borrower's salary.

Borrowers may qualify for

an additional loan after a few months of timely payments, provided there are sufficient funds in their retirement savings account and they meet the bank's lending requirements.

That is an example of cleverly using your retirement savings to invest in an asset that will likely appreciate over time. A smart investment if you make all the right choices.

Ts and Cs always apply – make sure you are covered

When it comes to home financing, the terms and conditions of a pension-backed home loan stand as the bedrock, shaping the dynamics of home ownership and resilience in the face of unforeseen challenges.

These contractual nuances are not just legal formalities but are intricate guidelines that define the responsibilities and coverage afforded to both the lender and the home owner.

The clauses relating to natural disasters, insurance obligations and loan repayment continuity are critical. It is imperative you fully understand the terms and conditions.

In essence, they are the guiding principles that ensure a pen-

sion-backed home loan not only facilitates homeownership but also serves as a resilient shelter in the face of unexpected adversity.

A pension-backed home loan, when well-understood, doesn't just facilitate homeownership but becomes a fortified shelter in the face of unexpected challenges.



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