Financing your house

Most people who buy a house will need a loan, and the housing loan is often the greatest financial commitment that a person assumes in his lifetime. So be sure to find the loan that is right for you. Not all housing loans have the same interest rate, and you had better read the fine print. The Central Bank has introduced subsidized loans, many banks have lowered interest rates, and certain fees have been eliminated. Be sure to do your research before taking out a housing loan.

How much money down?

Banks do not finance the entire purchase price of a home. The required down payment varies from bank to bank. Some will finance up to 85 percent, others only 50 percent. With respect to other types of loans such as subsidized loans introduced by the Central Bank or loans in collaboration with the Public Corporation for housing, banks may finance a percentage of the house's value with a down payment to be paid to the bank or to the developer. In all cases, the loan is based on a professional valuation of the property, which may differ from the asking price. If the appraisal values an apartment at $ 130,000 and the purchase price is $ 150,000 (or even the other way round), the loan is based on a percentage of the lower of the two figures. Even agreement on valuation may not solve all problems. If the developer requires 30 percent and the maximum bank loan is 60 percent, the difference must be found elsewhere before the deal can be completed.

How long do you have to repay?

Repayments may be spread over 30 years, and it is in the bank's interest as much as it is in that of the homebuyer to agree on a package that the purchaser can afford. But most banks will not extend the term of the loan beyond the age of 65. The amount borrowed is usually fixed so that repayments do not constitute more than one-third of the borrower's salary. Charges other than interest vary from bank to bank, although what is saved in one area may be lost in another.

The interest rate is crucial

Interest constitutes by for the largest portion of the cost of a home loan. The rates fluctuate according to the yield of treasury bills, LIBOR (London Inter-Bank Offered Rate), or the US Prime Rate, with an added fixed percentage. Other types of rates may be utilized by banks, such as the Beirut Reference Rate and the Cost of Bank's Fund. With both marker rates very low, the figures quoted in Lebanon are usually stated not only as a certain percentage above one or the other but also as a minimum. Rates are usually reviewed yearly (such as is the case with the new loans subsidized by the Central Bank or loans that are based on LIBOR) or every two years (in the case of loans taken out with the Public Corporation for Housing or the Housing Bank, which are based on lira-denominated one/two/three-year Treasury bills). Home-owners should therefore ask about the current rates of LIBOR or the local T-bill in order to know what their running interest rate is both of the time of application and subsequently on the outstanding balance. Some banks adopt a promotional rate for a specified period at the beginning of the loan period where buyers' expenses are high. Home-owners should keep in mind that even though international rates might be decreasing to unprecedented low levels, the minimum rates in the local market have currently fallen to an all-time low of nearly four percent. This is the result of the introduction of the new Central-Bank-subsidized loan. The housing bank and public corporation for housing loans have also reduced their rates in an attempt to remain competitive.

Don't forget filing fees

Some banks impose a fixed filing fee in the range of $100- $250, while others charge 0.2 percent to one percent of the amount of the loan, with a minimum of $100 depending on the size of the loan. Banks usually ask for filing fees to be paid before the loan is granted. Loans that are subsidized by the Central bank and the public corporation for housing are usually exempted from filing fees, unlike other housing loan products that are customizes and programmed by banks.

Stamp fees

Payments through fixed schedules incur no stamp fees. When repayment occurs through notes, 0.15 percent of the amount of each note is charged (i.e. the stamp cost on a $ 1,000 note is $ 1.50)

Appraisal costs

A property valuation expert puts a price on the home so that the bank has an independent idea of what it is worth. Although this entails yet another fee for home-owners, it enables the buyer and the lender to know whether the price of the property is a fair one. These flat fees fall in the $100 to $200 range. This charge is paid before the loan is finalized.

You must insure your house

Both life and property insurance are required. Coverage is either the value of the house or exceeds the loan by a factor determined by bank policy, sometimes up to 130 percent. All banks insist on insurance against fire and some require insurance against natural disasters and a few against war. Third-party liability insurance, covering visitors who are injured in incidents connected with the home, for example, is also demanded by some lenders. All banks demand coverage against death or total permanent disability. Borrows pay all premiums. Even when the level of house insurance is based on the amount of the loan, the coverage does not decrease as the loan is paid off. The possibility of total destruction of a property necessitates full coverage all the time.

The government takes a piece

Mortgage fees are government charges for registering the loan, giving the bank legal rights to prevent sale of the house until the mortgage is paid. Loans of less than $120,000 with a repayment period of more than seven years are exempt from mortgage fees. Otherwise, the fees are calculated at two percent of the mortgaged amount, including fiscal stamps. The total for a $150,000 loan mortgaged at 120 percent would be $3,600.

What banks require

Banks want to see a copy of the purchaser contract to confirm that a sale exists. They do not hand over the loan amount to the borrower, but pay it to the seller upon legal completion of the deal. Banks also hold the property deeds until the loan is repaid. Regarding loans for renovation, the money is made available to the borrower in a separate account, but banks generally require proof that the money is being spent for its proper purpose.

If you pay late, you pay more

Late payment penalties range between twp percent and 20 percent per month of the installment calculated daily, sometimes with a minimum penalty. Paying lump sums off the loan may not save much money. Repaying ‘a few’ notes may save nothing at all. What constitutes ‘a few’ notes are a matter for negotiation between borrower and lender. Even if the whole balance is repaid early, banks deduct from the settlement figure an amount equivalent to only one percent to five percent of the interest.

Applying for a housing loan

On a personal level, the borrower needs a steady job and a salary that justifies the level of the loan. Applicants need to provide a copy of their ID, a detailed salary statement, proof of the length of employment, the type of work, net salary, and a declaration of all financial commitments. Salary and job details need to be confirmed by the employer on company stationery. Some banks will include the spouse’s earnings to determine whether the household income is high enough to justify a loan. The lenders will almost certainly require domiciliation of salary. Some lenders may require a guarantor.