

Sharifah Wishes To Purchase A House Priced At RM700,000 And She Is Willing To Pay 5 Percent Of The Price

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Buying a property is a significant milestone in anyone's life, and understanding the financial aspects involved is crucial. In this article, we will explore the scenario where Sharifah intends to purchase a house valued at RM700,000 and is prepared to contribute 5 percent of the purchase price upfront. We will delve into the details of down payments, loan eligibility, the process of securing a home loan, and additional costs involved in property transactions in Malaysia. Whether you are a prospective homebuyer or simply interested in property financing, this comprehensive guide will shed light on what to expect and how to plan your finances accordingly.

Understanding the Property Price and Down Payment

The Property Price: RM700,000

The house Sharifah is interested in costs RM700,000. This figure forms the basis for calculating her initial payment and loan financing.

What Does Paying 5 Percent Mean?

Sharifah is willing to pay 5 percent of the property price as a down payment. This amount is critical because:

- It reduces the amount she needs to borrow from the bank.
- It influences her loan approval chances.
- It impacts her overall financial commitment.

Calculating the Down Payment

To determine how much Sharifah needs to pay upfront:

- Property Price: RM700,000
- Down Payment Percentage: 5%

Down Payment Amount = $\text{RM700,000} \times 5\% = \text{RM35,000}$

This means Sharifah must prepare RM35,000 as her initial payment.

Loan Financing Options for Sharifah

Understanding the Loan-to-Value (LTV) Ratio

Banks typically finance up to a certain percentage of the property's value, known as the Loan-to-Value ratio. In Malaysia:

- The standard LTV ratio for residential property loans is up to 90%, especially for properties priced RM600,000 and below.
- For properties above RM600,000, the LTV might be slightly lower, often around 70-80%.

Since Sharifah's property is RM700,000, her bank may offer an LTV of approximately 70-80%. Let's assume a conservative estimate of 75%:

$$\text{Maximum Loan Amount} = \text{RM}700,000 \times 75\% = \text{RM}525,000$$

How Much Will Sharifah Borrow?

Given her down payment of RM35,000:

$$\text{Loan Amount} = \text{RM}700,000 - \text{RM}35,000 = \text{RM}665,000$$

However, if the bank's maximum financing based on LTV is RM525,000, she will need to:

- Provide a higher down payment to cover the difference, or
- Negotiate for a higher loan amount if possible.

In this scenario:

$$\text{Required Down Payment} = \text{RM}700,000 \times (1 - 75\%) = \text{RM}175,000$$

Since Sharifah is willing to pay only 5%, she needs to either increase her down payment or seek alternative financing options.

Additional Costs to Consider When Purchasing Property

Buying a house involves more than just the purchase price and down payment. Here are some of the typical additional costs:

Legal Fees and Stamp Duty

Legal fees for conveyancing and registration are payable to lawyers. Stamp duty is a government tax based on the property price.

- Stamp Duty Rates for Residential Properties in Malaysia (as of 2023):

Property Price Range	Stamp Duty Rate	Stamp Duty Amount
RM100,001 – RM500,000	1%	$\text{RM (Price - RM100,000)} \times 1\%$
RM500,001 – RM1,000,000	2%	$\text{RM (Price - RM500,000)} \times 2\% + \text{RM4,000 (from previous bracket)}$

For RM700,000 property:

- Stamp Duty = $(\text{RM700,000} - \text{RM500,000}) \times 2\% + \text{RM4,000}$
- Stamp Duty = $\text{RM200,000} \times 2\% + \text{RM4,000} = \text{RM4,000} + \text{RM4,000} = \text{RM8,000}$

Valuation Fees

Banks require a valuation report to confirm the property's worth, costing approximately RM1,000–RM3,000.

Legal and Miscellaneous Fees

- Legal processing fees
- Disbursement fees
- Insurance premiums (e.g., fire insurance, mortgage insurance)

Other Potential Costs

- Real estate agent commissions (if applicable)
- Moving costs
- Renovation expenses (if any)

financing Your Property Purchase

Applying for a Home Loan

Sharifah needs to prepare the following documents:

- Identity card (MyKad)
- Income proof (salary slips, EPF statements, income tax returns)
- Employment verification letter

- Bank statements

Factors Affecting Loan Approval

Banks assess various factors including:

- Income stability and amount
- Credit score and history
- Debt-to-income ratio
- Age and employment status

Loan Tenure and Repayment

Typical loan tenures range from 15 to 35 years. Longer tenures can reduce monthly installments but increase interest paid over time.

Example:

- Loan Amount: RM525,000
- Interest Rate: 3.5% per annum (fixed or variable)
- Loan Tenure: 30 years

Estimated Monthly Payment: Approximately RM2,360

(Note: This is an estimate; actual figures vary based on bank policies and interest rates.)

Strategies to Manage Down Payment and Loan Repayment

Increasing the Down Payment

If Sharifah's initial plan of 5% is insufficient due to bank LTV restrictions, she can:

- Save more aggressively
- Use funds from EPF (Employees Provident Fund)
- Consider gifts or financial assistance from family

Alternative Financing Options

- Bank Negotiation: Some banks may offer higher LTV ratios for first-time buyers or certain property types.
- Government Schemes: Look into programs like the Malaysia My Second Home (MM2H) or first-home schemes that may provide favorable financing options.

- Personal Loans or Borrowing: Less common and riskier, but possible in some cases.

Financial Planning for Repayments

- Create a detailed budget considering monthly installments.
- Factor in other recurring expenses like maintenance, utilities, and insurance.
- Maintain a good credit record to qualify for favorable interest rates.

Legal and Regulatory Considerations

Property Ownership Laws in Malaysia

- Foreigners can buy certain types of properties but may face restrictions.
- Bumiputera privileges may apply for Malay or indigenous buyers.

Strata Title and Property Documentation

- Confirm the property has a valid strata title.
- Review the Developer's License and approval documents.

Loan Agreement and Sale & Purchase Agreement

- Understand the terms before signing.
- Engage a lawyer for legal advice.

Conclusion: Planning for a Successful Property Purchase

Purchasing a house valued at RM700,000 with a 5 percent down payment requires careful financial planning. Sharifah needs to evaluate the bank's financing policies, her capacity to meet additional costs like stamp duty and legal fees, and her ability to manage monthly repayments. While a 5 percent down payment might be feasible in some cases, the actual bank LTV ratio and property valuation could influence her strategy.

By thoroughly understanding the costs involved, exploring financing options, and planning her finances meticulously, Sharifah can turn her dream of owning a house into reality. Whether she opts to increase her down payment, seek alternative funding, or negotiate with lenders, being informed is the first step toward a successful property purchase.

Remember: Always consult with licensed property agents, financial advisors, and legal professionals to get tailored advice suited to your unique circumstances. Proper planning and due diligence are essential to ensuring a smooth and successful home buying journey in Malaysia.

Frequently Asked Questions

What is the amount Sharifah is willing to pay upfront for the house priced at RM700,000?

Sharifah is willing to pay 5% of RM700,000 upfront, which amounts to RM35,000.

How much financing will Sharifah need to cover the remaining cost of the house?

She will need to finance RM665,000, which is RM700,000 minus her initial payment of RM35,000.

What are the typical mortgage options available for Sharifah to purchase this house?

Sharifah can consider conventional bank loans, Islamic financing options like Musharakah or Ijarah, or government schemes such as PR1MA or MyHome.

What documents does Sharifah need to prepare for applying for a housing loan?

She will need proof of income, employment details, bank statements, identification documents, and possibly a down payment proof.

Are there any government incentives or grants available for first-time home buyers like Sharifah?

Yes, she may be eligible for schemes such as the My First Home Scheme or other government grants that reduce the financial burden.

What factors should Sharifah consider when choosing a mortgage plan?

She should consider interest rates, loan tenure, repayment flexibility, associated fees, and whether the plan suits her financial situation.

Is paying 5% upfront common among homebuyers in Malaysia?

Yes, paying a 5% down payment is common and often required by banks to secure a mortgage, with some schemes allowing for lower or higher initial payments depending on the lender.

Additional Resources

Property Purchase Strategy: An In-Depth Analysis of Sharifah's RM700,000 House Buying Plan

Buying a property is one of the most significant financial commitments an individual can undertake. When considering a house priced at RM700,000, potential buyers need to evaluate various factors—from initial down payment commitments to financing options, legal procedures, and long-term implications. Sharifah's willingness to pay 5 percent of the purchase price adds another layer of strategic planning to her decision-making process. This article provides a comprehensive breakdown of her purchasing approach, exploring key considerations, financial strategies, and expert insights to guide prospective homeowners in similar situations.

Understanding the Basic Purchase Framework

Before delving into Sharifah's specific plan, it's vital to understand the foundational elements involved in property acquisition, particularly in Malaysia's real estate market.

Property Price and Down Payment Fundamentals

The property price—RM700,000 in this case—serves as the starting point for financial planning. Typically, buyers are expected to contribute a down payment, which varies based on lender requirements, property type, and buyer's financial profile. In Malaysia, the conventional minimum down payment is often 10-20%, though some programs or schemes may offer lower rates.

Key points:

- Market value: RM700,000
- Down payment (standard): Usually 10-20%
- Sharifah's initial plan: Willing to pay 5%, which is below the conventional minimum

Legal and Additional Costs

Beyond the purchase price, buyers need to account for extra costs, including:

- Stamp duty: Taxes payable on the property transfer
- Legal fees: Conveyancing and legal documentation
- Loan processing fees: Bank charges for loan approval

- Valuation fees: To assess property value
- Real estate agent fees: If applicable

Understanding these costs is vital for accurate budgeting.

Sharifah's Payment Strategy: Paying 5 Percent of the Purchase Price

Sharifah's willingness to pay only 5% of the property price, amounting to RM35,000 ($\text{RM}700,000 \times 0.05$), is a noteworthy deviation from traditional down payment practices. This approach warrants an analysis of its implications and potential strategies to make it feasible.

Why a Low Down Payment?

Some possible motivations for a low initial contribution include:

- Limited immediate cash liquidity: She may prefer to keep cash reserves for other investments.
- Access to financing programs: Certain schemes or incentives might allow for lower down payments.
- Negotiation leverage: Attempting to negotiate better terms with the seller or lender.
- Strategic financial planning: Spreading out payments or leveraging financing options.

However, paying only 5% may have consequences, such as:

- Higher loan-to-value (LTV) ratio, increasing risk for lenders
- Potentially higher interest rates or stricter loan conditions
- Less equity built upfront, affecting future refinancing or sale decisions

Feasibility and Risk Analysis

In Malaysia, most banks require a minimum down payment of 10-20%, especially for properties priced above RM600,000, unless specific financing schemes are utilized. For Sharifah to pay only 5%, she needs to explore options such as:

- Government schemes: e.g., PR1MA, MyHome, or other affordable housing programs
- Specialized financing: Some banks may offer tailored loan packages with lower initial payments
- Family assistance: Gifted down payments or joint ownership schemes

It's important to analyze whether her plan aligns with lender policies and legal requirements, as failure to meet minimum down payment thresholds could jeopardize her loan approval.

Financial Planning and Loan Options

Given her intent to pay only 5%, Sharifah must strategize her financing meticulously. The key components include:

Calculating the Loan Amount

- Purchase Price: RM700,000
- Initial Down Payment (5%): RM35,000
- Remaining Loan Amount: RM665,000

This loan amount would then be subject to bank approval, with interest rates, tenure, and repayment terms influencing affordability.

Loan-to-Value (LTV) Ratios and Limits

- Standard LTV: Up to 90% for properties below RM600,000
- Higher-LTV options: For properties above RM600,000, some banks may offer up to 90%, but with stricter conditions
- Implication for Sharifah: Her 5% down payment results in a 95% LTV, which is generally higher than typical lending limits, possibly requiring special approval or higher interest rates.

Alternative Financing Strategies

To accommodate her low down payment, Sharifah could consider:

- Government-assisted schemes: These often require lower or no down payment, especially for first-time buyers.
- Employer loan assistance: Some companies offer housing loan support.
- Family support: Gifted funds or joint ownership arrangements.
- Refinancing options: Purchasing with minimal initial payment and refinancing later to build equity.

Long-term Repayment Planning

Her repayment plan should factor in:

- Monthly installments based on loan tenure
- Total interest payable over the period
- Potential for early repayment or refinancing
- Financial buffer for unforeseen expenses

Legal and Procedural Considerations

Purchasing property involves several legal steps that must be navigated carefully, particularly when paying a lower upfront amount.

Sale and Purchase Agreement (SPA)

The SPA formalizes the transaction and outlines:

- Purchase price
- Payment schedule
- Conditions precedent
- Penalties and remedies

Sharifah must ensure the agreement reflects her payment plan, especially if she intends to pay a small initial amount.

Loan Documentation and Approvals

- Submission of income proof and financial documents
- Assessment of her creditworthiness
- Approval of her requested loan amount and terms
- Compliance with bank policies on minimum down payments

Legal Fees and Stamp Duty

- Stamp duty on the SPA and transfer documents
- Legal fees for conveyancing
- Registration costs

These are crucial to include in her overall budget.

Long-Term Implications and Strategic Advice

While paying only 5% may seem attractive initially, it's important to consider the long-term effects on her financial health.

Equity and Asset Appreciation

- Lower initial equity might impact her ability to refinance or leverage the property.
- Property appreciation could be slow if her initial investment is minimal.
- Building equity requires making larger payments or increasing her down payment over time.

Interest Cost and Total Repayment

- Higher LTV loans often attract higher interest rates
- Longer repayment periods may result in paying significantly more interest over time
- It's vital to compare loan packages carefully

Risk of Negative Equity

If property values decline, her minimal initial equity could turn negative, especially if she is unable to make larger payments or if the property market dips.

Expert Recommendations

- Conduct thorough financial analysis: Ensure her income and expenses can sustain the loan.
- Negotiate with lenders: Seek options for lower down payments or special schemes.
- Plan for future payments: Consider increasing her down payment as her financial situation improves.
- Consult legal and property experts: To navigate legal requirements and secure favorable terms.

Conclusion

Sharifah's plan to purchase a RM700,000 house with a mere 5% down payment is ambitious and requires strategic planning and careful consideration of financial, legal, and market factors. While it may offer immediate liquidity benefits, the associated risks—such as higher interest rates, lower equity, and potential refinancing challenges—must be thoroughly evaluated.

Prospective buyers in similar situations should:

- Explore government schemes and special financing options
- Engage financial advisors to project long-term costs
- Maintain flexibility to increase payments and build equity over time
- Ensure full understanding of legal procedures and costs

Ultimately, successful property ownership hinges on balancing initial affordability with sustainable financial commitments, making informed decisions that support long-term stability and growth. Sharifah's approach, if managed prudently, can serve as a strategic model for first-time homeowners aiming to enter the property market with minimal upfront capital but should always be backed by expert advice and comprehensive planning.

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