

No Deposit; No Problem

Rising housing prices in recent years have made it exceedingly difficult for many first homebuyers to save the deposit required to obtain finance. Lenders have recognised this and created a product that allows borrowers to enter the property market without having to front the initial deposit.

No deposit loans are generally available for new and established buildings, owner-occupied, as well as for investors. To qualify for a no-deposit loan you do need to be an Australian citizen or permanent resident and currently living in Australia.

Borrowers often need to acquire mortgage protection insurance where the Loan to Value Ratio (LVR) exceeds 80%. Generally, the higher the LVR, the higher the premiums. Hence premiums on no deposit loans can be substantial.

Combining stamp duty exemptions and first homeowner grants, no deposit loans allow borrowers to gain a foot hold in the market based on their ability to service a mortgage rather than having the savings required to qualify for a more mainstream loan with deposit.

No-deposit loans can also be a useful tool for investors wanting to take maximum advantage of leveraging.

While no deposit loans can be secured for similar interest rates to standard home loans, you should be aware that there is a risk of ending up in negative equity. For example, you purchase a house for \$400,000 borrowing the full amount and the property market falls by 10%. You now owe \$400,000 for a property that's worth \$360,000 – that's a shortfall of \$40,000 you need to recover.

As with all loans, make sure that you borrow within your means. Work out a budget and stick to it and don't borrow more than you planned just because it is available. Also, consider the property market that you are buying into: are prices rising or falling?

Plan to repay the loan as quickly as possible: take advantage of redraw and offset facilities and make additional repayments where possible. Remember, you pay interest on every dollar owed, every day. The faster you reduce your loan the less exposed you are to the danger of a market value dip.



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