The loan rangers

You used to have to beg to borrow, but a new breed of lenders is changing all that, writes **Robyn Willis**.

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A Ron and Elma David were granted a home loan despite having only minimal savings and no assets **B-C** The Northcliff by Cosmopolitan Homes

BUILD

Applying for your first home loan used to be the adult equivalent of being sent to the principal's office. You went in, cap in hand, listed what meagre assets you had while promising to be good and make the repayments on time. After being patted condescendingly on the head or being given stern advice on the importance of saving a larger deposit, you were sent away empty-handed in search of a more sympathetic lender.

Ron and Elma David have just signed up for a loan of $479,600 with St George Bank's new No Deposit home loan. It requires little or no deposit, and approval is based on an assessment of the borrower's ability to pay. Bill McCabe, chief manager of specialised mortgage solutions at St George Bank, says the no-deposit loan has been available for several years now, though the bank only began advertising it a couple of months ago.

The Davids, who have been renting in Parramatta, were convinced to take the plunge after laying eyes on the Northcliff – a compact but stylish project-home design by Cosmopolitan Homes at Nelson's Ridge near Greystanes.

"We didn't have any assets, just good pay and a few thousand dollars in savings," says Elma.

"We weren't prepared to buy for another six months, but there was a rebate on the land and there was a deal on the house for an upgraded kitchen, among other things," says Elma.

"That offer was going to expire at the end of January. At the same time, St George was waiving its establishment fee on the home loan. All the signs were there that we should jump in."

Because there were limited blocks available a Nelson's Ridge, there was a sense of urgency about their decision, Ron says.

"For the style of home we wanted to build, there were limited blocks available," he says. Despite the slightly-higher interest rate, the Davids are comfortable with their decision and are looking forward to moving into their home early next year.

Safe risk

While lenders have traditionally pointed to the deposit as evidence of the borrower's ability to pay, Bill McCabe says no-deposit lenders are proving themselves just as reliable.

"Because we've had it for a few years, we know the credit performance for this loan is as good as our other products," he says.

"When we started, we required (borrowers) to have a slightly-higher income, but it has become a little more relaxed now." →6

"It reflects a shift in attitude by lenders, who are becoming much more interested in tailoring products to the needs of their customers in a highly-competitive market"


Justin Doobov

This might be because despite lacking a larger deposit, borrowers are still assessed as credit risks in the usual way. "They may not have a track record of saving, but usually they have some sort of track record," he says.

"They may have paid their rent on time, which gives us an idea of their ability to pay."

Bill says the St George No Deposit rate is about 0.3 per cent higher than the standard and is open to adjustment once a repayment record is established.

"Once the loan has been on the books for a while, we will call the customer and try to get them into a cheaper product," he says. "If we don't, someone else will."

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Borrower's time

Instead of borrowers working hard to impress the lender, the shoe is now on the other foot, with financial institutions coming up with more simplified and less expensive products to entice customers. Building society IMB last year released their all-in-one Professionals Mortgage package with discounts on MasterCard and home-and-contents insurance, plus an offset facility included. It also has an everyday account with no monthly account-keeping fees. As the name implies, borrowers need a minimum income of $60,000 for singles or a combined income of $75,000.

With so many loans and lenders available now, it's just a matter of finding the right fit with the borrower's lifestyle.

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Personal loans

Justin Doobov, managing director of Intelligent Finance, encourages clients to tell him all about their finances – good or bad. His company offers a range of financial services, including mortgage broking. With links to about 40 lenders, they can recommend the best financial institution and product to suit your needs. "We want to know everything and we ask for about 50 per cent more information than most banks would require," he says. "Depending on the information, it tells us which lender we will put them with and we map out the best loan structure."

First home-loan buyers are often subject to a number of limiting factors including the size of their income, how long they have been employed and even where and what they want to buy. "A lot of lenders will not lend for one bedroom or studio apartments less than 50sq m," says Justin.

TIPS

- ✓ If you find the redraw facility too tempting, set up a principle loan
- ✓ A no-deposit home-loan rate is often higher than average but can be re-negotiated once a repayment record has been established

Play it safe

With today's vast advancements in technology you'd think crystal balls would be easier to come by. That not being the case, having a →8

back-up strategy in place can take the stress out of wondering which way interest rates will head and how your home loan will be affected.

Lee Boueri, CEO of Yes Home Loans, recommends adopting a "stay-safe" strategy to home loans, based on your long-term plans.

There are three very common categories that lenders fall into: the first-time buyer, the second-time buyer, and the investor.

Lee recommends first buyers pay off their home loan as quickly as possible, staying on a variable rate. "With a growing family, you may find you outgrow the space in a relatively short period of time and so may need to upgrade," he says. "The flexibility of a variable rate allows you to move out of one loan, and even change lenders if you need to. A fixed rate could cost you thousands in break costs, so a variable rate is generally the better option."

Second-time buyers are being encouraged to take on a half-fixed and half-variable loan – the advantage being that a combination loan provides security in times of rate volatility.

"At this stage in the life nothing can be more frightening than to think about the levels interest rates reached in the '80s," says Lee. "This cost many families their homes. You have the option to split your loan between variable and fixed."

The fixed proportion gives you repayments certainty, therefore easily allowing you to budget, while the variable portion provides you with repayment flexibility – you can pay off as much as you like, whenever you like.

Of course, the disadvantage to taking out this loan is that the variable portion of your loan leaves you vulnerable to increases if rates do rise, and if interest rates drop, you're still left to make repayments on a higher fixed rate.

Homeowning investors ideally should get professional advice before launching into a new loan. Lee says in the first instance, analyse your circumstances and discuss your options with your lender based on: your current income level, how many properties you own, and how many you intend to buy.

"'What is your exit strategy?', 'when do you plan to retire?' and 'are you averse to risk?' are all questions that will determine how much and for how long you should fix, if at all," says Lee.

Dipping in

One of the more popular but still relatively new home-loan products allows borrowers to make extra payments that can be withdrawn at any time. Interest is calculated on the remaining principal, which in the long run can save tens of thousands of dollars.

"We like the ability to make extra loan repayments and we encourage our clients to set up a mini buffer if they can," says Intelligent Finance's Justin Doobov. "More than 90 per cent of our loans would be set up that way."

These types of loans do not suit everyone, especially if they find the redraw facility a little too tempting. "In that case, we will recommend a principal loan so they cannot redraw," he says.

He recommends that to be on the safe side, calculate your monthly repayments then add some. Not only will this mean the loan is paid off faster but it will provides buffer against interest rate rises. "If your repayments are $2000 then prepare a budget for $2500,"

he says. He likes the no-deposit loans with some reservations. "It does help people get into the market," he says. "You might have a young professional studying for five years who has come out as a doctor on $100,000 a year. He has not been able to save up until now because he was a student, but he wants to get into the market. On the downside, lenders should look at why that person has not been able to save."

Gone are the days when mortgage repayments made up about 10 per cent of household income.

"Most people are paying 40 to 50 per cent of their income into the mortgage. It is a large component," he says.

MORE INFORMATION

- **Cosmopolitan Homes**
- **IMB**
- **Intelligent Finance** 9300 6699