

Lenders return to 100% plus mortgages but with parental guarantor requirement

By Larry Schlesinger
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Lenders are returned to the days of 100% home financing and above, but with the catch that parents with equity in their own homes have to act as guarantors.

A 100% loan called the Get Ahead Start Home Loan is being offered by SGE Credit Union and is said to be the first time in three years that a lender has prominently offered loans with no deposit required.

"The Get Ahead Start home loan option allows parents to use some of the equity in their own home to guarantee part of a home loan taken out by their children," explains SGE on its website.

"This gives the children the ability to borrow more, or borrow up to 100% of the value of the property plus stamp duty and other upfront costs. It can also help avoid the cost of mortgage insurance that applies to high LVR loans.

SGE Credit Union operates in NSW and Victoria with nine service centres in Bathurst, Lismore, Liverpool, Malabar, Melbourne, Mid-City, Newcastle, Parramatta and Wagga Wagga and has about 36,000 members.

Westpac-owned RAMS currently offers a feature called "fast track" on four of its home loans - the full feature home loan, the fixed rate home loan, the low rate home loan and the investor home loan - which allows borrowers to secure a loan up to 120% of the full purchase price plus upfront costs if a guarantor or a parent of the applicant, "simply provides RAMS with a limited guarantee supported by a registered mortgage over their property, for the amount you need to borrow over 80% of the property value".

This also removes the requirement that borrowers who don't have a 20% take out lenders mortgage insurance (LMI), which according to RAM can be in excess of \$10,000 on a \$350,000 property, where the borrower only has a 5% desposit.

No deposit loans were prominently promoted and widely-available during the boom years of the early 2000s but the advertising of these products disappeared following the GFC as lenders shored up their lending policies.

Mortgage brokers tell *Property Observer* that there are many lenders that will offer a 100% home loan under certain circumstances including ANZ, NAB, St George and Suncorp.

"Each lender has strict guidelines around who can guarantee the loan," says Don Nicolussi of Homeloan Warehouse.

He says some lenders will allow non-family members to guarantee a loan such as a close family friend rather than a parent

"This would be considered on a case by case basis and only for strong applicants," he says.

"The guarantor is making a big commitment and for this reason the lenders will require that they obtain independent legal advice.

"Anyone (a broker) recommending such a loan needs to also consider whether it is even appropriate to begin with. That is, if the borrower does not have a deposit it would first be important to look at their financial habits to ensure that recommending such a long term commitment is the right thing for them," he says.

However, he says many people applying for a loan may simply be paying down other debts - HECS, car loans - when the opportunity to purchase a home comes up.

"That is when this type of product makes sense. It allows someone with good income and the support of their family (or networks) to aspire to home ownership. With rents rising and interest rates falling in some cases the repayments will be less than the rent they are already paying," Nicolussi says.

According to mortgage comparison website RateCity.com.au, 70% of home loans now offer 95% or more of the purchase price.

Consumer group Choice warns that no deposit loans can put borrowers at risk of greater financial stress.

It also warns of higher interest rates and the need to pay mortgage insurance.

"While these loans enable you to buy a house sooner, you need to take the cost of mortgage insurance into account. And with a loan for more than the value of the property, it's crucial to make extra repayments to get some equity as quickly as you can," says Choice.

"Saving as much as you can before buying will lower the amount of mortgage insurance, or remove it altogether if you can save a deposit of 20% or more of the property's value. It'll also give you a wider variety of lenders and loans to choose from — and helps you get used to the discipline needed when you have a mortgage."

Another former broker, Phil Richards, now with People's Choice Credit Union, says 100% home loans have always been available.

"From a lenders perspective it is very safe. Even with a limited guarantee the risks can be high for the parents especially if they are near retirement and the kids default on the loan. Many of the lenders offer the products although some of the policies are slightly different," he says.