

No Deposit Home Loans

Before we begin talking about a [no deposit home loan](#) , you need to understand that for the majority of people, getting a home loan can be quite tricky even when they already have a deposit. Having no deposit adds another layer of complexity and it will require specialty assistance to pull it off.

Even if you have a nice deposit the banks will still make you jump through so many hoops that you'll think you were working for PT Barnum.

Among other things, you will have to verify your employment history as well as earnings and savings records. You may have to also make out or demonstrate budgets that will satisfy the bank that you are a worthy credit risk.

If you don't have a deposit then what was already a rather difficult process, can quickly become, almost insurmountable.

This short guide has been compiled to help you navigate through the pitfalls of finding and securing a no deposit home loan.

Things ain't what they used to be !

Prior to the global financial crisis housing loans were much easier to come by. Banks reacted to the meltdown by tightening their lending criteria.

Suddenly people had to have a much better credit rating than previously and a more clearly demonstrable savings and income pattern and history.

I won't go so far as to say that, prior to the meltdown all you needed to get a loan was a pulse, but you kinda get the picture that things have now changed.... at least temporarily.

One of the first casualties of the tighter lending controls and policies were the more exotic home loan products. Chief among those were low deposit and no deposit home loans.

This book primarily relates to no deposit home loans in Australia and it's interesting that the Australian banks reacted to the situation overseas by further hamstringing aussie borrowers, despite the fact that in Australia we were not witnessing a sudden surge in default rates. Our home loan default rates are fairly consistent. They are showing an increase during and after the meltdown but nothing like the levels in the USA.

The whole idea of the banks insisting on a five, ten or twenty per cent deposit is supposedly so that there is emergency equity built in. This is mainly for the banks benefit not your own) in case borrowers get in trouble. Theoretically then if there is equity available borrowers can at least refinance in many cases. If they have some equity and get themselves in trouble over payments the refinance option may save a foreclosure.

The larger deposits that are required now are really just a throwback to years before the financial crisis when ten or twenty per cent deposits were the norm. I suspect that they are in place less to help you than to reduce the number of foreclosures, which banks aren't keen on. After all they not only lose money in a foreclosure but it's also a very bad look from a PR perspective when they take back a persons dream of home ownership.

The banks don't want to be foreclosing and especially not on a property which owes the bank more than it's current market value, due to a fall in house prices.

What they want from you

If you are seeking a no deposit loan then the bank is at least going to want to see a very good income profile and in particular a high disposable income after living expenses and current financial commitments. In other words if you can get away with a low or zero deposit then you have to have the other side of the equation (income) looking very healthy to the banks. They are going to want to see

stable employment and consistent cashflow or wages. They will generally be seeking at least two years of tax returns.

The typical person wanting a no deposit home loan is often on high income but they don't want to wait the year or two needed to save for a deposit. This is completely understandable because the person will have to pay high wasted rental income over the years spent saving and that is money that could be going into paying off a mortgage i.e. gaining equity. In other words no deposit people are installed into the rental trap and that trap is being facilitated by an inflexible system.

No Deposit Home Loans in Australia - The Future

Let's face it, both the lending institutions themselves and the borrowers are heading for an uncertain future.

Borrowers need access to money and banks exist first and foremost to lend money to them. But when you consider that owning an average home in Australia has become increasingly out of reach because of spiralling prices you will see that the banks will soon have a problem because their pool of potential lenders is ever diminishing.

Sure on one end of the scale there are more millionaires created every year in Australia. Wealth is constantly growing, however, its growing in an ever smaller percentage of the populace. Australian housing affordability is continuing to fall and we are well out of step with most other developed nations in terms of housing affordability. Housing affordability, as the name suggests, is a measure of how many years it will take to own a home on an average wage and also how difficult it is to secure a deposit for an average house when being paid an average wage.

How will banks source new clients to lend to, if there are fewer who can afford the repayments and the deposit, to get the ball rolling.

The problem may not have been evaluated or possibly even recognised by the banks yet, but the cycles that have controlled borrowing over the past 100 years are entering new territory and they operate with a new set of figures.

Higher house prices and inevitably higher interest rates, will force more people into lifelong rental housing. The banks would then be squeezed between lower rates (to entice/ and to actually permit new business) and higher property prices with subsequently higher deposit levels needed.. Or even worse, it's the double whammy of both higher interest rates and higher property prices. In fact almost any scenario for banks in the long term leads to less people for them to lend money too.

There is however one option that a clever bank or finance group will take the lead in.

That will be a scenario where a specialty finance group may well secure and lend money in a joint ownership model with it's clients.

The innovative and hitherto unknown group will be able to limit its exposure by taking equity positions as low as 5 to 10% and in getting very good at specialising in selling mortgages on properties in blue ribbon suburban areas within capital cities. Such homes will be certain of strong capital growth and that in turn will further limit the exposure of the brave new bank that is the first to take the idea on. But that is in the future and won't help you right now in obtaining finance.

Truth in advertising - when is no deposit really no deposit?

Most no deposit home loan products work by asking you to secure a guarantor for your loan. The banks or lending bodies will require that such a guarantor has a reliable income themselves as they are in effect making themselves liable for the repayment of some of that debt.

So when looking at no [deposit home loans in Australia](#) you must understand that a deposit still has to be either made or guaranteed. It's this guarantee option that represents your best chance of obtaining such a loan.

Basically, you would be seeking a friend or family member to act as a guarantor. In exceptional circumstances it could even be an

employer. Either way it's someone who trusts you, knows you and believes that you are a good credit risk also. That's because such a person will be effectively granting a second mortgage over some property they own in order to guarantee the amount of deposit that you are lacking. They don't actually lend you money but rather guarantee it's payment to the bank if things ever turn sour in your ability to repay.

So, the links in this ebook will point you towards a website that specialises in helping you to access lenders that are proactive in the idea of providing these kind of guarantor loans. It's a specialty area and you are best to secure specialty advice from specialised lenders who are well versed in the intricacies of such lending practices.

WIIFM

There's a mythical radio station called WII FM and its handle is an acronym for " **Whats in it for me?** "

That station only plays music that's music to your ears. It's the station you should tune into when you are asking someone to become your guarantor. If they are a family member it may be that they have sufficient motivation to help you. But even so, you need to value and appreciate that they are taking on risk by helping you. The amount of risk your family (or friends) takes on, is related to how big a deposit is needed and also in how they themselves are situated in terms of equity in property they own. Their ability to borrow money will decline in an amount equal to the deposit they secure for you. Now if they don't need to borrow money themselves you may be forgiven for saying "so what ?" But you need to realise that by lending you their equity they potentially forego the ability to use those funds for their own wealth creation.

Far more importantly of course is the risk to your family that they could lose their house in having you able to keep yours! More than likely if something went wrong they themselves would at the very least be forced to either pay some cash to the bank, or refinance their own property to make up the gap or take out a new loan to cover the cost.

An appreciation of all this will assist you not only in asking for help but in ensuring you do the right thing by your family or friends for years later.

Once again, if you have been listening attentively to radio station WII FM , you may be wondering what you can do for your guarantor. One possibility is that you set in motion a budget and savings program so that as soon as possible you can pay out the deposit guarantee they have given you and the mortgage caveat can be lifted from their property.

You could even go so far as to have your family actually own part or all the property in their name. They could be Tenants in Common in the same way that a husband and wife are. In other words they co own the home with you. If they were in a position to pay your deposit in cash, you could even have separate contract with them granting them a part ownership in your property, equal to the amount of the deposit they have paid. You could even go further and have them granted a stake in any future capital gain which is equivalent to either the deposit or else the deposit as a ratio in a future sale.

For example lets say you wanted to buy a \$300,000 house and thus needed a \$30,000 deposit.

Some options are

- * Family lends \$30,000 directly with no need for a second mortgage on their own property.**
- * Family simply guarantees the 30k and allows the bank to use their existing equity as surety for that amount.**
- * Any combination of those two scenarios but with the added agreement that the guarantor will share in some potential future capital growth in the property.**

The third option may come into play if you can't arrange a family member. In other words if someone outside your family is going to help you then you can look at rewarding them for doing so.

Another avenue for seeking out a guarantor might be an employer. Such a deal would only work with an employer who really needed your talents and abilities. They could do something as part of a salary package but you would have to make the running in asking for it and it will always be a longshot. Less of a longshot will be to try to entice

an investor to Joint Venture in a house with you as the tenant. The perceived benefit for the investor is a pseudo tenant wherein the investor trades a rental income for possible future capital growth as well as interest as payments on a mortgage. In some cases an investor can in effect become your bank. More about this in a moment.

Vendor Finance

On the surface, vendor finance looks like a godsend and the answer to every no deposit home borrowers prayers.

Like many good ideas however (and they are a good idea) they may start to look far less attractive upon closer scrutiny.

The basic idea behind Vendor Finance or WRAPS as they are sometimes referred to as....is that an investor will sell you a property direct.

Its usually done without a real estate agent and the investors risk is minimised because they in fact become the bank.

The investor holds the mortgage on the house and you pay the investor instead of paying the bank directly.

In practice the investor will generally have a mortgage on the property also. The difference between what he is paying the bank and what you are paying him is his profit margin.

Typically the investor will get an extra per cent or two on top of the average interest rates. Typically you will also pay an inflated price for the property. Between those two things the investor can make a tidy profit with very little risk.... because if you default he gets to keep the house and simply takes over the payments. The investor could even wrap it to another party in such an event.

There are certainly some advantages to Vendor Finance and also considerable disadvantages namely that you will simply pay too much for a property. You will also be severely limited in both what and where you can buy a property. You will need to show savings and income evidence to the investor but the level of doing that will be less

than the banks require. It is generally pitched by the wrappers to high income individuals with no deposits.

Explore the possibility by all means but obtain independent legal advice before entering into a wrap.

What else can you do?

What do you do if you can't get a family member to act as guarantor, nor a friend, nor an investor, nor a Venture partner to co-own a property?

What if you also decide that wraps are not for you? Do you just bide your time saving, while realising that house price rises may outstrip your ability to keep up?

One of the additional things you might try, is to free up some money locked up in something that you don't really need. Maybe you have an expensive car that can turn into the ten or twenty grand you need for a deposit.

You could also barter your services in exchange for cash, if you can find someone who benefits sufficiently from such an offering.

The key is to get creative.

Look around at all options and don't let anybody tell you that you necessarily need your own money to purchase a home.

By getting creative almost anything is possible, but be wary of any situations where a deposit is "built in" to a purchase price. For one thing, valuations usually mean that such ideas seldom work. Also bear in mind that anyone fiddling the books in terms of paper based purchase prices, may be in breach of Australian taxation laws. Banks also have disclaimers that ask you to state that the purchase price and all other information you give them is valid.

Finally keep abreast of developments as home finance is evolving all the time. Subscribe to forums, blogs and newsletters related to loans and property investing and that way you may here about new loan products and offers before the mainstream. And of course visit our

website and stay across developments in low and no deposit home loans at <http://nodeposithomeloanaustralia.com.au/>