

How to buy without a 20% deposit

When you consider that a small flat in Sydney could set you back half a million dollars at the moment, saving a 20% deposit to buy that flat – \$100,000 – can seem an insurmountable task. That's where insurance can help.

Lenders mortgage insurance (LMI) may be an added expense, but it offers buyers the opportunity to dive into the property market earlier, without saving up an entire 20 per cent of the property's purchase price as a deposit.

LMI protects the bank or lender, should a home loan go into default, guaranteeing that the lender will get its money back if the property needs to be sold and there is a shortfall in repaying the loan.

While a 20% deposit generally provides a good buffer against any drops in property value over the life of a loan, LMI can also provide the same protection, meaning borrowers can purchase property with a smaller deposit.

For the borrower, it may seem LMI is just another expense to cover. But insurance can mean that some buyers will be able to enter the property market with, for example, only a five per cent deposit saved. In the example above, a \$500,000 property, this brings the deposit down from \$100,000 to just \$25,000.

And, if the market is hot and prices are rising rapidly, paying LMI so that you can buy now could be cheaper than taking the time to save a bigger deposit. In the time it takes to save a higher deposit amount, property prices may well have surged by more than cost of the insurance so, for some properties and purchasers, it can make good financial sense to purchase earlier even with the added cost of LMI, especially when you consider the rent that you would pay while you're saving.

The insurance premium is generally a one-off payment, but you may be able to roll it into the loan amount so that you are paying for it month-by-month along with your mortgage.

There can be a big difference between premiums paid if you have, for example, a 10 per cent deposit saved compared with a five per cent deposit, so it may well be worth trying to gather together some extra funds, even if you despair of reaching the full 20 per cent.

An MFAA-accredited finance broker like myself can help you find the best option to suit your individual lifestyle.

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