



SIZE DOES COUNT

The bigger your home loan deposit, the fewer costs you will be expected to pay, says Oracle Lending Solutions' Angelo Benedetti

While the size of your deposit may not effect whether you get the finance required to buy a new home, it will impact on the cost of borrowing the money from a lender.

Angelo Benedetti, Director of Oracle Lending Solutions, says whether you have no deposit, a 5 per cent, 10 per cent or 20 per cent deposit, the size of the loan required will directly affect the overall costs.

"If you don't have a deposit then you can expect to pay a larger Lenders Mortgage Insurance premium, to offset the risk taken by the bank and the mortgage insurer," he says.

"Put simply, the smaller the deposit, the greater the risk taken on by the lender and the mortgage insurer. Mortgage insurers will then charge accordingly to ensure that the proportion of risk taken is relative."

Over time, a home's value is likely to appreciate and the owners' equity share in the property will increase.

However, from the financier's point of view, if you have contributed little by way of funds to the property then the lion's share of the risk is borne by them.

For example, Angelo says if you were to purchase a \$300,000 home with no deposit, the Lenders Mortgage Insurance would be charged at about \$6000.

As a result, your monthly repayments would be at least \$2485 a year.

But if you have a 5 per cent deposit plus fees and charges (government and bank) then you would reduce your mortgage insurance costs by about \$1000 and reduce your repayments.

At the current standard variable rate of 8.57 per cent, with a 5 per cent deposit your repayments would be around \$2368 a month. This represents a saving of \$117 a month over a 30-year period –

just by contributing 5 per cent of the purchase price.

However, if you have a 10 per cent deposit plus fees and charges, based on the same purchase price of \$300,000, Angelo says your total borrowings would be around \$270,000. Monthly repayments would be approximately \$2090 and the mortgage insurance component would be around \$3000.

The same purchase price with a 20 per cent deposit plus fees and charges, would attract no Lenders Mortgage Insurance, which is quite a substantial saving, Angelo says. Repayments would be around \$1857 a month to reflect the lower loan amount and you would hold on to one fifth of the equity.

"From a lenders' perspective a 20 per cent deposit is ideal," Angelo says. "This is because a large deposit is more of a guarantee that the buyer is genuinely able to manage the repayments and less likely to default." 

