

New antidote to mortgage stress on horizon



There is not a day goes by without hearing about either how houses are becoming increasingly unaffordable for new home buyers or the increasing numbers of home owners are under extreme mortgage stress due to increased interest rates, petrol prices, cost of food etc. With this in mind lenders are continually introducing innovative products to alleviate these problems. One such product introduced recently is the Equity Finance Mortgage or EFM.

Benefits to you include: more purchasing power, lower repayments and more flexibility

The EFM is a loan taken out in conjunction with a standard home loan, no interest or monthly repayments are required for the life of the EFM. The EFM allows a home buyer to increase their borrowing capacity by up to 25%. Alternatively, an EFM could allow a borrower to reduce their repayments by up to 20%. Repayment of the EFM can be made at anytime without penalty, but must be paid out if the home is sold. When repaid the lender shares in up to 40% of the capital gain of the property over the period of the EFM. If a capital loss is made the EFM lender will share some of the loss. In all cases borrowers are required to have a minimum of 5% deposit.

Here's a couple of examples:

Increased Borrowing Power

Using an EFM a borrower will be able to increase their borrowing power from say \$425,000 to \$531,000, using the same deposit without increasing their repayments. In this way house buyers could afford a home that may have previously been out of their reach.

Reduced repayments

Alternatively a borrower could use an EFM to reduce their traditional loan by 20% (from \$380,000 on a \$400,000 home to \$300,000) to reduce their repayments by 20%.

Home buyers can take out an EFM at anytime to reduce their monthly repayments, to reduce mortgage stress, to fund a better lifestyle or fund urgent or unexpected needs.

What happens when the EFM is repaid (say after 6 years)?

If the EFM was for 20% on a \$400,000 home and the home increases in value at 5% per annum the value will increase to \$536,000, a capital gain of \$136,000.

Total repayment of the EFM is \$134,400 (original loan of \$80,000 plus 40% of the capital gain) and once paid out would leave a loan of \$404,600 against a property now worth \$536,000.

If you' like to know about how Equity Finance Mortgages or other home loan products can help you contact Glyn Crouch at Morse Loan Solutions.

glyn.crouch@morsegroup.com.au or phone 02 6882 2288