

**Home loan a capital idea**  
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Homeloans believes its new product can cut the upfront and ongoing costs of buying a home by 20 per cent or more, writes Ben Wilmot.

A home loan where you don't have to make monthly repayments sounds like a good deal as interest rates head upwards. A new product, the equity finance mortgage, promises to do just that.

The equity loan cuts the amount home buyers must outlay to buy a property in return for a share in the capital gains for the lender.

This sounds as if it would have huge appeal to strapped first-home buyers, after median property prices soared in major cities over the past decade. But the wealthier end of the market, focused on houses in the \$1 million to \$2 million bracket, is turning out to be one of the biggest users of the product.

Troy Phillips, general manager of sales for mortgage company Homeloans, says the firm started selling equity loans about six months ago.

While the loan product was probably targeted towards first-home buyers to begin with, it has been taken up more strongly by people seeking to upgrade their homes. "It's someone who's got a younger family looking to go to another house," he says.

Homeloans has also had interest from people looking to refinance properties valued at about \$2 million.

The initial limit on properties is about \$4 million, but the loans may be tailored above this level in future.

Dealing in more expensive homes at a time when the direction of the market is uncertain sounds risky. But the developer of the equity loan, Rismark International, is a strong backer of this market segment.

While demand for mortgages generally has softened in the past month, Phillips says there is an appetite for the equity loans.

He is cautious about marketing the equity loans too heavily. "It's a product that has to be bought, not sold."

The loans sound complex but work fairly simply.

In the most obvious case, they are taken out in combination with a normal home loan to buy a house, which at present must be in a mainland capital city.

Phillips says that after selling a normal mortgage Homeloans "bolts on" an equity loan for up to 20 per cent of the property's value.

The equity lender then receives up to 40 per cent of the capital gains on the property. In return for giving up these gains, borrowers pay no interest on the equity mortgage. Normal repayments must be made on the ordinary home loan.

The upfront fee for the equity mortgage is about \$1000 and an independent valuation must also be obtained.

The borrower can pay back the equity loan at any time. They can refinance back to a normal loan or, more likely, pay out the equity loan when they sell the property.

If after, say, 10 years, an equity mortgage borrower wants to get out, but keep their home, there is a discharge fee of about \$275.

An independent valuation is used to calculate how much must be repaid on the equity mortgage.

If a borrower disagrees with the valuation, perhaps believing that their capital gains have grown strongly, they can select another valuer from the lender's panel.

If the valuations differ, then the mid-point of the two will be used to determine the fair value of the home.

The product's developer, Rismark, says the product's main benefit is in cutting the upfront and ongoing costs of buying a home by 20 per cent or more.

This may help people who want to secure a foothold in the market. It is also useful for households where budgets are already stretched by rising petrol and grocery prices. Over the long term, a cut of this nature could allow families to manage higher education expenses or even help in estate planning.

But perhaps the greatest attraction of the equity loans is non-financial.

They give people the capacity to buy houses that are 25 per cent more valuable than they could afford using conventional loans.

But some initial borrowers are using the loans to manage risk.

Rismark chief executive Christopher Joye cites the example of an owner of a \$2 million waterfront property who felt overexposed to a single asset. By taking out an equity loan over part of the property - and effectively giving up some of the potential capital gains - the borrower has been able to free up money to reinvest.

The borrower could use it to invest in another house or, more likely, shares or managed funds that produce a steady income.

One risk is that people could sacrifice some of the capital gains they expect from their properties. But many have benefited from the property boom in sought-after suburbs of Sydney and Melbourne, and the equity loans are effectively a means of taking some money off the table.

For those who are pessimists about the property market - and believe their property will either decline in value or stay relatively flat - the loans can be used to mitigate potential losses.

The lender will take up to 20 per cent of losses.

Phillips says Homeloans is not yet offering the product for what he calls "straight equity release", but he believes this will develop into a large market.

He says the loan is not available to property investors through Homeloans and that is probably a good thing.

The loans are more suitable for owner-occupiers than "people gearing to take a punt" on the direction of the market, he says.