

New mortgage cuts costs, profits
The Australian
14 March 2007

WHAT is said to be the most innovative mortgage to hit the market in the past 15 years promises to cut the cost of buying a house by up to 20 per cent -- but the spoils will have to be shared with the bank.

Under the terms of Australia's first "shared equity" mortgage, launched yesterday by the Adelaide Bank, buyers can borrow between 10 and 20 per cent of the value of the property interest-free.

The condition is that they surrender up to 40 per cent of any capital gains made on the sale of the home or when they exit the loan.

The Adelaide Bank/Rismark Equity Finance Mortgage is the nation's first such commercially available loan, although state governments have been exploring similar schemes to help low-income families.

"Our research shows that Australian homeowners do not like the idea of the ownership process being polluted by others owning their home, so the borrower retains 100 per cent ownership of the home at all times, as well as 60 per cent of any capital appreciation," said Chris Joye, managing director of Rismark.

"Any increase in the value of the home related to renovations carried out during the loan would also remain theirs."

The target market is first-home buyers who can reduce their upfront costs by 20 per cent, existing homeowners who want to upgrade to a property that they would otherwise not be able to afford and people refinancing to reduce repayments.

Mr Joye said shared equity mortgages were equitable for customers because the lender shared the rewards and the risks. "The borrower would retain 60 per cent of the capital appreciation of their home and in most cases will not pay for capital loss," he said.

Denis Orrock, of independent loan researcher Infochoice, said it was "the most innovative type of lending product" in 15 years.

How an equity finance mortgage works

- * Buyer gets up to 20 per cent of the value of their property purchase upfront through an EFM
- * Loan can be used to top up first home deposit, or allows aspirational borrower to buy a 25 per cent more expensive house than would otherwise be the case
- * The rest of the loan (the other 80 per cent) is financed by a traditional mortgage
- * Zero interest is payable on the EFM for loan term
- * On property sale or exit from EFM loan, the borrower must pay up to 40 per cent of any capital gain

* If the property declines in value, the borrower may end up paying back less than they originally borrowed

