Low deposit? Here’s some options to get you into your property sooner.

Low deposit options guide

When buying a property, most banks require you to have saved a deposit of at least 20% of the purchase price, plus enough to cover the additional upfront costs such as stamp duty and legal fees. This can take a long time and it’s not always easy – especially if you’re also paying rent.

If you don’t have the full amount required, we face an increased risk when we lend to you. This is because we have less security to protect us if you can’t meet your repayment obligations for the home loan.

This guide will outline some options you can consider if you have a low deposit.

005-855 300623

Key considerations for low deposit options

What are your options if you don't have the full deposit?

If you don't have the full deposit saved, you may have to consider reducing your property budget and borrowing less. Alternatively, we offer three options (standard lending criteria applies) if you have a low deposit. These are:

- Lenders Mortgage Insurance (LMI);
- Low Deposit Premium (LDP); or
- Consider having a Guarantor on your home loan.

Each of these options protect us from the risk associated with a low deposit home loan, however they don't protect you. We can generally lend to you to purchase a property – even if you don't have the full deposit – as long as one of these options are in place.

<table>
<tr><th></th><th>Lenders Mortgage Insurance</th><th>Low Deposit Premium</th><th>Guarantor</th></tr>
<tr><td>What is it</td><td colspan="2">LMI and LDP are products which protect us in the event that you are unable to repay your home loan.
The circumstances of your loan will determine whether a loan incurs LMI or LDP. You will only be required to pay for one – not both.
By having LMI or LDP, you are not reliant on a guarantor to supply additional security to secure your home loan.</td><td>A guarantor is someone who agrees to be responsible for repaying a debt owed to us if the borrower(s) (you) cannot make your repayments. A guarantor supports all or part of the loan by providing us with an additional security such as their property or cash.
Generally, LMI and LDP are not available for borrower(s) who have a guarantor on their home loan.</td></tr>
<tr><td>Benefits</td><td colspan="3">You may be able to:
• Enter the property market by taking out a home loan with a smaller deposit and start building your equity sooner.
• Stop paying rent.</td></tr>
<tr><td>Financial</td><td colspan="2">There is a cost for LMI or LDP. It is calculated based on the size of your deposit, how much you borrow and the property's value. The more you contribute to the purchase price of your property, the lower the cost will be.
LMI or LDP costs will vary depending on the circumstances of each new home loan application. This also includes if you restructure your home loan, top it up or refinance in the future.</td><td>The fee for establishing a guarantor on your home loan will depend on the number of borrower(s), and structure of your home loan.</td></tr>
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Important: There may be additional factors that could influence the total costs involved and is based on the individual circumstances of your home loan. Your Home Lending Specialist or Broker will discuss if these apply.

TIP: Our Budget planning calculator can help you set a budget and work out how much more you can put away regularly to grow your deposit. The more you contribute to the purchase price of your property (by having a bigger deposit), the lower the cost of LMI and LDP will be. It also means that you may not need a Guarantor. Go to commbank.com.au/budgetplanner to see how much you can save today.

	Lenders Mortgage Insurance	Low Deposit Premium	Guarantor
Premium & fees	All premiums or fees are capitalised (added) to the total home loan amount when your home loan is settled. This means you'll pay more interest over the agreed contracted loan term. It's a one-off non-refundable, non-transferrable:		
	Insurance premium which we collect (from you) and pass on to our insurance provider Helia Australia.	Bank fee which you pay directly to us.	Security Guarantee fee which you pay directly to us.
Risks & considerations	If you are unable to make your home loan repayments and have no remaining financial hardship solutions, you may be required to sell your property (we may step in to assist with the sale of the property). In the situation where the proceeds from the sale are insufficient to pay off the loan in full then:		
	The LMI provider (Helia) will cover us (CommBank) for the shortfall in accordance with the LMI policy. Helia may then seek to recover the remaining shortfall debt from any borrower(s) (you) and when applicable any guarantor(s) on the home loan.	We may seek to recover the remaining shortfall debt from any borrower(s) (you) and when applicable any guarantor(s) on the home loan.	The guarantor(s) may be required to pay us any amounts up to the maximum shown in the guarantee, along with interest and reasonable enforcement expenses. If your guarantor is unable to pay the loan or cover the repayments, we may seek to sell the guarantor's property to cover the shortfall debt owed to us. Keep in mind, having a Guarantor on your home loan is a complex legal relationship and works differently to LMI and LDP, as it is not a type of insurance. For more information on Guarantors go to commbank.com.au/guarantor-support

TIP: Calculating LMI or LDP can be complicated. Your Home Lending Specialist or Broker will help calculate it based on your home loan circumstances. To calculate an estimated cost of LMI or LDP applicable to your home loan, go to our CommBank Stamp Duty and Upfront Cost calculator commbank.com.au/upfrontcosts

Meet Leah & Taylor

Leah and Taylor have found a home they want to buy with a purchase price of $500,000. They would typically require at least a 20% deposit ($100,000) plus additional funds to cover their upfront costs such as stamp duty and legal fees. With a low deposit option, they can provide a smaller deposit and borrow the remaining amount.

Let's have a look to see how LMI can help Leah and Taylor purchase their property sooner.

How does it work?

Purchase price: **$500,000**

Leah and Taylor found a house they wish to purchase.

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Leah and Taylor have a 10% deposit for the property and additional funds to put towards their upfront costs.

Their Home Lending Specialist or Broker explains that LMI is applicable as they want to borrow more than 80% of the property value. By paying LMI, Leah and Taylor can purchase their dream home with a lower deposit.

$$\frac{\text{Loan: } \mathbf{\$450{,}000}}{\text{Value of Property: } \mathbf{\$500{,}000}} \times 100\% = 90\% \text{ Loan to Value ratio (LVR)}^{1}$$

↓

The LMI premium is calculated and capitalised (added) to the home loan balance.

New loan amount: $450,000 + LMI $9,000 = $459,000

$$\frac{\text{Loan: } \mathbf{\$459{,}000}}{\text{Value of Property: } \mathbf{\$500{,}000}} \times 100 = 91.74\% \text{ LVR}$$

↓

Deposit: **$50,000**

Leah and Taylor proceed with their property purchase (including LMI) and pay the deposit to the vendor.

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Leah and Taylor use the rest of their savings to pay for their upfront costs such as stamp duty and legal fees.

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Leah and Taylor were able to purchase their home sooner than they thought was possible by not having to wait to save a 20% deposit.

[1] Loan to Value ratio (LVR): The total you've borrowed for your loan as a percentage of your property value.

How does it work? *(Continued)*

2 years later Taylor is made redundant and they are unable to keep up with their repayments, resulting in defaulting on their home loan.

After exhausting all their financial hardship options^, Leah and Taylor are required to sell their property. Due to a market downturn, the property is sold at a lower price.

	Amount
Sale price of the security property	$420,000
Outstanding loan amount	$443,000
Accumulated compounded unpaid interest over 12 months	$14,000
Recovery costs (e.g. legal fees)	$5,000
Total shortfall debt from sale of property	$42,000

In this scenario, the property sells for $420,000, however the outstanding loan balance is $462,000 (including unpaid interest and associated recover costs). This leaves a shortfall debt of $42,000.

As the loan is insured by our LMI provider (Helia), CommBank would submit a claim to have the loss of $42,000 covered by Helia. After Helia pays the claim to CommBank, Helia then have the right to recover the shortfall from Leah and Taylor.

TIP: If the unexpected happens and you're behind in paying what you owe you can request financial assistance in NetBank or call us on 13 3095 between 8am – 9pm Monday to Friday and 9am – 2pm Saturday (Sydney/Melbourne time). We'll work with you to develop a solution tailored to your needs.

^ We know that everyone's circumstances are different. The help we provide is tailored to your personal circumstance and designed to be long-term solution to help you back on track financially.

Common questions

How can I reduce or avoid the cost of LMI or LDP?	To reduce or avoid paying the LMI premium or LDP fee you may consider the following: • Saving up and having a larger deposit; • Providing additional security, such as another property you may already own; • Using the First Home Loan Deposit Scheme (if eligible); or • Have a guarantor on your loan. Speak to your Home Lending Specialist or Broker to find out more about First Home Loan Deposit Scheme, Guarantors and other options. For more information on the First Home Loan Deposit Scheme go to **commbank.com.au/fhlds** For more information on Guarantors go to **commbank.com.au/guarantor-support**
What is a shortfall debt?	A shortfall debt arises where the proceeds from the sale of a property are insufficient to fully repay the home loan. The borrower(s) and/or guarantor(s) are liable to pay the shortfall debt. Having a smaller deposit means there is a smaller buffer against possible adverse movements in the property market, which can increase the possibility of a shortfall debt on the sale of a property.
Why am I charged LMI or LDP when I restructure or top up my home loan?	In the event of a home loan being restructured or additional funds being borrowed (top up), your LVR is recalculated. If the assessed risk goes above our standard lending margin of 80% (in some circumstances this can be lower) a new or additional LMI premium or LDP fee will also be applicable at that time.
What happens if I want to sell or refinance my property after a few years?	Our low deposit option premiums and fees are non-refundable and non-transferable. This includes if you: • Choose to pay out, close or refinance your home loan early; and/or • The LVR of your home loan drops below 80% (or in some circumstances lower) after settlement. **Note:** If you have LMI or LDP on one home loan and want to apply for another home loan, you'll most likely have to pay for LMI or LDP again if your LVR is greater than 80% (or in some circumstances lower). Each LMI or LDP premium is unique and covers that particular home loan only.
Is the LMI premium or LDP fee refundable?	No, they are one-off non-refundable, non-transferrable charges.

We're here to help

If you have any questions or want more information:

Book an appointment with a Home Lending Specialist at **commbank.com.au/appointment** or contact your Broker

Call us on **13 2224**

Visit **commbank.com.au/homeloans**