What Are the No and Low Deposit Home Loan Options in Australia?

How to Buy a House In Australia Without a Deposit

For Australian first home buyers, saving up for a deposit is one of the biggest hurdles when getting into the property market.

This is especially so when the average house deposit amount (usually 20% of the property's value) has crossed 6-figures in 2021.

But even though the odds may seem stacked against you, don’t give up your dreams of owning a new home just yet.

Legitimate no (or low) deposit paths to homeownership do exist! So you might be able to start climbing the property ladder sooner than you think.

Keep reading to learn more about the pros and cons of these alternative paths to homeownership.

Disclaimer: This article is intended to be general in nature and is not personal financial product advice. It does not take into account your objectives, financial situation, or needs. In particular, you should seek independent financial advice and read the relevant product disclosure statement (PDS) or other offer documents before making an investment decision in relation to a financial product (including a decision about whether to acquire or continue to hold).

Quick Summary

No Deposit Home Loan Options

1. **Guarantor home loan**: A loved one offers home equity as a security for your loan.
2. **Gifted deposit**: A loved one provides the deposit as a gift.
3. **Rent-to-own:** Rent your dream home and buy it later at a pre-agreed price.

Low Deposit Home Loan Option

4. **5% deposit home loans:** Find a lender that accepts smaller deposits.

Other Ways to Grow Your House Deposit

5. **Use superannuation** to pay for part of the deposit.
6. **Utilise the First Home Owners Grant** government program to pay for part of the deposit.

No Deposit Home Loans Options

Option 1: Guarantor home loan (or 105% guarantor home loan)

With guarantor home loans, it's possible to put up no deposit and have a guarantor pledge part of their home equity that's equivalent to a 20% deposit as security for your loan.

Alternatively, you can also put up a smaller deposit (typically a 5-10%). And the guarantor then "tops up" the rest of that deposit by pledging their home equity to meet the 20% criteria.

In either scenario, the guarantor will be liable for the guaranteed amount secured by their property if you default on (unable to pay) your monthly repayments.

Note that the guarantor is not lending or giving you any money. Their home equity is only at risk if you stop meeting your monthly repayments and the lender can't get the loan amount back from the sale of your home.

Example: *You want to purchase a house worth $500,000. Typically, you'd need a deposit that's 20% of the property's value — $100,000 in this case.*

With a guarantor home loan, your guarantor can pledge $100,000 of their home equity to cover the deposit.

Alternatively, you can also put up a 5% deposit ($25,000). But you still need an additional 15% ($75,000) to meet that 20% criteria. This sum will come from your guarantor by pledging $75,000 of their home equity to be used as the security on your loan.

How much can you borrow with a guarantor home loan?

The amount you will be able to borrow on a guarantor home loan will depend on your situation. But first home buyers will generally be able to borrow 105% of the property’s value.

What are the requirements of a guarantor home loan?

- Your guarantor must have enough equity in their property.
- Your guarantor typically needs to be a close family member.
- Your guarantor usually doesn't need to have stable employment (but this can vary with different lenders).

Do you pay lenders mortgage insurance (LMI) if you have a guarantor?

In most cases, you won't need to pay LMI when you have a guarantor for your home loan. This is due to the fact that your deposit, along with your guarantor's pledged home equity, will usually be equal to at least 20% of the property's value.

> ***Key Term: Lenders mortgage insurance (LMI)***
> *This is a one-off insurance fee that needs to be paid by the borrower to protect the lender in case it cannot recover the loan amount.*
>
> *LMI is usually required if the borrower takes out a loan that's more than 80% of the property's value.*

Are there other differences between a guarantor home loan and a regular home loan?

The features you get with a guarantor home loan are pretty much the same as a traditional home loan.

Depending on the lender, you may be able to negotiate fixed rate options where you lock in a set interest rate over a period of time. You might also be offered offset accounts and the option to make repayments early.

Pros and cons of a guarantor home loan

✅ **Pros**	❌ **Cons**
No (to low) deposit needed	The guarantor must have enough equity in their home
You can buy your home immediately	May cause relational strain if loan issues arise
No LMI needed	Guarantor must usually be a close relative
The guarantor can eventually be released from obligations	You have to rely on this persons equity until you build up enough equity in your home to

	avoid LVR restraints
Potential low interest rates	
The loan may help to cover stamp duty and other costs	

Option 2: Gifted deposit

A loved one may also give you a one-time cash gift for the deposit on your property. But there are several steps in the application process you'll need to go through before being approved for a home loan.

For example, you might have to demonstrate that the money is a genuine gift. Some lenders may also want some evidence of the source of funds. This is to ensure that this money isn't borrowed (e.g. withdrawn from a credit card).

About 60% of all first-time home buyers receive a financial contribution towards their home deposit—so lenders are very familiar with how to assess this as part of an application.

Do I need to show genuine savings?

Because a gifted deposit is money that comes from someone else, lenders would still like to see proof of your own genuine savings.

Genuine savings refers to money that you've managed to save up over a period of time and it shows lenders that you have good financial habits.

Most likely, they'll also assess your overall financial and credit history. This includes your credit score and whether you've paid personal loans or car loans on time.

The overall purpose is to assess whether you have the financial discipline to meet loan repayments on time along with their other lending criteria.

Key Term: Genuine savings
Genuine savings is money you've personally saved up over time. Lenders usually want to see proof of genuine savings if you're borrowing more than 85-90% of the property value.

Do I pay higher interest rates with a gifted deposit?

Most lenders will offer you competitive interest rates similar to what you'd get with a traditional home loan.

Pros and cons of a gifted deposit

✅ **Pros**	❌ **Cons**
You don't need to save for a deposit	Some lenders might still want to see a history of savings
You can buy your home immediately	You need to show that the gift isn't a loan
No LMI needed	The lender might want to know the source of the funds
There is no long-term commitment from your loved one	Not everyone has access to the Bank of Mum and Dad
	If you accept financial support from family, this may alter your relationship long-term

Option 3: Rent-to-own

Rent-to-own is a hybrid situation where you rent a home with the option of buying it several years later (usually 2-7years).

Both parties will also lock in a future purchase price at the start of the agreement.

While we can't speak for other rent-to-own schemes, here's a closer look at our services at OwnHome in more detail.

How does OwnHome work?

OwnHome offers a rent-to-own pathway for first home buyers to accelerate the process of living in their dream home. OwnHome is backed by the Commonwealth Bank.

Here's how it works:

1. Choose your dream home and OwnHome will buy it in OwnHome's name. You can move in straight away without saving for a 20% home deposit up front. Upfront costs are just 3%, with 1% going to your Security Deposit.
2. You continue paying monthly rent to OwnHome with part of this sum going towards your Security Deposit (which can be used when you buy back the home, and comes off the purchase price). Think of this as saving up for the deposit while you're living in it.
3. Buy your home after 2-7 years from the start of your agreement with OwnHome at the pre-agreed price.

Example: *OwnHome purchases your dream home for $1,000,000. You start living in it and pay fortnightly rent to OwnHome. Part of this payment goes towards your security deposit (which you can use to buy back your property from OwnHome).*

The property's value will increase each year at a pre-agreed fixed rate. Between 2-7 years after the start of your agreement with OwnHome, you can choose to buy your property.

Let's say after 5 years, the property purchase price has increased at the fixed rate to $1,200,000 and you've contributed $150,000 towards your Security Deposit. You will only need to secure financing for $1,050,000 if you choose to buy the property.

If the home's true market value has grown above OwnHome's pre-set price, you keep the upside. Let's say the OwnHome price is $1,200,000, but the home would be valued on the market for $1,400,000, you keep the $200,000.

This means your equity in the home is equivalent to $350,000: the $150,000 security deposit, and the $200,000 capital gains. Therefore, you'll need to secure $1,050,000 of financing with an LVR of 75%.

Key Term: Security Deposit
Your "Security Deposit" is the amount of money you've accumulated through your fortnightly payments to OwnHome. About 35% of your fortnightly payments is contributed to your security deposit.

The security deposit will be deducted from your home's final price when you buy it from OwnHome.

Are there other upfront costs with rent-to-own schemes?

With OwnHome your upfront costs are 3% of the purchase price of the home. There is a starter fee (2% of the property value) and an initial security deposit contribution (1% of the property value). The initial security deposit contribution can be used when you buy back the home.

Pros and cons of OwnHome rent-to-own

✅ **Pros**	❌ **Cons**
You don't need to save for a home deposit	There’s a one-time 3% upfront fee (1% goes to security deposit)
Start living in your dream home immediately, perform renovations and make it yours	The home will only be in your name when you buy it
No LMI needed	The value of your home might drop lower

	than the pre-agreed purchase price (but you can walk away, unlike a mortgage)
You don’t need to involve loved ones in your loan	
Set purchase price	
Build up security deposit (which you can use to buy back your home) instead of just paying rental	
Potential capital gains	

Use this calculator to find out how much you'd save with OwnHome compared to renting and saving.

<Discover Your Buying Power With OwnHome>

Low Deposit Home Loans Option

It doesn’t have to be all or nothing when it comes to the deposit for your home loan. There are low deposit options where you might still get approved without having to save up for the full 20% deposit.

Option 4: 5% deposit home loans

Some lenders might consider granting home loans to first home buyers who've saved up less than the recommended 20% of the property's value. These are usually called 5-10% deposit home loans.

Of course, because you're borrowing more from the lender, your overall cost of taking this loan is higher.

For example, you will need to pay lenders mortgage insurance (LMI) which can add tens of thousands of dollars depending on the value of your property. (Jump here to learn more about LMI)

Interest rates are also usually higher as the loan-to-value ratio (LVR) goes up with a smaller deposit.

The LVR basically helps lenders assess the level of risk they're exposed to when approving your loan application. The higher the LVR, the higher risk the lender is taking.

Key Term: Loan-to-value ratio (LVR)
The LVR is the loan value divided by the value of the property you're buying. The higher the LVR, the riskier the loan is to the lender. This means that the interest rates they offer will also likely be higher.

Pros and cons of 5% deposit home loans

✅ **Pros**	❌ **Cons**
You don't have to wait till you reach the 20% deposit	You have to pay LMI
	Interest rates are usually higher
	Lenders may not be as keen to approve loans with smaller deposits

Other Ways to Save Up for a Deposit Faster

Don't forget to make use of some of these government grants and schemes to help you reach your house deposit goals faster.

Option 5: First home owner grant (FHOG)

The first home owner grant (FHOG) (sometimes referred to as the first home buyers grant (FHBG) or first home guarantee (FHG)) is a national scheme that rolled out in July 2000 to help Australians achieve their dreams of home ownership.

It's a one-time payment ranging from $10,000 to $20,000 which can be used to pay part of your deposit.

Note that while this is a national scheme, it's funded by individual states and territories. This also means that the rules and eligibility criteria regarding the grant are different in each area.

But generally, the grant is only open to first-time home buyers and those intending to be owner occupiers. It does not apply to those looking to purchase an investment property.

Option 5: First home super saver (FHSS) scheme

The government-initiated first home super saver (FHSS) scheme allows you to voluntarily contribute up to $15,000 to your super each financial year.

A maximum of $50,000 can be withdrawn from this contribution to pay for your first home deposit.

Note that the terms and eligibility criteria of this scheme can change and it's best to consult the ATO for the latest updates.

Other Costs to Consider When Buying a Home

In addition to your deposit and monthly repayments, there are other "hidden" upfront costs you will need to budget for when buying a home.

Stamp duty (a tax charged by the government) is usually one of the heftier upfront costs.

But as a first home buyer, you will pay no (or reduced) stamp duty depending on the value of your property.

Other costs include legal, mortgage registration, and loan application fees — all of which could add up to $10,000-$20,000 for a $500,000 home.

Live In Your Dream Home With No (or Low) Deposit

We've covered the top options for first home buyers looking to own a property with no (or low) deposit.

If you don't want to involve loved ones in your loan or pay exorbitant LMI fees, then it's worth exploring the rent-to-own pathway we offer at OwnHome.

Discover if OwnHome is the right path to homeownership for you and your buying power below..

<Discover Your Buying Power With OwnHome>

FAQs: Buying a Home With a Low or No Deposit Loan

Do no or low deposit home loans usually incur higher interest rates?

It really depends on the type of home loan you select. But there are definitely instances where you could get competitive interest rates (like with guarantor home loans which you can learn more about here).

Can you use super as a house deposit?

Yes, first home buyers can use superannuation to pay for some of the house deposit.

It comes under the first home super saver (FHSS) scheme which you can learn more about here.

What about the government's first home loan deposit scheme?

The first home loan deposit scheme lets first home buyers buy a property with as little as a 5% deposit (no LMI needed).

What happens is that the government guarantees the remaining 15% of the usual 20% deposit that lenders need to be able to approve a loan without LMI.

There are currently only 35,000 places available each year for this scheme.

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