

The benefits of paying a deposit

Of course no-deposit or 100% home loans do make it easier for young buyers and first-timers to get a start in the property market, and since the total withdrawal of such loans in the 2009 recession, they have steadily become more freely available, especially for the purchase of lower-priced properties.

“However, our latest statistics show that the percentage of loans being granted for the full purchase price has actually fallen to 39% now from 41% two years ago, and is still trending downwards,” says Shaun Rademeyer, CEO of BetterBond Home Loans, SA’s leading mortgage origination group.

“This is no doubt a reaction on the part of lenders to the recent contraction in the economy and growing employment uncertainty on the part of consumers – and it underlines the fact that it is always preferable for homebuyers to pay a deposit if they possibly can,” he says.

If someone with a new 100% home loan were suddenly to lose their job, for example, and had to sell their home in a hurry, there would be selling costs and agent’s commission to pay as well as the 100% loan to repay, so they could quite easily end up owing more than the sale price of their property.

“The buyer who had paid a 10% or 20% deposit would obviously be able to cope much better in this situation – and it is worth noting that those who put down a deposit are also typically granted their loans at a lower rate of interest, which makes it easier for them to keep up with monthly repayments when times are tough.”

In addition, Rademeyer notes, those who save up a deposit before buying will save a significant amount on the total cost of their home over the loan period.

“For example, a R650 000 home bought with a 100% loan at 10,25% (prime plus 1%) would cost a total of more than R1,53m over 20 years. The same home bought with a deposit of R65 000 and a 90% loan would cost a total of about R1,38m.

“That is a saving of more than R150 000 - a pretty good return on the R65 000 that the homeowner ‘invested’ as a deposit. And it is likely to be even better if the buyer is able to secure a better interest rate by paying that deposit.”

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