Housing market tightens as no-deposit home loans dry up

Mortgage stress alarm

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VICTORIA'S resurgent housing market is putting borrowers under severe financial strain, even if they are employed or earn more than $80,000 a year.

Researchers from the Melbourne Institute of Applied Economic and Social Research say they are "unsettled" by new findings that reveal more than half of the 14.4 per cent of households who consider themselves to be financially stressed are employed.

The survey also found households earning more than $80,000 a year are the most financially stressed of all income groups.

Research fellow Edda Claus said the surge in house prices — including an almost 20 per cent rise in Victoria last year — was probably behind the grim findings.

"The large current account deficit is becoming a worry," she said.

"If the household savings rate drops back to around zero from its spike during the global financial crisis, then foreign money may return to funding a housing boom in Australia."

The Melbourne Institute's findings back a report, released this month, by Fujitsu Australia.

This report found more than 580,000 Australian households were suffering from mortgage stress and did not have enough money to pay for their living expenses and make mortgage repayments.

Of these families, about one in three is in "severe" financial stress and in danger of losing their home.

Heather Brown, from state-funded financial counselling service MoneyHelp, said rising house prices meant some people were taking out mortgages that might prove impossible to pay once interest rates went up.

"When people are on a bigger income, they tend to borrow more and tend to have more credit cards, personal loans or a bigger mortgage," she said.

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Meanwhile, the days of no-deposit home loans are over, according to the mortgage industry, as lenders crank up the amount of deposit required for new loans.

The global financial crisis and continuing credit shortage has forced most lenders away from the riskier no-deposit home loans.

A survey by interest rate analyst InfoChoice found only one lender in its database still offered a no-deposit loan. But when contacted, the lender said the offer was under review.

Mortgage insurers have decided to stop offering policies for these loans.

The biggest mortgage insurer in Australia, Genworth Financial, says it has increased its minimum loan-to-value ratio to 95 per cent.

Borrowers now need a minimum deposit of at least 5 per cent plus the insurance cost, other buying costs and stamp duty.

In Melbourne, a 5 per cent deposit would mean a lump sum of about $27,000 for the median house plus insurance costs, plus other buying costs and stamp duty.

An alternative is to increase the security of the loan, LoanMarket operating officer Dean Rushton said. Family equity guarantees were becoming increasingly popular.