

EQUITY FINANCE MORTGAGES

An Equity Finance Mortgage (EFM) is a new type of home loan that effectively boosts your potential borrowing capacity by anything up to 25%. It has been launched in Sydney, Melbourne and Brisbane.

How does it work?

An Equity Finance Mortgage can work in conjunction with a traditional home loan, or without a traditional mortgage if you own your home. An EFM can let you move some of the expense of a traditional home loan to later when you sell your property. The equity finance portion, which can be up to 20 per cent of the purchase value of a new home is funded by an "equity finance mortgage" on which you pay ZERO interest.

The equity finance lender trades off that interest for up to 40 per cent of any future capital gains or 20 per cent of any capital losses on the property, as a substitute for a traditional interest rate.

In summary:

- An Equity Finance Mortgage allows you to borrow up to 20% of a property's value
- There is no annual percentage rate applicable to an EFM loan, unless you are in default
- You are not required to make any regular monthly interest repayments throughout the EFM loan, which you can hold for 25 years
- When you sell the property or repay the EFM for some other reason, you repay the EFM amount you originally borrowed plus up to a 40% share of any increase in the value of the property
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Who would an Equity Finance Mortgage suit?

An Equity Finance Mortgage has broad owner-occupier utilisation potential - for First Home Buyers and Upgraders - virtually anyone who wants to leverage more than their current buying power. Here are some examples:

- Reduce the upfront and ongoing costs of purchasing a new property
- Reduce your current monthly mortgage repayments (via a refinancing of your existing loan)
- Buy a more expensive property than you may otherwise be able to afford.
- Retirees, as it allows you to stay in your home and access some of the equity in your property.

This article contains general information only and is not provided as legal advice. Professional advice, including financial advice, should be taken before any course of action is pursued, or any information here is relied upon.

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