

What is an EFM?

An Equity Finance Mortgage (EFM)[®] is an award-winning home loan that can help you to:

- » Reduce the upfront and ongoing costs of purchasing a new property; or
- » Reduce your current monthly mortgage repayments (via a refinancing of your existing loan); or
- » Buy a more expensive property than you may otherwise be able to afford.

An EFM works in conjunction with a traditional home loan. Together, they let you defer some of the expense of a traditional home loan to later when you eventually sell your property.

Here's how:

- » An EFM[®] 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.

Instead, 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 (assuming you take out a 20% EFM).

If you take out a smaller, say, 15% EFM, then the lender will only be entitled to 30% of the growth, leaving you with 70% of the upside on your home.

And while nobody likes to talk about property values decreasing, if this does happen when you have an EFM and you are selling your property, you may not have to repay the full EFM loan amount - a feature unique to an EFM.

Specifically, if the value of your home falls, and you realise a capital loss when you sell your property, the EFM lender will share up to 20% of the realised losses on your property (assuming you take out a 20% EFM).

The share of the losses borne by the lender will depend on how much you borrow in the first place and how much your property has decreased in value. The lender will not share in any losses if they are not fully realised by you when you repay the EFM.

The original idea behind the EFM loan, which was developed based on the pioneering work of the 2003 Prime Minister Home Ownership Task Force, was to create a better alignment of interests between the borrower and lender:

- » If you do well, and your property's value increases, the lender can do well;
- » However, if you suffer, and you realise a loss when you sell your property, you may not be charged any regular interest whatsoever on the EFM;
- » In fact, the EFM lender may share up to 20% of the losses, leaving you with less to repay on the EFM loan than they originally lent to you!

We strongly recommend that you obtain independent legal and financial advice in relation to this EFM loan prior to entering into the EFM loan contract.



How can I reduce my repayments?

Using an EFM in conjunction with a traditional home loan, you can reduce your monthly loan repayments by up to 25% or more! The following example explains how...

A current home owner, Belinda, has already purchased a home and has a traditional home loan for \$360,000. She is happy with her house, but would like to be able to afford such things as a private school education for her children or an occasional holiday.

By refinancing her traditional home loan and replacing it with an EFM combined with another normal home loan, Belinda can reduce her monthly repayments without extending the term of her loan and free up funds to do these things (subject to credit approval by an acceptable traditional home loan lender). Here's how:

Traditional Home Loan only

Property value:	\$400,000
FM (20% of property value):	-
Traditional home loan (90% of property value):	\$360,000
Lenders Mortgage Insurance premium:	\$5,400
Monthly repayments:	\$2,948

Adding an EFM loan to reduce your regular repayments

Property value:	\$400,000
EFM (20% of property value):	\$80,000
Traditional home loan (70% of property value):	\$280,000
Lenders Mortgage Insurance premium:	\$3,560
Monthly repayments:	\$2,293

Using an EFM may reduce your monthly repayments by up to 25% or more

Note: This example excludes application fees and other fees such as valuation fees, account keeping fees, transaction fees as well as transaction costs associated with refinancing a home loan such as stamp duty, government fees, conveyancing fees and stamp duty on lenders mortgage insurance. For any additional assumptions used in calculating this example please refer to the Assumption section.

The illustration above shows that by using an EFM, Belinda can reduce her monthly home loan repayments by \$655 per month! She has also significantly reduced the lenders mortgage insurance that she would otherwise have paid on the total loan package from \$5,400 to \$3,560.

As we explained earlier, instead of charging a regular interest rate on the EFM, the lender is entitled to share in a minority of the capital gains on your property, as determined when you choose to repay the EFM.





How can I afford a larger home?

By using an EFM in conjunction with a traditional home loan, you can afford to purchase up to a 25% more expensive property (subject to all the necessary credit approvals)! The following example explains how...

An EFM could be used to enable Jenny and Matt to purchase a bigger house in a better suburb to accommodate their growing family.

They know that they would have approximately \$75,000 of equity from the sale of their existing apartment - enough to cover the purchase costs and still have a \$55,000 deposit to put towards their purchase.

Jenny and Matt can afford to borrow \$370,000 using a traditional home loan making repayments of \$3,030 per month. This would allow them to purchase a home for \$425,000.

But by adding an EFM, they can purchase a 25% more expensive home and make the same monthly loan repayments that they would have made on the smaller property. And remember, when using a 20% EFM, Jenny and Matt will keep 60% of the growth on their 25% bigger home, which is akin to 75% of the gains on a smaller property. Here's how:

Traditional Home Loan only:

Property value:	\$425,000
Deposit:	\$55,000
Need to Fund:	\$370,000
EFM loan (20% of property value):	-
Traditional home loan (87% of property value):	\$370,000
Lenders Mortgage Insurance premium:	\$4,699
Monthly repayments:	\$3,030

Adding an EFM for a more expensive property:

Property value:	\$531,000
Deposit:	\$55,000
Need to Fund:	\$476,000
EFM loan (20% of property value):	\$106,000
Traditional home loan (70% of property value):	\$370,000
Lenders Mortgage Insurance premium:	\$4,717
Monthly repayments:	\$3,030

Adding an EFM allows the purchase of a 25% more expensive home

Note: This example excludes application fees and other fees such as valuation fees, account keeping fees, transaction fees as well as transaction costs associated with refinancing a home loan such as stamp duty, government fees, conveyancing fees and stamp duty on lenders mortgage insurance. For any additional assumptions used in calculating this example please refer to the Assumption section.

The illustration above shows that by using an EFM in conjunction with a traditional home loan, Jenny and Matt have been able to purchase a 25% more expensive home worth \$531,000 with the the same monthly loan repayments that they would have been making on a \$425,000 property.

As we explained earlier, instead of charging a regular interest rate on the EFM, the lender is entitled to share in a minority of the capital gains on your property, as determined when you choose to repay the EFM.

How can I reduce my purchase cost?

By using an EFM in conjunction with a traditional home loan, you can significantly reduce the upfront and ongoing costs of purchasing a new property (subject to all the necessary credit approvals etc). The example below shows how...

Jack and Adrian want to purchase a home for \$400,000.

They have a \$40,000 deposit and sufficient additional funds to meet most of the costs associated with the purchase, such as stamp duty on the transfer and conveyancing costs.

They could borrow \$360,000 using a traditional home loan which would require them to repay \$2,948 per month in regular home loan repayments or they could take advantage of an EFM to reduce their monthly repayments. Here is how an EFM could work for them:

Traditional Home Loan only

Property value:	\$400,000
Deposit:	\$40,000
Loan Needed:	\$360,000
EFM (20% of property value):	-
Traditional home loan (90% of property value):	\$360,000
Lenders Mortgage Insurance premium:	\$5,400
Monthly repayments:	\$2,948

Adding an EFM to make purchasing a home affordable

Property value:	\$400,000
Deposit:	\$40,000
Loan Needed:	\$360,000
EFM (20% of property value):	\$80,000
Traditional home loan (70% of property value):	\$280,000
Lenders Mortgage Insurance premium:	\$3,560
Monthly repayments:	\$2,293

Adding an EFM reduces the repayments required on a traditional home loan by up to 20%

Note: This example excludes application fees and other fees such as valuation fees, account keeping fees, transaction fees as well as transaction costs associated with refinancing a home loan such as stamp duty, government fees, conveyancing fees and stamp duty on lenders mortgage insurance. For any additional assumptions used in calculating this example please refer to the Assumption section.

The illustration above shows that by using an EFM in conjunction with a traditional home loan, Jack and Adrian have made their purchase more affordable by reducing:

- » their regular monthly home loan repayments by \$655 a month; and
- » the Lenders Mortgage Insurance premium by \$2,840.

As we explained earlier, instead of charging a regular interest rate on the EFM, the lender is entitled to share in a minority of the capital gains on your property, as determined when you choose to repay the EFM.

