



Australians clueless about home loans

By John Beveridge May 08, 2008

ACCORDING to research, many Australians have the wrong idea about how home loans work.

A startling 41 per cent of people think you can get a home loan without a steady income while 16 per cent believe the lender's mortgage insurance will cover them if they become unemployed.

Those figures from MyRate.com.au really show two things -- that many people don't fully understand complicated documents they sign and that people look at how financial institutions really behave rather than how they are meant to behave.

Before the credit crunch hit, people had probably actually observed those with irregular incomes happily buying houses with low-doc and no-doc loans.

So there is little surprise that they didn't think a steady income was essential for getting a home loan.

That perception will change as the reality of much tighter credit rules starts to impinge on borrowers.

It is a similar experience for lenders' mortgage insurance, which is usually taken out when borrowings represent more than 80 per cent of the purchase price. At this stage most lenders insist the borrower takes out insurance.

You can't really blame the person getting the mortgage for thinking that they would get something for paying this premium. After all, when you pay for insurance, you normally get something back.

In this case though, the borrower is "getting" the ability to borrow the money and nothing more.

The lender and the insurer are effectively sharing the benefit of the insurance.

If there is no claim, the insurer benefits, and if there is a claim, the lender is covered for losses involved in foreclosing the mortgage.

Myrate managing director Kevin Sherman said there was some evidence that Australians were becoming more educated about their housing loans.

The number who think variable rates only fluctuate with Reserve Bank rate movements has fallen by 16 per cent.

And 19 per cent more Australians know that a variable rate is set by the lender and can be changed at any time by them.

Both of which are harsh lessons that only bitter experience can bring.