

Startling trend of homebuyers taking out personal loans to fund property deposits

Recent statistics indicate that South African homebuyers are putting down bigger deposits than ever before. This statement is underpinned by ooba Home Loan's latest data (Q4 '23), which highlights a 23.7% year-on-year increase in the average deposit paid by first-time homebuyers.



Source: Supplied. Jackie Smith, head of Buyers Trust.

And while young buyers prioritising deposits is a positive trend, recent anecdotal evidence from the FNB Property Barometer reveals that some homebuyers are taking drastic measures to fund their deposit by taking out a personal loan.

“According to FNB, around 5% of homebuyers are taking out personal loans to increase their chances of securing a home loan,” shares Jackie Smith, head of Buyers Trust, a cutting-edge bank-hosted deposit solution for homebuyers.

“Some homebuyers believe that the drawbacks of taking out a personal loan, which are usually charged at a rate well above prime, are outweighed by the long-term financial benefits of being able to put down a sizeable deposit on a property,” she adds.

The largest financial benefit of having a deposit is that it puts you in a better position to negotiate a lower interest rate from the banks, thereby reducing your monthly repayments and allowing you to pay off your home loan faster.

“However, while I am a massive proponent for deposits, I certainly do not advocate for taking out a personal loan to fund a home deposit,” Smith says.

Personal loan deposit drawbacks

Homebuyers who are taking out personal loans to fund their deposit are engaging in unsecured lending: a loan that doesn't require any type of collateral and is instead granted based on the creditworthiness of the borrower, as judged by the lender.

“But while you need a good credit score to be approved for a personal loan, even just applying for one can negatively impact your credit score - which will in turn impact your likelihood of being approved for a home loan,” Smith explains.

“Many consumers are unaware that when you apply for a loan, a lender will perform a ‘hard search’, an official enquiry on your credit report. Having more than one ‘hard search’ in 12 months will cause your credit score to dip, because it indicates to lenders an overreliance on credit, even if you don't end up following through on the personal loan.”



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She shares that if your credit profile has declined in recent months because of credit enquiries or taking on additional debt, a bank may withdraw their home-loan offer due to affordability concerns. “As you have not proven your ability to save for a deposit, they could be concerned about your ability to repay simultaneous monthly instalments on a personal loan and a home loan.”

High home-loan approval rates

Taking the disadvantages of using a personal loan to fund a deposit into account, recent shifts in bank lending behaviour also reveal that while having a deposit is an advantage, it is not necessary to secure a home loan.

ooba Home Loan statistics shows that while bank approval rates for zero-deposit loans have dipped slightly in the most recent quarter, their 100% home loan customers have still achieved an average approval rate of 82.3%. This indicates the banks' willingness to continue lending at high loan-to-value levels, despite these customers failing to put down a deposit.

However, Smith cautions buyers to consider their affordability carefully before rushing to take advantage of high bank approval levels for zero-deposit loans.

“Zero-deposit home loans are generally charged at a higher interest rate and will take significantly longer to pay off. I would advise prospective homeowners to instead delay your buying plans for a year or two to give you enough time to save for a deposit organically, rather than taking out a personal loan or zero-deposit bond.”

She concludes by saying that once prospective homebuyers have put in the hard work to save for a deposit, they can maximise their financial returns by entrusting it to the secure Buyers Trust platform.

“Buyers Trust operates as a free bank guarantee – which would otherwise be a significant cost for the buyer – until the property transfer is complete. It also offers buyers a competitive investment return and full transparency on all interest accrued.”

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