Can't do 20 per cent? Consider alternatives for deposit

There are a variety of options when is comes to securing your first home. (iStock)

First home buyers may be feeling despondent about their capacity to purchase a property – it's well known that buyers generally need a 20 per cent deposit before they can make a move.

However, with metropolitan Melbourne's median house price sitting at $1.12 million (Real Estate Institute of Victoria), this is seeming less and less possible especially as interest rates continue to rise.

While it may still be considered the gold standard, a 20 per cent deposit is no longer necessary to buy a first property, and reducing your deposit goal could see you get into the market sooner. Just remember that the smaller the deposit, the more interest you'll pay over the life of the loan.

Here are some of the different ways you could get into your first property with a lower deposit.

-Using a third party finance provider: One option for buyers wanting to secure their future home sooner rather than later could be to use a third-party finance provider. A relatively new addition to the Australian market, these include companies such as FrontYa, OwnHome and Coposit. Each works in a different way and suits different buyers.

Coposit, designed for buyers interested in new build apartment projects either under construction or yet to commence, allows buyers to use their app to secure a property with just $10,000. Buyers then spend the period between the deposit and settlement making weekly payments to complete their deposit. Instead of charging the user, Coposit receives a commission from developers.

-Get a regular loan: 20 per cent might be the standard, but many banks offer loan products covering up to 95 per cent of a property's purchase. How much a bank will lend is known as the loan to value ratio, or LVR. While it may let you get into the market sooner, going with this more traditional route will have you on the hook for lenders mortgage insurance, or LMI. This is an insurance policy required by banks to protect them against the risk of a higher loan to value ratio, and could cost you thousands more across the life of the loan.

Government schemes: first home buyers wanting to get into the market with a lower deposit could be eligible for a place in the federal government's First Home Loan Deposit Scheme. This scheme allows buyers earning less than $125,000 as a single or $200,000 as a couple to purchase with a deposit as low as 5 per cent. Your loan will still be with a bank, but unlike when you go directly to them, you won't be liable for lenders mortgage insurance - that's because the government acts as the guarantor for the loan, reducing the risk for lenders.

The downside of this scheme has typically been that it's hard to get a place - previous offerings have been oversubscribed. But the federal government has just announced an expansion of the scheme, including a dedicated program called the Regional Home Guarantee which dedicates 10,000 places to regional buyers buying a new home. The federal opposition has announced a similar scheme.

The government's guarantee can be used in conjunction with state government home buyer incentives, like new home grants, to further boost your deposit.

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