First Home Buyers Family Pledge Guarantee

HOW DOES IT WORK?

- With a family pledge guarantee, your mum and dad can provide their home as security to the loan, so you don't need to save the full deposit required by the lender.
- If you were looking to buy a house valued at $600,000, you would need to save a minimum 5% deposit or $30,000.
  To avoid paying mortgage insurance you need a deposit of at least 20% of the purchase price of $600,000 or $120,000. That's another $90,000 you would need to save!
- Once the equity in your home reaches 20%, you and your parents can apply to the lender to release the guarantee. The guarantor's security does not cover the entire loan amount. Just a portion of it in lieu of you having to save the full deposit. The guarantee is limited to this amount.

HOW IS IT DIFFERENT TO BEING A CO-BORROWER?

- A co-borrower on the loan is someone who is responsible for the entire loan until the debt is repaid in full as compared to a guarantor who is linked to the loan by a guarantee and is responsible for the amount specified in the guarantee.
- A guarantor is linked to the loan by a guarantee.This guarantee can be released, and the guarantor's responsibility will cease without the loan being repaid in full.

WHO CAN BE A GUARANTOR?

- Guarantors are generally limited to immediate family members. Normally, this would be a parent, but it can include siblings and grandparents.
- There are obviously conditions around this, for example your parents or the person acting as guarantor must have the equity available in their property and an income.If we use the above example, if your parents' home was valued at $900,000 but they had a mortgage of $800,000 then the equity is not there to offer this to you.

BENEFITS FOR FIRST HOME BUYERS

- The main benefit of having a family pledge guarantee is that it may be able to help you avoid Lenders Mortgage Insurance (LMI), or considerably reduce the premium that you would otherwise need to pay. This is typically a one-off fee paid by the borrower to the lender to protect the lender against financial loss should you be unable to meet your mortgage repayments. Lenders typically require borrowers to pay LMI on loans where the borrower has a deposit of less than 20% of the property's value. For more information on LMI refer to our LMI fact sheet or speak to your mortgage broker.

CONSIDERATIONS FOR GUARANTORS

- While it may sound like a great option to getting you in to your first home quicker, there are always risks that you and the guarantor need to be comfortable with.
- The main consideration for the guarantor is ultimately, they will be liable to cover the mortgage repayment and fees if you are unable to. It pays to consider how they would cope financially if the unexpected happens and have to make those repayments. Specifically, parents on the path to retirement could be financially compromised and at worst, they could risk losing their own home if you were unable to make the repayment.

UNDERSTAND YOUR OBLIGATIONS

- The last thing you want is to cause any family tensions, so fully consider whether this is the right option for you and the person you are asking to be guarantor.
- It's very important that both you and your guarantor understand all of the conditions and obligations of a family guarantee before signing. For this reason, it is essential that guarantors seek legal advice before entering into any guarantee agreement.

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