



# How Parents Can Help You Enter The Property Market So You DON'T HAVE TO PAY Lenders' Mortgage Insurance

We understand that trying to save for a deposit can put homebuyers on a financial hamster wheel. While you are trying to save, property prices can increase during that time requiring you to save even more for your deposit. Over time that elusive mortgage remains just out of reach.

A family pledge allows borrowers to use their parents' or another family member's home as a guarantee in lieu of a deposit (on both residential and investment properties).

Some lenders will consider a family pledge from parents, parents-in-law, stepparents or siblings.

## HOW DOES IT WORK?

Rather than guaranteeing the entire mortgage, a family pledge or guarantee will generally be applied to the deposit amount of up to 20% of the property price.

The property you want to purchase will provide the security for the remaining value (the difference from the property price and the family pledge – no less than 80%).

So if the property is worth \$500,000, and the family pledge is for 20%, \$100,000 will be taken as security against the equity of the pledger's home (mum and dad).

Please note – some lenders will insist that the guarantor is able to prove that they can service the pledged amount.

Limiting the amount of the guarantee to a maximum amount of 20% of the property value reduces the risk for the guarantor. However it is still a major financial commitment for you as the purchaser as your new property and your guarantor's property will be at risk if you default on your mortgage payments.

For the borrower, a family pledge is not a fix-all. Borrowers must still be assessed on their ability to service the loan and their saving and spending history, but it can be a great option to jump into the property market earlier.

## WHAT ARE THE BENEFITS?

**A family guarantee will allow you to:**

### Access finance

The deposit will have to be paid upfront in order to be accepted.

You may be able to borrow more money and provide less of a deposit allowing you to buy a home sooner.

### Avoid LMI

Borrowing more than 80% of the loan to value ratio (LVR) usually requires you to take out lenders' mortgage insurance, but a family guarantee means this extra expense can be avoided.

### Increase your borrowing power

A family guarantee can boost your borrowing power.

As it is most often used to cover your deposit, you may be able to borrow close to 100% of the loan if properly secured.

Often, guarantor borrowers can borrow 100% of a property value plus costs.

### Eligible for FHOG

Taking out a family pledge home loan means you are still eligible for financial assistance through the First Home



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Owner Grant. This also means you will be eligible to access most mortgage products from a lender and will not be limited to those lenders only approved for the First Home Loan Deposit Scheme if applying for your first home loan.

## Limit your guarantee

While the traditional approach is to guarantee the full loan, a family pledge allows the option of guaranteeing just a portion of the loan (up to 20%).

Over time, once the standard LVR requirements of a loan product have been met due to your loan repayments being made and including any rise in the valuation of the property, the guarantee on the loan is released.

## What are the drawbacks?

Potentially putting the family home at risk.

If you're the guarantor you could be putting your family home at risk if the loved ones you have helped out default on their loan repayments. So consider all of your options first before choosing this approach.

## If you do not ask for expert advice

If you are considering applying for a family pledge or guarantee loan, it is important that you seek financial and legal advice first. You need to understand exactly what the guarantor will be liable for in the event that you default on the loan.

## Wasting time

Family pledge loans aren't offered by all lenders, so the best thing to do is to allow us, as your mortgage

specialist, to help you find a loan suitable for you and your guarantor's needs together saving you loads of time and avoiding mistakes.

## WHAT NEXT?

If you would like a discussion about how we can help you enter the property market then let's catch up for a chat with your parents to discuss the options, the advantages, the risks and the process.

**We're here to help.**