



What is a Family Guarantee Loan?

A family guarantee is a finance solution designed commonly to help first home buyers enter the property market. There are also other situations such as matrimonial splits where a Family Guarantee can allow a borrower to retain the family home. Borrowers are able to purchase or refinance the property by relying on guarantors for security support. The guarantor should usually be a parent, parent in law or step parent; however lenders will look at each case individually.

A borrower can finance the full purchase price and all fees and charges completely by using a guarantor's property as additional security.

Additional to this, the loan fees would also be further reduced with a guarantee provided there is sufficient equity available in the guarantor's property. When the Loan to Value Ratio is below 80% the borrower will not incur the cost of the Lender's Mortgage Insurance.

To demonstrate how this works we will look at a \$200,000 purchase scenario. We will assume the guarantor's property is worth \$200,000 also and is owned outright by the guarantor. In this example only \$10,000 is now required for fees and charges as there is sufficient security to negate the need for Lender's Mortgage Insurance. With \$160,000 available as an 80% lend against the purchase property, a further loan of \$50,000 secured by the guarantor's property is required.

Purchase Price	\$200,000
Fees/ Stamp Duty	\$ 10,000
Lender's Mortgage Insurance	nil
Total Required	\$210,000
Loan Secured by Purchase Property (80% Lend)	\$160,000
Loan Secured by guarantor's property	\$ 50,000
Customer Contribution	nil

**Illustrates the required funds of the borrower for the family guarantee. These figures are for illustration purposes only, and not to be relied upon.

Legal advice is recommended and in some cases mandatory, as there is a risk borne by the guarantors.

Family Guarantees and low deposit home loans are not suitable for everyone, however in times of rising property prices, and low deposit home loan or a family guarantee might be an instrument to get into the property market or keep the family home.

Lenders offering this type of product do have varying policies.

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