

Fact sheet

Family guarantee

If you can't afford to buy a property alone, enlisting the assistance of family members can be a good option. This can be in the form of a 'cash gift' to use as part of your deposit, or a family guarantee loan. If a cash gift isn't viable, a family guarantee can provide the security that lenders need to approve your loan.

What is a family guarantee?

In most cases, a family member uses the equity in their own home or an investment property to secure your loan. This guarantee is typically only for part of your loan amount, to cover the portion you can't afford on your own.

A family guarantee is usually restricted to immediate family, such as parents, grandparents or siblings, but exactly who can partake varies from lender to lender.

The benefits of using a family guarantee

- This assistance reduces your loan-to-value ratio (LVR), which may be the difference between getting a home loan approved or not.
- If your LVR is 80% with the guarantee, you won't need to pay Lenders Mortgage Insurance, which is a huge saving.
- You don't need to wait until you have saved for a deposit before you purchase, so you can live in your own home and have your money invested in property earlier.

Things to consider

- It typically doesn't cost extra to get a family guarantee.
- If you default on your repayments, the bank will look to your guarantor to make up the difference in what is owed. Guarantors, therefore, usually need to have the capacity to make repayments if necessary.
- As the applicant you can apply for the guarantor to be released from their guarantee when you have paid off the portion of the loan under guarantee, or when there is sufficient equity in your property for you to take on the loan yourself (if the property appreciates in value), assuming there are no other concerns.
- Mixing family and money has the potential to be problematic. Both parties must trust each other completely and guarantors must fully understand their commitment.
- Being a guarantor can affect your future borrowing capacity. Guarantors should get financial and legal advice before signing a guarantee.

How do I apply?

Typically, your application to access these schemes is prepared and submitted during or immediately following your application for finance. Your Smartline Adviser will guide you through the process each step of the way.

Important information

The information contained in this fact sheet is correct as at 9/1/20 and is intended to be of a general nature only. It has been prepared without taking into account any person's objectives, financial situation or needs. Before acting on this information, you should consider whether it is appropriate for you.

