

## FACT SHEET

# Limited Family Guarantees

**A solution for fast tracking your home loan deposit, allowing you to get into the property market sooner.**



At Moneywise Home Loans we'll explore every angle to help you get underway on your home ownership journey. Everything we do is focused on helping you achieve financial security and independence through owning your own home.

As property prices continue to rise we understand that saving a deposit whilst still paying rent can seem like an almost insurmountable task. A Limited Family Guarantee (LFG) could be the solution to fast tracking this process and is a great way for first home buyers to get into the property market sooner and start building equity in their own home.

### **So what is a Limited Family Guarantee?**

A Limited Family Guarantee allows a family member to use the equity in their home to help you secure your new home loan. We all know that lenders are big on security and this extra security being provided replaces the need for you to come up with the cash deposit normally required.

The family member providing the guarantee is known as the guarantor. In order to use a guarantor you must be able to show that you can fully service the full loan amount from your own income.

### **Who could qualify as a guarantor?**

Most lenders generally limit guarantors to being immediate family members. Usually this will be a parent but some guarantors include siblings and grandparents. Some lenders will even stretch this to extended family and even ex-spouses being allowed to act as guarantor, but it really does vary depending on the lender.

### **How does a LFG work?**

The principle security for your loan will be your property, but the lender will also take a mortgage over your guarantor's property. The mortgage over your guarantor's property will not support your loan directly but is used to support the guarantee.

The amount of the guarantee required will depend on each lender's policies. It can vary from the full loan amount to as little as 20% of the full loan in a case where you are borrowing 100% of the purchase price.

### **Weigh up the benefits of a LFG for you**

- The biggest benefit of using a LFG is that it could help you start climbing the property market ladder so much sooner.
- Using a guarantor may allow you to borrow the full purchase price of your new home and even additional costs associated with purchasing a property.
- Each lender has its own policies on the use of a guarantor and some lenders may still require you to contribute some of your own equity towards the purchase. (Though in this instance you can still expect it to be less than an industry standard 20% deposit.) *Continued >*

- Another benefit of having a guarantor is that it could potentially save you thousands of dollars by not having to pay Lenders Mortgage Insurance (LMI). LMI is required for home loans where you have less than 20% equity in the property, based on the lender's valuation. LMI protects the lender against you defaulting on your loan, but you still pay the insurance premium.

**What are the potential risks of a LFG?**

Providing a LFG is a serious undertaking and most lenders will require your guarantor to obtain independent legal and financial advice so they have a thorough understanding of their obligations and the risks.

If for any reason you're unable to pay back your loan, the lender can take legal action against you, and if necessary, your

guarantor. Your guarantor will be liable for the amount agreed to and specified in the guarantee.

It's also important to consider that your guarantor's capacity to borrow could be reduced during the time that they are acting as guarantor and if they need to sell their home for any reason whilst guarantor this could become tricky to navigate.

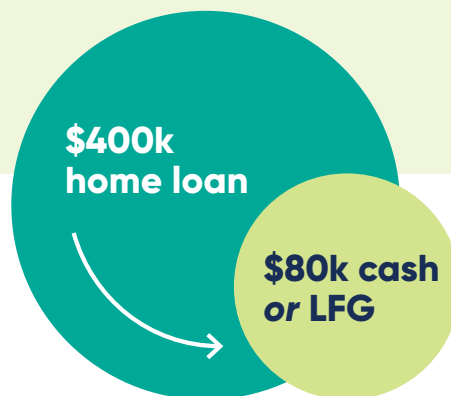
**Here's an example of an LFG in action**

You want to buy a new home for \$400,000. To avoid paying mortgage insurance you'll need 20% equity. That amounts to \$80,000. Instead of finding the \$80,000 in cash, a family member can provide a mortgage over their home to provide 20% additional security.

The bank will usually set up two loans. One for \$320,000 secured by the property you are buying, and another loan for \$80,000 secured by the guarantor's property. The two loans provide you with the \$400,000 to buy the property.

You can normally request to release the LFG once you have achieved a minimum of 20% equity in your home. You might have achieved this by making substantial extra repayments or through the increased valuation of your property or a combination of both.

*Note: this is a basic example to demonstrate how a LFG works and does not factor in additional legal or statutory costs incurred when purchasing a property.*



**The benefits of a Limited Family Guarantee**

- ✓ Stop paying rent and get into the property market sooner.
- ✓ Purchase your home with a lower cash deposit.
- ✓ Save thousands of dollars on Lenders Mortgage Insurance (LMI).
- ✓ Your guarantor gets to help you without actually giving you any money.
- ✓ Your guarantor's liability is limited to a maximum of 20% of the loan value of your property – not the full loan amount.

**Don't go it alone on your home loan. Make your appointment with a Moneywise home loan fixer today.**

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