

Family Guarantee Home Loans



With house prices being so high many first home buyers are finding it difficult to save the deposit they need. An option that may suit some first home buyers is a family pledge or family guarantee home loan. These loans allow you to utilise a family member's home as security for your home loan meaning that you don't need a huge deposit.

It is important for all parties to fully understand the advantages and potential disadvantages to these type of loans. So what is a family pledge or guarantee loan? It is a loan that allows the shortfall in your deposit to be secured by a family member's property. It allows family members to assist you without actually giving you cash or putting cash in.

Previously the whole of the family members property was used to secure the loan but now there are other options. That is, the security on the new purchase can be separated so the guarantee is actually limited. To give an example the family members property might be utilised to guarantee just 20% of the new loan and the property being purchased would be used as security for the other 80% of the loan. Either way the bank feels more comfortable as with this type of loan they have protection if first home buyers can't make repayments or default on their loan.

For the first home buyers it means they can purchase a home, avoid the added cost of mortgage insurance and even be able to borrow more if for example, the property requires renovations. The family member needs to guarantee a minimum of 20% of the purchase price of the new property if the first home owners do not have a deposit.

With this type of loan first home owners can buy either a home or investment property. The other great news is that even if the loan is a family pledge / guarantee loan that the first home owners are still eligible for a First Home Owners Grant in their State (if applicable).

There are however some drawbacks to consider prior to entering into this type of loan –

The family member who provides the guarantee could be putting their family home at risk if the first home owner defaults on the new loan.

It is also extremely important that you all seek independent financial and legal advice before entering into a family pledge / guarantee loan so everyone understands clearly what happens if the loan is defaulted on and exactly what the guarantor will be liable for.

Not all lenders offer family guarantee / pledge loans so ensure you consult your Mortgage Professional before proceeding further.