



IS A FAMILY GUARANTEE RIGHT FOR YOU?

ENTERING THE PROPERTY MARKET IS NO EASY FEAT FOR A FIRST HOMEBUYER, BUT EVEN PARENTS WHO AREN'T PREPARED TO HAND OVER CASH FOR A DEPOSIT MAY HELP BY BEING A GUARANTOR ON A LOAN. BEFORE TAKING THE PLUNGE HOWEVER, IT'S CRUCIAL TO BE AWARE OF THE IMPLICATIONS INVOLVED. HERE ARE THREE QUESTIONS TO ASK YOURSELF TO SEE IF A FAMILY GUARANTEE IS RIGHT FOR YOU.

2. DO THE BENEFITS OUTWEIGH THE RISKS?

It's no secret that it can take a long time to save for a deposit and by becoming a guarantor, you offer the borrower the chance to enter the property market sooner.

Lenders may treat the loan like an 80 per cent lend, so you avoid the costly lender's mortgage insurance (LMI). You also don't have to save up for a full deposit for the purchase, or sometimes any deposit at all.

However, any time you borrow money or a bank places a mortgage over your property, there are definitely things that need to be taken into account. While in some instances it's definitely not a first option as there are certain factors that can put you or your property at risk. Your ability to borrow will also be reduced after using a guarantor.

1. AM I FINANCIALLY FIT TO BE A GUARANTOR?

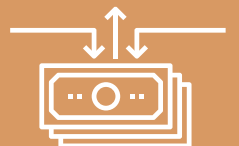
The very first thing you should be certain of is whether or not you are in a financially capable position to pay off the loan if the borrower finds that they can no longer do so. There can be many disruptions to an income, such as loss of employment or a serious accident, and some types of guarantor loans hold the guarantor legally accountable to ensure the mortgage is paid off.

You need to be in a strong financial position and have enough equity in your property to be a guarantor. Some banks even want to make sure that the guarantor can service the full debt as well, so it's always advisable to get independent legal or financial advice if you're considering it.

3. ARE THERE OTHER WAYS I CAN HELP WITHOUT BEING A GUARANTOR?

If contributing to a deposit is an option, it allows you a little help without needing to put yourself or your property at risk, but there are some extra hoops to jump through if a deposit includes gifted funds.

With gifted funds, if [the deposit is] less than 20 per cent of the property's purchase price, then the banks will most likely want to see five per cent of genuine savings. There are a few lenders that will allow you to use rent as genuine savings. So, if you've been renting for a while, it shows that you have the propensity to make repayments and then the reduced (less than 20 per cent) deposit may be used in that regard.



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