



HOW A GUARANTOR CAN HELP YOU SECURE FINANCE

When you're desperately trying to save up a deposit for a home and just see the prices of property climbing and climbing, it's difficult to remain patient. But there is another way: a guarantor can help.

If you don't have a substantial deposit for a home loan, there are still a number of ways to obtain credit. These are known as family pledges and there are two types available to borrowers: service guarantees and security guarantees.

Service guarantees are less common than security guarantees, explains an MFAA-accredited finance broker, and they involve a family member guaranteeing all of the repayments on a loan, as well as being named on the property title.

"A drawback of this approach is that it usually means first home buyers are not entitled to any government grants," Your Mortgage & Finance Solutions Specialist explains.

A more popular option is a security guarantee. Borrowers who have a limited deposit often use this approach. In this situation, a relative or friend (usually a borrower's parent or parents) is prepared to use the equity in his or her own home to guarantee the deposit of the borrower.

For example, for a total loan amount of \$600,000, in a security guarantor situation the borrower/s would take on the debt of 80% of the value of their loan, which would be \$480,000, in their own name/s.

The loan for the balance, \$120,000, is then guaranteed in the names of the guarantor/s and borrower/s, limiting the guarantor's liability while providing security for the lender, meaning that lender's mortgage insurance is not necessary.

"This is a very popular way of first home buyers entering the property market," Colin says. "It works well when borrowers don't have a substantial deposit, but their parents own their own home. It's a great option as long as the parents are comfortable with their child's ability to pay back the loan."

To find a solution that will help you own your own home sooner, please call us today on 1300 857 762.

