Security Guarantee

FINANCIAL SERVICES FeelGood

What is a Security Guarantee?

Saving a full deposit can take years. A security guarantee - also known as a family pledge guarantee - allows a family member to use the equity in their own property as security for your loan, in place of you saving the full deposit required.

Example

You want to buy a $600,000 home. To avoid Lenders Mortgage Insurance (LMI) you need a 20% deposit ($120,000) - but you only have $30,000 (5%). Your parent has a home worth $900,000 and offers $90,000 of their equity as security. The lender accepts this, you avoid LMI, and you don't need to save the extra $90,000.

How Does It Work?

With a family pledge guarantee, the guarantor's property is used as additional security for your loan - just for the portion you're unable to cover with your own deposit. Once the equity in your home reaches 20%, you can apply to the lender to release the guarantee.

Guarantor

Linked to the loan for a specified amount only. The guarantee can be released without the full loan being repaid, ending the guarantor's responsibility.

Co-borrower

Responsible for the entire loan until it is fully repaid. A much greater financial commitment than being a guarantor.

Who Can Be a Guarantor?

Guarantors are generally limited to immediate family members - most commonly a parent, but can include siblings or grandparents. The guarantor must have sufficient equity in their property and must have capacity to repay the debt if called upon without having to sell their owner occupied home.

Equity requirement

The guarantor does not need to provide cash — only the security of their property equity. The amount of equity that is required will vary between lenders but cannot exceed 80%.

Benefits for First Home Buyers

Avoid or reduce LMI
The main benefit is that a security guarantee can eliminate Lenders Mortgage Insurance entirely, or significantly reduce the premium - saving you thousands.

Get into the market sooner
You don't need to save as much for a deposit, which means you could stop paying rent and start building equity in your own home much earlier.

Buy the home you actually want
You don't have to settle for a cheaper property while you save - a guarantee can help you secure the home you've fallen in love with.

Considerations for Guarantors

Guarantor is ultimately liable
If you cannot make your repayments, the guarantor is responsible at risk. Consider carefully how they would cope financially if the unexpected happens.

Guarantor's home is at risk
In a worst-case scenario, a guarantor who is unable to cover repayments could risk losing their own property. Guarantors near retirement are particularly vulnerable.

Independent advice is recommended
Anyone considering being a guarantor should seek independent legal and financial advice before agreeing. Some lenders will insist on this before accepting the guarantee.

Understand all obligations before signing
Both you and your guarantor must fully understand all conditions and obligations of the guarantee. Family tensions can arise if expectations aren't clear from the outset.

Key Reminder
A security guarantee is a powerful tool for getting into the property market sooner - but it is a serious financial commitment for your guarantor. Speak to your broker about eligibility and recommend everyone involved gets proper independent advice.

Disclaimer

The information in this fact sheet is not legal, taxation or financial planning advice. It has been prepared without considering your specific needs, objectives and personal financial situation. Before acting on this information, we recommend that you consider carefully if it is appropriate for your needs. All loan products are subject to lender criteria and approval. Fees, terms and conditions apply. V1-0718