

# Fact Sheet

## Parental Guarantor

Many parents assist their children to get into their first home. They can do this a number of ways however it is usually either:

- (a) Cash (gift or loan) or
- (b) Parental Guarantee also known as a Security Guarantee.

### BENEFITS:

Children with a small deposit can use the equity in a parent's property. In many cases this will result in a reduction or cancellation of Lenders Mortgage Insurance and can literally save thousands.

### DISADVANTAGES:

A mortgage must be taken over the parent's property. This puts their property at risk and may limit their ability to raise funds for their own finance requirements.

***"It is important to structure the finance correctly to minimise the exposure to the parents"***

### LOAN STRUCTURE:

Where possible we:

- (a) minimise the exposure to the parents by limited their association to one small loan
- (b) pay off this smaller loan quicker, again reducing the exposure to the parents

### Repayment Example:

Case 1 - \$400,000 Loan @ 7% P&I = \$2,661 pm

Case 2 - \$360,000 Loan @ 7% IntOnly = \$2,100 pm  
 - \$ 40,000 Loan @ 7% P&I = \$ 561 pm

	CASE 1
Instalment	\$2,661 pm
Year 0	\$400,000
Year 1	\$396,021
Year 2	\$391,654
Year 3	\$386,981
Year 4	\$381,971
Year 5	\$376,670

Split 1	Split 2
\$2,100 pm	\$561 pm
\$360,000	\$40,000
\$360,000	\$36,021
\$360,000	\$31,654
\$360,000	\$26,981
\$360,000	\$21,971
\$360,000	\$16,670

Both loan scenarios will be repaid at \$2,661 per month however the \$40,000 loan (ie the exposure to the parents) will reduce from \$40,000 to \$16,670 within 5 years.

### REVALUATION

After 3-5 years we can look at revaluing the property and releasing the parental guarantee. This is assuming the loan is

Case 1 – with LMI	Case 1 – with LMI
\$450,000 - Purchase Price \$ 50,000 - Cash Deposit (+Stamp Duty & Costs) \$400,000 - Loan Amount \$ 6,000 - LMI Premium <b>\$406,000 - Total Loan Required</b>	<b>\$406,000 - 90% Loan – secured by New Property</b>  <b>\$406,000 – Total Loan Amount</b>
Case 2 – with Parental Guarantee	Case 2 – with Parental Guarantee
\$450,000 - Purchase Price \$ 50,000 - Cash Deposit (+Stamp Duty & Costs) \$400,000 - Loan Amount \$ 0 - LMI Premium	<b>\$360,000 - 80% Loan – secured by New Property</b> <b>\$ 40,000 - 10% Loan – secured by Parents Property</b>