

# Understanding guarantors

*Let us help you work out if a guarantor might be able to help you own your first home, sooner.*



## ABOUT GUARANTORS

- Benefits for first home buyers
- Considerations

## TIPS

- A quick guide to the buying process
- How much do you need to borrow?

## FAQS

- Jargon explained

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Home loans | Financial planning | Risk & general insurance | Car loans | Business lending

# Is this guide right for you?

***Buying a property is one of the biggest financial commitments you'll make. Throughout the process, you'll undoubtedly have some important questions and decisions to make.***

One of these questions involves whether or not a guarantor might be the helping hand you need to get into property sooner. A guarantor is someone - usually a parent or a family member - who offers their own home as extra security for your loan.

It's important to remember this is only a guide to help you ask the right questions and highlight the important considerations.

Your local Mortgage Choice home loan expert can help you assess the mortgage market and find a home loan that's tailored to your individual needs.

As part of the service we offer, we'll meet with you to understand your needs and compare hundreds of competitive loans from our wide selection of quality lenders. We'll also complete the application, take care of the legwork and keep you updated along the way. We're here to guide you through the entire home loan process.

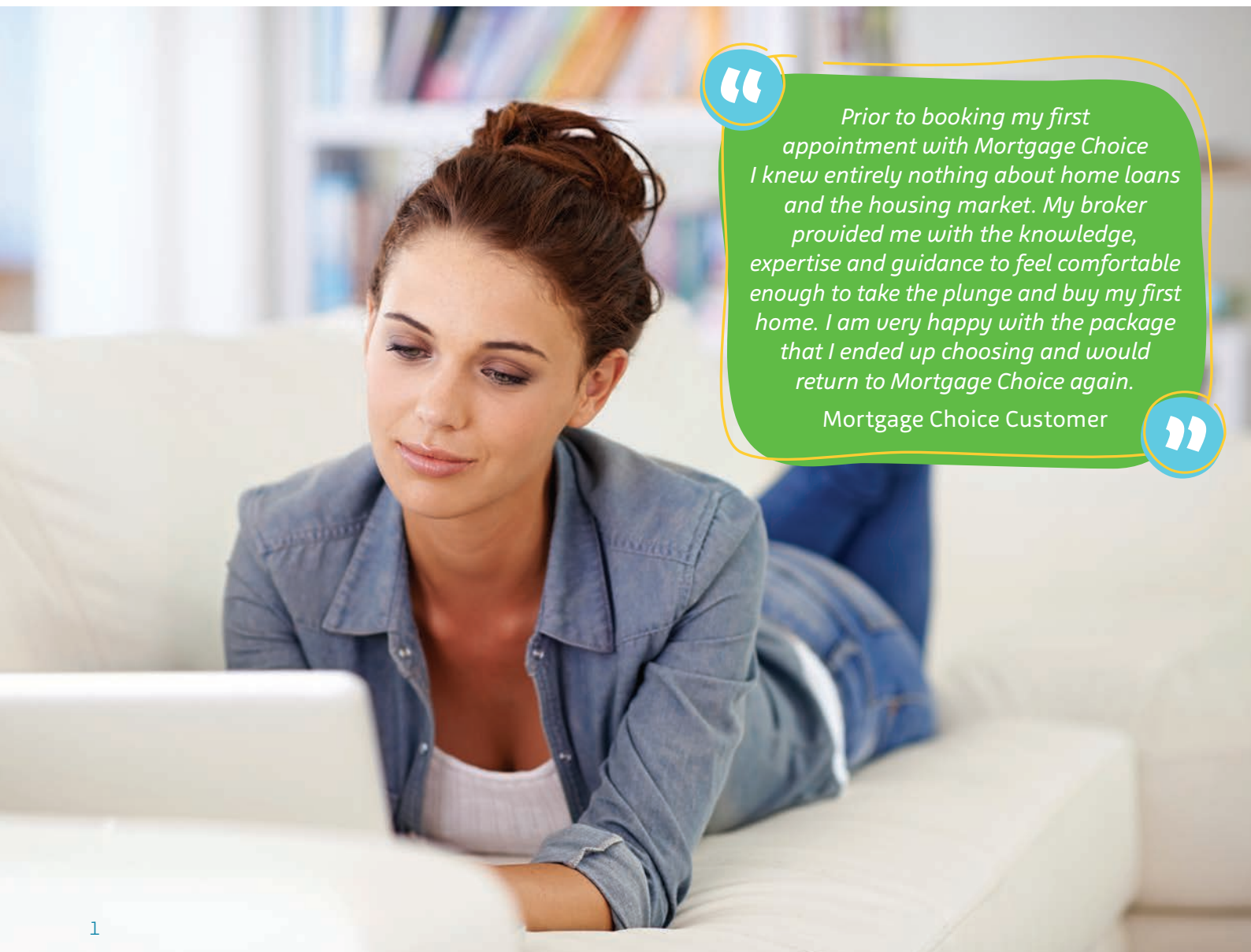
You'll be pleased to know that our home loan service comes at no cost to you - the lenders pay us after your loan settles. And your Mortgage Choice broker is paid the same rate regardless of which home loan you choose from our wide choice of lenders.

This means that you can be sure that what matters to us is the home loan that's right for you.

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**WE'RE HERE TO HELP SO PLEASE GIVE US A CALL TODAY.**

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*Prior to booking my first appointment with Mortgage Choice I knew entirely nothing about home loans and the housing market. My broker provided me with the knowledge, expertise and guidance to feel comfortable enough to take the plunge and buy my first home. I am very happy with the package that I ended up choosing and would return to Mortgage Choice again.*

Mortgage Choice Customer

# Contents

<i>Your first home! Yes, you can do it!</i>	<b>3</b>
<i>Guarantors - are they an option?</i>	<b>4</b>
<i>Considerations for guarantors</i>	<b>5</b>
<i>A quick guide to the buying process</i>	<b>6</b>
<i>We're here to help</i>	<b>7</b>
<i>What does a Mortgage Choice broker do?</i>	<b>8</b>
<i>How much will you need to borrow?</i>	<b>9</b>
<i>Jargon explained</i>	<b>10</b>

The information contained in this booklet refers only to loans provided by our panel of lenders with whom Mortgage Choice Limited has an arrangement under which it receives commissions and other payments. Not all brokers sell the products of all lenders.

The information provided in this guide is for general education purposes only and does not constitute specialist advice. This guide has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should consider the appropriateness of the advice to your situation before taking any action. It should not be relied upon for the purposes of entering into any legal or financial commitments. Specific investment advice should be obtained from a suitably qualified professional before adopting any investment strategy. If any financial product has been mentioned, you should obtain and read a copy of the relevant Product Disclosure Statement and consider the information contained within that Statement with regard to your personal circumstances before making any decision about whether to acquire the product.

# Your first home! Yes, you can do it!

***Buying your first home is an exciting step – it's your opportunity to stamp your character on a place, create wonderful memories and invest for your future. It might seem like a distant dream, but with our help, it is a reality that's just around the corner!***

As a home owner, you have the power to improve the value of your asset. You have the freedom to decorate or renovate it to give it a touch of your character, making it a more comfortable place to live as well as boosting its value.

You also have the security of knowing that you can stay in your home for as long as you wish. The ability to 'put down roots' and form community ties often becomes especially important once homeowners start a family. As a tenant, you don't have the same amount of security in the place you call 'home'.

Today's rents are substantial, especially in our state capitals, and the ongoing rent you pay as a tenant is 'dead money' - a constant outlay for which you will walk away with little more than memories.

As a home owner, your mortgage repayments might be higher than your rent, and yes, a home loan is a long term commitment. But in many ways, repaying a loan is a form of forced saving. You're not just paying for a roof over your head, you're building equity in an asset that is likely to grow in value over the years.

Moreover, as long as your home is your principal place of residence, it is a tax-free asset. No other investment offers this complete absence of tax. When you go to sell, every dollar of profit goes straight to you.



# Guarantors – are they an option?

***High property prices are seeing some first home buyers turn to parents and close relatives to act as a guarantor for their loan. It's an option that can help you get into your first home sooner – but it also brings considerable responsibilities and risks.***

## ***What is a guarantor?***

Many lenders will allow a related third party to provide additional security to help a family member buy their own home. The person providing this assistance is known as a guarantor.

This is different to being a co-applicant or co-signer. A co-applicant will be included on the loan and will be responsible for the entire loan until such time as it is repaid in full. A guarantor, on the other hand, is linked to a loan by a guarantee. This guarantee can be released and the guarantor's responsibility stopped without the loan being repaid in full.

## ***Who can be a guarantor?***

Guarantors are generally limited to immediate family members. Normally, this would be a parent, but it can include siblings and grandparents. Some lenders will allow extended family members and even ex-spouses to be a guarantor to a loan, but this varies depending on the lender.

## ***Benefits for first home buyers***

As a first home buyer, having a guarantor can offer you several benefits.

Guarantors are especially useful if you only have a small deposit, as providing a guarantor can potentially mean avoiding or reducing the cost of Lenders Mortgage Insurance (LMI).

For example, if you wish to purchase a \$400,000 property and need to borrow \$380,000. This loan has a Loan to Value Ratio (LVR) of 95%, which would incur LMI. If a family member is willing to provide a guarantee for the home loan, using the equity in their own property as additional security, the LVR would reduce and avoid the need for LMI, saving you approximately \$11,600.

However, regardless of your guarantor's upfront contribution, keep in mind that as the borrower, you will be responsible for your loan repayments – you'll need to be able to service the entire loan with your income.



# Considerations for guarantors

***While securing a guarantor might seem like a winning situation for you, it's important to also consider the risks from the perspective of your guarantor.***

Guarantors effectively offer to take on responsibility for the home loan if repayments can't be met. So it's not something to take lightly.

It pays to consider how they would cope financially if the unexpected happens, and the lender turns to them to make good on the loan.

Their own financial wellbeing could be compromised – at worst, they could risk losing their own home.

Some lenders allow guarantors to impose a limit on the sum they guarantee. And, over time, they may be released from their role as guarantor as the loan is paid down or as the home equity rises.

Anyone considering being a guarantor for a property loan is advised to seek independent legal and financial advice before accepting the role. In fact, most lenders will insist on this, prior to accepting a guarantee.



## ***Thinking of being a guarantor?***

*If you're thinking of becoming a guarantor, speak with your Mortgage Choice broker about what is involved*



# A quick guide to the buying process

Follow our flowchart to see an overview of the steps involved in buying your first home.

## 1 BUDGET AND SAVE

Plan your budget to see how much you can afford to repay, and set a plan to start saving for a deposit.

## 2 ESTABLISH YOUR CAPACITY

Meet with your local Mortgage Choice broker to discuss your finance options and work out how much you can borrow

## 3 CHOOSE YOUR LOAN AND LENDER

Work with your Mortgage Choice broker to select the right loan for you and request loan pre-approval. Your broker will take care of the application and paperwork.

## 4 OPERATION DREAM HOME!

Let the fun commence! You now get to search for your new home, safe in the knowledge of how much you can afford to spend.

## 5 ASSESS AND INSPECT

Organise building and pest or strata inspection on the home of your choice.

## 6 MAKE AN OFFER

To buy through a real estate agent, make an offer and begin negotiating on price. To buy at auction, place a bid and hold your nerve!

## 7 SIGN AND EXCHANGE CONTRACTS

Once an offer has been accepted, contracts are signed and exchanged. At this stage, you will pay your deposit, usually 10% of the purchase price.

## 8 COOL OFF

You now have a few days to change your mind about the purchase. If you back out, you may forfeit some of your deposit.

There are regional differences in cooling-off periods, and if you have bought at auction, you won't have the option. Auction purchases are final!

## 9 SETTLE AND CELEBRATE!

Settlement usually occurs four to six weeks following the exchange of contracts. The keys are handed over, and you are officially a home owner!

## 10 MOVE IN!

This is the moment when all your hard work pays off. You can finally move into your new home and get settled. No more renting - you live in your own home at last!

# We're here to help

***We know buying your first home can feel like a daunting task. That's where your local Mortgage Choice home loan expert can help.***

We will compare hundreds of loan options from our wide panel of banks and lenders to find the right loan for your needs. And, best of all, our home loan service is at no charge to you.

## ***Save time. Save hassle***

As your home loan expert, we can save you the time and hassle of visiting multiple lenders. We'll even take care of the loan application paperwork and liaise with your chosen lender all the way through to settlement, keeping you informed along the way.

## ***Will I pay upfront fees for my loan?***

Some lenders charge upfront fees to cover the loan application and/or property valuation. As your home loan expert, we will crunch all the numbers to give you a detailed plan of potential fees.

## ***How do Mortgage Choice brokers get paid?***

At Mortgage Choice, the only thing that matters to us is the home loan that's right for you. As a Mortgage Choice broker, we get paid the same rate regardless of which home loan you choose from our wide choice of lenders.

## ***What if I don't qualify for the size of loan I want?***

A key advantage of partnering with your local Mortgage Choice home loan expert is that we can tell you the loan amounts you can borrow from each panel lender and run you through your options if you wish to borrow more money.

## ***Protect what you have worked hard for***

Along with managing the loan process on your behalf, we'll work with you to make sure you have the right insurance in place to protect yourself, your family and your assets should the unexpected happen.

The bottom line is that we'll focus on the finance so you can focus on what matters to you – finding your home.

## ***Introducing Money Chat***

### ***Got a question? We have the answer***

At Mortgage Choice, we know buying property and taking control of your finances can be a little daunting. With so much information available, it can be difficult to know where to start.

That's why we've put together Money Chat, a series of short videos that answers some of your commonly asked questions.

To look at the videos, visit [MortgageChoice.com.au/money-chat](https://MortgageChoice.com.au/money-chat)



**“** A friend recommended using a mortgage broker, and we chose Mortgage Choice because their home loan service didn't cost us anything. Plus their brokers are paid the same commission no matter which lender we decided to use. **”**

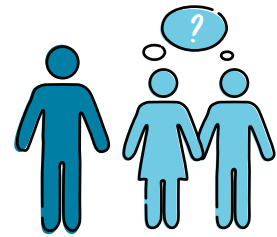
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# What does a Mortgage Choice broker do?

1

The broker will ***work with you to evaluate your home loan needs.***



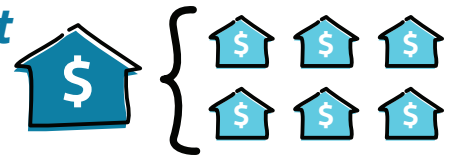
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They will ***calculate how much you can borrow*** so you know the price range you can afford.

3

They will then ***compare and contrast hundreds of home loan products from our wide choice of lenders.***

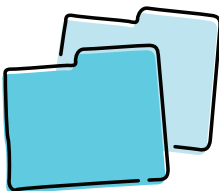


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And provide ***expert advice to help you choose the right home loan.***



5



The broker will do all the ***paperwork and follow through the entire process with the lender making it as hassle-free as possible for you.***

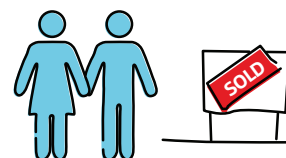
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The broker may even be able to get you ***pre-approval on your home loan.***



7

The broker will do all of this at ***no charge to you because the lenders pay us.***



# How much will you need to borrow?

Buying a property can be daunting and saving the deposit is often the greatest hurdle. Plus, when purchasing a home there are additional costs you need to consider on top of the purchase price.

This guide can help you work out the total cost of your purchase and the loan amount you require. Your local home loan expert can also help you work through this and answer any questions you may have.

## The total cost of the property purchase is the sum of the following:

Purchase price	\$
Purchase stamp duty	\$
Property transfer fee	\$
Mortgage registration fee	\$
Lenders Mortgage Insurance (LMI*)	\$
Conveyancing / Solicitors fees	\$
Pest / building inspections	\$
Insurance	\$
Loan application / Settlement fees	\$
Other	\$
<b>Total cost of purchase</b>	\$

## The total customer contribution is the sum of the following:

Deposit**	\$
First Home Owner Grant (if applicable)	\$
Other	\$
<b>Total customer contribution</b>	\$

## To work out the loan amount required, subtract the customer contribution from the cost of purchase:

Total cost of purchase	\$
Total customer contribution	Less \$
<b>Loan required</b>	\$

NOTE: Every transaction is different, as are the stamp duty concessions and grants available in each State/territory. We will discuss this in greater detail during our appointment. \*LMI may change depending on the proportion of loan to property value. \*\*If gifts are being used as a source of customer contribution, then lenders will need a Statutory Declaration from the provider confirming these are a gift with no repayments required.

# Jargon explained

## **Application fee / Establishment fee**

Fee charged to cover or partially cover the lender's internal costs of considering and processing a loan application. The fees are sometimes required to be paid upfront and are not usually refundable unless the loan is refused.

## **Assets**

A list of what an individual currently owns, such as real estate, savings accounts, cars, home contents, superannuation, shares etc.

## **Basic variable rate loan**

A loan which has an interest rate that varies according to market forces. The interest rate charged is lower than a standard variable rate loan but the loan may have fewer features.

## **Break costs**

Costs incurred when a fixed rate loan is paid off before the end of the fixed rate period, or when additional payments are made in advance.

## **Bridging finance**

A short term loan that covers a financial gap between the purchase of a new property and the sale of a currently owned property.

## **Capital gain**

The monetary gain obtained when you sell an asset for more than you paid for it. Such gains may be taxable.

## **Community title (specific to NSW)**

A property title where several dwellings are erected on an estate and the owners own their property and land on freehold title, but have shared access to community facilities e.g. swimming pool, barbecue area, tennis court etc. All property owners pay levies for upkeep of the community facilities.

## **Company title**

A type of ownership for a unit/flat/apartment in a building that is owned by a company. A purchaser buys particular shares in the company which gives the purchaser the right to occupy a specific unit/flat/apartment. Lenders are generally not enthusiastic about lending on company title properties.

## **Comparison rate**

This is a rate that includes both the actual interest rate and the upfront and ongoing loan fees, expressed as a single percentage.

## **Construction loan**

A loan specifically for the purpose of funding the building of a new dwelling. Can also apply to major renovations or improvements.

## **Daily interest**

Interest calculated on a daily basis, on the outstanding balance of the loan or investment account.

## **Deposit**

An initial cash contribution towards the purchase of the property, usually payable on exchange of contracts.

## **Deposit bond**

A substitute for cash deposit that guarantees the purchaser will pay the full deposit amount by the settlement date. Institutions providing deposit bonds act as a guarantor that payment will be made.

## **Equity**

The value of an asset not subject to any lender's interest, e.g. a property worth \$500,000 with an outstanding mortgage debt of \$150,000 - equity is \$350,000.

## **Equity loan**

A loan that uses the equity in your property to borrow for any personal purpose, including personal investment. It usually operates like an overdraft, where the borrower has a set credit limit to which they can draw funds. The term Equity loan can also refer to a Line of Credit loan.

## **First Home Owner Grant (FHOG)**

Various State Governments provide financial grants to purchasers of their first home, to assist in meeting the purchase costs.

## **Fixed interest rate**

An interest rate set for a fixed period. At the end of the fixed rate period, most lenders will allow you to fix again at the prevailing rates or revert to their standard variable rate.

## **Freehold title**

The form of property ownership where a parcel of land fully belongs to the owner.

## **Genuine savings**

Funds that have been accumulated or held for a certain period of time prior to applying for a loan.

## **Guarantor**

A guarantor is a third party to a loan who is helping the borrower obtain finance by offering additional security support. Guarantors are generally limited to spouses or immediate family members. A guarantor may be liable for the loan debt if the borrower defaults.

## **Interest Only (IO)**

A loan in which only the interest on the principal is repaid with each repayment for a specified period.

## **Introductory (honeymoon) rate**

A reduced interest rate offered for a specified period of a loan, usually the first twelve months.

## **Joint tenants**

Equal holding of property between two or more persons. If one party dies, their share passes to the survivor/s. This is a common arrangement for married couples.

## **Lenders Mortgage Insurance (LMI)**

A form of insurance taken out by the lender to safeguard against a financial loss in the event of a security being sold due to the loan going into default. The borrower pays a once-only premium. The insurance covers the lender, not the borrower.

## **Liabilities**

A person's debts or financial obligations, including existing credit card debts and personal loans.

## **Line of Credit**

A flexible loan arrangement with a specified credit limit to be used at a borrower's discretion. Also referred to by some lenders as an Equity loan or All in One loan.

## **Loan to Valuation Ratio (LVR)**

The ratio of the home loan amount compared to the valuation of the security. Commonly called LVR e.g. for a loan of \$400,000 on a home valued at \$500,000, the LVR is \$400,000 divided by \$500,000 expressed as a percentage i.e. 80%.

## **Mortgage**

A form of security for a loan, usually taken over real estate. The lender (mortgagee) has the right to take the property if the mortgagor fails to repay the loan.

## **Mortgagee**

The lender of the funds and holder of the mortgage.

## **Mortgagor**

A person who borrows money and grants a mortgage over their property as security for the loan.

## **Non-conforming loan**

Specialist lenders provide these types of loans to borrowers who fall outside the normal eligibility requirements of mainstream lenders.

## **Offset account**

A transactional account linked to the home loan. The balance held in this account offsets the balance in the home loan, helping to reduce the interest paid and the overall term of the loan.

## **Ombudsman**

An arbitrator that provides an avenue through which customers can make complaints about their loan consultant or lender and have it dealt with independently.

## **Principal**

The outstanding loan amount on which interest is calculated.

## **Principal and Interest (P&I)**

A loan in which both principal and interest are paid with each repayment during the term of the loan.

## **Redraw facility**

A loan facility whereby you can make additional repayments and then access those extra funds if necessary.

## **Refinancing**

To replace or extend an existing loan with funds from the same lender or a different lender.

## **Security**

Usually the property offered as security for a loan.

## **Settlement date**

Date on which the new owner finalises payment and assumes possession of land. Sometimes called the "draw down" date, as this is the date the loan is usually fully drawn.

## **Stamp duty**

Transfer stamp duty (or contract stamp duty) may be payable when borrowing to purchase a home. It's calculated on a sliding scale based on the purchase price of the property.

## **Standard variable loan**

A loan which has an interest rate that varies according to market forces. The loan usually has comprehensive features, such as offset and redraw facilities.

## **Strata title**

The form of property ownership most commonly associated with units, apartments and townhouses, where the owner holds title to a particular unit, which is called a lot, in a strata plan.

## **Survey**

A plan that shows the boundaries and the building position on a block of land.

## **Tenants in common**

Where more than one person owns separate, defined portions of a property. If one person dies, the relevant portion passes through the deceased's estate rather than to the other property owner/s as with joint tenancy. Each owner can hold a specific share of ownership and has the right to dispose of their interest.

## **Term**

The length of a loan or a specific portion within the loan.

## **Title search**

A request to the relevant government office\* to ascertain the ownership of a specified property and any encumbrances, covenants and easements that may be recorded on the title.

## **Torrens title**

Torrens title is the most common form of property title in Australia. The Real Property Act (RPA) is the legislation that governs the operation of Torrens title. Ownership of the property is registered with the relevant government office and evidenced by the Certificate of Title, which shows the current owner's name and any other interests in the property e.g. mortgages.

## **Unencumbered**

A property free of encumbrances (mortgages) or restrictions.

## **Valuation**

A report (often required by the lender), detailing a professional opinion of property value.

## **Variable interest rate**

An interest rate that varies during the term of the loan, in accordance with market forces.

### **\*NOTE:**

Who can help with a title search in your state or territory?

- ACT: Access Canberra
- NSW: Land and Property Information (LPI)
- NT, TAS: Land Titles Office
- QLD: Department of Natural Resources and Mines
- SA: Land Services office
- VIC: Land Victoria
- WA: Landgate

# Why choose Mortgage Choice?

- **Right loan for you.** At Mortgage Choice, the only thing that matters to us is the home loan that's right for you. So, as your Mortgage Choice broker, we're paid the same rate no matter which home loan you choose from our wide choice of lenders.
- **Wide choice.** We can compare hundreds of highly competitive home loan options from a wide choice of lenders, including the big banks.
- **Less stress.** We make it easier for you by preparing the paperwork, lodging the application and following up with the lender for you as your loan progresses to settlement.
- **No cost to you.** There is no charge to you for our home loan service because the lender pays us after your loan settles.
- **Range of products.** We can also help you with financial planning, commercial loans, car loans, personal loans, asset finance, general insurance and credit cards.

## KEEPING IN TOUCH

OUR SERVICE DOESN'T END ONCE YOUR LOAN SETTLES. WE'LL MAKE SURE THAT YOUR LOAN CONTINUES TO MEET YOUR NEEDS, REGARDLESS OF HOW YOUR LIFE CHANGES.

## TALK TO US TODAY

### Mortgage Choice Macedon Ranges

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