

Family Guarantee Fact Sheet

What is a Family Guarantee?

IMB's Family Guarantee allows home buyers (especially first home buyers) to enter the property market sooner. A Family Guarantee allows family to assist their children in the purchase of a property without actually providing a cash gift or cash loan. It could also allow borrowers to include some of the costs of purchasing, such as stamp duty and legal costs in the loan amount.

Under IMB's Family Guarantee, the borrower (generally a first home buyer) receives assistance from an immediate family member(s), who provides additional security to cover the difference between the amount of the borrower's savings and the maximum loan amount that IMB will usually lend without lender's mortgage insurance, which is 80% of the value of the property being purchased. This additional security provided by the family member is provided in the form of a limited guarantee secured by a residential property owned by the family member, or secured by a Term Deposit lodged with IMB by the family member.

How does a Family Guarantee help us save money?

If a borrower can afford the repayments on a home loan but does not have sufficient savings to cover the usual deposit plus other costs associated with purchasing a home (such as stamp duty and legal fees), they will normally have to pay lender's mortgage insurance because the loan amount is more than 80% of the value of the property being purchased. Lender's mortgage insurance can be quite expensive.

To avoid the borrower having to pay lender's mortgage insurance (or to reduce the amount of lender's mortgage insurance the borrower has to pay), a family member can provide a secured limited guarantee to IMB to support the loan. This additional security means IMB may provide a loan amount that is more than 80% of the value of the property that the borrower wants to purchase without (or with less) lender's mortgage insurance.

Example: How a Family Guarantee works:

1. John wants to buy a property for \$350,000
2. He has some savings (which could cover his stamp duty and legal costs) but still needs to borrow \$344,000 to buy the property
3. John's loan-to-property value ratio is 98% ($\$344,000/\$350,000$) so he will need to pay lender's mortgage insurance which could be something like \$8,000-\$10,000 (borrowers who have a loan-to-property value of more than 80% normally have to pay this insurance)
4. In order for John to borrow \$344,000 without paying lender's mortgage insurance, the loan would require a security of \$430,000, but the property John wants to buy is only worth \$350,000. He needs an additional \$80,000 worth of security.
5. John's parents provide this additional security in the form of a limited guarantee worth \$80,000 against their own property
6. John now does not need to pay lender's mortgage insurance
7. Alternatively John's parents could have provided a guarantee using a Term Deposit that they hold, instead of providing the guarantee secured against their home.

Who can provide a Family Guarantee?

Guarantors are typically immediate family members such as parents or step parents, although IMB may consider other guarantor relationships.

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Is there a risk to the family guarantor?

Yes.

If the borrower defaults on their loan (for example, by not making the required loan repayments or not complying with their other obligations under the loan (such as keeping the property insured)), IMB may be forced to exercise its rights under the loan, including procuring a sale of the borrower's property. In this case, if there is a shortfall after the borrower's property is sold IMB may call upon the guarantor to remedy the shortfall up to the limit of the guarantee. If the guarantor does not pay this amount, IMB may call upon the security provided by the guarantor to remedy the shortfall and take action to recover amounts owing by selling the guarantor's property or taking the guarantor's Term Deposit.

IMB wants to ensure that the guarantors understand the risks of providing assistance to a borrower under the Family Guarantee. Therefore, it is mandatory that guarantors obtain independent legal advice prior to settlement of the loan.

When can the Family Guarantee be released?

If the purchased property value increases over time and the loan is paid down by principal and interest repayments, equity in the home will increase. When the loan is reduced to an amount that is less than 80% of the market value of the purchased property (as determined by an independent valuation conducted by an IMB panel valuer), the guarantor may request that IMB release the guarantor from their guarantee. However, IMB retains sole discretion in deciding whether or not a guarantee will be released. Alternatively, the guarantor can end the guarantee at any time by paying the guaranteed amount to IMB.

What type of security can be used for the guarantee provided to support the Family Guarantee?

The guarantor can provide residential property in metropolitan and major regional areas to support their guarantee. Alternatively, the guarantor may instead choose to provide IMB with a Term Deposit for an amount equal to the limit of the guarantee.

What is a Term Deposit?

A Term Deposit is a sum of money lodged with IMB by the guarantor as security for the guarantee provided by the guarantor. The Term Deposit must remain in place until the borrower's Family Guarantee loan is repaid or IMB agrees to release some or all of the guarantee.

Interest is still earned on the Term Deposit and will be paid to the guarantor, except where either the guarantor or the borrower is in default of their obligations in respect of the Family Guarantee.

What if my family's property already has a mortgage on it?

It may be possible for an immediate family member to provide a guarantee to support a Family Guarantee even if there is already a loan against the guarantor's property but only if the existing mortgage over the property is held by IMB. Whether IMB will accept an immediate family member's property as security will depend on the value of the property and how much is already owed.

What type of IMB home loans can have a Family Guarantee?

Borrowers may choose from any IMB Home Loan, with the exception of equity line products. Regardless of the home loan the borrower chooses, loan repayments must be made on the basis of principal and interest payments whilst the guarantee is in place. Interest only repayments are not permitted. Family Guarantees are not available for the purpose of buying an investment property.

How do I get more information or apply for a Family Guarantee with IMB?

Contact an IMB Lending specialist today on 133 462.