

the bank of mum and dad!

how you can help the kids into their first home

In the current market, it has become harder for First Home Buyers to buy a home. Banks now require at least a 10% deposit. One option is for parents to contribute to the deposit. Another option is for parents to act as a limited guarantor.

10% deposit

The easiest option is to top up the kids deposit giving them a 10% deposit overall. For this to work effectively, banks still require the kids to demonstrate they have managed to save 5% of the deposit on their own. As long as 5% is saved, the bank doesn't care where the rest comes from!

Gifting versus a "Loan"

As a parent your contribution can be gifted or it can be an interest-free loan. The majority of parents prefer to treat it as a loan because (1) in the event their kids relationship ends they do not want their deposit viewed as relationship property, and (2) there are tax implications from gifting over \$27,000 per year for an individual or \$54,000 for a couple.

We can provide you with a Deed of Debt template that is acceptable to the banks.

Guarantor

As a parent the other option is to act as a limited guarantor. Guarantors need to be in a strong financial position. They need to be working (not retired) and have enough equity to absorb 20% of your mortgage and still have a mortgage under 80% of the value of their property.

Essentially with a guarantor the 20% deposit is replaced with a 20% guarantee that is secured against the guarantor's property. As a guarantor you do not need to provide any cash towards the property purchase **but your property is used as security.**

We will typically set up the lending with the parent's bank but not always. Some banks are poor at doing guarantor loans.

What are the Risks?

Borrowers need to be 3 months behind in their mortgage before a lender will issue a formal notice. At this point (hopefully earlier) you will be made aware of the situation and usually a mortgagee sale can still be avoided. It takes roughly 6 months of non-payment for a homeowner to go to mortgagee sale.

Although the Loan Documents do not specify which property they will sell, the lender will sell the kids property first.

Logically the kids property makes up most if not all of the loan value. Lenders also want to avoid the reputational risk of selling out guarantors. That said if, after selling the kids property, there is a shortfall in the mortgage (including any unpaid interest) the bank will chase the guarantor.

We can minimise the risks for parents and kids by putting Income (or Mortgage) Protection and Life Insurance in place.

What if I want to sell my house?

As a Guarantor your property will have a mortgage secured over it. In the event you want to sell we can transfer the security to another property, or we can use some of the proceeds from the sale of your property as security (in the form of a term deposit.)

How we can Help

We work with you and the kids to make sure the mortgage is manageable, that the risks are well managed, and that you can be removed as a guarantor within 3-5 years.

Disclosure: JB is a former General Manager at ANZ National Bank and has a BCA in Finance from Victoria Uni and undertaken post-grad studies at University of London. He doesn't like to shave or wear suits which is why he left the bank. Squirrel is a NZ owned privately held company even though Squirrels cannot be found in New Zealand. We didn't think its distant cousin the Opossum would have been good for business. You can request our disclosure statement on 0800 212230 or read it on the web site. All Rights Reserved.

