

# THE BANK OF MUM AND DAD

## HELPING THE KIDS INTO THEIR FIRST HOME

In the last couple of years it has become harder for your kids to buy their first home. Some banks now require at least a 20% deposit. So to help, you can either contribute to the deposit or act as a limited guarantor.

### WHAT ARE THE RISKS?

The banks give mortgagees quite a bit of leeway. After three months of being behind on mortgage payments, lenders will issue formal notice. It takes roughly six months of non-payment to get to the point where a mortgagee sale is on the cards. As long as you've got the lines of communication open, that's plenty of time to help the kids sort it out before it comes to that.

Although the loan documents won't say it specifically the lender will sell the kids' property first. Their property makes up most, if not all of the loan value, so it makes more sense. Lenders also don't want to risk their reputations - selling out guarantors is a bad look. That said if money is still owed after selling the kids' property (including any unpaid interest) the bank will start chasing you.

Minimising the risks for everyone is a matter of good insurance - income (or mortgage) protection and life insurance.

### 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 it 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.)

### GIFTING VERSUS A "LOAN"

As a parent, your contribution can be given as gift or as an interest-free loan. The majority of parents prefer to treat it as a loan because if their kids' relationship ends they don't want their deposit viewed as relationship property. (Not super romantic of you, but way smarter). If you prefer to do a loan, we can sort you out with a deed of debt template - you can fill it in yourself and use it with the banks.

### IN SUMMARY

#### THE BENEFITS OF HAVING A GUARANTOR ARE THAT:

*the loan is more likely to be approved*

*no low equity fees or registered valuation requirements*

*better deal for the kids (market rates)*

No registered valuation requirement on the loan pre-approval

#### THE RISKS FOR A GUARANTOR ARE:

*your property (the parents) is used as security by way of mortgage*

The mortgage and property experts  
**Squirrel.co.nz 0800 212 230**

### 20% DEPOSIT

The easiest option is to top up the kids deposit giving them a 20% 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 - which includes KiwiSaver. As long as 5% is saved, the bank doesn't care where the rest comes from!

### GUARANTOR

Guarantors need to be in a strong financial position. They need to be working (not retired) and have enough equity to absorb 20% (less any cash from the kids) of the kids 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.

We will usually put the 80% loan on interest only and accelerate the payment on the guarantee to get it released earlier.

#### 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.*