

Broker key fact sheet – guarantor loans

The following summarises Bank Australia's approach to guarantor loans.

Guarantees

If a person does not receive a benefit but wishes to underwrite a loan they may become a guarantor. A guarantee is another form of security, similar to a home or car.

A Family Guarantee is where parents provide a guarantee over property they own in support of a home loan for their children. It is usually done where the child does not have a 20% deposit and enables the loan to proceed without requiring LMI.

Assessment

It may not be necessary to assess the guarantor's ability to service a debt, just their ability to repay it in full without hardship. This might mean that they control some assets that can be used to repay the debt in full.

The guarantor/mortgagor must be deemed to be of sufficient financial means that the giving of a mortgage would not create financial hardship in the event of default and repossession. An assessment of their financial position and confirmation that the mortgagor could extinguish the guarantee amount without causing substantial hardship is required. To facilitate the assessment of the applicant they will be required to complete a guarantor application.

Any assessment of a potential guarantor must satisfy this requirement. It must be clearly established that they understand their obligations should the borrower fail to meet theirs and that their guarantee is freely given.

It is a requirement of the bank that the guarantor(s) must obtain independent legal advice prior to the bank funding the loan.

Restrictions

Bank Australia will only accept a third party mortgage from parent's or step parent's of the borrower's.

The loan amount cannot exceed the purchase price of the property plus direct costs (usually around 5%). That is, the loan cannot include consolidation of other borrowings or the acquisition of other assets, such as a motor vehicle.

Bank Australia will not accept third party mortgages from persons who are in receipt of pension or superannuation benefits unless the mortgaged asset is supplementary to the family home (e.g. investment property) or the person holds significant other investments that could be converted to cash to extinguish the guarantee, without jeopardising the family home.

Bank Australia will limit the guarantee to the amount required to avoid LMI where this is appropriate.

Example:

If an applicant is looking to borrow the full purchase price plus costs, the required guarantee amount will be 20% plus costs where the acceptable LVR for the purchase property is 80%. Where the acceptable LVR is 70%, then the guarantee amount will be 30% plus costs.

Release of security

An application to release a guarantor may occur when the loan liability is reduced to the acceptable LVR of the borrower's security (usually 80%).

2nd Mortgage Security

The bank will consider a request from a suitable guarantor to secure the guarantee via second mortgage on a case by case basis. In order to accommodate the lodgement of a 2nd mortgage the bank needs consent from the 1st mortgagee, to ensure this consent is provided with sufficient time to meet settlement the guarantors should engage their bank as early as possible in the process to ensure their approval is obtained, and the necessary documents are produced & executed.

What the guarantor needs to request:

- The guarantors are required to initiate the process via their bank, provide written privacy consent, and then their bank is required to approve a Priority Deed (in triplicate), and have all parties sign this (this document will be sent from the 1st mortgagee to Bank Australia, Bank Australia will sign the document & return it to the first mortgagee).
- Once the deed has been executed, the 1st mortgagee then make their title available for Bank Australia to lodge a second mortgage.

Note - The guarantor's bank will pass on costs to the guarantor for their work to prepare the priority deed.
- Until the guarantors bank confirm they hold the deed and title will be made available, Bank Australia are unable to book settlement.