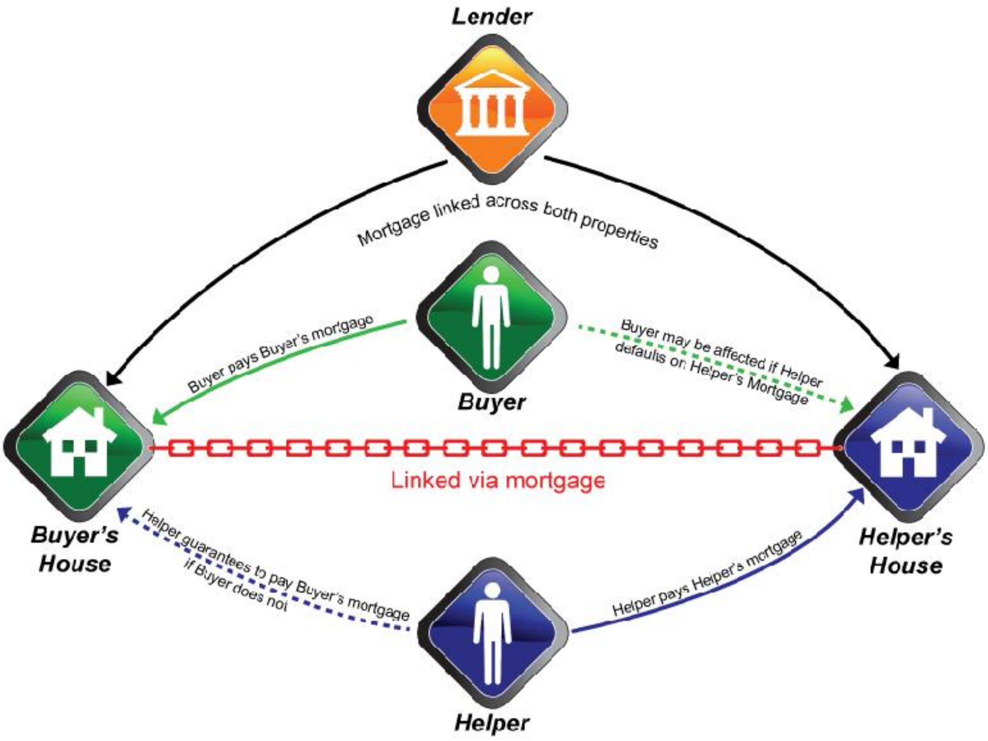
HELPING OUT WITH A DEPOSIT

It's common for family members to want to help out when you want to buy a house and may not have a sufficient deposit. If the family does not have cash to help with but instead equity in their own property you have two main options "Guarantor" or "Gifted Deposit". These options have different implications for the people buying the house (Buyers) and the people helping (Helpers).

Guarantor:



With this option the Helpers are effectively agreeing to be on the loan as co-borrowers, and be responsible for the loan should the Buyers fail to make payments. A link is formed between the Buyers, the Helpers, and their respective houses.

To get the deposit the Helpers use their house as collateral, and the lender calculates the Loan to value ratio (LVR) against both houses. The lender will take a mortgage out against both properties jointly to cover the debt. If the Helpers have an existing mortgage then the Buyers mortgage has to be with the same lender as the Helpers (or the Helpers have to change to the Buyers lender).

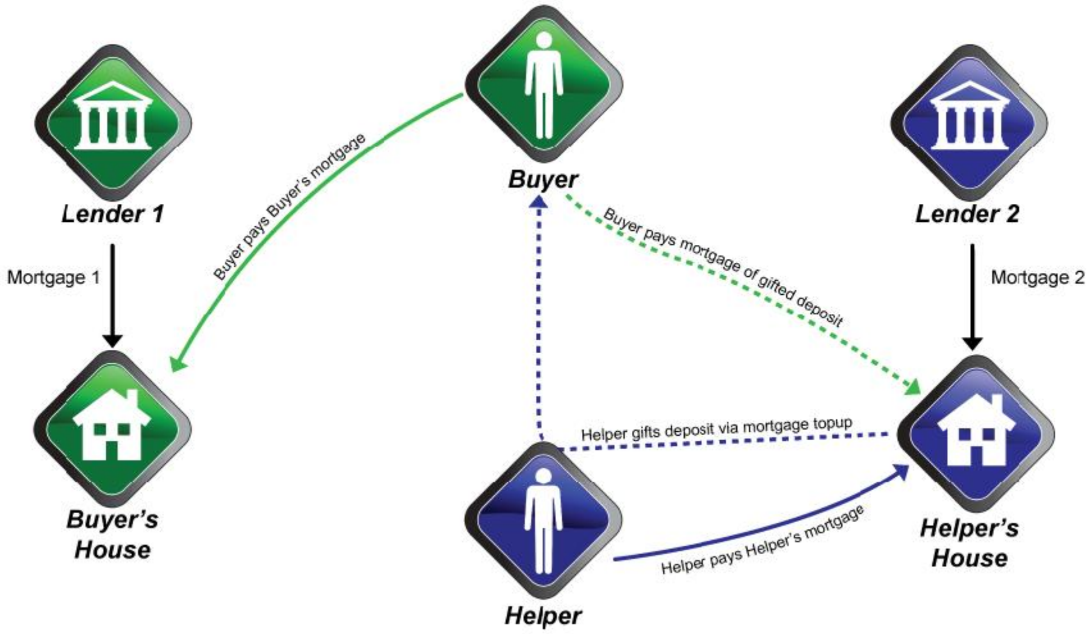
The Buyers are responsible for their own loan payments but the Helpers are considered liable for the whole amount and have to consider this when applying for future finance of their own.

If the Buyers go under financially, the Helpers are responsible for all the payments on the loan and could lose their own house if they cannot make the payments on the Buyers mortgage. In addition, if the Helpers default on their loan or go into bankruptcy it's possible that the Buyers house could be called in as part of the debt (though unlikely).

The guarantee can only be removed by permission of the lender, usually once there is sufficient equity in the Buyers house to cover their full loan. Lenders can be hesitant to do this as they like the extra security.

PROS:	**CONS:**
You get the finance	Requires full loan application and Guarantor documents to be signed by Helpers.
Buyers mortgage all in one place	
	Buyers and Helpers Mortgage and finances linked.
	Difficult to get out of

Gifted Deposit:



In this scenario, rather than link the two houses, the Helpers simply raise a mortgage against their own home for the deposit the Buyer needs and gifts it to them. Now this could be a 'family gift' where the Buyers actually pay the mortgage payments for it, but officially, it's a gift.

The Buyers and Helpers have their own mortgages with whichever lenders they wish; there is no link between the two houses or mortgages.

To get rid of the gift, the Buyers simply have to pay it back, which can be via regular payments or by topping up the loan on their own house if it's gone up in value.

If the Buyers go under financially the only loss to the Helper is for what was gifted, which they will now need to pay themselves, they are not responsible for the Buyers main mortgage.

PROS:	CONS:
You get the finance	Buyer has separate payments for their mortgage and the Helpers gifted mortgage.
No linking of the two couples or their houses	
Simpler	

Summary: In my experience, I have yet to see a situation where the Gifted Deposit is not always a better option than Guarantor. It's easier; there is no linking between the two groups, no extra signing etc.

Of course, every situation is different, and DUX Financial will help you make the right decision.

DUX Financial Services:
Alan Borthwick of DUX Financial Services is an Authorised Financial Adviser, who helps his clients to get the right mortgage, protect their assets, protect their family against risk, and grow their investments.

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