Guarantor Loans

A guarantor is someone who provides extra security by ‘guaranteeing’ a portion of a loan. There are two types of guarantees; a security guarantee and a security and income guarantee.

WHAT YOU NEED TO KNOW

- Security guarantee: the guarantor uses real estate that they own as additional security for your loan. If the guarantor already has a loan on their property, then, in most cases, the bank can take a second mortgage as security. This type of guarantee is most often used when first home buyers are buying a home but have little or no deposit.
- Security and income guarantee: the guarantor uses real estate they own as additional security as well as using their income to assist in the serviceability of the loan.
- A guarantor is not a co-borrower and so will only become liable for the amount they’ve guaranteed if the borrower cannot make their repayments.
- A guarantor is entering into a legal contract. There’s also financial risk involved in being a guarantor so it’s strongly recommended that any guarantor seeks independent legal and/or financial advice before entering into the contract

Example of a security guarantee

Anna wants to purchase a property. She doesn’t have enough savings to pay a 20% deposit but can afford the loan amount she needs so her mum, Donna, has offered to provide a guarantee over her unencumbered property.

After 3 years Anna is made redundant, can’t afford her repayments and defaults on her loan. Anna ultimately sells her property at a lower price than she purchased it so it doesn’t cover the full amount she owes the lender. She’s unable to pay the amount owing so Donna is responsible for paying the remaining balance. If she can’t make the repayment, the lender may seek to sell her property as this was guaranteeing the loan.

Need more information?

Guarantor requirements may differ between lenders so it’s important to understand your chosen lender’s requirements.

It should be remembered that this fact sheet is intended to provide general information of an educational nature only. It does not have regard to the financial situation or needs of any individual and must not be relied upon as financial product advice.

As this information has been prepared without considering your objectives, financial situation or needs you should, before acting on this, consider the appropriateness to your circumstances.As always, if you have any questions, you can contact your broker.