

Family Guarantee Fact Sheet



What You Need to Know

What is a Family Guarantee?

A family guarantee (sometimes called a guarantor or pledge loan) allows a close family member, usually a parent, to use equity in their property (or a cash term deposit) to help secure your loan.

By providing a limited guarantee, the guarantor helps reduce your Loan-to-Value Ratio (LVR) below 80%. This means:



No Lenders
Mortgage Insurance



Lower upfront costs



Faster market entry



How it Works (Step-by-Step)



Borrower
applies for a
home loan



Guarantor offers
equity from their
property (or a
term deposit)



The lender
recalculates
the loan at
≤80% LVR



The borrower
remains
responsible for
all repayments



Release option: Once the
borrower's LVR falls under
80% the guarantor can
request removal of the
guarantee.

Benefits for Borrowers



Avoid or reduce LMI



Buy sooner with a smaller deposit



Increased borrowing capacity (subject
to lender rules).

Risks for Guarantors



If the borrower defaults, the guarantor
is liable up to the guaranteed amount



Your own borrowing power may be
reduced while guarantee is in place



In extreme cases, your property may be
at risk if the loan falls into serious
default



Always seek independent legal and financial advice before signing

This guide is for general information only and does not constitute personal financial advice. Please seek professional advice for your specific situation.

Example & Practical Guidance



Example: \$700,000 Purchase

Scenario without a guarantor:

- Purchase price: \$700,000
- Deposit saved: \$35,000 (5%)
- Loan required: \$665,000 (95% LVR)
- Result: Loan exceeds 80% LVR → **LMI required** (can cost ~\$30k+).

Scenario with a guarantor:

- Guarantor pledges \$140,000 equity (20% of \$700k).
- Effective loan ratio: $\$665,000 \div (\$700,000 + \$140,000) = \approx 79\%$ LVR.
- Result: **LMI waived**. Borrower pays only loan and standard purchase costs.

Important: Once the borrower repays or the property grows enough in value to reduce the LVR to 80% or less, the guarantor can usually be released from the obligation. Ask your mortgage broker to order a valuation to see if the LVR has fallen below 80%

Eligibility & Requirements



Who can be a guarantor?

Generally parents, siblings, children, or grandparents



Guarantor's property

Must have sufficient usable equity and be in Australia.



Other forms of security

Some lenders allow cash/term deposits instead of property

Tips for Success



Limit the guarantee. Guarantors should secure only enough to reduce LVR to $\leq 80\%$, not the full loan.



Plan your exit. Have a target date or equity level when the guarantee will be removed.



Use official calculators & documents. Every lender has its own rules.

Guarantor Checklist

(Before you sign a Family Guarantee)



1) Understand Your Liability

- Do you know the exact amount you're guaranteeing (not the full loan)?
- Do you understand that if the borrower defaults, the bank may pursue you for the guaranteed amount?
- Are you aware your property (or term deposit) is at risk if things go wrong?



2) Confirm Your Own Position

- Have you checked whether this guarantee will affect your ability to:
 - Refinance your own loan?
 - Borrow for investment or personal needs?
- Do you have sufficient equity left after providing the guarantee?
- Will your retirement plans or cashflow be impacted if the guarantee is called on?



3) Independent Advice

- Have you received independent legal advice (required by most banks)?
- Have you received independent financial advice about the risks?
- Did you sign documents in front of your own lawyer (not the borrower's)?



4) Terms & Conditions

- Is the guarantee limited (only enough to reduce LVR to $\leq 80\%$)?
- Have you seen the lender's exit policy (when and how you can be released)?
- Do you know whether the guarantee covers just the home loan, or other debts too?
- Have you read the lender's Family Guarantee Guide (each bank publishes one)?



5) Release Plan

- At what point will the borrower aim to remove your guarantee?
 - e.g. Once loan-to-value ratio (LVR) is 80% or below.
- Does the lender allow early release if equity improves or repayments reduce the balance?
- Is there a written plan between you and the borrower about how and when this happens?



6) What if Things Go Wrong?

- Have you discussed with the borrower what happens if they:
 - Lose their job?
 - Can't meet repayments?
 - Break up with a partner?
- Do you have an agreement about communication and transparency in tough times?



7) Resources for Guarantors

- Commonwealth Bank – [Guarantor Support](#)
- Westpac – [Family Security Guarantee Guide](#)
- St. George – [Family Pledge](#)
- Heritage Bank – [Family Guarantee](#)



Being a guarantor is a generous way to help family, but it's also a serious legal and financial commitment. Tick this checklist, get advice, and make sure there's a clear exit plan before signing.