

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 10% 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, 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 will be approved

No low equity fees

Better deal for the kids (market rates)

THE RISKS FOR A GUARANTOR ARE:

Your property (the parents') is used as security by way of mortgage

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The mortgage and property experts
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10% DEPOSIT

The easiest option is to top up the kids' deposit giving them a 10% 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. As long as 5% is saved, the bank doesn't care where the rest comes from.

GUARANTOR

As a parent the other option is to act as a limited guarantor. Guarantors need to be in a strong financial position. They need to be working (not retired) and have enough equity to absorb 20% 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.

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.

DISCLOSURE: John Bolton, owner of Squirrel is a former General Manager at ANZ National Bank and has a BCA in Finance from Victoria Uni and undertaken post-grad studies at University of London. He doesn't like to shave or wear suits which is why he left the bank. Squirrel is a NZ owned privately held company even though Squirrels cannot be found in New Zealand. We didn't think its distant cousin the opossum would have been good for business. You can request our disclosure statement on 0800 212230 or read it on the web site. All Rights Reserved

