Using the equity

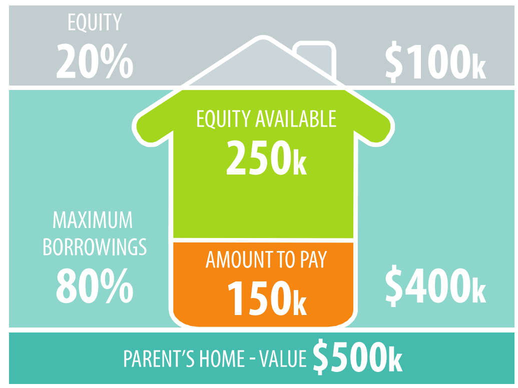
in your home for a family pledge

If you are already repaying your own home or another investment property, you may be able to use the equity you have built up to assist your children with their entry into the property market as a family pledge.

This scenario will assist if your children do not have sufficient savings for a deposit. Let's use an example to explain this process.

Your ability to assist

Lenders generally only loan up to 80% of the property value unless lender's mortgage insurance (LMI) is paid. To keep things simple we will assume that the bank will only loan 80% of the value of your existing property. From our example on the right, there is $250,000 sitting in your home loan that could be used as a family pledge to assist your child with the purchase of a property.



Your child's purchase

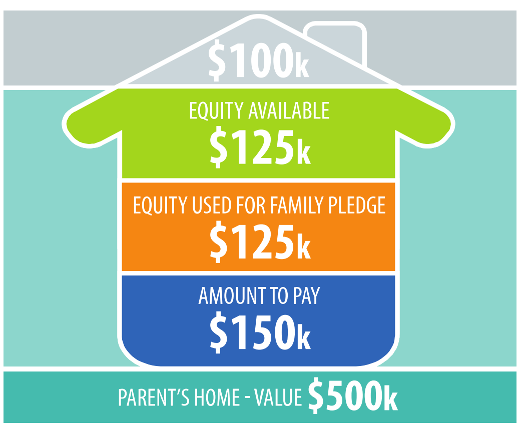
Let's assume that your child does not have sufficient savings to purchase a property but has the servicing capacity to purchase a property worth $500,000. As they do not have any savings they will need to finance 100% of the property value plus upfront purchase costs. These upfront costs vary from state to state so we will assume an amount of 5% of the total purchase price (or $25,000). This means there will be a need to borrow $525,000.

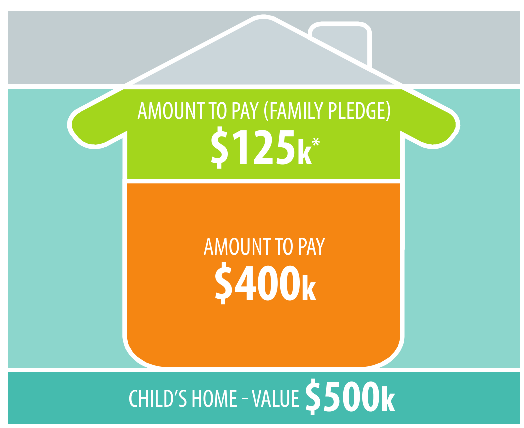
Security for this loan will need to be provided as:

- $400,000 against the property to be purchased (being 80% of the property value), and
- $125,000 against your existing property.

End result

As a consequence of the above transactions the following will result:





* Including $25k upfront costs

Obviously, the amount of savings the child may have will reduce the need for a family pledge – or the amount of the pledge.

Importantly

If your property was used as security for a family pledge, your child would owe the lender $525,000. As a parent you would continue to only owe the original $150,000. However in the event that your child defaulted on their loan and was unable to repay the lender then the lender may call upon you (as security provider) to repay the loan. If there are additional costs and default interest the ultimate amount that is payable as a parent may exceed $125.000.

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