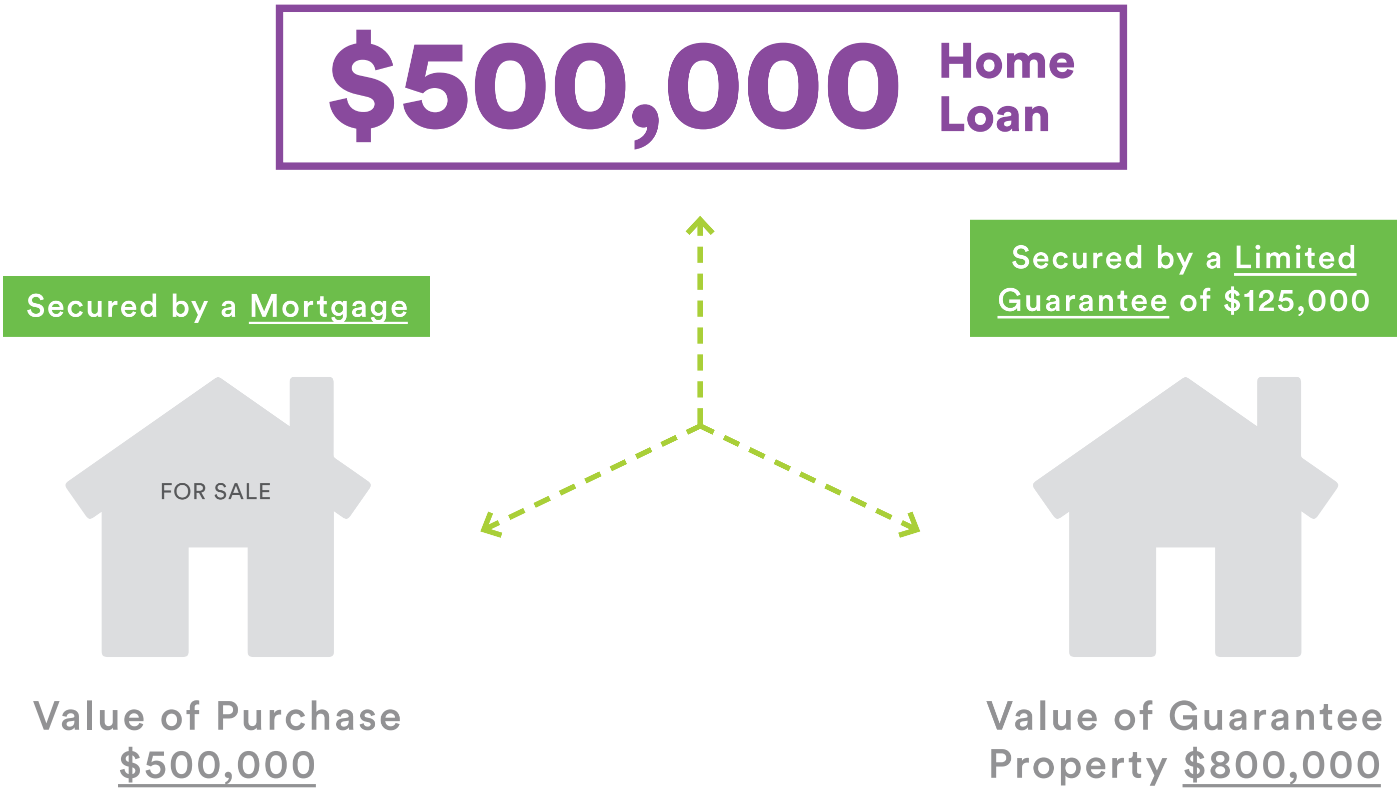
Here are the fundamentals of how a Guarantor Mortgage works.

Effectively a Guarantor Mortgage (also known as a Family Guarantee, or Family Pledge) is where an asset is put up as security in order to reduce the overall LVR (loan to value ratio) to a level acceptable to the bank. The bank will take security over the asset (usually a house, although can be savings with some institutions) and hold it until it is to be removed by way of a mortgage, or "Limited Guarantee" (limited guarantee means the bank only has recourse of the limited amount).

Below is an example of a $500,000 purchase;



Purchase Price - $500,000	*Client Deposit (savings) - $21,000*
Stamp Duty & Solicitors Fees - $21,000	*Total Loan Required - $500,000*

In this case, the loan would represent 100% of the purchase price, and is not acceptable to the bank.

The guarantor in this situation has put up their home as security (worth $800,000), which reduces the risk to the bank.

To avoid mortgage insurance, the maximum amount this borrower can have against their purchase is $400,000 (80%), which means they are $100,000 short of an 80% loan.

The bank will take both properties as security, however will only place a limited guarantee over the Guarantee property, which will represent the remaining amount ($100,000) plus a buffer (usually 25%, or $25,000 in this case), taking the total amount of the guarantee to $125,000.

The guarantee can be removed when the total loan is equal to or less than 80% of the purchased properties value.

This can be reached with either increase in value, or decrease of loan amount, or both. E.g. If the property goes up in value to $600,000 and the loan is paid down to $480,000, the loan would be at 80%.

Please Note:

If the guarantor wishes to sell their property, they are able to do so however the guarantee must be either replaced with another property, or replaced with cash.

The alternative is the purchaser pays mortgage insurance in the case of the loan being more than 80% of the purchase properties value.