Family Matters

Exploring the benefits of collective home buying.

Buying a home can be one of the most significant decisions a family makes. The question is, what happens when that decision involves the entire family? In Australia, many families are pooling resources to enhance their buying power and achieve their property goals together.

This article explores various lending options suitable for families, such as family guarantees, co-ownership, and buying a percentage of a family home. While these arrangements can foster strong family ties and financial benefits, it's crucial to navigate them carefully to avoid misunderstandings.

Family Guarantee: A Joint Step Towards Homeownership

Saving for a deposit can often feel like a never-ending challenge as property prices continue to rise.

- **What is a Family Guarantee?**
  A family guarantee allows borrowers to use a family member's home as a security guarantee instead of a cash deposit. This can be beneficial for both residential and investment properties.

- **Who Can Be a Guarantor?**
  Parents, parents-in-law, step-parents, or siblings can act as guarantors. Typically, the guarantee covers 20% of the property value (the deposit), with the purchased property securing the remaining 80%.
  Example: If you're purchasing a home worth $600,000, a family guarantee based on your guarantor's equity might be $120,000 (20%).

- **What are the Responsibilities and Risks?**
  Both you and your guarantor are at risk if mortgage payments are not met. Therefore, it's essential to assess your ability to repay the loan alongside your guarantor's financial stability.

Co-Ownership: Sharing Property, Sharing Responsibility

Whether considering a first home or an investment property, co-ownership among family members can significantly enhance your financial capacity.

Types of Co-Ownership:

- **Tenants in Common**:
  Allows for diverse ownership structures (e.g., 70/30, 50/50).
  Each co-owner can bequeath their share to beneficiaries.

- **Joint Tenants:**
  Ownership is typically equally divided (50/50).
  If one co-owner passes, their share automatically goes to the surviving tenant.

When looking at Co-Ownership you need to consider:

- That each owner is impacted by the financial situation of the others, which can affect borrowing capacity.
- All co-borrowers are jointly and severally liable for the entire debt, even if one party pays in cash for their share.

Buying a Percentage of the Family Home

Purchasing a share in the family home can enable parents to access cash while allowing you to build equity.

- **How Does It Work?**
  Consider the following scenario: Your parents' home is valued at $1,000,000 without a mortgage. You agree to buy a 20% share by paying $200,000, which provides them with immediate cash.

Alternative Arrangement

Sometimes parents sell their home at a favorable price while retaining the right to live there for the duration of their lives.

Important Considerations

Be aware of potential tax implications and how it may affect pensions through Centrelink.

Consult with financial advisors to ensure it's the best arrangement for everyone involved.

Family borrowing can offer great advantages, but it's essential to have a full understanding of all aspects involved. Before committing to any co-ownership arrangement, most lenders will require you to seek independent legal advice. If you, or anyone you know, is exploring this option, feel free to reach out to us for personalised guidance through the process. Together, we can help you make informed decisions that benefit all family members involved.

Final Thoughts.......
What are your thoughts on combining family resources for purchasing property?
Have you considered how this might work for your specific situation?
Reach out today to discuss your options!

Your Lending Experts
Do it once. Do it right.

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