



Ingrid and Stewart Alexander with sons David, left, and Simon.

Picture: Richard Polden

HELP TO FLY THE COOP

BEING guarantors for part of their sons' mortgages will see Ingrid and Stewart Alexander finally become empty-nesters next year.

The Darling Downs couple, whose sons still live with them, have signed parent guarantor agreements to help Simon, 32, and David, 27, finance their new homes. Ingrid, who affectionately quips that something is needed to get her sons to move out of the family home, says she and Stewart will be guarantor for 20 per cent of each son's mortgage.

Both David and Simon are building four-bedroom, two-bathroom homes with Homebuyers Centre at Byford Central Estate.

David says while the boosted First Home Owner Grant, low interest rates and excellent developer and builder incentives combine to create ideal buying conditions, he struggled to qualify for finance on his own.

Ingrid says she and Stewart are eager to help their sons take advantage of the many things currently working in first homebuyers' favour.

She expects that the guarantees on both Simon and David's mortgage will be released within five years.

"It would be a shame for them to miss out on the \$21,000 grant the government is giving to first homebuyers right now," Ingrid says.

"We had no hesitation in helping them because we're confident they'll both be able to pay down that smaller part of their mortgage as quickly as possible.

"It's a good time to buy property. Even if the mortgage repayments become a struggle, there is always the option of letting out a room to help boost finances."

Evelyn Duffy



PARENTS TO THE RESCUE

There has been a huge increase in family members acting as guarantors for housing loans to overcome stricter requirements demanded by lenders

pressure to maintain a cap on salaries, there will be an increasing disparity between income levels and property prices."

Martyn Noakes, a finance broker with McKinley Plowman, says in the right circumstances family guarantees represent a better option than paying expensive mortgage insurance.

He says several clients have taken up Family Support products over the past few months and inquiry levels indicate higher future demand for them.

Martyn says he encourages homebuyers and parent guarantors to seek independent legal and accounting advice before committing to a Family Support loan.

"A good mortgage broker will not offer a parent guarantor product without ensuring the applicants and guarantors fully understand what they are committing to," Martyn says.

For parents who are in a strong position to act as guarantors, the current time is ideal to assist children to enter the housing market, says Rob Jackson, director of financial planning with Patersons Securities Ltd.

Rob says many of his clients approached him about providing assistance by way of being a guarantor during the boom years, but he advised against it at the time.

"On those occasions, though I understood their good intentions, I did advise that they were assisting at a time of high property prices and perhaps buying at that time might not be prudent," Rob says.

"My view was why not wait until there is a market correction, as there always is, and then provide assistance."

Rob says providing parental assistance now, which should still be done with caution, will enable young homebuyers to take advantage of low interest rates and all the other benefits of the current buyers' market.

However, parents should still assess the merits of the housing investment and their children's ability to meet repayments.

"This is an opportunity for parents to educate their children on what to look for, both positive and negative, on one of the most important purchases they will make in their lives," Rob says.

Evelyn Duffy

BABY boomers are poised to play a greater role in boosting first-time buyer activity as more homebuyers make use of parent guarantor loans. Mortgage brokers say stricter lending criteria, which includes higher deposits and greater proof of savings history, is leading to higher demand for parental guarantees.

The loans, which allow family members to act as guarantor for a mortgage or assist with servicing repayments, enable homebuyers to enter the housing market sooner and, in some cases, avoid expensive lender mortgage insurance, say experts.

Construction finance specialist Don Crellin says a combination of tighter lending practices and a desire by first homebuyers to take advantage of the boosted First Home Owner Grant before it is phased out is driving demand for parent guarantor loans.

Don, general manager of Resolve Financial Solutions, says family guarantees represent a viable option for those who cannot satisfy the requirement for a 10 per cent deposit.

He says parental guarantees can take several forms.

Parents can either give a full guarantee,

which involves guaranteeing the entire mortgage, or they can give a limited guarantee for a portion of the loan.

According to Don, a guarantor is usually released from the loan when the property increases in value or when the loan is sufficiently paid down.

"While historically low interest rates have assisted greatly in terms of affordability overall, a portion of this has been offset by a general change in lending criteria," he says.

While family guarantees represent a viable option for real estate novices to get their foot in the property door, Don says both parties must do it with their eyes open.

He says it's important to seek independent financial advice before signing a guarantee and family members should ensure judgment is not clouded by emotional attachment. He says the agreement should be treated like a business deal with all parties clear on their obligations to avoid potential family conflict down the track.

Absolute Money Tree Group director Ron Cole says inquiry levels for parent guarantor loans have increased over the past few months.

Ron says the advantages of a parental guarantee include the opportunity to avoid expensive lender mortgage insurance, fewer conditions on the loan and an improved capacity to buy a better property.

Ron says a disadvantage is that the guarantee, which usually includes using the parents' home as security, can restrict the future borrowing capacity of the parents.

"I believe the demand for parent guarantor loans will continue to increase in the future," he says.

"This is partly because property prices are now set to rise again and, with current



Don Crellin, general manager of Resolve Financial Solutions



Martyn Noakes, finance broker, McKinley Plowman



Ron Cole, director Absolute Money Tree Group



Rob Jackson, director of financial planning, Patersons Securities