Thinking of becoming a guarantor?

Guarantor guide

A guarantor is someone who agrees to be responsible for repaying a debt owed to us under a loan provided to another individual or business, if the borrower(s) can’t make their repayments.

A guarantor supports the loan by providing us with additional security such as a property they own. By providing a guarantee, we may lend to the borrower in situations where they may not have been able to secure the full amount on their own.

This guide outlines important information and risks to consider before becoming a guarantor.

Banking Code of Practice (BCoP)

The Banking Code of Practice applies to you if you're an individual who has signed (or is considering signing) a guarantee to help another individual or a small business to secure any financial accommodation or loan provided by CommBank.

For more information on the Banking Code of Practice, please refer to the Australian Banking Association website at **ausbanking.org.au/banking-code**

National Credit Code (NCC)

If you're an individual who has signed or is considering signing a guarantee to support an individual to secure credit (including a loan) for wholly or predominantly non-business purposes, the National Credit Code might also apply to you and could give you additional rights.

To read more about the NCC, visit the Australian Securities and Investments Commission website at **asic.gov.au**

Key considerations for guarantors

Eligibility

Borrower type	Types of support
Personal borrower(s)	Security support only (subject to the home loan application falling into one of the following scenarios): • Where the borrower and guarantor are married/in a de facto relationship; • Family security support, where the guarantor(s) are family members of the borrower (for example a parent and/or legal guardian, adult child, sibling or grandparent) who offer their own property as an additional security; • Property share in ownership – for more information, see our Property Share Guide available from **commbank.com.au/your-home-buying-resources**; or • Non-personal guarantors (where a Company acts as guarantor).
Non-personal borrower(s)	**Company and/or Trusts** (where at least one borrower is a non-trading company or a company as a trustee for a trust where the beneficiaries are individuals). **Guarantors may provide support in one or both of the following ways:** • **Security support** – When the non-personal borrower(s) is unable to provide adequate security for the borrowing amount, a guarantor may be willing to provide security to assist. • **Servicing support** – When the non-personal borrower(s) is unable to service the loan amount based on their income and total repayment commitments, the company director(s) may be willing to provide income to assist with the loan repayments. **Keep in mind:** • Where a Company borrower is involved in an application, guarantees are required from all Company Directors, as well as shareholders (where applicable). • Director(s) will execute all loan documents on behalf of the Company and/or Trust. • The liability of a director guarantor is equal to the full loan amount.

Financial

- When security support (only) is provided, we'll assess the home loan application based on the borrower's financial information.
- When servicing support (non-personal borrowers only) is provided, we'll assess the home loan application based on the non-personal borrower and individual director(s) or trustee's financial information.
- You can limit the amount you are liable for under the guarantee through a written request to the address or email address provided by your Home Lending Specialist or Broker. We can say no to your request if:
  - The limit you propose is less than what the borrower owes to us;
  - We are obliged to make further advances or enter into further arrangements with the borrower; or
  - We would be unable to secure the present value of an asset that is security for the loan (such as a house under construction).
- You can withdraw from the guarantee through a written request to the address or email address provided by your Home Lending Specialist or Broker:
  - Before we provide any money to the borrower(s) under the loan contract; or
  - After any money is first provided, if the final loan contract is materially different from the one we gave you before you signed the guarantee.
- You can be released from the guarantee when your guarantee is no longer required by us. This could occur when the guaranteed amount is paid off by the borrower(s) and the loan is reduced.
- Alternatively, you can end your financial obligation under the guarantee at any time by:
  - Paying us any money the borrower(s) owes at the time, including any further amounts we're obliged to provide the borrower that are covered by your guarantee;
  - Paying us the maximum amount you're required to under the guarantee; or
  - Suggesting another arrangement that we agree to.

Risks

- If you choose to provide a guarantee, you'll be signing a legal contract in which you agree to repay the home loan if the borrower can't meet the repayment terms and conditions of their loan contract. If the borrower is unable to repay their home loan, we'll first seek to recover the debt from the borrower (by stepping in to assist with the sale of the borrower's security), before we seek any security you have provided in support of your guarantee (unless we reasonably expect that after doing so, a substantial amount would still be owing).
- The amount shown in the guarantee could be the entire amount of the borrower's loan, or a limited amount, and you may be required to pay us the maximum amount shown in the guarantee, along with interest and reasonable enforcement expenses.
- Your guarantee may cover variations to the loan contract; however, the maximum amount of your liability won't increase unless you agree to this in writing.
- In the event that you don't pay, we may enforce our legal rights, which involves selling any security you have offered under your guarantee.

***Important:** Agreeing to be a guarantor and providing a guarantee involves significant financial risk, which could result in you losing your property (it could be your family home) and/or serious monetary loss. Depending on the severity of the default and your ability to repay any amount required under the guarantee, your credit report may also be negatively impacted.*

Other considerations

- You don't have to become a guarantor. We'll reassess the borrower's home loan application and while we may not be able to provide the home loan without a guarantee or an additional monetary contribution towards the purchase price, it's important for you to understand the risks before you commit.
- We **highly recommend** you seek legal and financial advice from an independent third party (i.e. not from the borrower's representative/s) to understand your obligations, risks and impact on your financial situation before providing a guarantee and any supporting security. It's important to consider your obligations under a guarantee and sign any guarantor documents free from any outside influence or pressure.

Ask yourself:	Yes	No
Does the borrower have any plans in place if their circumstances change and they can't repay the home loan?		
Does the borrower expect any life events that will change their current financial circumstances?		
Does the borrower plan to sell their property soon or borrow more money?		
Will I be able to sell my property while it's being used to guarantee the borrower's home loan?		
Will providing a guarantee affect my ability to borrow now and in the future?		
Am I prepared if my property was sold to repay the borrower's home loan?		
Am I prepared and able to repay the home loan if the borrower doesn't?		
Do I have a strategy in place if my property is sold to repay the guaranteed amount?		
Do I understand the duration of the guarantee?		
Do I feel pressured to become a guarantor?		

Meet Sam, Alex and Jackie
Family Security Support example

Sam and Alex want to purchase their home with additional security from Jackie (Sam's mother). They don't have enough genuine savings to enable a 20% deposit, but can service the loan amount they require. Jackie has offered to provide a guarantee over her unencumbered property to enable them to purchase their home without the need to pay Lenders Mortgage Insurance (which they may be required to pay if their Loan to Value Ratio (LVR)* is greater than 80%). Let's have a look to see how the loan is structured and what happens next.

* Loan to Value Ratio (LVR): The total you've borrowed for your loan as a percentage of your property value.

How does it work?

We know being a guarantor can seem complex. So here's an example with two scenarios to help illustrate how it works.

Sam and Alex are purchasing their home for **$500,000**. They have saved a total of $71,000 ($50,000 for their deposit and $21,000 for their additional costs such as stamp duty and legal fees). They are looking to borrow a total of **$471,000**.

Their Home Lending Specialist speaks to Jackie alone to explain the obligations and risks associated with becoming a guarantor. After careful consideration Jackie proceeds with providing a guarantee.

To limit Jackie's guarantee liability, Sam and Alex split their loan as follows:

Loan 1: $400,000

The loan is secured by Sam and Alex's purchase property valued at $500,000.

Loan: **$400,000**

Value of purchase property: **$500,000**

x 100% = LVR 80%

Loan 2: $71,000

The loan is secured by Sam and Alex's purchase property valued at $500,000 **and** Jackie's (guarantor) property valued at $650,000.

Loan 1: **$400,000** +
Loan 2: **$71,000**

Value of purchase property: **$500,000** + Jackie's property: **$650,000**

x 100% = LVR 40.95%

Jackie needs to take at least three calendar days to review the deed of guarantee and other important information. After careful consideration and seeking independent legal advice, Jackie decides to proceed with becoming a guarantor.

Scenario 1

Three years later, Sam and Alex have enough equity in their home to release Jackie as their guarantor.

They achieved this by making additional payments into their loans, as well as an increase in property values around their area.

Jackie is now no longer part of the loan contract, and has no ongoing liability.

Scenario 2

Three years later, Sam is made redundant and they are unable to keep up with their repayments, resulting in defaulting on their home loans.

With no other options available, they make the decision to sell their home. Due to a market downturn, the property is sold at a lower price. A total loan balance of $452,000 is still owing. With the property selling for $415,000 and costs of $10,000 associated with the sale of the property, they still owe $47,000.

Alex and Sam are unable to repay the debt, which leaves Jackie responsible for the remaining $47,000 owing on the loan contract.

If Jackie is unable to repay the debt or cover the repayments, we may seek to sell her security property that was guaranteeing the loan to repay the remaining debt.

Here's an example of how a guarantor works for a Company and/or Trust. Speak to your Home Lending Specialist or Broker for more information on non-personal guarantors.

Meet Simran and Ezra Miller

Company and/or Trust example

Simran and Ezra want to borrow $420,000 (including money to cover associated costs) in their company name, Miller Property Investment Pty Ltd, to purchase an investment property.

The investment purchase property has been valued at $400,000.

$$\frac{\text{Loan: } \mathbf{\$420{,}000}}{\text{Value of investment purchase property: } \mathbf{\$400{,}000}} \times 100\% = \text{LVR } 105\% \text{ and is outside our acceptable security limits}$$

Based on Miller Property Investment Pty Ltd's current income and commitments, the company can't service a $400,000 loan.

After speaking with their Home Lending Specialist, both Simran and Ezra (company directors) agree to act as a supported guarantor and provide both servicing and security support.

Servicing support: Their Home Lending Specialist calculates their servicing capacity using both Miller Property Investment Pty Ltd's and Simran and Ezra's (company directors) income and repayment commitments, allowing Miller Property Investment Pty Ltd to borrow the $420,000 it requires.

Security support: The loan is secured by the new investment property and Simran and Ezra's existing unencumbered owner occupied property valued at $300,000.

$$\frac{\text{Loan: } \mathbf{\$420{,}000}}{\text{Value of investment purchase property: } \mathbf{\$400{,}000} + \text{Simran and Ezra's existing owner occupied property: } \mathbf{\$300{,}000}} \times 100\% = \text{LVR } 60\% \text{ and is within our acceptable security limits}$$

The guarantee provided is for the total amount of Miller Property Investment Pty Ltd's loan.

Simran and Ezra choose to take three calendar days to review the deed of guarantee and other important information. After careful consideration, they decide to proceed with the purchase of the investment property in their Company name.

What happens next?

Before we can accept a guarantee from you, there are a few key steps to follow.

What we'll do:

Ask you to sign and return some preliminary forms to verify your identity and agree to our privacy policy.

Give you information about the borrower(s) financial situation and the loan they're applying for, along with a deed of guarantee and a guarantor acknowledgement form for you to sign. This information may include:

- The proposed loan contract and a list of any related security contracts;
- Any related credit report from a credit reporting body;
- Any financial accounts or statement of financial situation the borrower has given us in the previous two years for the purpose of the guaranteed loan;
- The latest statement of account relating to the loan for a period in which a notice of demand was made by us within the last two years;
- Any notice of demand we have made on the borrower for the guaranteed loan, or any loan the borrower has (or has had) with us, within the previous two years;
- If any existing loan we have given the borrower will be cancelled if the guarantee is not provided; and
- Any current credit-related issuance contract that is in our possession.

We'll ask that you take at least **three calendar days** to review all this information and carefully consider if you want to provide a guarantee. If you choose to provide a guarantee, we'll ask you to:

- Sign the deed of guarantee before an eligible witness (as outlined in the guarantee documentation), without the borrower(s) being present; and
- Confirm on an acknowledgement form that you've taken at least three calendar days to review the information before signing.

Note: *We can accept the guarantee earlier if you have obtained independent legal advice about it.*

Remember, it's okay if at any stage you choose not to proceed with providing a guarantee.

Important: *If you're becoming a guarantor as the sole director of a company borrower, or you're a trustee guarantor, you may choose not to receive some or all of the documents; however, they contain important information that may affect your decision to give a guarantee. Also, the three calendar day review period requirement won't apply to you.*

Common questions

How is a co-borrower different to a guarantor?	A **co-borrower** is someone who chooses to borrow money with another individual or business. A co-borrower is responsible for regular repayments on their home loan and repaying the loan in the event of a default. For more information about co-borrowers, read our Co-Borrower Guide available from **commbank.com.au/your-home-buying-resources** A **guarantor** will **only** become liable for the amount they have guaranteed (which could be up to the full amount of the home loan, along with interest and reasonable enforcement expenses) in the event the borrower(s) can't meet the repayment terms and conditions of their loan contract.
What information can I ask for during the life of the loan?	You can ask us at any time for a statement of the amount the borrower(s) currently owes, any amounts debited or credited, overdue amounts and when they became overdue. This information may be given to you verbally unless you ask for it in writing. We'll also give you the following information about a borrower's deteriorating financial situation as it relates to the loan you guarantee, within 14 days of the relevant event: • A copy of any formal demand or default notice we send to the borrower after we send it; • A written notice if the borrower has advised us that they are experiencing financial difficulty, which has resulted in a change to their loan; and • A written notice if the borrower is in continuing default for more than two months after the issuance of the default notice referred to above. This does not apply if you're a sole director guarantor or trustee guarantor.
Will becoming a guarantor affect my future borrowing capacity?	When you apply for credit, you may need to tell the credit provider about any loans you are a guarantor on. This may affect your borrowing capacity, especially if you want to borrow against the property you have provided as security.
What if I change my mind or no longer wish to be a guarantor once the loan is funded?	You must contact the Bank as soon as possible and discuss your options with a Lender.

We're here to help

If you have any questions or want more information:

Book an appointment with a Home Lending Specialist at **commbank.com.au/appointment** or contact your Broker.

Call us on **13 2224**

Visit **commbank.com.au/homeloans**

Things you should know: This guide doesn't consider your individual objectives, financial situation or needs. Before basing any decisions on this information please:

- Consider its appropriateness to your circumstances.
- Consider obtaining professional advice specific to your needs, including financial, taxation and legal advice.

Loan applications are subject to credit approval and any loan offer includes full terms and conditions. Fees and charges apply – see our fees and charges brochure at **commbank.com.au/homeloanfees**. All examples and scenarios are illustrative only. This guide is subject to change without notice.

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