YellowBrickRoad
Home Loans

THE BANK OF MUM AND DAD

Learn how family can help you buy your first home sooner, and the smart, safe ways to do it.

Disclaimer: This guide provides general information and has been gathered based on available information as at November 2025 from firsthomebuyers.gov.au. The information provided does not consider your personal objectives, financial situation, or needs. Eligibility, property price caps, and scheme details are set by the Australian Government, participating lenders, and may change at any time. Always seek professional, independent advice before making property or finance decisions. Any loan application is subject to lender credit criteria and scheme eligibility.

Introduction

For many young Australians, saving a deposit is the hardest part of buying a home. Rising house prices mean it can take years to build enough of a deposit to meet a lender's requirements.

That is why more families are turning to the Bank of Mum and Dad.

A report commissioned by Mozo[1] found that:

75%

of parents who provided financial assistance to their children to buy property said they did not expect to be repaid.

3%

of parents who provided financial assistance to their children to buy property expected full repayment with interest.

12%

of parents who provided financial assistance to their children to buy property expect full repayment without interest.

Parents want to support their kids. Kids want a foot in the door without waiting a decade.

A guarantor structure can bridge that gap.

This guide explains the main ways parents can help, what guarantor loans involve, and the key risks and responsibilities to understand before making any decisions.

It is written to give you clarity, not complicated legal detail. Before acting on anything in this guide, you should seek independent legal and financial advice.

Your local YBR Mortgage Broker can walk you through each option and explain how different lenders assess these arrangements.

[1] *The Gift of Mum and Dad: From loans to legacies Mozo Bank of Mum and Dad Report 2025: https://mozo.com.au/reports/bank-of-mum-and-dad-report-2025#download-the-pdf-version; Mozo commissioned a nationally representative survey of 1,019 Australian parents 18 years and over with adult children, with information collected via Pure Profile in January 2025.*

Ways parents **can help**

The Bank of Mum and Dad isn't a formal bank. It's a term for financial help from family, which typically comes in one of three ways.

The Guarantor

This is the most common structure. A parent offers part of the equity in their own home as additional security for their child's home loan. This helps reduce the loan to value ratio and may remove the need for Lenders Mortgage Insurance.

You are not placed on the loan itself. Instead, you provide a limited guarantee that only applies if the borrower cannot make repayments.

The Gift

Parents may contribute cash towards the deposit. Lenders usually require a statutory declaration stating that the funds are a non-repayable gift.

This option reduces the need for a guarantee but requires the parents to have available cash.

The Loan

Some families prefer to set up a private loan arrangement. Lenders will require clear documentation that explains the terms of the loan and whether repayments are expected.

In most cases, the lender will still require the borrower to show they can service both the mortgage and the family loan.

Understanding Guarantor Loans

Guarantor loans allow a parent to use the equity in their home to support part of their child's borrowing. The guarantee is usually limited to the portion required to reduce the loan to value ratio to a level the lender accepts, often 80%.

Put another way, the security the parent(s) provide is usually limited to 20% of the child's property value, which is the amount needed to avoid Lenders Mortgage Insurance (LMI).

Example:

- Emily wants to buy a $600,000 home but has only a small deposit.
- Her parents offer a guarantee using their home's equity. The guarantee is limited to $120,000 (20% of Emily's purchase price).
- From the lender's perspective, Emily now has a 20% security buffer. This allows her to borrow the full purchase price and avoid paying LMI.

How the structure works

- The home being purchased remains the primary security
- The lender takes a secondary mortgage over the guarantor's property
- The guarantee only applies to the agreed portion of the loan
- The guarantee can be released once the loan reduces or the borrower builds enough equity

What this achieves

- Reduces or removes the need for Lenders Mortgage Insurance
- Helps the borrower qualify for the loan sooner
- Allows the borrower to avoid having to save a full 20% deposit

Who can be a guarantor

- Most lenders require close family members. Parents are the most common, though some lenders allow grandparents or siblings.

The exit plan

- A family guarantee isn't meant to be forever. The goal is to remove the guarantee as soon as possible. This can usually be done once the child has paid down their loan to 80% of the property value, or if the property has increased in value to achieve the same loan-to-value ratio.

The responsibilities of being a guarantor

Becoming a guarantor is a significant financial decision. You should only proceed when you fully understand the commitment.

What you are agreeing to

By signing a guarantee, you agree to repay the guaranteed portion of the loan if the borrower cannot meet repayments.

This may include interest and reasonable costs.

How lenders assess guarantors

Lenders undertake a credit and financial assessment of the guarantor.

This includes income, liabilities and property ownership.

What happens if the borrower misses payments

If the borrower defaults, the lender will often attempt to resolve the issue with them first. If the situation cannot be resolved, the lender may ask the guarantor to cover the outstanding amount within the guarantee limit.

If the guarantor cannot meet this amount, the lender may take steps to recover the debt, which could include selling the guarantor's security property.

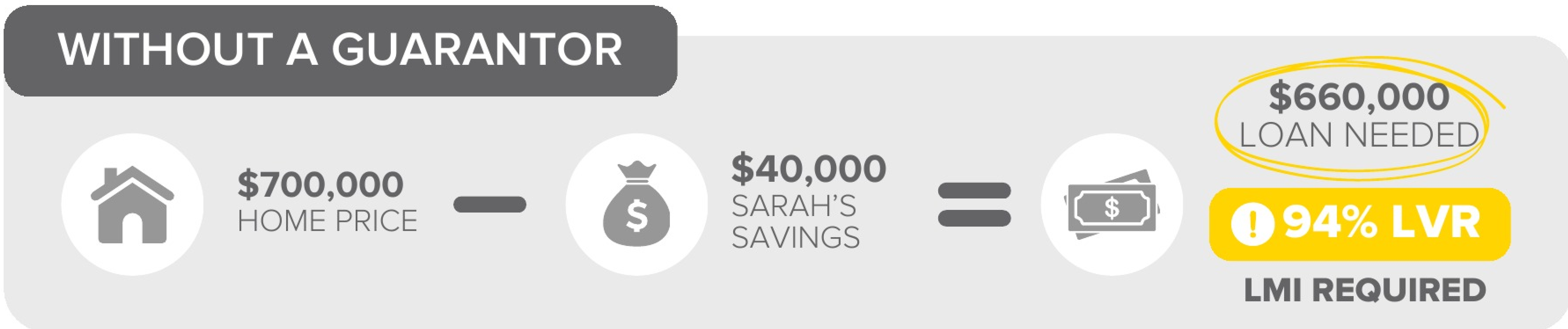
Impact on your own borrowing capacity

Any guarantee you provide may affect your ability to borrow in the future, as credit providers may treat the guaranteed amount as a potential liability.

HOW GUARANTOR LOANS ARE STRUCTURED

A simple example helps show how guarantees reduce the deposit required.

Sarah wants to buy a $700,000 home. She has $40,000 in savings and needs to borrow $660,000 to complete the purchase. Her loan to value ratio is 94%, which means Lenders Mortgage Insurance (LMI) is likely to be required.



Sarah's parents own their home outright. They agree to provide a limited guarantee for 20% of the purchase price, secured against their home. This reduces Sarah's loan to value ratio to 80% and removes the need for LMI.

Releasing the guarantee

Over time, Sarah makes repayments and her home increases in value. Once her remaining loan balance is at or below 80% of the property value, her parents can be released from the guarantee. This usually requires a property valuation and an internal refinance with the same lender.

KEY RISKS PARENTS MUST CONSIDER

Before becoming a guarantor, parents should carefully consider the following.

Ability to repay if required

If your child defaults, you may be called upon to cover the guaranteed portion of the loan. You must be comfortable with the possibility that your own home or assets may be at risk if you cannot.

Relationship considerations

Money within families can create tension. Ensure both parties have a clear understanding of expectations. Many families prefer to document these discussions to avoid misunderstandings.

Your own future plans

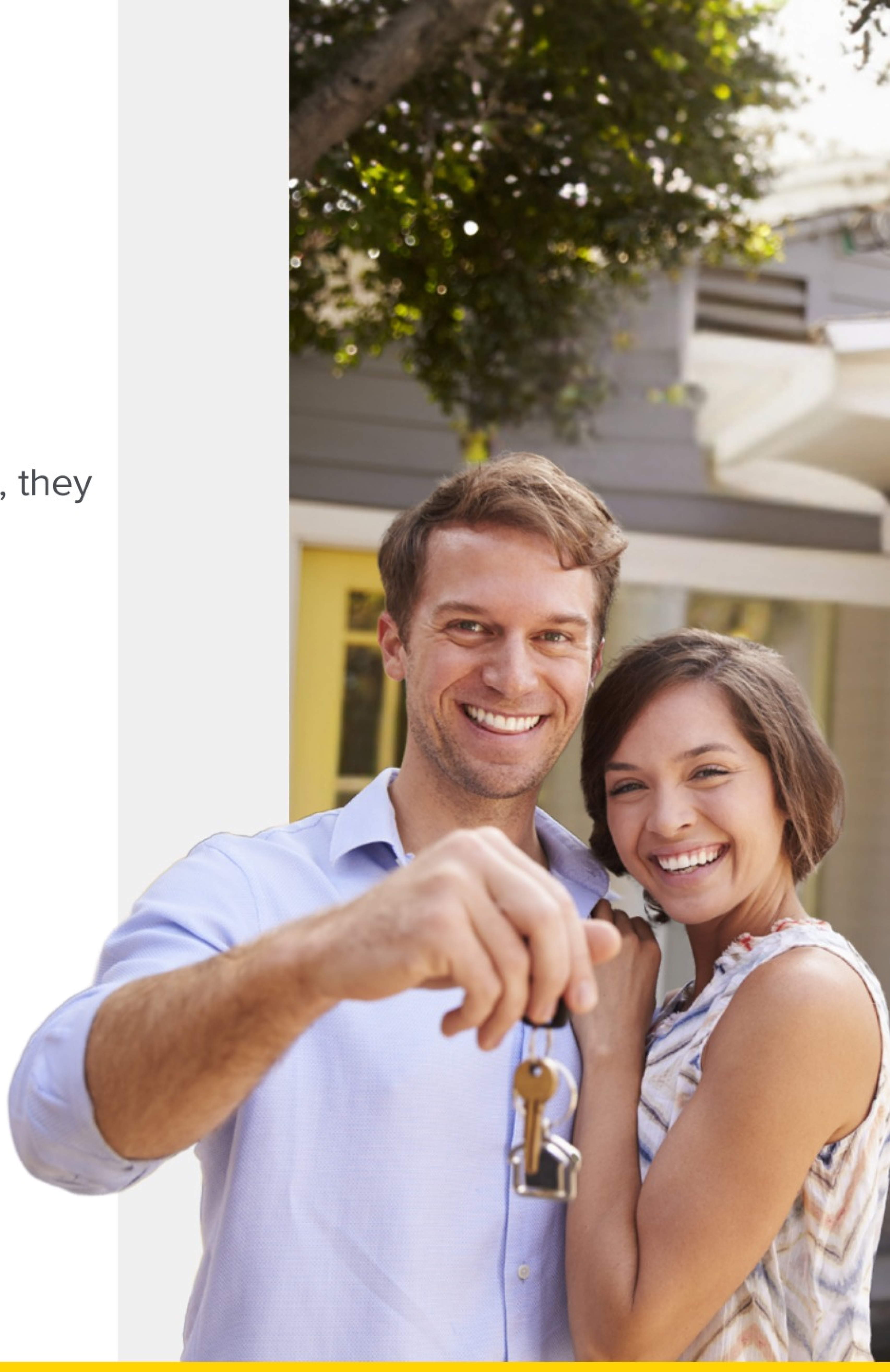
If you intend to downsize, borrow, renovate, or invest, carrying an active guarantee may restrict your options.

Independent advice

Most lenders require guarantors to obtain independent legal advice before signing. It is strongly recommended that you also seek independent financial advice to understand the impact on your overall financial position.

Benefits for first home buyers

While guarantor arrangements carry responsibilities, they also offer clear advantages for first home buyers.



1. **Enter the market sooner**

   Avoiding the need to save a full 20% deposit can reduce waiting times by years.

2. **Avoid Lenders Mortgage Insurance**

   Lenders Mortgage Insurance (LMI) can be extremely costly, particularly for first home buyers already facing the difficulties with saving for a deposit. Avoiding this expense improves affordability.

3. **Potentially better loan terms**

   A lower loan to value ratio can assist with access to more competitive products.

Case Study #1: The Gifted Deposit

Situation:
A couple in Brisbane wanted to buy a $650,000 home. They had saved $32,500 (5%). Their parents gifted them another $32,500 to bring their total deposit to 10%.

Outcome:
While they still had to pay some LMI, the larger deposit reduced the cost significantly and strengthened their loan application, helping them secure approval.

Case Study #2: The Guarantor Loan

Situation:
A first home buyer in Perth wanted to buy a $500,000 apartment. She had saved $15,000 for costs but had no deposit. Her parents agreed to act as guarantors, providing a limited guarantee of $100,000 (20%) using the equity in their home.

Outcome:
She was able to borrow 100% of the purchase price, avoided paying over $15,000 in LMI, and got into the market. Her plan is to pay down the loan aggressively and release the guarantee within five years.

How to remove a guarantee

Most guarantees are not lifelong commitments. They can be removed, typically when the borrower has enough equity in the property.

You can request a release when:

The borrower's loan balance falls below 80 percent of the property's value

The property value has increased enough to create equity

The borrower has refinanced or changed lenders and no longer needs a guarantor

The lender will reassess the borrower's financial position to confirm they can support the loan without the guarantee.

Are there alternatives?

Before turning to family, it's worth exploring other options that can help you buy with a smaller deposit, reducing the need for parental support.

THE GOVERNMENT'S 5% DEPOSIT SCHEME

This federal government scheme allows eligible first home buyers to purchase a home with as little as a 5% deposit and avoid paying LMI. In this case, the government provides the guarantee, not your parents.

THE FIRST HOME SUPER SAVER (FHSS) SCHEME

This allows you to make voluntary contributions to your superannuation to save for a deposit. It offers a tax-effective way to boost your savings faster.

STATE-BASED GRANTS & CONCESSIONS

Most states offer a First Home Owner Grant (often for new builds) and/or significant stamp duty concessions. These can reduce your upfront costs by thousands.

A YBR mortgage broker can help you check if you're eligible for these schemes, which can sometimes be enough to get you over the line without needing to involve family.

The Healthy Conversation Checklist

Talking about money can be hard. Use this checklist to guide a productive and open conversation with your family.

- [ ] **Why are we doing this?**
  Discuss the goals for both the child (home ownership) and the parents (helping their child while protecting their own future).
- [ ] **What is the exact structure?**
  Is it a gift, a loan, or a guarantee? Be specific.
- [ ] **How much is being provided?**
  Define the exact dollar amount of the gift, loan, or guarantee.
- [ ] **What are the "what ifs"?**
  Discuss worst-case scenarios openly:
    - [ ] What if the child loses their job?
    - [ ] What if the child’s relationship breaks down?
    - [ ] What if the parents need the money back?
- [ ] **What is the exit plan?**
  Agree on a clear timeline and strategy for how the financial support will end.
- [ ] **Do we all agree to get independent legal and financial advice?**
  This is the most important step to protect everyone.

How YBR supports families through the process

A guarantor arrangement involves careful planning and clear communication. YBR Mortgage Brokers help families by:

Explain → **Assess** → **Structure** → **Prepare** → **Support**

- Explaining how guarantor loans work across different lenders
- Assessing whether the borrower can service the loan independently
- Structuring the loan to minimise the guarantor's exposure
- Preparing a pathway to release the guarantee over time
- Supporting both parties through the legal and financial advice process

Our experienced Mortgage Brokers work with families across the country and understand the importance of balancing opportunity with responsibility.

Parents play a central role in helping the next generation enter the property market. With the right guidance and structure, a Bank of Mum and Dad arrangement can be a practical and safe way to support your children without compromising your own financial security.

Your local YBR Mortgage Broker is ready to help you explore your options.

Disclaimer: This guide provides general information only. It does not take into account your objectives, financial situation or needs. Before acting on this information, you should consider whether it is appropriate for your circumstances and seek independent legal and financial advice. Loan approvals are subject to lender credit criteria, terms and conditions and fees.

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