

Home loan finance for people on lower incomes

Sometimes a person may not be able to secure home loan finance based on their own circumstances, due to insufficient deposit, insufficient income level, other features or a poor credit history.

Home finance options – with family help

Generally speaking all the main bank home lenders will consider loan applications which involve other family members in the loan structure. The addition of interested family members as borrowers will strengthen the loan application and improve the prospects of home loan approval by taking into account their income and house equity.

The most likely family members to assist are parents and brothers and sisters. Parents in particular are often concerned to assist if they can, as they worry about a disabled adult child's future, particularly after they themselves have aged.

The following scenarios are examples of how this may work.

Joint loans – no or small deposit

Miss A is physically disabled; she lived in a rented house in a flatting situation with two friends. She received benefit income and did not have cash money for a deposit. Miss A did have a KiwiSaver and was able to withdraw \$5,000 plus receive \$5,000 First Home Buyers Grant. Her parents were interested in helping her into her own home in the interests of future stability. Her parents both worked and had their own home with a mortgage. After making enquiries with their existing bank the following finance was approved.

Home loan \$260,000 with Miss A and her parents as joint borrowers.

Property cost \$270,000 and as the parents had sufficient equity/ownership in their existing home this was used as additional security. No major cash deposit was required. Miss A used the KiwiSaver funds and First Home Buyers Grant as cash deposit. Her existing flatmates moved with her as boarders, paying a set amount for rent plus sharing other expenses.

The weekly loan repayments were \$336. With Miss A's income, boosted by Accommodation Supplement, plus the boarders' rent, she was comfortably able to pay the loan and cover rates and expenses.

Joint loans – assistance with substantial cash deposit

Miss B is mildly disabled and not able to work full-time. She has a part-time job. With her wages and additional benefit income she has enough income to cover a home loan at some level. Her parents had planned for some years to assist Miss B into her own home and had put aside a substantial cash deposit to assist.

A home was purchased and funded on the following basis:

Property cost:

\$300,000

Less cash deposit:

- KiwiSaver withdrawal	\$12,000	
- KiwiSaver First Home Buyers Grant	\$5,000	
- Parents' cash deposit	\$163,000	Total
	<u>\$180,000</u>	

Funding required / Bank Home finance approved:

\$120,000

The property was purchased in the name of Miss B Family Trust. The trustees were Miss B, her parents and a brother. Loan was approved taking into account parent's income. Property ownership and loans were taken in the name of the family trust.

Miss B could afford to pay comfortably pay loan of \$70,000 weekly repayments of \$100, and pay rates and insurance. Her parents contributed regular loan repayments to cover the remaining \$50,000 loan which they structured into a separate loan over a five-year term. The Accommodation Supplement was based on the total trust loan of \$120,000 which further assisted with finances.

Rental property loans

Mr K is disabled, married with a child. He had no deposit. His parents decided to buy a house property and treat it as a rental investment property getting a loan from their existing bank and using their home as additional security for the property purchase. The son tenanted the property and family finances were that they could cover the loan payments. The parents paid the rates and insurance which were tax deductible.

The longer term plan was at some future stage, when the loan had reduced and the property value increased, they would sign the property ownership to the son and his wife.

Other options

Guaranteed loans

Banks will provide a loan with a guarantee providing all is suitable. These are less common as banks prefer to loan directly to people or through their trusts. The problem with these is generally there is no cash deposit and the loan amount is higher. Also the bank will not include a guarantor's income in the loan application assessment which would make a loan harder to achieve. The joint borrower situation is preferred.

Gifted deposits

This frequently happens. By gifting substantial amount of funds for deposit, a home loan at a suitable level may be possible on a stand-alone basis, without a parent tying their own property into the security.