

Co-borrower loans

If you're wanting to purchase a property, you may be considering obtaining finance with another person, whether that be a partner, friend or family member. This is known as co-borrowing, which involves all borrowers appearing on the loan application. Co-borrowing means that all borrowers' income is recognised by the lender, which can help increase borrowing power for a property purchase. Co-borrowing is an option for those wanting to purchase a new property or refinance an existing loan.

Key considerations

While there are benefits involved with co-borrowing, it's important to consider all the financial implications. Some of the key considerations include:

- Each borrower is jointly liable for the loan.
- All co-borrowers will appear on the loan application, meaning your financial details – such as income, assets and liabilities – will be visible to the other borrowers.
- If one co-borrower fails to make their repayments, the other co-borrowers may become responsible for their share.
- If one co-borrower fails to make their repayments, all co-borrowers may receive a notice to correct the default, which could impact your credit rating and future ability to borrow money.
- If your relationship with a co-borrower changes over time, you're both still responsible for the loan unless one party takes over the debt.

Benefits of being a co-borrower

When applying for a loan as a co-borrower, the lender will consider the benefit you'll receive from the home loan. Each co-borrower should receive a 'substantial benefit', which means that all co-borrowers must benefit in an equitable way. Your lender may not approve your loan application if you are a co-borrower who isn't benefitting from the loan.

For example, co-borrowers purchasing a house with an equal 50% share in the property are both considered to be receiving a substantial benefit. However, if one co-borrower owns 80% and the other 20%, one co-borrower will not be receiving a substantial benefit, which may concern the lender, and they may request an explanation of the ownership split.

The difference between co-borrowers and guarantors

A guarantor is when a third party (such as a family member) provides additional security to help a borrower buy their home, whereas co-borrowers are equal partners on a loan application. In some cases, co-borrowers and guarantors carry similar risks. For example, co-borrowers and guarantors may be required to repay the entire loan themselves should the guaranteed person or the other co-borrower default.

The key differences and similarities between co-borrowers and guarantors are outlined below.

Key differences	Co-borrower	Guarantor
Liability if the borrower defaults or fails to make repayments on the loan	✓	✓
Potential impacts on your credit score if a borrower defaults on their repayments	✓	✗
Requirement to receive a substantial benefit from the loan	✓	✗
The law allows the ability to recover a financial contribution from the borrower	✗	✓
Liability limitation protections under the Banking Code of Practice and Australian law	✗	✓

If you're considering becoming a co-borrower, it's important to consider the risks and financial implications involved. Speak to your local Mortgage Choice broker today to learn more about your loan options as a co-borrower.

Before entering into a co-borrower arrangement, you should consider obtaining professional financial and/or legal advice.

For expert mortgage advice, talk to your local broker today.

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