Parents help your kids move out!

Parents now want to assist their children to achieve the great Australian dream of home ownership. It is reported that 8 in 10 parents are prepared to lend a hand by providing some form of financial support in an effort to help their children enter the property market.

This financial support may be in the form of:

- Allowing the kids to live at home longer, in many instances rent free,
- gifting at least part of the deposit to their children,
- providing a supplementary loan in addition to the bank loan, typically interest free, and
- acting as guarantor (although the drawbacks need to be considered here).

Kids Living at Home

A report has found 46 per cent of parents were happy to relinquish their empty-nest lifestyle and let the children live at home longer if it meant the children could save more money for a home deposit. In many instances this meant the parents had to redirect some of their discretionary spending, take less expensive holidays and defer purchases to cope with the financial responsibility of having the children live at home.

Parents need to consider the hidden costs associated with this option and the potential unintended consequences it may have on their future retirement lifestyle.

Gifted Deposits

Parents providing assistance with the deposit must be aware that a gift is not repayable. The majority of banks will require parents to declare that there is no need for these funds to be repaid.

Supplemental Loan

Parents who have available finances today but with future needs may want to consider providing a supplemental loan to their children, potentially with low or no interest.

‘8 in 10 parents are prepared to lend a hand by providing some form of financial support’

For many, the financial help is an informal arrangement, but there are many potential risks associated with not having the appropriate documentation. Accordingly, as a minimum, the loan and its terms should be documented between the parties in a loan agreement. If a parent requires additional security they may wish to register the loan against the title of the child’s home. It is important to be aware that in the event of things going wrong, the bank requires payment first. Remember, parents may have a good relationship with their children and their children’s partners now, but who knows what might happen in the future?

As an alternative to providing a loan, parents can choose to buy the home with their children, allowing the child to enter the housing market and providing the parent with an investment property. In this scenario, it is a more common practice for the parties to be “tenants in common” rather than “joint tenants”. This will also allow a different ownership ratio to the normal 50/50 and provide an alternative ownership split that may not impact their FHOG entitlement. The split may change over time to allow the child to acquire more of the property.

Acting as Guarantor

Some lending institutions have what’s called a Family Pledge. This enables family members with equity in their own property to help their children with additional security, thereby allowing the child to borrow up to the full cost of the home. It’s aimed at both home buyers and investors who have the ability to repay the loan but lack sufficient funds to meet both the required deposit and the associated costs. At a later stage, when sufficient equity and repayments have been made, the child may be able to redraw on the loan or re-finance to repay the parent.

Some lending institutions allow the guarantor to nominate the specific amount to which the guarantee is limited, rather than a traditional open guarantee for the entire amount. Regardless of which option is best for you, all family finance scenarios should be considered with lending arrangements always being documented for clarity, security and peace of mind.

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