Family… *to* help or *not to* help?

Do you have children trying to get into the property market? Are your children wondering if it will ever be possible to buy a property in today's market?

Outgoing Reserve Bank governor Glenn Stevens stated that the only way for young people to get onto the property ladder in Australia's most heated market – Sydney - is **with the help of their parents**.

He's not alone. A survey we conducted earlier this year found that nearly 30% of parents were worried whether their children would ever be able to buy a home.

Most concerning, in the same survey, 66% of respondents claimed that their biggest financial worry was whether they would have enough money in retirement.

There is a common belief that baby boomers are reaping the rewards of a lifetime of substantial capital growth in the property market. However, they are also the first generation in history to face a 'third age' - expected to have approximately 20+ years of healthy life after retirement that requires funding.

What do we do when our children need assistance to get into the property market when as parents we are not in a financial position to help them?

How CAN parents help?

For those parents who are financially able and prepared to help their children enter the property market this financial support may be in the form of:

- letting the kids live at home longer, in many instances rent free, so they can save a deposit,

- gifting at least part of the deposit to their children,

- providing a supplementary loan in addition to the bank loan, typically interest free, or

- acting as a guarantor (although the drawbacks need to be considered here).

Kids living at home longer

In 2016, more than one third of 18-34 year olds still live with their parents. If the purpose is to allow the adult children to save a deposit then parents need to make sure it happens. Failure to save will place pressure on both parents and children with neither benefiting.

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Gifted deposits

Be aware that a 'gift' is not repayable. If you are in a position to do this, it's a great boost for your children. Most banks will require parents to declare there is no need for these funds to be repaid.

Parents on a pension also need to ensure that there are no adverse consequences of gifting.

Supplemental loan

Parents who have available funds today but with future needs may want to consider a supplemental loan to their children at low or no interest. This way you are able to help them NOW but the money will be repaid for your future use.

For any such family arrangement it is always recommended the loan amount and the terms of the arrangement be formalised in a legally binding document.

As an alternative to a loan, parents may choose to buy a home WITH their children. This will give the children a foot on the property ladder while providing the parents with an investment property. In this scenario it is common practice for the parties to be 'tenants in common' rather than 'joint tenants' and their share of the property be allocated according to serviceability.

Acting as guarantor

Some lenders have a loan product known as a family pledge. Parents or other family members are able to use equity in their own property as additional security. This product is aimed at home buyers and investors who have the ability to repay the loan but lack sufficient funds to meet the deposit and other upfront costs.

Regardless of the preferred option, it is imperative that all family finance scenarios be carefully considered in terms of both current AND future needs of both parties.
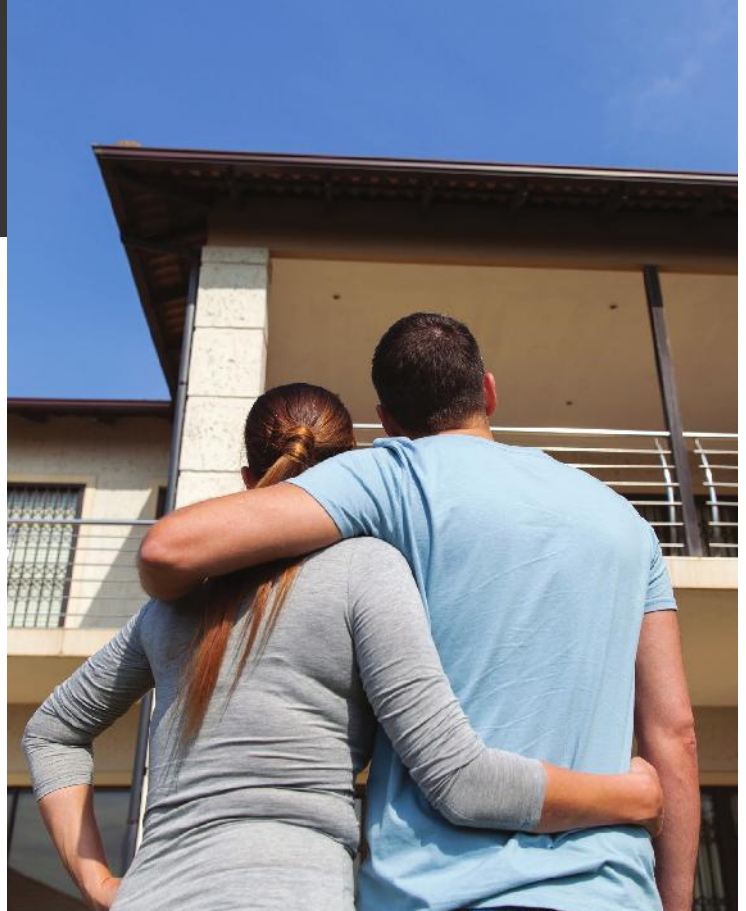
Have equity in your own home?
Call the office for our article on 'Using the equity in your home' to either secure your financial future or to assist your children to enter the property market.

Parents!

If you think you are not or will not be in a position to help your children then we need to talk. We will be able to help assess your ability to start investing now so that you may be in a financial position later to help your children. Securing your financial future first is a step in the right direction.

Call the office today!

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