When buying a home becomes a family affair

A family that plays together, stays together – right? What about a family that buys together?

Many Australians are pooling family resources to improve their buying power and achieve their property goals.

There is a range of lending options to suit a variety of needs, from family pledges to joint purchases or buying a percentage of a family home.

Wading through these options to find the best one for you is no easy task.

On a personal level, there's a lot to consider. It can be a wonderful opportunity for families - parents wanting to help their kids secure their own homes, adult children wanting to take care of their asset-rich cash-poor parents, or siblings wanting to buy an investment property without taking on a mortgage alone. There have been a lot of great outcomes for families who buy together.

But not every story has a happy ending. No piece of property is worth ruining a family relationship, so it's important that each party fully understands and agrees on the details of arrangement and all the possible variables.

Understanding what's on offer is the first step.

Family pledge

Trying to save for a deposit can put homebuyers on a financial hamster wheel. While saving, property prices can increase, and over time that elusive mortgage remains just out of reach.

A family pledge allows borrowers to use their parents' or another family member's home as a guarantee in lieu of a deposit (on both residential and investment properties). A lender could consider a family pledge from parents, parents-in-law, step-parents or siblings.

Rather than guaranteeing the entire mortgage, a family pledge will generally be applied to the deposit amount of 20%. The property you are purchasing will provide the security for the remaining value (approximately 80%). So if the property is worth $600,000, the family pledge for 20% is $120,000 taken against the equity of the pledger's home. Also, some lenders will insist that the guarantor be able to prove that they can service the pledged amount.

Limiting the amount of the guarantee (to a maximum amount of 20% of the property value) reduces the risk for the guarantor, however it is still a major financial commitment for you as the purchaser as your house and your guarantor's house will be at risk if you default on your mortgage payments.

For the borrower, a family pledge is not a fix-all. Borrowers must still be assessed on their ability to service the loan and their saving and spending history.

Co-ownership

Whether it's a first home or an investment property, a joint purchase between family members can increase your buying power while reducing the individual mortgage repayments.

There are two ways in which co-ownership is structured – tenants in common or joint tenants.

A tenants in common ownership allows co-buyers to decide on the ownership structure in any way they choose – 70/30, 80/20, 60/40 etc. If more than two are purchasing the property then the ownership structure will reflect each person's share (for example 3 people could be 50/25/25 or four people could be 25/25/25/25 or any other combination).

This ownership structure is generally reflective of the financial input of each party. So if you contribute 70% of the purchase price you own 70% of the property.

Generally, a tenants in common agreement also allows each co-owner to leave their share to a beneficiary in their Will.

Under a **joint tenants** agreement, ownership is split 50/50. If one tenant were to pass away, the property is automatically passed to the surviving tenant. To end a joint tenants agreement, one tenant must buy the other out, or, if that isn't possible, the property may be ordered to be sold and the proceeds split 50/50.

In both tenants in common and joint tenants agreements, each co-owner is impacted by the financial viability of the other. If your co-borrower has a weak credit history or lower earnings, the amount you can borrow will be based on their ability to service the repayments.

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Additionally, each co-borrower is liable for the entire debt (it's called 'joint and severally liable' in legal terms). Each individual is equally liable for the full amount. Even if one of the co-owners (who is also the co-borrower) paid for their share of the property entirely in cash, they are still liable for the entire mortgage.

That's why lenders tend to like co-ownership – it's generally a safer bet for them.

Buying a percentage of the family home

Buying a share in your parents' or grandparents' home gives them access to cash (many are asset-rich and cash-poor) and provides the buyer with equity in a larger property. There are many factors which will impact the type of arrangement that works best here, including if the home still carries a mortgage or if the person buying the share needs to arrange finance.

Most arrangements will mean drawing up new mortgages (possibly a tenants in common), or amending existing mortgages if the lender allows, and adjusting legal ownership documentation.

Let's say your parents' home is worth $500,000, and is mortgage free. You agree to purchase a 20% share at $100,000 that they will receive as cash. Alternatively, arrangements are often made where parents sell to their children at a 'favourable price' (generally below market value) in exchange for being able to live in the house as long as they like. So your $100,000 may for instance purchase a 50% share with the stipulation that your parents stay in the home for as long as they like. Again, this is dependent on a variety of factors.

Remember there are also tax and Centrelink pension implications to be considered, however this can be a strategy for families to ensure parents can stay comfortably in the family home for as long as possible.

Family borrowing, in all its forms, has some great advantages. But it should be done with a full understanding of all the components at play.

Of course, if you are considering any form of co-ownership most lenders are now insisting that you seek independent legal advice before signing any sales contracts.

If you or anyone you know are considering co-ownership, we are happy to get together with everyone and step you through the process.

Contact us for our article **'The importance of documenting family loans'** to find out why you should have a loan agreement when lending money to a family member.


THE IMPORTANCE OF DOCUMENTING FAMILY LOANS

What should a loan agreement contain?

Why should I have a loan agreement?

When things turn 'The bold and the beautiful'

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