POINT FINANCIAL SOLUTIONS

APRIL 2018 NEWSLETTER

Want to help your kids buy property? Here's how.

The real estate market can be tough for young adults, but as a parent you may be able to lend a helping hand. We tell you how.

1. **Parent-to-child loan**
   A parent-to-child loan is when a parent lends their child money. This is a formal, legally binding arrangement, administered by an independent third party. At the start of the loan period, both parties agree to terms including repayment amounts, a schedule and a process to manage defaults.

   Benefits: You can set generous terms for your child, but your assets, savings and credit rating are somewhat protected as you are not the borrower.

   Drawbacks: There are legal implications for your child if they have a spouse and the relationship breaks down, in that the spouse could try to claim some of the loan proceeds as an asset of the relationship to which they are entitled. There are also tax considerations for both parties.

2. **Family guarantee**
   If your child doesn't have enough security for a mortgage, you could provide a family guarantee. This is where you use some of the equity in your own home as part of the security. For example, your equity might cover 20% of the security, and your child's new property would be the other 80%. It's also known as a guarantor loan. This can be a temporary arrangement until your child has paid down the loan to an acceptable level.

   Benefits: You have the option of guaranteeing only a portion of the loan.

   Drawbacks: If your child defaults, your assets are at risk.

3. **Becoming a co-applicant**
   You can help your child secure a loan if you sign on as a co-applicant. This means you're equally as responsible as your child for meeting repayments. The lender will consider your assets in its borrower's assessment.

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Benefits: Your child can obtain a loan with a low income.

Drawbacks: If your child stops making repayments, you're responsible for making them. If you can't make the repayments, it will affect your credit rating.

4. **Gift**
When you give your child money but don't expect it to be repaid, it's considered a gift. You may need to sign a statement to say it's a gift, not a loan.

Benefits: You can provide financial help, possibly without the legal, tax or financial implications of a formal arrangement.

Drawbacks: If your child has a spouse and their relationship breaks down, the former partner could make a claim for the property.

5. **Assistance in kind**
If you're risk averse, consider providing assistance in kind; that is, covering some of the expenses that come along with buying a property. You could pay for services such as a property survey or conveyancing fees, or help with stamp duty.

Benefits: You can give practical financial assistance.

Drawbacks: The amount of money you provide may be more than what your child ends up spending. Make sure you're well informed about your options when giving or lending money so you can remain in the best position to help your child become a home owner.

In today's property market specifically in Sydney and Melbourne it is hard to get in with prices very high and the ability to service a loan getting harder. The recent scrutiny on lending practices from the Banking Royal Commission is making it even more difficult. Here at M Point Finance we understand what these changes mean for a client when applying for a loan. We have helped a number of clients who have had assistance from their parents.

If you are looking for advice and assistance with your finance give Andrew a call on 0418850890. He has the knowledge and expertise to help you reach your goals.