



TotalCHOICE

home loans

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.

- **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. For example, you might want to contribute \$20,000 but the services cost \$15,000. In this case, the rest of the amount is subject to the terms of a gift or loan.

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. You can contact your mortgage broker to discuss the right financial arrangement for your family.