FINANCE UPDATES

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HELPING YOUR ADULT CHILDREN BUY A HOME

Options to help your offspring on the property ladder.

Many young adults can't wait to get on the property ladder, but sometimes they need a helping hand.

There'll come a time when your grown-up children want to buy their first property and you may well recall them idly speculating about the games room or home cinema they would definitely have in their dream house.

Now it is real. They are settled in a career, have maybe been renting for a while, and have been diligently accumulating their deposit – or at least trying to. But even for relatively well-off families, things are not quite so simple as they once were.

Back in 1990, the average house price in the UK was £60,000. In 2020, for a first-time buyer it is £220,000 and, according to Zoopla, the average deposit is 15% which, taking that average house price into account, equates to £33,000.

Over the course of those 30 years, we have had shifting sands of boom and bust and much tighter oversight on mortgage arrangements following the financial crash. Interest rates have remained low, however, and are at historic lows of 0.1% at the time of writing as a direct result of the coronavirus pandemic.

So it is tough out there, reflected by the fact that the average age of first-time buyers is now 33.

But there are things you can do to help your offspring and we are going to start by looking at guarantor mortgages.

GUARANTOR MORTGAGES

A guarantor mortgage allows you as a parent to be named on the mortgage as a second line of defence against a default. In other words, you have to step in and make the repayments in the event that your child can't.

You may be assessed on your income and/or have to put up some collateral, such as an unmortgaged house or savings.

A guarantor mortgage is a handy option to overcome a lack of deposit, or if the lender does not deem your child's income sufficient to make the repayments, even if you are all confident they can manage.

The risks are the lender will come knocking on your door if there is a problem, and you will have to meet your child's obligations.

Good planning and robust checks from the lender should ensure this can be accommodated. But in a worst-case scenario you could lose your collateral to make good any shortfall the lender suffers. It's important to go into it with your eyes open.

You will also be tied into the arrangement for as long as is necessary, and your credit record will be linked to your child's.

This may become relevant if either you or they apply for loans or credit cards. On the other hand, it may have no material impact.

Assuming that, regardless of what the lender's thoughts are, you are comfortable with the state of your family's finances (including your child's earnings potential), it is a neat option.

You are not named on the title deeds of their property and don't have to part with any upfront cash. Your child can just get on with repaying the mortgage and enjoying their home.

At some point, the guarantor element can be removed – either because sufficient equity is built up in the house or your child's income grows to a level acceptable to the lender.

VARIATIONS ON GUARANTOR MORTGAGES

There are other mortgage products designed to allow parents (and sometimes other family members) to give younger generations a helping hand.

Joint borrower sole proprietor mortgages come with the same benefits as guarantor mortgages, but parents would be assessed equally as a borrower along with your child – even if in reality they are the ones making the repayments.

Another option to consider is a mortgage where your **savings are used as security**. Different lenders have different names for these, but they often have "family" in the title.

Typically, you ringfence some of your savings to act as a deposit, where otherwise little or even no deposit would be available.

It lets your child shortcut the deposit-saving stage and start living in, and building equity in, the house.

After a set period of time, say three to five years, or when a certain loan-to-value threshold is crossed, the savings are returned to you, as long as all repayments and any other conditions have been met. Often, they pay interest, too.

Family offset mortgages are different again and see you deposit your savings in an account linked to your child's mortgage.

They have the value of the savings deducted from the amount of the mortgage they would pay interest on.

On the downside, you don't receive interest on your savings and your money is tied up in the arrangement for a number of years.

And if the lender loses out following a default, they may mitigate their losses from your savings.

OTHER MORTGAGE SOLUTIONS

A **joint mortgage** is another way forward, although it comes with more health warnings. You should probably check out the earlier ideas we have highlighted first.

Different from a guarantor mortgage, you would actually be named on the title deeds of the property being purchased.

As the name suggests, you would be expected to make the repayments jointly with your child. As income from all parties is considered, it may allow a more expensive house to be bought.

However, there are further tax implications. If you already own your house, this purchase under a joint mortgage may well be considered a second home.

In this case, it could be subject to an extra 3% stamp duty, as well as capital gains tax if the property is sold for a profit.

This means it is unlikely to be a preferred choice for many.

GIFTING MONEY

Of course, you may well be at the peak of your earnings power and have accumulated sufficient assets to be able to gift cash to your child to go towards the deposit.

This is a great position to be in if you don't need the money and you may find it gives you some inheritance tax planning advantages, as well as helping secure your child a mortgage on more favourable terms.

Lenders normally reserve better interest rates for people with larger deposits. So not only does a gift immediately inject extra equity into the property, but it may also place your grown-up child into a lower interest-rate bracket.

You must write a declaration saying you have no further claim on the money and you are not taking an interest in the property.

The lender will want to see this and may be obligated to run you through anti-money laundering protocols.

It is wise to have proof of both the date and your intention, as the gift should fall out of the scope of inheritance tax after seven years, assuming you survive that period.

Lending the money rather than gifting it, or even taking out a personal loan to lend the money on, does not come with the same advantages.

There are many factors to consider when comparing mortgages, so it is always worth seeking expert advice.

We can recommend a reputable mortgage broker.