

## ASSISTING GENERATION RENT

# Parents making children's property dreams a reality

**T**he concept of parents lending money to their children to help with property purchase is as old as time itself. It has always been around, but the pitfalls of such unsecured lending are great. Introducing the innovative P2C® (Parent-to-Child) Mortgage: a combined credit and wealth management product designed to assist young Australians onto the property ladder and protect families with intergenerational wealth transfer.

P2C®™ wealth product enables parents to assist their children with property purchase without seeking onerous bank guarantees which place the parents' assistance and wealth in the grip of banks during a default.

Recent statistics (ABS Sept 16) show that first home buyer numbers are down at 13% of new lending activity, falling from peak levels of 31.4% since May 2009. Low interest rates and stable employment conditions have spurred a mini property boom over the past 5 years.

Young adults are living at home longer than ever, finding it harder and more costly than ever to get onto the property ladder. With an increase in median house prices nationally to \$800,000 in Sydney it is harder than ever to afford a starter home – without the assistance of family.

P2C® looks to address the affordability gap between house prices and median income multiples

– now at a staggering 5 times income. P2C®™ protects parents' wealth when they do assist their children, and at the same time enable children to enter the housing market without need for asking mum and dad to put their wealth at risk through bank guarantees, or further mortgages against the parental primary or other residences.

Parents have traditionally gifted monies to their child which can leave parents exposed from an estate planning and wealth protection point of view, for example, in the event of a subsequent marital or deceased estate dispute. P2C®™ is specifically designed to protect the parents from such instances without exposing their assets or credit file profile to any risks associated with

they can assist in part to make up the balance behind the child's own loan, possibly saving their child tens of thousands of dollars in Lender's Mortgage Insurance premium.

### HOW DOES IT WORK

The parents decide the amount they wish to lend and the interest rate they wish to set (a minimum of CPI + 0.5%). Parents make a secured investment in La Trobe Financial's award winning Credit Fund with over 15,500 other investors and \$1.4billion in funds under management. The parent's P2C®™ investment might be for the full amount or just part of the property purchase price. The parents' contribution will be secured by way of a registered mortgage, ensuring they have rights to the money at all times in the event of non-payment by the child or following a marital or deceased estate dispute. Because the parents' investment is formalised, and can be subsequently waived or enforced, there is no risk of loss from marital separation. A parent can make their P2C®™ investment individually, collectively with other family members and via company or family trust entities. Parents will need to obtain independent legal, taxation and financial advice.



“Simply a better way to help children into a home”

**Chris Andrews**

Chief Investment Officer, La Trobe Financial

### WEALTH PROTECTION

P2C®™ documents assistance between parent and child, registering a mortgage on the child's security property, and then independently managing the P2C®™ assistance to ensure it is repaid in accordance with the agreed terms.

the child running into difficulty with repayments. The parents however can still provide the much needed assistance for their children.

### AVOID COSTLY LOAN INSURANCE

Parents are able to assist their child with the full purchase amount, or

More than 65 years of service to the community has created an industry leading product



Help your children with home ownership sooner.

P2C®

**M**ore than ever parents now want to assist their children and or grandchildren to achieve the great Australian dream of home ownership. It is reported that 8 in 10 parents are prepared to lend a hand by providing some form of financial support in an effort to help their children enter the property market.

This financial support might be in the form of:

- Letting the kids live at home longer, in many instances rent free,
- Gifting at least part of the deposit to their children
- Providing a supplementary loan in addition to the bank loan, typically interest free, and
- Acting as guarantor (although the drawbacks need to be considered here).

## Kids Living at Home

A La Trobe Financial survey of over 1,500 investors in its Credit Fund found 8 in 10 parents were not only prepared to help but 46 per cent of parents were happy to relinquish their empty-nest lifestyle and let the children live at home longer if it meant the children could save more money for a home deposit. In many instances this meant the parents had to redirect some of their discretionary spending, take less expensive holidays and defer purchases to cope with the financial responsibility of having the children live at home.

Parents need to consider the hidden costs associated with this option and the potential unintended consequences it may have on their future retirement lifestyle

## Gifted Deposits are Dangerous

Parents providing assistance with the deposit must be aware that a gift is not repayable. The majority of banks will require parents to declare that there is no need for these funds to be repaid when banks lend money.

## P2C® Loan Solution

Parents who have available funding today but with future needs may want to consider providing a supplemental loan to their children, potentially with low or no interest.

***‘8 in 10 parents are prepared to lend a hand by providing some form of financial support’***

For many such financial help is presently an informal arrangement, but there are many potential risks associated with not having the appropriate documentation. Accordingly, P2C® and its terms are documented between the parties. If a parent requires additional security they may wish to register the loan against the title of the child's home. Remember, parents may have a good relationship with their children and their children's partners now, but no-one can predict the future?

## Don't Purchase with Parents

As an alternative to providing a loan, some parents can choose to buy the home with their children, allowing the child to enter the housing market and providing the parent with an investment property. In this scenario, it is a more common practice for the parties to be "tenants in common" rather than "joint tenants" and also allowing a different ownership ratio to the normal 50/50. But in doing so the children will lose First Home Ownership Grant and stamp duty concessions (if eligible).

## Don't Act as Guarantor

Some lending institutions have what's called a Family Pledge Loan. This enables family members with equity in their own property to help their children with additional security, thereby allowing the child to borrow up to the full cost of the home. It's aimed at both home buyers and investors who have the ability to repay the loan but lack sufficient funds to meet both the required deposit and the associated costs. At a later stage, when sufficient equity and repayments have been made, the child may be able to redraw on the loan or re-finance to repay the parent. But this may risk the parents' family home. P2C® is a better way.

## Conclusion

Regardless of which option is better for you, all family finance scenarios should be considered with lending arrangements always being documented for clarity, security and peace of mind as there are too many documented examples of parents losing their home and having the guarantee called by a bank with avoidable consequences or family gifts being lost through divorce proceedings.

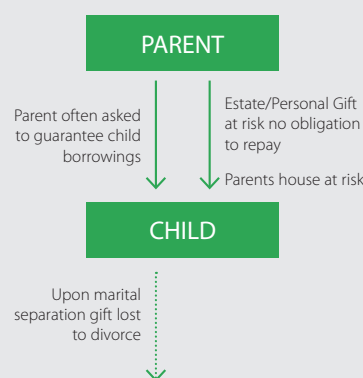


PRODUCT NAME	P2C®
SUMMARY	The P2C® Investment is great for families looking to assist one another using their family wealth to finance their children or grandchildren formally and simultaneously protect their estate.
ACCEPTABLE P2C® PURPOSES	Purchase, Refinance, Debt Consolidation, Business or Investment purposes in real estate property
SECURITY	Residential or Commercial real estate
HOME BUYER	The homebuyer ("child") will also be the registered owner of the security property
INVESTOR	The investor ("parent") assistance sum can be provided in their individual capacity, or via their company or trust entities. The investment is secured by way of first^ (or second) registered mortgage at commercial interest rates.
GUARANTORS	No third party guarantees are required from parent. Personal guarantees will apply only when borrower is a corporate entity.
TERM	25 years maximum (minimum 10 years)
LVR	Up to 105% <sup>†</sup> of the property value
MAXIMUM LOAN	\$5,000,000 (above upon application)
INTEREST RATE	<ul style="list-style-type: none"> <li>Set by Investor (minimum CPI + 0.5%) inclusive</li> <li>Fixed/Variable rates with movements tied to RBA cash rate and set quarterly</li> <li>Interest Only 10 year maximum (capital repayment quarterly)</li> </ul>
INTEREST ONLY REPAYMENTS	<ul style="list-style-type: none"> <li>Due monthly. Payable weekly, fortnightly or monthly via direct debit.</li> <li>Capitalisation of repayments max 8 months.</li> </ul>
HOME BUYER RISK GRADES	All risk grades. Parents (Investor) made aware of identified borrower (child) adverse credit histories.
NCC TESTS ON HOME BUYER	Can be regulated or non-regulated
VALUATION	A registered security valuation obtained in all cases to protect parents (Investor).
REDRAW	Not available on P2C® loan amount
SERVICEABILITY	Homebuyer must be able to demonstrate requisite calculator surplus based on usual Net Disposable Income (NDI) tests
EARLY REPAYMENT	P2C® can be repaid at any time without penalty. Fixed Rate P2C® early repayments incur Break Costs.
HOME BUYER INCOME VERIFICATION	Standard, full-doc or lite-doc lending verification acceptable.
P2C INVESTMENT MANAGEMENT FEES	0.75% p.a. included in the interest rate for investment management plus \$20 per month loan administration fee

SET BY THE INVESTOR (PARENT)

<sup>^</sup> 100% assistance then become the first mortgagee  
<sup>†</sup> LVR capped at 90% LVR when investor is a Company/Trust  
<sup>\*</sup> Utilising first mortgage lender other than LFS exposes borrower to mortgage insurance premiums. Based on a purchase price of \$680,000 a standard mortgage insurance premium at 95% LVR would be \$28,747.

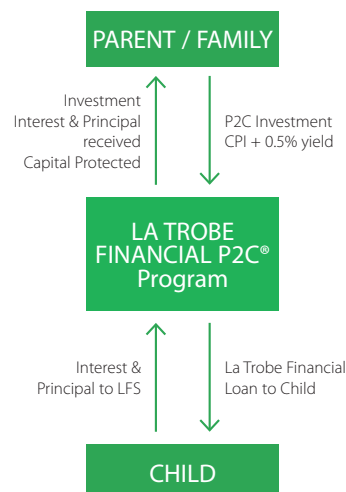
## What's wrong with traditional Parent to Child gifts & guarantees?



- Gift/Loan control?
- Contract not Registered?
- Relationship sell up issues
- Parent Guarantor liability?
- Poor estate planning
- Gift interest rate zero
- Monitoring payments difficult & conflicting for parents

The parents' wealth is at risk and the benefit flows all one way

## A better way forward: P2C®



LA TROBE FINANCIAL provides independent mortgage services, underwriting, loan documentation & P2C investment management

- P2C protects capital sum
- Parents can assist to 105%<sup>†</sup> of price
- Parents get a 3rd party investment policeman
- Parent assistance amount secured by registered mortgage without guarantee or risking family home

...benefits child & protects parents

**IMPORTANT: We encourage homebuyers and parents to seek independent legal, taxation and accounting advice before committing to P2C®.**



This publication does not constitute financial advice and should not be relied upon as such. It is intended only to provide a summary and a general overview on matters of interest and it is not intended to be comprehensive. You should seek your own financial or other professional advice before acting or relying on any of the content.

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## How P2C<sup>®</sup> works

- Parent decides amount of support and interest rate (min CPI + 0.5% p.a.) to assist child; we recommend commercial rates
- Parent assists child via P2C<sup>®</sup> investment into La Trobe Financial's externally rated Credit FUND with 15,000 existing investors and \$1.46b of FUM
- Parent may assist partial or full property purchase amount plus costs up to 105% of property valuation
- Parent assistance will be secured by mortgage and their investment will rank 2nd behind child's normal 1st mortgage loan (unless 100% parental support, then ranked 1st)
- Parent support can be subsequently waived/forgiven or enforced
- Parents can support their children or other parties individually, via a company or family trust entities, but should obtain legal, financial and taxation advice

## Why use the P2C<sup>®</sup> loan?

- La Trobe Financial acts independently, protecting both parties interests
- Recovering the debt can prove tricky with family members – no parent wishes to call up family debts. By involving La Trobe Financial as an independent party you remove this issue
- We document the relationship and register a mortgage, protecting full economic value of any P2C<sup>®</sup> assistance
- We act as a policeman but parents retain control of assistance sum
- We provide a platform for joint assistance providers (e.g. wider family if pooled assistance required)
- Child now has better purchasing reach into property market
- Bespoke one off legal agreements to do this outside our P2C<sup>®</sup> loan are expensive – P2C<sup>®</sup> is cost effective
- Child saves thousands\* on LMI as they are not forced to borrow >80% of the property's value
- Parents are not required to provide a guarantee, therefore not risking their personal credit files or other assets
- Parents assistance via P2C<sup>®</sup> protects intergenerational wealth distribution after marital separations
- Child cannot be evicted capriciously by parents

## La Trobe Financial provides

- Investment program (P2C<sup>®</sup>) with a return exceeding inflation
- P2C<sup>®</sup> assistance agreement documentation
- Independent payment and monitoring services
- Management services for late payments and arrears
- Regular reporting to all parties
- Independent, impartial oversight of any excess returns upon sale of property

## Parent's can now make their child's property dream a reality

**Australian property purchases are now increasingly made with parental support due to the increasing "affordability gap" where the median house price in one state is 6 times household income, and a national average of 5 times.**

**La Trobe Financial has developed a unique product which gives parents a better way to assist children with home ownership. Parents historically have used their home or themselves as guarantors or prefer to gift monies; however this leaves the gifted monies or parents' own home at risk in the event of a default by the children or subsequent marital dispute or separation as gifts are not repayable.**

**La Trobe Financial's Parent to Child (P2C<sup>®</sup>) solves these issues by formally documenting the assistance, registering a mortgage on the security property, and then independently managing the parents' assistance to ensure it is repaid in accordance with agreed terms all without the need for parental guarantees or family repayment disputes - we look out for you.**

**By using our P2C<sup>®</sup> product, borrowers (the child) save thousands\* on costly LMI premiums by borrowing less than 80% of the property's value. P2C<sup>®</sup> is perfect for parents wishing to utilise their funds to assist a child or grandchild. It also assists parents in better estate planning and intergenerational wealth transfer protection.**



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