

Ties that bind

Love and money don't always mix, writes **Karina Barrymore**

THERE'S a new bank in town and it's growing rapidly — the Bank of Mum and Dad.

Young home buyers are increasingly turning to family for help with their finances, particularly a first home purchase.

However, the experts warn it's not all smooth sailing when parents lend money to their children.

"You've changed their nappies, raised them, paid for their schooling and given them warm food and a roof over their heads — but this isn't necessarily the end of your responsibilities," RateCity spokeswoman Laine Lister says.

Almost a third of first home buyers receive some financial help from family, she estimates, however, there are risks on both sides.

"In a property market that is increasingly hard to enter, getting a boost up from parents is helpful and may be the only way they can afford their own home at this particular time in their life," Ms Lister says.

"Help from parents will potentially save them

thousands of dollars in the home-buying process."

According to the latest analysis by financial research company Canstar, first home buyers can save about \$25,000 over the life of their loan if they have a 20 per cent deposit.

On larger mortgages, the savings can quickly jump to more than \$35,000.

Canstar research manager Mitchell Watson says a borrower with less than a 20 per cent deposit will have to pay an extra \$11,600 in lenders mortgage insurance for a \$350,000 loan, with the premiums rising rapidly to about \$24,000 for a \$540,000 mortgage.

In addition, borrowers with less than a 20 per cent deposit are often also charged a higher mortgage interest rate, Mr Watson says.

The average interest rate for borrowers with at least 20 per cent deposit is currently 5.1 per cent, compared with 5.34 per cent for those with less, he says.

Hewison Private Wealth director and financial adviser Glenn Fairbairn says in some cases the money could be managed as an advance inheritance.

For parents over age 60, this could involve a tax-free withdrawal from their superannuation.

"This compares with your child inheriting your super benefits at your death when they could be subject to tax of up to 16.5 per cent," Mr Fairbairn says.

USING THE BANK OF MUM AND DAD

- Get legal advice
- Set up a formal loan contract
- If the funds are a gift, provide a written statement
- Going guarantor means being legally liable for repayments
- Set ground rules for "involvement" by parents
- Consider implications if couple were to separate
- Get financial advice



"Bringing forward an inheritance may not only save them interest on their home loan but may also save them a significant amount of tax."

However, he suggests that everyone should consult a solicitor before making a gift or providing an in-family loan.

"An appropriately structured loan agreement may provide some asset protection in the event your child separates from their partner," Mr Fairbairn says.

Lisa Montgomery, spokeswoman for mortgage broker Resi Mortgage Corporation, says there has been "a significant increase" in the number of parents helping out their children with first home purchases.

"Getting a leg-up in to the property market makes the dream of owning a home a reality much sooner but there are things to consider," Ms Montgomery says.

"Mixing love with money

can feel like a good thing at the time, but some parents may feel they have an attachment to the property because of their investment.

"This can include unsolicited advice, perhaps where it is not wanted."

Going guarantor on the loan instead of providing cash also carries risks, she says, as the parents are then responsible for the repayments until the loan is paid out.

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