

# More parents helping kids buy first home

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First-home buyers are increasingly looking to their parents to underpin loans, or help fund deposits.

The new normal of first home buying – to borrow from the so-called bank of mum and dad – is being recognised with a range of new financial products.

The Commonwealth Bank, amongst others, has an equity support product, which limits the downside when the family home is used to guarantee the loan to one of the children.

Specialist fund manager, La Trobe Financial has just introduced a product in which it stands as a professional manager between the parents and the children.

The president and chief executive of La Trobe, Greg O'Neill, said the new product, called P2C, was a better way to address the affordability gap and protect the inter-generational transfer of wealth.

"This is the first time a lender has given the parents the opportunity to protect their wealth by means of a regulated investment while assisting their children to leap onto the property ladder," he said.

At the same time, the increasing importance of parental financial support has created new challenges for financial regulators.

The Australian Prudential Regulatory Authority addressed the issue of guarantors in its Draft Prudential Practice Guide for Residential Mortgage Lending released in May.

It argued that loans backed by a guarantor, such as a parent, had a potentially higher risk of default.

APRA recommended lenders make independent assessments of guarantors' income and credit worthiness, a practice already well established by major lenders.

In the UK, two-thirds of first-time home buyers receive financial help from their parents said the National Housing Federation (NHF).

"Without the support of their parents, an entire generation is at risk of missing out on home ownership," said



Alec Gatrell renovating his Wollongong home. Parental financial support is creating new challenges. PHOTO: SYLVIA LIBER

NHC chief executive, David Orr.

In Australia, Aussie Homes Loans managing director, John Symond, estimated that one in four – "if not more" – first-home buyers would be helped into the home by their parents.

"It's happening more and more, because it's getting harder and harder to raise the deposit."

At La Trobe, 35 per cent of current first home originations involve some financial input from parents

The input is through a gift, a loan, a guarantee or even with the parents joining the mortgage as co-borrowers.

AFG which claims 10 per cent of the mortgage market as the largest broker platform in the country, recently found that 5 per cent of all loans to first-home buyers were formally backed by the parents in the loan documentation.

In 12 months, the figure had climbed from 4 per cent. AFG's general manager, Mark Hewitt said the informal level of help would be much higher with many parents drawing down on their own loan to help the children.

## ANZ trader turns to mum to get on property ladder

Renewable energy trader Alec Gatrell now owns a home in Wollongong after striking up a smart deal with his mother.

An employee of the ANZ bank, Mr Gatrell is eligible for a high loan-to-value ratio loan without having to pay lenders mortgage insurance. Even then, he wouldn't have been able to finance the purchase comfortably.

"I could've got a loan with my savings, but it would have been tough to pay," he said. "So Mum chipped in for the deposit and then I took out the loan."

The pair bought a run-down two-bedroom cottage in Wollongong close to where the extended family lives, and are now in the middle of renovating and converting the garage into a third bedroom. Mr Gatrell and his mother are splitting the costs of the renovation, and Mr Gatrell is also chipping in labour. "It's a much bigger project than I planned, but so far, its working out OK," he said. Upon completion, the pair will rent out

the house and split the income. In a year's time, they will then decide whether to keep the home rented, have his mother move in or sell the property.

"We've decided that when it comes time to sell Mum will get the same portion of the proceeds that she's chipped in – at the moment it looks about 30 to 35 per cent."

For Mr Gatrell, the investment caps off a three-year period during which he constantly looked for property and focused on saving a deposit. A commodities trader and analyst with more than a decade of experience in banks around the world, he arrived back in Australia in 2011.

"Buying a home was always in the back of my mind while I was overseas, and then when I got back I started thinking more about it," he said. "I guess it's one of those things that as a kid, you always [hope] to have your own place."

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