

# House rules to help the kids

**Protection strategies** Parents need to be pragmatic with their financial assistance, writes Duncan Hughes.

Parents considering giving their children a leg up the property ladder are advised to blend tender intentions with tough love to protect themselves from potential disaster.

Good deeds and bad planning can legally link punting parents to the follies, frolics and financial fallout of their children's failed forays into business, broken romances and adventures.

"Parents should take advice about their own obligations before committing to someone else," says Craig Hollett, a director of law firm Bowen Buchbinder Vilesky, which specialises in mortgage enforcement.

Otherwise they might find themselves in a snowballing financial collapse that sweeps up their home and possessions and could lead to a court ruling barring them from additional loans or directorships.

A new generation of products designed to manage the relationship also needs to be closely scrutinised for hidden

Mark Hewitt, general manager, estimates up to half of the remaining first-home buyers are receiving some form of assistance, either through cash or mortgage drawing up their own loans.

Daren McDonald, a director of Moore Stephens, says prenuptial agreements are also on the rise as parents funding their children's mortgage seek insurance against marriage and relationship breakdowns.

There is a need to find balance between trust in a young couple's relationship and the need for parents to protect their money, he says. Alternatively, parents might buy a property through a trust, where as trustees they can outvote children who need saving from themselves.

The issue then might become who owns the property, which could become relevant for first-home grant applications, or inheritance tax issues, McDonald says.

"Once a property is transferred into the child's name, it is very difficult to get it out."

Many children are living at home longer to save for a deposit, buying an investment property (often with parental contributions) and having tenants pay down the mortgage.

A new twist is parents helping kids by investing in purpose-designed products intended to generate capital (see accompanying article).

Andrew Peters, managing director of Semaphore Private, an authorised financial adviser, recommends parents see a financial planner and mortgage broker to work out how these products work, fees, upfront and trailing commissions and other strategies.

Hollett also advises parents to limit their risk with "escape clauses" triggered if the child's rising income or property prices mean the loan can be refinanced after five years rather than the full 25- or 30-year loan term.

"Understand exactly what you are getting yourself into," he says. "Read the fine print, consider options and do not write an open cheque because you might lose your own home if things go badly."

This means being included in all documentation from the lender.

That way parents will be alerted to any repayment problems well in advance of debt collectors knocking on their door, he adds. Parents should also avoid financing being placed as a caveat on their property. Dreams of downsizing will be frustrated if it has to be removed before they can sell.



Hot property markets have prompted a growing number of parents to give their children a hand. PHOTO: iStock

**Once a property is transferred into the child's name, it is very difficult to get it out.**

Daren McDonald, Moore Stephens

charges, commissions and complex structures that lock the unwary into inflexible investment strategies.

Christopher Tippler, a business strategy consultant and father of adult children (four daughters and a son), helped his daughters with the deposits for their first properties.

"I would not have done it if they did not have a strong work ethic," Tippler says. "It has been successful strategy. But you don't give money to an irresponsible person."

Tippler has even indexed his contribution to allow for rising property prices. His daughters each received \$50,000 (over the past 20 years) and his London-based son will eventually get a total of \$75,000.

Hot property markets, price rises outpacing inflation and fears overseas buyers are pricing locals out of the market have prompted a growing number of parents to providing finance or guarantees for their children. About 5 per cent of first-home buyers had a parent as guarantor this year, up from 4 per cent the previous year, according to Australian Finance Group, which represents more than 2000 mortgage brokers.

## Loans without the family dynamics

Fund manager La Trobe Financial has a new, arm's-length product for families keen to help their children into housing.

The product, Parent to Child or P2C, puts La Trobe in a third-party position to manage the funds lent by parents to children.

The parents provide the money but after that family dynamics are out.

The loan is assessed professionally – both for the borrower's capacity and the value of the property. And then it is managed professionally, with La Trobe acting as a "third-party policeman".

La Trobe charges 0.75 per cent of the funds a year, plus \$20 a month.

The parents can even set the interest rate, as long as it is over 3 per cent. At that figure, the borrower would pay 3 per cent plus 0.75 per cent.

La Trobe is a specialist credit fund manager with 60 years' experience raising money for mortgages. It has more than \$1.6 billion in funds under management.

President and chief executive Greg O'Neill says P2C is a first.

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

O'Neill says informal help from parents, in gifts or guarantees, is a one-way benefit in favour of the children – if things go wrong, these can erode family wealth and intergenerational transfer.

P2C redresses the balance, but still has plenty of flexibility.

La Trobe can handle loans of up to \$500,000 in a first mortgage. Or, through a second mortgage, it can top up a loan and avoid costly mortgage insurance.

Rates can be fixed or variable and can be repaid without penalty, although fixed-rate loans incur break costs. ROBERT HARLEY