



# FIRST HOME BUYERS — IS IT A GOOD TIME TO POUNCE?

In Domain's end of year wrap up in December 2022, it was reported that half as many previous home owners were in the market searching for a new home.

Traditionally first home buyers (FHBs) are competing beside everyone else with government incentives rolling out and investors flooding the market.

With the latest indicators revealing that first home buyers have dropped by nearly half, there is currently less competition in the market.

With rental affordability becoming harder and less buyer competition, it may actually be a good time to be shopping for your first home.

**Seven out of 10 Aussies think that young home buyers would not survive without the help of their parents.**

Rising interest rates and high house prices have made it a struggle for our new potential home owners.

**HOWEVER – It doesn't mean you need to miss out if you can gain help from the bank of mum and dad!** There are three ways parents can help their adult children enter the property market. It is important to know the difference between these options.

## 1. Gift the deposit (or a component of it)

Means exactly that. You are giving your child money towards the property with NO expectation they will repay you – regardless of future circumstances. There's no changing your mind later.

## 2. A loan

**The characteristics of a true loan are:**

- Genuine expectation of repayment
- The existence of a loan agreement
- The terms of repayment
- A statement whether interest is payable
- Documented timing of repayments
- Security provided in respect of the loan
- Exit strategies considered and documented

The above list does not need to be 'ticked off' entirely, but you would expect the details and consistency of repayments to be recorded and a planned timeframe for repaying the loan.



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## Why is loan documentation important for parents?

Because as we all know... young love does not always last.

If you loan your child and their partner the deposit for their property and they separate while still repaying the debt, documentation will provide evidence of your loan and will be considered in the divorce settlement.

## 3. Be a guarantor – a popular option

Many parents are asset rich but cash poor.

**Being a guarantor** can be a more likely option for some parents than to gift or lend. A guarantor allows the equity in a property to be used as additional security for another person's deposit. This means that money isn't drawn down from the equity in the parents' home.

Another reason many first home buyers prefer a guarantee or gift is to keep the borrowing ratio to 80% and avoid paying lenders' mortgage insurance (LMI). Aussie's homes insights in December 2021 recorded a **71% increase in guarantor loan settlements in 6 recent years (2015-2021)!**

The biggest difference between a loan and a gift versus guarantor is that there is NO monetary exchange. The parents use the equity in their property to help their child into the property market by acting as a guarantor to the lender for their loan.

Beware – if your FHB defaults on their loan, the guarantor becomes responsible for repaying their debt.

In the event of your FHB defaulting, the lender is obligated to first sell the FHB's property and only have recourse to the guarantor for the short fall. Also, most guarantors provide a limited guarantee to the lender to protect themselves from material losses.

## To help or not to help. That is the biggest question.

Parents have to make the tough decision. **If your child is unable to meet the terms of the loan, ask yourself:**

- Could you afford to meet the repayments if they can't?
- What impact might it have on your own credit report?
- What impact will it have on YOUR future loans?
- Could there be any impact on your family relationship?
- What is the exit strategy if things go bad?

**Talk to us so we can step you through the guarantor process or devise the best strategy for your family.**