

## Helping children onto the property ladder

### Introduction

In recent years it has become harder and more expensive than ever for first-time buyers to get onto the property ladder. With many young people struggling to save up a deposit, parents and grandparents are stepping in to help put together the 10% required to access a more attractive range of mortgage deals. Research indicates that, nowadays, more than half of successful first-time buyers are receiving help from within the family. Unsurprisingly, the proportion is higher still in London.

So, what options are available to those who may be able to assist a family member with property purchase? In what follows, 'child' and 'parent' are used as shorthand for, respectively, the aspiring property owner and the helpful relative.

### Guarantor mortgages

For the parent unable or unwilling to part with savings, the mortgage market has developed a number of specialist products. These so-called 'guarantor' mortgages can take one of a number of forms:

1. Taking parental income into account, allowing the child to borrow a higher sum. The guarantee is released if the child's income rises sufficiently, or once the borrowing has reduced to a certain level. However, if the child defaults, the parent will have to cover the mortgage payments.
2. Charging the parent's own home as additional collateral (if sufficient equity exists), allowing the child to borrow up to 100% of the purchase price for the new property. If the child defaults, the lender can look to the parent's home to recover any shortfall in its security.

3. Establishing a savings account to guarantee the child's mortgage, enabling the child to borrow up to 95% of the required purchase price. The savings continue to belong to the parent, who receives the interest, but are tied up until the property value has increased (or the mortgage value has reduced) sufficiently. However, the savings will be at risk if the child defaults.
4. Creating an off-set savings account linked to the child's mortgage. While this does not allow the child to borrow more, interest on the savings account will reduce the amount of interest due on the loan. It is only the interest which is used to assist the child and the capital remains in the parent's ownership.

With all of the above options, the property and the mortgage are in the child's name and remortgage is possible. However, where a guarantee is involved, there is potential risk to the parent's income, savings or even home, so these arrangements should not be entered into lightly. It is essential that the extent of the guarantee being provided is clearly understood by the parent at the outset, and capped as far as possible.

### Private arrangements

In the case of a parent who is uncomfortable with the commercial schemes described above, but is prepared to commit cash to help the child buy property, various private arrangements may be considered.

#### a Loan

The parent could lend money to the child for repayment at the end of a specified term or

**Head Office**  
3 Lonsdale Gardens  
Tunbridge Wells  
Kent TN1 1NX  
T 01892 510000  
F 01892 540170

**Thames Gateway**  
Corinthian House  
Galleon Boulevard  
Crossways Business Park  
Dartford  
Kent DA2 6QE  
T 01322 623700  
F 01322 623701

## Helping children onto the property ladder

Continued

when the new property is eventually sold. The loan can be interest-free with the value then frozen in the parent's estate for inheritance tax (IHT) purposes. Alternatively, interest or some other defined rate of return may be charged. While this could be pitched at below open market lending rates, in the current climate it may still compare favourably to the savings rates enjoyed by the parent elsewhere. Bear in mind, however, that any return is likely to be assessable to income tax in the hands of the parent.

It is highly recommended that the terms of the loan are recorded in writing. This should set out the full extent of the agreement between parent and child, making clear when principal and any interest is repayable. Too often the status of an interest-free payment is blurred over time between a loan and a gift. This is undesirable for the parent's estate planning. If a loan is to be converted into a gift in order to reduce the parent's IHT exposure, this requires formal documentation.

Ideally, the parental loan of a substantial amount should be secured by legal charge against the property title, in order to protect repayment in the event of a child's financial or relationship difficulties. However, this may not be feasible if a commercial mortgage is also necessary to effect the child's purchase. So the risk of the parent not getting all their money back needs to be kept firmly in mind.

### **b Part purchase**

Where the parent would prefer more protection for the sum being provided, and the opportunity to share any future growth in property value, he or she may consider a joint purchase with the child. This need not necessarily involve both parent and child

going onto the title, with shared mortgage obligations if there is a commercial loan secured against the property. The child could remain as the only registered proprietor having sole responsibility for the mortgage, with the parent owning a beneficial share in the property (subject to the mortgage) as evidenced by a co-ownership agreement usually called a declaration of trust.

The declaration of trust would record such matters as the percentage shares of parent and child in the property, responsibility for mortgage payments and other outgoings, and the procedure to be followed if one of the parties wishes to sell.

Clearly, with the mortgage lender having the preponderant position, any protection offered to the parent in these circumstances will be far from absolute. However, the arrangement would enable the parent to share in any upswing in the property value, and to be accorded priority (subject to the mortgage) in any downswing.

There are certain disadvantages with co-purchase, as compared to the other approaches discussed here, where the parent is concerned. Since the property will be the child's home and not the parent's, main residence relief from capital gains tax (CGT) will not apply to any increased value in the parent's share beyond his or her annual exemption. Moreover, a co-purchasing parent who already owns their own home will cause the higher rates of Stamp Duty Land Tax (SDLT) to apply when the property is bought.

### **c Gifts**

None of the measures referred to above are especially geared to IHT mitigation for the parent, although a part share in jointly bought property is likely to benefit from a

## Helping children onto the property ladder

Continued

valuation discount. However, an outright gift to help a child onto the property ladder will be IHT efficient in the sense that the money concerned will be outside the parent's estate after seven years. A gift will also avoid the CGT and SDLT issues associated with part purchase. On the other hand, the parent will be sacrificing any further control over the money given away, which will therefore be completely vulnerable if the child falls into difficulty, whether financial or matrimonial.

### d Trusts

On a rather different tack, but still in the area of gifts, a parent with substantial sums available to help the next generation might wish to consider property purchase via a trust. This may be particularly appropriate for a child who has recently graduated and is starting out in life. Under the control of the parent, a trust would provide full protection for the property against third party claims, and a mechanism for transferring it into the personal ownership of the child at whichever time is deemed most appropriate. Apart from the IHT advantages, such a trust is particularly efficient for CGT where the property is the child's main residence.

### Conclusion

Before embarking down any of these routes, a parent should be sure to:

1. **Research** the mortgage market thoroughly.
2. **Think very carefully** whether the proposed help is really affordable – not just now but after considering his or her own possible requirements going forwards.

3. **Get proper advice** at each stage from legal, investment or mortgage professionals as appropriate.

### Disclaimer

This information sheet is written as a general guide. As any course of action must depend on your individual circumstances, you are strongly recommended to obtain specific professional advice before you proceed. We do not accept any responsibility for action which may be taken as a result of having read this information sheet.

If you require further information, please contact Stuart Goodbody on 01892 510000 or by email at:

[stuart.goodbody@ts-p.co.uk](mailto:stuart.goodbody@ts-p.co.uk)