



OUR HOME: Young people are struggling to get into the property market, but their parents may be in a position to help financially.

Lazy equity can help kids buy first home



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LENDING them money is one way parents can put their children on the path to financial freedom.

Buying and owning your own home has long been the Australian dream.

It has become a rite of passage, ventured into as early as possible in your working life. But it is a dream that seems to be increasingly unattainable for the youth of today.

With property prices increasing, young adults are struggling to get their foot onto the property ladder and into the market. At the same time, many parents are finding their own homes have increased in value and have what is often referred to as lazy equity.

With parents being the guarantor on a mortgage it can provide big savings for their children and often enables first-home buyers to avoid substantial extra costs like lender's mortgage insurance.

There are two main types of guarantee – a supported guarantee where the guarantor's home or investment property is provided as security for the borrower's home loan; and an unsupported guarantee – where the guarantor services the loan if the borrower is unable to meet the repayment schedule.

When the time comes for adult children to look at buying their first home, the parents are in the accumulation phase of building their own wealth for retirement – ages 40 to 60.

Therefore parents may have some concerns if their child becomes ill, injured, divorced or

loses their income. These concerns are natural and should be discussed before any financial commitment is made.

A popular strategy is for the guarantor to limit the guaranteed amount to say, 20 per cent of the purchase price – if the child had no deposit. This will avoid the child paying any lender's mortgage insurance.

The Hunter Valley Research Foundation report on the local residential market (June 2009) showed that the Hunter's average house price was \$315,000 – this was down 2.2 per cent from the year before.

But, relative to the Central Coast (down 9.6 per cent), and Sydney (down 4.9 per cent), the Hunter Valley residential property market held its own during the global financial crisis. All indicators show a steady recovery.

Residential rents for the Hunter's three-bedroom houses have increased by 7.3 per cent and two-bedroom unit rents have increased by 8.6 per cent in the same 12-month period.

So, it is no wonder that parents want to help their children into their first home.

Of course interest rates will increase this year and will continue to go up and down. A property is a long-term investment and short-term interest rate fluctuations are part of the deal.

Going guarantor is often a popular choice by parents as it uses lazy equity in their own home and benefits their children, now.

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