

# How your parents can help you buy your first home



GRIFFITHS INGS SOLICITORS  
FREE GUIDE ON HOW YOUR  
PARENTS MAY BE ABLE TO  
HELP YOU GET ON THE  
PROPERTY LADDER

griffiths ings solicitors



Your parents may be able to help you without it costing them a penny!



## HOW YOUR PARENTS CAN HELP YOU BUY YOUR FIRST HOME

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*Are you fed up with hearing that:*

AVERAGE HOUSE PRICE NEARLY FIVE TIMES AVERAGE SALARY

AVERAGE AGE FOR FIRST TIME BUYERS 32!

HOUSE PRICES NEARLY TREBLED IN THE LAST TEN YEARS

EVER WIDENING GAP BETWEEN SAVINGS AND DEPOSIT

FIRST TIME BUYERS HAVEN'T GOT A CHANCE! - NOT NECESSARILY!!!

42% of first time buyers get some form of help from their parents.

## How your Parents can help you buy your First Home

Recent statistics have revealed that the average age for a first time buyer is now 32.

42% of First Time Buyers get some form of help from their parents.

Today there are very few First Time Buyers who have sufficient income and savings to buy a property without help from friends and family.

Even for graduates, the burden of student debt means that it can be many years before they are in a position to purchase their own property. That said, the dramatic rise in house prices over recent years has also had the effect of making many existing home owners relatively asset rich, particularly if they have owned their home for several years and have not recently remortgaged taking out the equity in the property.

Many Lenders have now woken up to this fact and are producing more creative mortgage products to enable First Time Buyers to benefit from the equity in their parents home. Many Lenders are now looking to take into account the parents' income as well as the son or daughter's income in calculating how much can be lent. We feel that the easiest way of illustrating some of the different ways of buying a property with parental assistance is by example.





## Questions & Answers

QUESTION:

**Can my parents help me to get on the property ladder?**

ANSWER:

Yes!

*There are many ways in which your parents can help you to buy your first home. Options range from helping you with a deposit through to guaranteeing your mortgage payments right through to buying the property with you. The aim of this brochure is to highlight different options which are currently available to help first time buyers to get onto the property ladder.*

QUESTION:

**My parents would like to help me but don't have ready cash to give me. How can they help me then?**

ANSWER:

*The more forward thinking mortgage lenders have set up various schemes which will enable you to use your parents' financial status without actually taking any money from them. We have set out a range of these options in our case studies later in this brochure.*

QUESTION:

**My parents have money but they want to loan it to me, would this be okay?**

ANSWER:

*Many lenders would prefer this money to you to be a gift. This is because they do not want any other people other than those named on the title deeds and mortgage to have any financial interest in the property. If your parents wanted to formalise a loan between you and them, then it is likely that the lenders would insist your parents join you on the legal title deeds and also the mortgage deed. If this were the case then we could protect your parents' money by way of a legal document called a Deed of Trust. This is not a complicated document to produce, and costs from only £99 plus vat.*

Recent statistics have revealed that the average age for a first time buyer is now 32.

## Questions & Answers

### QUESTION:

**My parents do not have money to give or loan to me. How can they help me?**

### ANSWER:

*Many lenders will allow your parents (or one of your parents) to be named as guarantor. This means that, for example, your father's income would be taken into consideration with your income in calculating the amount that the lender would lend you. This may well be far more than you could borrow on your own. Your father would be required to be a guarantor of the loan. This means that he would be liable for the loan and its repayments if you fail to keep up your mortgage payments.*



### QUESTION:

**How long would my father have to be guarantor for?**

### ANSWER:

*This depends on which mortgage lender you borrow your money from. Some lenders will allow your parent to remove himself/herself from the position as guarantor after you have shown that you can keep up payments for, say two years. In other cases if your income has risen then they may well agree to his/her removal. The situation depends on the particular lender you are with.*

### QUESTION:

**Can I buy my first home with my parents?**

### ANSWER:

*Many lenders now realise that parental help is often a first time buyer's only hope of getting on the housing ladder. They will allow the parents to be named as the second applicant on the mortgage application and, therefore, effectively, to allow you to have a residential mortgage. In addition most lenders will take into account some or all of the parents' income. This means that you will normally be able to borrow much more than you could on your own. A further benefit of a parent buying a property with a son or daughter is that the parent can keep control over any money the parent puts down as a deposit. In addition the parent has a degree of control over the property in that the son or daughter cannot remortgage the property or sell it without the consent of the parent. These potential problems areas can be prevented by the use of a Deed of Trust.*



QUESTION:

**What is a Deed of Trust?**

ANSWER:

*A Deed of Trust is a legal document which lays down the rules by which two or more people own a property. These are flexible legal documents and can be tailored to each scenario. They will effectively be a snap shot of the parties' financial position when the property is purchased, laying down who has paid what towards the property. It will then contain various agreements as to how the parties would, e.g. pay the mortgage during the course of the joint ownership. More importantly, it has a clearly defined exit strategy which enables the owners to either buy the other party out for a sum which is calculated from the Deed or alternatively it lays down the mechanism by which the property is to be sold. The aim of the Deed of Trust is to minimise any disputes that may arise. It can also be used as a very effective vehicle to reduce capital gains tax. The Deed promotes legal certainty. If everybody knows the rules then they are unlikely to break them.*

QUESTION:

**Do my parents have to go on the legal title?**

ANSWER:

*No, there are some lenders who will be prepared to include your father/mother on your mortgage deed, but will not require them to go on the house title deeds.*

QUESTION:

**Are there tax consequences of buying property jointly?**

ANSWER:

*This depends entirely on the individual circumstances of the buyers. You should consult with your independent financial adviser. Using a Deed of Trust can often totally remove any Capital Gains Tax liability for the parents in respect of an increase in value in the property. But every case is different. If you wish to take tax advice we would suggest a specialist firm of Chartered Accountants, KTS Owens Thomas (telephone 029 20829000), ask for Patrick Powell.*

More and more lenders are looking at positive solutions to help first time buyers.

## Questions & Answers

QUESTION:

What will happen if I own the property jointly with my parents and we sell the property for a profit?

ANSWER:

*This will hopefully be the case! Recent statistics have shown the increases in property prices over the last 40 years have been sometimes substantial and sometimes more gradual. However, the overall trend in property prices has always been upwards. Any increase in the value of the property will be calculated on how the property was purchased by you and your parents in the first place. If a Deed of Trust is in place then this will deal with any claims and seek to minimise any potential Capital Gains Tax liability.*



QUESTION:

My parents want to give me money, but they do not have access to ready cash. However they do have a lot of equity in their own property. How can I tap into this source of funds?

ANSWER:

*Your parents should speak to their independent legal adviser who can advise them on this. There are several lenders who will be happy to look at your parents' position and would also take the equity in your parents' property into consideration in calculating the amount that they will advance you. Your parents may decide to remortgage their property with the same lender that you will be using and this may result in your new lender being able to forward you a 100% of the purchase price of your property (subject, of course to your and your parent's financial position!)*



QUESTION

My parents would prefer to just give me a deposit. How can they get access to cash to give to me?

ANSWER:

*Again, your parents' individual financial adviser can help with this. Your parents may have equity in their property that can be released by way of remortgage or equity release, they may have a pension fund which they can draw down on, or alternatively they may have stocks and shares etc, which may be sold.*

QUESTION:

My parents would like to buy a property jointly with me, however, they are approaching retirement age. Will this be a problem?

ANSWER:

*Some lenders would be willing to advance a mortgage to you and your parents even though this goes beyond their retirement age. Other lenders would prefer to lend the money on a much shorter term, such as ten years. After this time you will, hopefully, have sufficient income to get yourself a mortgage without them.*

QUESTION:

So how easy is it for my parents to help me buy my first home?

ANSWER:

*Every case is different. The more forward thinking mortgage lenders realise that many first time buyers will have no option but to seek their parents' help in some form or another. Therefore, these lenders are constantly looking for creative ways in which to help first time buyers with the purchase of their first home while obviously making sure that the finances of both the parents and the son/daughter are adequate to cover the payments required under the mortgage.*

Many Lenders are now looking to take into account the parents' income as well as the son or daughter's

## Questions & Answers

QUESTION:

Can you give me some examples of how this can be done?

ANSWER:

*Yes! We now have four case studies showing how different first time buyers can buy their first home with their parents' help. Each case is different, however, many many first time buyers will be able to follow in similar steps to those first time buyers in our case studies. (See opposite page)*

QUESTION:

I am not a first time buyer, but have recently split up with my partner, could my parents help me?

ANSWER:

*Yes! There are many lenders who realise that relationship breakdowns are now far more common and that many people struggle to get back on the property ladder. Several lenders will treat separated people in a similar manner to first time buyers. We would suggest that you speak to your independent financial adviser who can run through the options with you.*

QUESTION:

Can I get my parents' help to buy my first home and also buy with my brother or sister?

ANSWER:

*Yes. There are several lenders who will allow up to four people to go on the legal title and the mortgage deed, and will take several of the incomes into account. Again we would suggest a Deed of Trust be put in place to create a legal framework. Families do sometimes fall out!*





## Case Studies

### Case Study I

#### Parents becoming a Guarantor of the child's Mortgage.

A Guarantor is a legal term and in this case means that the parents promise that they will be legally responsible for the Mortgage Debt should the child be unable to pay. Several Lenders will only require one of the parents to go as Guarantor and several of the more aggressive Lenders will allow parents' income to be taken into account together with the child's income in calculating the amount of money that can be lent to the child. Some Lenders will only require the Guarantor to act as Guarantor for a year, a relatively short period of time as a safeguard to make sure that the child proves that he or she can make regular monthly mortgage payments.

John is a graduate aged 28. He is earning £25,000 a year. He hopes to borrow £110,000 to buy his first home. His father owns his own home and is still in employment. The Lender has agreed to lend John the money on the basis that his father stands as Guarantor. After 2 years of making regular mortgage payments, John's salary has risen by £5,000 and the Lenders have allowed John's father to be released from his obligations as Guarantor of the Mortgage. John has got on to the housing ladder by using his father as a Guarantor.

His father has not had to contribute anything to John's Mortgage and has now been released from his Mortgage obligations, happy in the knowledge that he has enabled John to get on to the property ladder without having to put his hand in his own pocket!

Some lenders would be willing to advance a mortgage to you and your parents even though this goes beyond their retirement age.

## Case Studies

### Case Study 2

**Using the same mortgage lender for both the parents property and the second property.**

Jenny is in her second year at university. Her parents do not want to pay rent to university landlords which they consider to be a waste of money. They have decided that they want to buy a house for Jenny to live in while she is at university. They have owned their existing home for many years and do not have a large mortgage. However, they do not have any money to put down as a deposit. They have approached their existing lender who has agreed to nominally increase the mortgage on their existing home to create a notional deposit and to lend sufficient money to fund the second property, as long as the parents and Jenny are on the second house legal title and also the mortgage deed. Therefore, neither Jenny nor her parents have had to lay their hands on any money for a deposit. Again, a simple Deed of Trust can be put into place to protect the parents' equity in the second home.

These are just four of the possible solutions that are available. More and more lenders are looking at positive solutions to help first time buyers.

Contact your financial adviser who will be able to tell you about the latest lender products.

### Case Study 3

**Parent joining child on the property deeds and Mortgage deed**

Sarah has just qualified as a nurse. Her parents would like her to get on to the property ladder as quickly as possible. Her income is not enough to enable her to borrow sufficient money to buy her first home. Her parents have their own home with a small Mortgage. Her parents existing Mortgage Company have decided to offer Sarah a Mortgage on the basis that her mother and father are also named on the Mortgage Deed and property Deeds. Because it is the same Lender for both properties, the Lenders will, in this case, advance 100% of the purchase price of a new property, neither Sarah nor her mum and dad will have to find a deposit, as the Lender is happy to rely on the security of both properties.

It is important in cases like this that a legal Deed of Trust is put in place to ensure that the three buyers are aware of their legal rights in respect of the property. The Deed also makes the most efficient use of Capital Gains Tax exemptions.



#### Case Study 4

### Parents joining with child on house deeds and mortgage deed and putting down a deposit

Michael is 30 years old and has been living in rented accommodation. He is finishing his apprenticeship and he has been trying to save money for a deposit to purchase his first house, but has been in the agonising position of saving hard but seemingly getting further away every year because of the rapid increases in house prices. He has decided that he must get on the housing ladder and his parents have offered to help him. They have decided that they can contribute £10,000 to help buy the property from their retirement savings. It is clearly understood between Michael and his parents that they will need this money for their retirement. In order to help Michael to borrow sufficient from a Mortgage Lender to supplement his savings and their £10,000, his parents have agreed to be named on the Mortgage Deed and Property Deeds with Michael. Naming his parents on the Mortgage Deed and Property Deeds means that both the Lenders will be happy with the inclusion of the £10,000.00 and also the parents have the security of knowing that they are protected under the terms of a Deed of Trust in that they keep some control over the property and also over the ultimate repayment of their £10,000.

While many families would not consider that in this particular case a formal legal document would be required outlining their legal rights, third parties such as partners can come on the scene creating family disputes so a solid legal framework as to the house ownership is often worth its weight in gold.

Even for families who consider that there will never be a dispute between them and their children regarding the jointly owned house, a Deed of Trust can be used to minimise, or in many cases eradicate, any potential Capital Gains Tax liability for the parents in respect of their joint ownership of their son/daughter's property. It is possible for parents to help their son or daughter to buy their home using their own earning potential and savings while properly protecting their savings and keeping some control over the property and minimising any potential Capital Gains Tax liability.

Many first time buyers could use their parents' help to get onto the housing ladder. Are you one of them?



Contact your financial adviser, and ask Griffiths Ings Solicitors at:

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The examples in this brochure are for illustration purposes only. Griffiths Ings Ltd accepts no liability for any losses.

You should take financial advice from your financial adviser.

Each case is different and legal advice should be sought in every case.  
Your home may be repossessed if mortgage payments are not maintained or mortgage conditions not adhered to.

Your financial adviser will advise you on the need for life cover and also as to the availability of other insurances.

# griffiths ings solicitors

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