HELPING GEN Y

One in three first home buyers are turning to family for a handout to help secure their first property. But there is a better – and safer – option, according to La Trobe Financial's Cory Bannister

THE P2C LOAN

Parents invest
5–105%
of the property price
(for borrowing by the child)

The child

IS NOT REQUIRED
to pay LMI premiums (which can run to several thousand dollars)

CAN BORROW
at better rates than those offered by the bank

The parents'
CONTRIBUTION
is secured by lodging a registered mortgage

LA TROBE FINANCIAL
collects monthly repayments and a return on investment on the parents' behalf

WITH PROPERTY prices in Sydney and Melbourne stubbornly high and the housing affordability gap continuing to widen, it's no surprise that 'the bank of Mum and Dad' is becoming the go-to lender for an increasing number of millennials struggling to get a foot on the property ladder. According to Chris Andrews, chief investment officer at La Trobe Financial, "at least one third of first home applicants are currently being assisted by parents and grandparents", and with potential interest rate rises in 2017, that number will only grow.

But with these parental payouts, which often cover the housing deposit to obtain a mortgage, come risks not just for the parents but for the child as well. "The challenges faced by our ageing population are not enviable ones, with the responsibility of intergenerational transfer of hard-earned wealth to their heirs, all while maintaining or building an adequate retirement savings," Cory Bannister, chief lending officer at La Trobe Financial, tells *Australian Broker*. "The younger members of our country – who believe that it is their right to own property – are at the forefront of the housing affordability crisis. Therefore it comes as no surprise that they would turn to their parents for help to get their foot on to the property ladder."

La Trobe Financial has created a parent-to-child mortgage product (P2C®) that aims to address some of the issues facing parents and their Gen Y children. A P2C® mortgage formally documents a lending arrangement between parents and their child, registering a mortgage on the security property that the child is purchasing, and then independently managing the assistance to ensure it is repaid in accordance with the agreed terms.

The P2C® product is designed to protect the parents' investment without exposing their assets or credit file profile to any risks associated with their child running into difficulty with repayments. There is no dollar limit on the P2C® amount, which is also good news for the child.

"Prior to this option, parents who wanted to help their children with purchasing a property had to guarantee the child's loan or co-purchase the home with the child and in essence place their own home and retirement savings at risk. This also meant that the child missed out on the First Home Owner Grant or stamp duty concessions," Bannister tells *Australian Broker*. "Our product benefits those who cannot afford permanently to tie their money into their children's property. It also allows first-time buyers to purchase a property with a minimum deposit without lenders mortgage insurance."

And there are more benefits for the child. Unlike other 'profit share' options, the child's current and future equity in the property is not shared with their parents. The home is 100% theirs, giving the child the full benefit of any future growth in value, says Bannister. "Finally, the child cannot be capriciously evicted, nor can their rate be hiked by the parents following a family feud, as the P2C® loan is independently managed and is subject to agreed terms by both parties."

The parents can 'invest' as little as 5% or as much as 105% of the property's purchase price, as well as determine the term of the investment – up to 25 years – and the interest rate on the P2C® loan, which starts at 3%. Once the loan is settled (using the parents' funds), the parents receive a monthly return on their investment, as any other bank or financier would expect.

As families are forced to look for alternative products such as the P2C® loan to edge their way into an overheated market, Bannister tells *Australian Broker* that this is not likely to change dramatically any time soon. "Over the long term we believe property valuations close to major cities will remain well supported, albeit with likely more moderate growth than recent years," he says.

As for affordability, Bannister believes interest rates will continue to be lower for longer, which will help those trying to purchase their first home. "With a P2C® loan, parents can assist with this by setting their own low interest rate and economically transfer wealth to their children, therefore helping with affordability in a protected way." AB