A helping hand up the home ladder

House prices are now so high that first-timers are being priced out of the market. We explain how you can give your child a head start

The last few years have seen house prices rocket, making it harder and harder to take those fledgling steps on to the property ladder. Yet highly inflated prices and growing demand haven't dissuaded first-time buyers. Indeed, 78 per cent of UK adults who aren't current homeowners hope to step on to the property ladder within two years, while 84 per cent intend to follow suit within a decade.

Many of these potential homeowners will look to their parents for financial help. Likewise, most parents probably don't want their children renting or still living with them into their 30s.

However, with figures from the second quarter of this year showing that first-time buyers were paying an average of £151,923 for their homes (more than six times the average annual salary), it's little wonder that just under 40 per cent of those aged under 30 in 2006 were estimated to get financial help from their parents.

Business, not pleasure

You can help your child buy their first home in several ways including by contributing towards legal fees, the deposit, or even the mortgage itself.

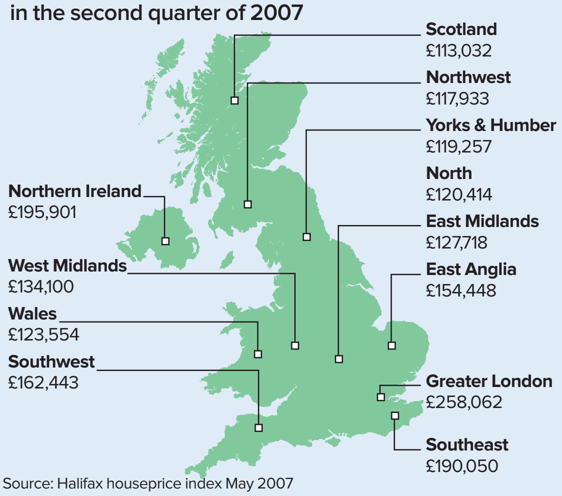
There really are no fixed rules about which option you should consider first. The choice is yours and will depend on whether you'd rather help financially at the outset, such as by paying legal fees or the deposit, or on an ongoing basis by helping with the mortgage.

However, before agreeing to hand over any cash, you need to consider the inevitable tax, legal and emotional implications.

You may get on famously with your child, but problems can arise when your relationship takes on a business element. You could come to regret your generosity, especially if you suspect your child is trying to take advantage of your willingness to help. It is, for instance, possible for them to sell up without informing you, or to consistently fail to pay the mortgage until the property gets repossessed (see 'Legal safeguards', p26, for more on how you can protect yourself).

FIRST-TIME PROPERTY PRICES

This shows property prices for first-time buyers across the UK in the second quarter of 2007. On average, buyers in the UK spent £151,923 on their first home in the second quarter of 2007



Source: Halifax houseprice index May 2007

ILLUSTRATION GEMMA ROBINSON

Ways to help your kids

We examine the pros and cons of financial products that can help you raise money for your children's first home

You'll have to help them move, too

There are several financial products to consider if you want to help your child to buy a home but lack sufficient savings. These options allow you to use your housing equity either to cover any shortfall in mortgage repayments or release a lump sum for deposit or legal fees.

Secured lending

If you have a mortgage, think about remortgaging. This would involve arranging a new mortgage with your existing provider or transferring to another lender. Remortgaging would either result in your mortgage term being increased, to absorb the additional borrowing from your new provider, or in your repayments rising to cover the additional outlay.

Further advances are another form of secured lending, with the extra money coming from your existing provider. Your loan would be added to the sum you owe.

The upside Secured loans and remortgages are relatively straightforward to arrange. Also, the conditions are generally favourable, as you use your home as collateral. If you are not a homeowner, you'd have to apply for an unsecured loan and, as the risk to the lender is higher, so is the interest rate that you have to repay.

The downside You must take care to consider the impact that increased borrowing would have on your own standard of living and on any retirement plans you have.

Guarantor mortgage

If your child's income is not large enough to support their mortgage, you could consider a guarantor mortgage, the size of which will depend on your income and assets.

The upside With a guarantor mortgage, your child would be able to take out a bigger mortgage than would otherwise be possible.

The downside You would be guaranteeing to meet any repayments should your child fail to do so, which could be risky, especially if you still have a mortgage on your own home.

Joint mortgage

For working parents, this may be a viable option. A joint mortgage considers both your and your child's income as well as any money outstanding on your own mortgage.

The upside This allows you and your child to be named on the mortgage agreement and on the deeds, providing you with some power over any future transactions.

The downside You would be liable if your child stops paying their share of the mortgage.

Family offset mortgage

This offers a flexible means of helping with your child's mortgage. In essence, your savings are balanced against your child's debt, so the amount they owe (and pay interest on) is reduced. For example, if you have £30,000 in savings and your child has a £110,000 mortgage, they will pay interest on only £80,000. But you won't earn any interest on your £30,000 savings.

The upside Family offsets are very flexible, so you control how much money is offset against your child's mortgage. You can raise or lower the level of support as you see fit.

The downside Any proportion of your savings tied to the offset mortgage won't earn interest.

You need to be clear whether you are making a gift, a loan or an investment

In addition, you could lose your investment to your child's ex-spouse, if they are awarded the property after divorce. And then there is the issue of treating all your children fairly – if you help one, can you afford to help them all?

Legal safeguards

No matter how willing you are to help, you need to be clear whether you are making a gift, a loan (with or without interest) or an investment. To safeguard a loan or investment you should have a solicitor draw up a legally binding agreement, which stipulates the nature of any arrangement.

HOMES FOR HIGHER EDUCATION

Is it worth buying student digs?

A Which? survey of 2,677 online panel members in March 2007 revealed that 22 per cent of respondents (and 54 per cent of under-45s) may consider buying a property for their child while they are at university. Many parents just want their child to have their own home, while others are keen for them to avoid adding rent to the cost of higher education.

Buying a property for your student child might avoid these problems, and may even bring in an income from renters, which would help cover the mortgage, but there are other considerations. As your child would probably have to rent out other rooms in the house (usually to friends), this leaves them, and you, vulnerable if their lodgers fail to pay. This is a situation that can be both embarrassing for your child and time consuming to deal with. Another aspect to consider is whether your child is mature enough to deal with their own home at 18 years old or whether they'd be better off just concentrating on their studies.

You would also have to think about what to do with the property when your child leaves university, as most students don't live where they study after finishing their course. Ultimately, it's a decision you must think about very carefully, as you may be hundreds of miles away and unable to deal with any property problems that may arise.

PHOTOGRAPHY ALAMY, PAUL FRANCIS

Even with a legal agreement in place, there's a chance your child will go ahead and sell the property. To avoid this happening, you could complete HM Land Registry form RX1 so that the property cannot be sold without your consent (see 'Contacts').

If you do take on a stake in the property, don't forget to update your will to reflect what you would like to happen to that stake upon your death.

Tax liabilities

Tax looms large when buying a home, not least because it isn't easy to predict how it's calculated and what you'd be liable to pay on investments, loans and gifts.

The first thing to note is that your child won't pay income tax on any cash you give them, at the time you give it. However, you will need to keep an eye on the inheritance tax position. Most gifts you make during your lifetime will be free of inheritance tax if you survive the gift by seven years. For more information on inheritance tax, see the *Which? Tax Saving Guide*.

If you're looking to invest in your child's property you must consider capital gains tax (CGT), which is a factor when the property is sold. This is imposed on any profit you receive from the sale of property that's not your main residence, over your personal exemption limit, currently £9,200 a person. For example, if you invest £10,000 in your child's home, and assuming it equates to 20 per cent of the property, you might be liable for tax on 20 per cent of the profit made.

You cannot avoid CGT by giving away your share in the property or selling it for less than the market value. However, your child would be exempt from CGT because the house is their main place of residence.

Any money you loan your child to buy a home would be seen as a debt against your estate until it's repaid. However, any interest you charge on the loan counts as your income and is taxable.

A sound investment

Once the emotional, legal and tax issues are all considered, you should calculate the scale of your commitment – and whether you want to give money upfront, or consider which product is most suitable (see 'Ways to help your kids', opposite) if you want to help on an ongoing basis. Either way, with careful preparation your help could make all the difference.

HELPING OUT BUT KEEPING IT LEGAL

David and Joan Miller *60s, accountant and NHS ward nurse*

Stepping on to the property ladder would have been next to impossible for Andrew Miller without help from his parents. David and Joan lent Andrew £70,000 on an interest-free basis for the deposit. They raised £60,000 by remortgaging and £10,000 from savings, which, together with £5,000 of Andrew's savings, was put towards a deposit. As a result, Andrew was able to buy a £155,000 new-build apartment.

David and Joan also instructed a solicitor to draw up a legally binding document to safeguard their loan. David explains his caution. 'Our friends lost most of the money they loaned their son to buy a flat because after he got married, and subsequently divorced, his ex-wife was awarded half the value of the property,' he told us.

HOME-BUYING SCHEMES

Look to the government for financial support

The government's HomeBuy initiatives help key workers, such as teachers and nurses, on to the property ladder. This might be more favourable than financing your child's move. There are several types of scheme, including the New Build, Social and Open Market initiatives.

New Build HomeBuy works on a shared-ownership basis with the housing provider. The buyer initially purchases between 25 and 75 per cent of the property (rising to 100 per cent over the life of the mortgage) and pays rent on the rest.

The Social HomeBuy plan is a similar shared-ownership scheme but for social housing tenants.

There are two Open Market HomeBuy plans. The first comprises one equity loan of up to 17.5 per cent of the property's value or £50,000 (whichever is lower). The second, expanded scheme sees two loans of around 12.5 per cent each provided by the mortgage lender or the government.

HomeBuy
www.homebuy.co.uk

Checklist

Tips for helping your kids take that first step

- **Do your research** It's always best to do some background reading on the subject of buying a home.
- **Be clear** You need to make your child aware whether you are making a gift, a loan or an investment.
- **Think of your child** Use your knowledge of your child and their circumstances to establish which is the best way to help them, such as with a guarantor mortgage or by remortgaging. Encourage an open dialogue with your child, so they come to you if they get into difficulties.
- **Go legal** See a solicitor and get a legally binding agreement drawn up.
- **Share ownership** Try to ensure that you are named on the deeds.
- **Don't barge in** Respect your child's right to privacy and don't dictate who can and cannot visit your child's home.
- **Be honest** Don't exaggerate your income to secure a larger mortgage.
- **Don't take things for granted** You shouldn't rely on your current good relationship with your child – things can go wrong.
- **Think of yourself** Don't put yourself in a financially risky predicament by overextending yourself and don't assume that interest rates will remain at a favourable level.

Contacts

The Council of Mortgage Lenders
0845 373 6771; www.cml.org.uk

Communities and Local Government (HomeBuy) 020 7944 4400
www.communities.gov.uk

HM Land Registry 0870 908 8063
0870 908 8069 (Welsh language)
www.landreg.gov.uk