

What does the Bank of Mum and Dad need to consider?

Back in the Summer Statement in July, the Government raised the stamp duty threshold in England and Northern Ireland to £500,000 until 31 March 2021. Previously, stamp duty had kicked in at £125,000 (or £300,000 for first-time buyers), meaning people moving home can make significant savings. The change will also help people buying properties costing more than £500,000. As stamp duty is tiered, they will pay nothing on the first £500,000 and then normal rates on anything above that. The Government has claimed that this temporary move means that many people buying a home between now and March next year won't need to pay any stamp duty at all.

However, with house prices still beyond the reach of many, the Bank of Mum and Dad (or BOMAD) is often being asked to step in on a regular basis to help their adult children with their financial commitments. There is also a growing expectation of redundancies, resulting from the ongoing impact and restrictions associated with Covid-19, therefore BOMAD may be called upon for additional financial support.

Parents are seeing their children's debt escalate, often due to rent payments. Under coronavirus legislation, private landlords have to give their tenants three months' notice to quit but nevertheless the payment is still due. While homeowners can take a mortgage payment holiday and add the debt to the end of the mortgage, tenants have to repay what they owe much more quickly, even if they have agreed a schedule with their landlords. Housing benefit is often unlikely to cover the full rent. With no source of income on the horizon, grown-up children may resort to requesting a parental bailout. Shared houses can also be an issue. If one of the occupants decides to 'disappear' as they are behind with the rent, it leaves the other house mates to cover the arrears. This is a particular concern if the parents of one

of the remaining tenants had agreed to act as rental guarantors at the outset.

A further issue to this is the shock to the system of having a grown-up child suddenly back under the roof under lockdown, and therefore helping to provide the funds for a quick house purchase may be preferable! But this too, can have some issues.

Many parents are keen to help their offspring get a foot on the property ladder. With many high Loan to Value (LTV) mortgages being withdrawn, it was felt that parental input concerning a deposit could help. However, it may not be as simple as providing the deposit. Some Lenders are starting to ask for more details regarding the source of the deposit, with some taking a less favourable attitude to those that haven't saved themselves. Advice here is crucial to make sure that your desire to help doesn't adversely affect their lending opportunities. The pandemic may also mean that some parents may be facing financial difficulties of their own. Therefore, are they going to be as willing to keep on lending and gifting deposits in these instances? Whilst the natural instinct is to help your children get started, it is vitally important you talk to us about the implications of this. If you do decide to act as BOMAD, it's important to make sure you can afford it. If you're using your pension and savings to help out, you do need to consider what impact that will have on your own retirement.

It's also essential to make sure it's clear whether the money is a gift or a loan, as this will have different tax implications. This also becomes important if your child is moving in with a partner. You may want a say in how the rights to the property will be held should the relationship break down at some point.

The Bank of Mum and Dad is becoming a very familiar financial lending institution. However, as with all lending, whether it be supporting debt or helping children get started on the property ladder, it can have issues and we do encourage you to get in touch if you have any queries.

