

How your generosity can lead to a family bust-up

By [Lauren Thompson](#)

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Generous parents who stump up deposits for their children's first home could find themselves locked in a family dispute, experts warn.

The average first-time buyer needs a deposit of £31,000 for a home - the equivalent of almost their entire annual salary, according to the Council of Mortgage Lenders (CML).

With high rents, huge numbers of graduates unemployed, large student debts and low savings rates, it can be decades before first-time buyers can afford the hefty down payments needed to afford a home.



□ CATHERINE DAVIES, 25, and Jamie Askew, 24, bought their first home after Catherine's dad George used his savings to help them on the property ladder. The family used Lloyds' Lend A Hand scheme, which means the bank put a charge on George's savings that allowed his daughter to buy a house with only a 5pc deposit.

Catherine and Jamie live with George, 63, a chef. They have bought a house for £148,000 with a deposit of £7,000 and pay a mortgage rate of 4.9pc.

Catherine says: 'It would have taken ages to save for a bigger deposit.'

George moved about £30,000 to a three-year, fixed-rate savings account paying 3.8pc. If in the next three years the couple are unable to meet their mortgage payments - or if they sell but owe more on their mortgage than their house is worth - Lloyds could pay the debt using George's savings.

Increasingly, parents are coming to their rescue. New figures show 84 pc of first-time buyers under 30 received financial help from their family last year - more than twice as many as in 2006.

But solicitors say parents wanting to contribute can find themselves arguing about repayments with their child years later - or worse still, their money ends up going to their child's partner if the couple split up.

'Parents often want to make gifts to children, either to reduce their estate for inheritance tax purposes or simply to help with the mortgage,' says Andrew Kidd, a lawyer at Silverman Sherliker.

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'However, there are traps for the unwary and expert advice should be sought to avoid a fall-out.' If you have the money and want to help, there are crucial decisions to be made.

First, is the cash a loan or a gift? Mortgage lenders don't like it if you tell them a deposit is a loan.

This is because the repayments will be deducted from your child's monthly outgoings and so reduce the amount they can borrow.

Second, if your child is buying with a partner, what would happen to your child's share of the equity if they split up?

It would be galling if your child put down a 25 pc deposit, while their partner contributed nothing, yet when the house was sold the proceeds were split equally.

To avoid this, draw up a 'declaration of trust' that states exactly who owns what share of the property in the event of a sale.

'They and their partner should be declared tenants in common under the terms of a trust,' says Clive Weeks, a solicitor at Withy King in Bath.

'This allows them to split their equity however they like, say 70/30.'

Another advantage of a gift is if you live for seven years after handing over the money, your children will not have to pay inheritance tax on the amount when you die.

'Parents can also use a trust to put a second charge on the child's property and state that when it is sold a percentage of the equity must go back to them,' says Mr Weeks.

A solicitor can advise on setting up a trust, which will cost £125 to £200. Of course, not all parents have a spare £30,000, but there are other ways to help.

The most common is to act as 'guarantor', whereby you promise to make mortgage payments if the child becomes unable to do so.

Nationwide and Halifax allow this.

With Lloyds TSB's Lend A Hand scheme, children need a 5 pc deposit, but parents must contribute a deposit of 20 pc, which is held in a savings account.

Lloyds puts a charge on the saving, meaning it can be recovered to pay the child's mortgage, but it remains in the parents' name.