

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

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In the recent Summer Statement from the Chancellor, the headline act was the 'eat out to help out' voucher scheme for August. However, a further and potentially more rewarding offer was the stamp duty changes for property purchase, which appears to be generating significant movement in the housing market. But with house prices still beyond the reach of many, the Bank of Mum and Dad (or BOMAD) is often being asked to step in to help their adult children with their financial commitments, including a deposit for a house.

It is understandable that parents are keen to help their offspring to get a foot on the property ladder. In the current climate, especially with many high Loan to Value (LTV) mortgages being withdrawn, parental input can certainly help. However, before you hand over cash to your children (or even grandchildren), there are some important issues that need to be considered. We have noted just a few of them.

**Banks are clamping down on this** – We are aware that a few lenders are starting to ask borrowers where their deposit has come from. The general feeling is that those who have saved the deposit themselves will be better borrowers going forward. Therefore, it is important not to simply assume that a parental deposit is the easy solution.

1. **Is it a Gift or a Loan** - If you are able and willing to provide a house deposit to your offspring, will this be as a gift or a loan? Both have different taxation issues for you as the donor, and both also come with further issues. For example, if a gift is made to your child and this money is used as a deposit to purchase a house with a partner, what is the position, should the couple split up and the house be sold? You may want a say in how the rights to the property will be held should the relationship break down at some point.
2. **Can you afford it?** Whilst the natural instinct is to help your children start out in life, it is important you talk to us about the implications of this, when it comes to your own financial plans. If you do decide to act as BOMAD, it's important to make sure that this has been built into your own Planning process. 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.

There may be other concerns with providing capital to your children including Inheritance Tax issues. As with all major financial transactions, we would also suggest that your first port of call is to talk to us. We recognise that the 'Bank of Mum and Dad' is becoming a very familiar financial lending institution. However, as with all lending, it can have issues and advice is crucial to ensure everybody benefits from the support you wish to offer.