# PARENTS - HOW TO HELP YOUR KIDS

Navigating the Australian property market can be daunting for first home buyers, especially with rising prices and increased costs. However, as parents, there are several ways you can provide support to your children as they embark on this significant journey.

### Financial gifts to reduce loan to value ratios

One effective way to help your kids is by gifting them money to lower their loan to value ratio (LVR). By contributing to their deposit, you can potentially eliminate the need for lenders' mortgage insurance (LMI) typically required when borrowing more than 80% of a property's value.

For instance, if your child aims to buy a home valued at **$800,000**, a deposit of **$160,000** (20%) would avoid LMI altogether. This financial assistance could make a substantial difference in their ability to secure a loan and reduce future costs

### Offset accounts - a strategic approach

Another increasingly popular option is for parents to deposit funds into their children's offset accounts. While this does not remove the need for LMI, if the deposit is below 20% it does lower the overall interest charged on the mortgage. For example, if you were to place **$100,000** in an offset account, your child would pay interest only on the remaining loan amount, consequently saving them thousands over the life of the loan. Furthermore, this money remains accessible to you should you need it in the future.

### Acting as guarantors

Parents can also consider acting as guarantors or part guarantors for their children's home loans. This arrangement allows your child to borrow more without needing a large deposit. By leveraging the equity in your own home, you can help them secure a loan without incurring LMI.

For example, if your child intends to purchase a home valued at **$700,000** but only has **$35,000** saved (5% deposit), you could guarantee up to **15%** of the purchase price using your own property as security.

### Understanding the temporary nature of first homes

It's essential to remember that most first home buyers do not remain in their initial property forever. Selling their first home at a high price and discharging the loan before purchasing another home with an LVR greater than 80% is a common strategy. This means that while LMI may seem like a burden initially, it could facilitate quicker entry into the property market and potentially lead to greater finance gains through property growth down the line.

### Refinancing options after establishing equity

While refinancing may not eliminate LMI entirely, it's worth revisiting after a year or two of homeownership. As property values increase and equity builds, refinancing could lead to more suitable interest rates and reduced monthly repayments. This strategic move can also help mitigate some of the initial costs associated with LMI.

### Changing perceptions of lenders' mortgage insurance

LMI often gets a bad reputation for primarily benefiting lenders. However, it also serves as a pathway for borrowers who might otherwise struggle to enter the market due to insufficient savings. By allowing individuals to purchase homes with lower deposits, LMI can facilitate earlier homeownership opportunities.

## Exploring government assistance programs

In addition to parental support, various government initiatives are available to assist first home buyers. The First Home Guarantee allows eligible buyers to purchase a property with as little as a 5% deposit without needing to pay LMI. This program has been instrumental in helping many Australians secure their first homes amidst rising prices.

## The importance of planning and strategy

As parents, your involvement can significantly impact your children's ability to navigate the property market successfully. It's crucial to have open discussions about finances and explore all available options together. Whether through financial gifts, offset accounts or acting as guarantors, your support can provide them with a solid foundation for their future.

## Empowering the next generation

Assisting your children to purchase their first home is not just about providing financial support. It's about empowering them with knowledge and resources that will serve them well throughout their lives. By understanding the various strategies available, such as reducing LVRs, utilising offset accounts, acting as guarantors and leveraging government programs, you can help ease their path into home ownership.

As property prices continue to rise and economic conditions evolve, being proactive and strategic in supporting your children will ensure they are better equipped to achieve their dreams of owning a home. With your guidance and assistance, they can navigate this challenging landscape more effectively and confidently step onto the property ladder.

## A final word… consider yourself first!

While it's commendable for parents to want to assist their children to purchase their first home, it's crucial to ensure that your own finance goals and retirement plans are prioritised before diving into any finance support. After all, your children will eventually inherit your assets, and compromising your financial stability today could jeopardise your future security. We recommend you seek professional financial advice in this area.

By carefully considering your retirement needs and ensuring you have a solid financial foundation, you can provide meaningful assistance to your children without putting yourself at risk.

This thoughtful approach not only safeguards your wellbeing but also sets a responsible example to your children about the importance of planning their finances and balance in life.

Encourage your adult children who are saving for their first home to reach out to us for a confidential discussion.

We prioritise their education and privacy. Your involvement in these conversations is only necessary if you are providing financial support or securing your home as collateral.

Knowing that our discussions remain confidential unless they give permission to share may help them feel more at ease when speaking with us.

*Disclaimer: This article provides general information only and has been prepared without taking into account your objectives, financial situation or needs. We recommend that you consider whether it is appropriate for your circumstances. Your full financial situation will need to be reviewed prior to acceptance of any offer or product. It does not constitute legal, tax or financial advice and you should always seek professional advice in relation to your individual circumstances. ©2025*