FIRST HOME BUYERS

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Entering the Auckland property market is tough for any first home buyer, especially when the average deposit you'll need these days can be well over $50k.

There are two ways you can get your parents to help you into your first home, it all depends on your savings and how much of a boost you'll need to get a 20% deposit.

Less Than $20k Required to "Boost" Your Deposit

Are you almost there? Have you been saving for a while and have a small deposit all ready to go? The best way to get over the last hurdle is to get your parents to borrow the money against their own home and then gift you the cash.

When gifting cash it's important that a simple 'gift letter' is created, signed and dated. This will avoid any complications later down the track and should outline the terms of the gift. Gifting is a cheap and easy way to structure a deal that keeps things as simple as possible.

Why should your parents consider gifting you cash? The key here is that your wealth will grow significantly faster when you're on the property ladder. Without it, you might never get there.

The sooner you start, the better chance you'll have to grow your wealth long-term. If they are in the financial position to do so, this is definitely an option worth considering.

$20,000-$90,000 Required as a Deposit

If your savings are a little smaller, if you're looking to buy in a more expensive area or your parents aren't able to help you with a direct cash gifting, using the equity in your parent's existing home or rental is the way to go. This might sound a little confusing, but it's actually quite simple and won't leave your parents out of pocket. You'll be paying the money back.

To see how it works, let's have a look at the following example:

Your parents own a $800,000 property that they owe very little or no money on. You are looking to buy a property for $500,000. You have saved $10,000 and still need $90,000 to make a 20% deposit for this property. We'll set you up with two loans.

Deposit loan: $90,000 for 5 years.

Second loan for the rest of the property: $400,000, interest only.

The initial deposit loan is in both you and your parent's names and leverages the equity they have in their current home as collateral. The benefit of this is that it doesn't over expose them to the risk of owning a whole second property. After 5 years they'll be released and no longer liable for any of the risk in the property.

After a year or so, you'll have the property revalued, with the increase in equity also contributing to getting you closer to that magic 20% LVR level. If the value of the property increases, you'll be able to get your parent's off that 90k loan in less than five years.

The great thing about the second option is that it doesn't require your parents to have any savings and won't leave them out of pocket over the long run. It's just using the value of their current home to get you into your own place.

It's crucial when structuring your mortgage to consider multiple factors. The biggest is definitely the risk involved and making sure every precaution is taken to properly structure the loans so everyone is protected in a worst case scenario.

At Mike Whittaker Mortgages, growing your long term wealth is our top priority.
If you'd like more information about the best way to structure a deal like this give us a call!

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