

## **Helping Your Children Become Homeowners**

*By J. Lennox Scott*

As a parent it can be extremely rewarding to help your children buy their first home—often times your assistance is what is able to make their dream of homeownership a reality. There are a variety of ways you can go about helping your children, ranging from gifting them money for a down payment, to loaning them money at a low interest rate, or purchasing the home for them outright. It all comes down to your personal situation and financial circumstances.

Most lenders require a 20% down payment from homebuyers; if the buyer cannot afford this they have the option to put less down and assume private mortgage insurance. There are a variety of creative lending options available to first time buyers that enable them to put as little as 0% down, but the trade off is a higher monthly payment and the added cost of PMI. Private mortgage insurance, known as PMI, is essentially insurance for the lender. It's designed to protect the lender should they have to foreclose on a property and the price of that property does not equal the outstanding balance on the loan. It's based on a percentage of the loan amount and calculated monthly with the loan payment.

In recent years lenders have created ways to get around the PMI requirements by creating combination loans that enable buyers to break up the purchase price between two loans. A common type of combination loan is called an 80/10/10. With an 80/10/10 the buyer gets a mortgage for 80% of the purchase price, puts 10% down of their own funds and borrows the remaining 10% on a second mortgage. Although the second loan will typically carry a higher interest rate than the first, it enables the buyer to avoid the costs of PMI.

One way a parent could help their child in this situation would be to act as the lender on the second loan. For example, if your child intends to purchase a \$200,000 home they will be expected to make a down payment of \$40,000. If your child only has \$10,000, you can loan them the remaining \$30,000 needed for the down payment at a lower interest rate than what they would pay if they took out a second loan from the lender. Presumably the interest that you would earn from your child would be equal or more than it's earning in a bank account. Furthermore, your child can deduct the interest they're paying on both the bank's loan and your loan from their Federal Tax Return, so this can be a positive option for all involved.

Another option is to simply "gift" the money to your child. Under current tax law, an individual can gift up to \$11,000 each year to any individual with no taxable consequences to anyone. If you're gifting to a couple you can give each individual \$11,000, totaling an annual gift of \$22,000. And if you're married, both you and your spouse can each gift \$22,000 to your child and their spouse, totaling \$44,000 a year.

Another option is shared ownership by which you as the parent purchase the property along with your child. You can still put up all or part of the purchase price, and the title can be held in your and your child's name. Under a shared ownership agreement there are tax benefits available to both the parent and the child, but this is a complex transaction, so you will definitely want to consult your attorney or financial consultant before entering into this type of agreement.

As the parent there is also the option to purchase the property in your name and gradually gift the home to your child. They would not benefit from any tax benefits, but ultimately you could deed your child the home a certain percentage every year until they own the entire property. Remember, together you and your spouse can gift up to \$44,000 a year tax-free to your child and

their spouse. So according to the law you could deed this amount to your child and their spouse every year until they own the property outright.

There are a number of ways you can assist your children in the purchase of a home. However, before you start this process it's in your best interest to consult a financial advisor or attorney to ensure that your decision will not have any adverse impact on your tax situation or estate. And of course, discuss every option thoroughly with your child to ensure that they're comfortable with the decision as well.

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