Thinking of opening the Bank of Mum and Dad?

TOP TIPS AND TRAPS

At 2Be, we believe that helping family is the best type of finance.

2Be holds Australian Credit Licence 533319

Helping Your Kids onto the Property Ladder...

What could possibly go wrong?

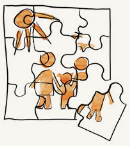
With house prices rising faster than wages, the 'Bank of Mum and Dad'* is now busier than ever.

But opening the 'Bank of Mum and Dad', whilst rewarding, is not without risk—both financially and emotionally.

Read on for our top tips (and traps to avoid).

*(In case you're wondering, the 'Bank of Mum and Dad' is giving your kids some financial assistance to purchase a home).

Our tips and traps cover the following topics:



Preserving Family Relationships

Helping you navigate the difficult financial discussions often needed between parents and family members.

A Gift Or Loan?

Lays out the pros and cons of each, and guides you on how to determine the structure that best suits your needs.

Parents' Affordability

Secure your future. We help you understand how much help you can afford to provide.

Children's Affordability

A checklist to help your child understand how much they may need for home ownership, today and tomorrow.

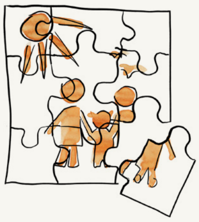
Funding Options

There are a number of sources you can draw on to help with their deposit. We help you understand the options.

Document Everything

Secure your agreements with solid documentation.

1



Preserving Family Relationships

How can a family loan be set up to best protect family relationships <u>and</u> your cashflow and assets?

The importance of the relationships in a family loan is heightened when things go wrong. When borrowers are unable to make payments, it can be due to ill-health, relationship breakdown, unemployment, or even bankruptcy. This can cause both financial and personal stress for all.

Other siblings

What strategy will work for everyone in the family, including other siblings? Will you still be able to give them a financial leg up if they need it?

2Be™

Relationship Breakdowns

Relationship breakdowns happen all too often, so it's important to make sure you have the right agreements in place (e.g., a family deed) to cover any such eventuality.

Other lenders

If the families of both members of a couple want to help with the deposit, it is important that the help given by each party is documented and there is agreement up front over how this translates into ownership of the home, e.g., in absolute dollars or as a proportion of the total value. Consider what happens to the agreement if one of the lending parties (the parents) opts out or they need the money earlier than expected.

These can be difficult discussions, but it is always best to have them at the outset, as they get far trickier down the track.

Put the agreements in writing to be completely transparent and save any heartbreak later. You should always seek advice from a trusted source, such as professional advisors (e.g., lawyers and accountants), before committing to a decision.

2

A Gift or Loan

A gift may seem simple, but how you give it needs some thought.

With a loan, there is an understanding the money will be paid back, sometimes with interest, sometimes without.

PROS

GIFTS	LOANS
Much less complex as you don't have to sort out interest and set up repayments.	May provide asset protection in the event of a relationship breakdown as the loan generally needs to be repaid.
There is no gifting tax in Australia.	A family loan can help your child earn their own way in the world.
Won't generally limit the amount a bank will lend to the child.	If the family loan is set up formally, it could improve your child's credit score.

	GIFTS	LOANS
CONS	There is generally no asset protection if your child splits from a spouse/partner. For example, if all assets get halved their spouse/partner could keep half the benefit of the gift.	Banks generally consider all outstanding loans, which could reduce the amount of money your child could otherwise borrow.
	If you receive the Age Pension (or other benefits), be sure to know there are limits applied to gifting: currently $10,000 per year (or $30,000 over five years depending on your situation).	A family loan could impact your pension entitlements, as Centrelink views family loans in the same way as most other investments: with a deemed rate of return.
	"Free money" may send your child the wrong signal for the future.	An interest-free family loan may reduce the loan's enforceability.
	On principle, some children may not want to take the money as a gift.	If you are charging your child interest on the loan you may have to report it as income (see your tax advisor).

Structuring a Gift

If you decide to make a gift, you may like to structure it as an early inheritance. If so, you should consult your lawyer to ensure it is properly documented and your Will is amended appropriately.

Structuring a Loan

If you decide to structure your help as a loan, you need to consider whether interest will be charged or not. If so, will there be tax implications for you? Will the interest payments affect your pension entitlements? Will it affect your child's capacity to borrow?

Things to consider:

- Whether there will be ongoing repayments, or a lump sum payment at the end of the loan?
- Will interest be charged, or will it be an interest-free loan?
- If a lump sum payment is required at the end of the loan, how will the child repay the loan?

For many people the best-balanced situation is to structure their help as a family loan, with no interest or principle payable unless the relationship breaks down. (See www.2be.com.au for a template example of such a loan agreement).

Note that your situation may vary, we recommend you seek professional advice.

3

Parent’s Affordability

Opening the ‘Bank of Mum and Dad’ is not without risk—both financially and emotionally.

A good rule is only to lend what you can afford to lose! You do not want to risk what you have worked so hard to achieve and end up compromising your own lifestyle.

Our website includes a full risk questionnaire, developed by some of Australia’s leading risk experts which can help you think this through. The key questions you need to be asking yourself are:

- What will happen if our child cannot make the repayments?
- Will our family relationship be strong enough to weather any storms?
- What is the right loan amount?

Typically, if the child is going to default on payments, it will occur in the first few years. So, if you can afford it, it may be helpful to charge a lower interest rate for the first few years or provide an interest free loan initially, while structuring the repayments to increase over time.

4

Children’s Affordability

For your child, home ownership is a big responsibility and commitment.

When buying a first home, it’s important to consider all the costs that will come before, during, and after the purchase. On our website, we have a checklist of upfront and ongoing costs to help you calculate the amount of money you are going to need.

The size of the initial deposit will also affect ongoing costs. Having a 20% deposit (or as large a deposit as possible!) can save thousands on Lender’s Mortgage Insurance and up to 0.5% on interest rates. Visit www.2Be.com.au aand use our free calculator to find out how long is needed to save for a deposit, with or without parents’ help.

Homebuyers should also look at a range of potential lenders before deciding, as rates and conditions vary. The government MoneySmart calculator is a good place to start.

Visit: https://moneysmart.gov.au/home-loans/mortgage-calculator#borrow

5

Funding Options

Now that you have confirmed both you and your children can afford to do this now, how do you fund it?

Options include:

- Using your savings
- Selling assets
- Taking out a standard bank mortgage loan
- Guaranteeing your child's loan, or being a co-borrower with your child
- Reverse mortgage
- 2Be Equity Advantage loan

If you provide a guarantee for your child's loan, become a co-borrower with your child, or take out your own loan, you will need to show proof of income and provide security based on the equity in your own home.

If you are over the age of 60, you may be in a position to take out a reverse mortgage on your own home.

And through 2Be, a new option is available. If you are between the ages of 55 and 75, you may be eligible to borrow against the equity in your own home for a maximum of 5 years at a fixed interest rate.

For more information visit our website www.2be.com.au

6

Document Everything

Even though both you and your child have the best intentions and you are only looking to give your child a leg up... document everything.

Documenting everything can prevent future heartbreak due to contested memories and family arguments. Every circumstance and possibility must be clearly recorded and understood by all parties.

Key things to consider:

- Make sure to insert exit clauses to document what will happen if a break-up or other significant event.
- Work out how your help may be deducted from your estate prior to any proceeds being shared amongst beneficiaries.
- You may need to adjust your Will to record your intentions.

Care and attention to detail now can avoid potential future anxiety and discord.

We hope you enjoyed our tips and traps and wish you every success if you decide to open the Bank of Mum and Dad. Visit www.2be.com.au for more information or to enquire about an Equity Advantage loan

Important:

Any information contained in this document has been prepared without taking into account your objectives, financial situation or needs. Before acting on any advice, 2Be Finance Pty Limited ABN 37 647 505 422 ("2Be") recommends that you consider whether it is appropriate for your circumstances.

Applications for credit with 2Be Finance are subject to eligibility and lending criteria. Fees and charges are payable and terms and conditions apply, which are available upon request. 2Be holds Australian Credit Licence 533319