

Helping Kids with Real Estate

October 2013



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With house prices rising as they are, it is getting harder and harder for young adults to afford their first home. Studies show that while incomes may have increased over time with Canadian households earning \$35,000.00 more today than a generation ago, most of this is lost to the effects of inflation. Taking inflation into effect, the average Canadian household earns about the same as in 1980.

However, house prices have risen dramatically since 1980 far and above the average rate of inflation. Incomes have not kept up with the increase in house prices.

This leaves today's young adults renting for years or asking help from their parents. Parents can help in a number of ways (I am not discussing the wisdom of this - just what the options are) such as the following:

- 1) Buy the house outright and have the kids pay them back
- 2) Provide the down payment
- 3) Cosign with the kids

Buy the house outright – this is pretty straight forward with the parents paying cash for the new house. No mortgage help needed here.

Provide the Down Payment – Typically the hardest part of qualifying for a mortgage is saving up for the down payment. Many renters are paying for their landlord's mortgage with their monthly rent. In many cases the monthly rent payment exceeds the monthly mortgage payment. So the renter can afford the mortgage payment, he just doesn't have enough disposable income left over to also save for the down payment. Mom and Dad can help here by providing the down payment as either a gift or a private loan. The kids qualify for a mortgage based on their own income and credit. One suggestion that I always have for parents gifting the down payment is to register it as a caveat on the new house. This protects the parent's gift against any subsequent common law relationships that their young adult might enter into.

Cosign with the Kids – here the parents help out with their credit history (assuming it is fine), income and down payment. The kids might have a job however they will need their own good credit. The issue here is if the kids default on the mortgage, the parents are responsible for it. The other issue is that this cosigned mortgage is treated as debt by lenders and will be considered if the parents try to buy another property or refinance their existing home. I have one lender who has an interesting option with their mortgages that can help concerned parents. After one year of the mortgage payments being made up to date and on time, the parents can be removed from title at Land Titles. The title, with just the young adult on it, is presented back to the existing lender who can then allow the child to assume the mortgage without qualifying.

These are a few ways parents can choose to help their kids with buying a home. As you can see, there are many things to consider. Please feel free to contact me with any questions you may have.