

# SUN HOMES AND DECOR

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A recent survey found one third of homeowners needed helping when buying their first home. ROYAL LEPAGE

## BANKING ON MOM AND DAD

But parents shouldn't be swept away by emotions and fears

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As housing prices hit an all-time high and continue to rise across the country, homeownership is out of reach for about three-quarters of Canadians, leaving many new homebuyers counting on the Bank of Mom and Dad.

"With the housing market pricing many Canadians out of the market, younger generations are forced to turn to their parents to close the gap," says Manulife Bank president and CEO Rick Lunny.

If you're thinking of helping your child purchase a home, be sure you clearly understand your own financial situation before being "swept

away by emotions" and fears your child will never be able to purchase a house without your assistance, warns Barbara Knoblach, a money coach and financial planner with Money Coaches Canada.

"Such a decision, if made in a hurry — and in some cases with an inkling of panic — has a good chance of producing a very poor outcome," she says. "In my experience, it is a minority of clients who are so well situated that they can easily afford to provide major sums of money as a down payment."

If you decide to help, the most straightforward way is to gift the money to your child. But remember, if your child is married and one day divorces, 50 per cent of the funds you

gave would go to their spouse unless you take steps to safeguard against that.

Another option is to co-sign or guarantee your child's mortgage, though that means you assume responsibility if your child can't pay their mortgage. That could put your financial future at risk. "It also means that the parents will have taken on a major debt obligation, which could impair their own ability to secure other loans in the future because they may no longer qualify," Knoblach says.

Instead of gifting the money, you could structure it as a loan to protect your assets and could choose to forgive the loan in the future, perhaps as part of estate planning. "In many



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Barbara Knoblach of Money Coaches Canada

instances, Canadians are passing a portion of their wealth to their children and sometimes their grandchildren while they're still alive," she says.

"This makes a lot of sense as the children need money early in life rather than later, when they may naturally receive an inheritance due to the death of the parents." A living inheritance allows parents to see the benefits their gift provides while also offering tax benefits. "As giving of money is tax free, it's more advantageous to provide money via a gift than through a traditional inheritance, in which the deceased's estate has to pay taxes," says Knoblach.

Remember, you can't demand the return of any money you gift, even if your child doesn't use it as intended. "Parents should only consider gifting or lending money to a child who is very serious and committed about the financial obligations they're about to enter. If the child has a tendency to squander money, this is clearly a red flag that should preclude the parents from entering such an arrangement."

If you're able to afford a second house, another option is to purchase it in your own names and rent it to your child. "At a later point in life, when the child has reached more financial maturity, a change in ownership could take place, such as through a rent-to-own agreement or via a traditional inheritance," Knoblach says. "By no means should parents put themselves into the same boat with a financially irresponsible adult child just to allow the kid to make a property purchase."

## BEWARE THE RISKS

Before you commit to gifting or lending your kid money to purchase a house, Barbara Knoblach of Money Coaches Canada recommends asking yourself these questions:

- **Can I truly afford to help?** Consider all your financial demands, such as saving for retirement, paying down your own mortgage, helping younger children fund their post-secondary education and lending a financial hand to elderly parents.
- **Am I being realistic?** If you have more than one child, consider whether you'll be able to provide similar gifts to each and if not, how helping one would impact family dynamics.
- **Will I need to provide ongoing help?** Challenge your kids on whether this is a one-off gift or if they'll need ongoing financial support.

- **What is my tax exposure?** Consider the tax implications of cashing in investments to gift or lend funds. If you're drawing equity from your own home, will you still be able to pay off your mortgage by the time you retire?

## Homeownership out of reach: survey

According to the bi-annual Manulife Bank Debt Survey:

- 75 per cent of Canadians who don't own a home want to own one but can't afford to.
- 33 per cent of homeowners needed help from their parents when purchasing their first home, including nearly half of both Generation Z and Millennial homeowners.
- Seven per cent of parents have helped their adult children purchase a home amid the pandemic and five per cent of those who have a mortgage used equity from their own house to help their adult children purchase a home.



Rick Lunny, CEO of Manulife Bank.