

## Turning 'Generation rent' into 'Generation buy'



**In the wake of the chancellor's introduction of a 95% mortgage guarantee scheme for homebuyers with lower deposits, David Forsdyke, Later Life Finance expert at Knight Frank Finance, points out that parents and grandparents can also make a real difference when it comes to the younger generation buying their first property.**

The majority of property wealth in the UK is held by the over 55s, who've enjoyed decades of rapid growth in property values. However the same house price growth has made it difficult for the young to get a foot on the property ladder.

As part of the Budget, the Chancellor announced that 95% mortgages will become widely available thanks to a government guarantee. This is great news, and will no doubt help many. However, we know that borrowing at such levels comes at a price because even with a government guarantee, lenders will need to price in some of the additional risk they are taking.

Let's say you have a client with a daughter or granddaughter who is 26 years old and looking to buy her first home at £500,000. She has done well in her early career and has saved up £25,000 herself, so can put down a 5% deposit. She has a good job which allows her to comfortably afford around £1500 per month for a mortgage.

She would like to lock in to a fixed rate for the next 5 years to provide stability. The problem is, 5 year fixed rates for a 95% mortgage are highly likely to be above 3%\*, meaning she'll pay over £1800 per month if she spreads the mortgage term over 35 years, on a capital and interest basis. This is a bit more than she's comfortable with, but doable at a stretch.

### Consider another way

Now let's take the same scenario but after a conversation with the family. Your client would like to help if they can, but perhaps they don't have significant savings available, or their assets are tied up elsewhere. Let's imagine they own their house and it's worth £900,000 and they have no debts. They are financially comfortable with a good income. Using a lifetime mortgage fixed below 2.5%\* for life, your client could raise £75,000 to gift to their daughter or granddaughter, giving her a very welcome helping hand. They can even set up a reserve facility to help her younger siblings in the same way when their time comes.

The daughter or granddaughter now has £100,000 as a result of her savings and her family's generous gift. She's got a 20% deposit, and an 80% mortgage is considerably cheaper, fixed at around 2%\* for 5 years, which would lower the cost to around £1380 per month on a capital and interest basis. She offers to use the remaining £120 of her monthly £1500 budget to pay some or all of the interest on the new lifetime mortgage so your client doesn't have to let all the interest roll up, or worry about paying it themselves. If things keep going well for her, she could be lucky enough to see her income rising, and may well accumulate wealth of her own to pay back the capital borrowed for her over the next 10 years, as most lifetime mortgage lenders now allow overpayments of at least 10% each year without incurring any penalties.

This simple example shows that releasing equity through a lifetime mortgage can not only help create 'Generation Buy', but can reduce the overall costs involved.

## How we protect your clients

A lifetime mortgage cannot be bought direct from a lender. Because it is a form of Equity Release it comes with a thick layer of consumer protection from both the Financial Conduct Authority and the Equity Release Council. This protection includes the need to take advice from appropriately qualified advisers.

If you have a client who may benefit from this solution, speak to our expert Later Life advisers at Knight Frank Finance. We follow a comprehensive advice process, which will look at all the advantages and disadvantages, as well as exploring all the options and alternatives. We are not tied to any providers. We will research and find the most suitable products from the whole mortgage market for your client.

*\*all interest rates quoted are indicative only and may not be suitable for your clients. The choice of interest rate and product terms will depend on their circumstances, the value of the properties involved and the amount of the mortgage. Before you make a mortgage application, we will carry out a full review to establish needs and preferences, and discuss all the pros and cons. If the client meets the criteria, and wishes to go ahead, we will give advice and make a recommendation.*

**Knight Frank Finance are an Equity Release referral partner for TMA members. You can contact David directly on 01483 947764, or on [david.forsdyke@knightfrankfinance.com](mailto:david.forsdyke@knightfrankfinance.com).**

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