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WARNING—HELPING CHILDREN PURCHASE THEIR FIRST HOME IS NOT WITHOUT PITFALLS

Recent media coverage of the buoyant property market in New Zealand highlights the difficulty with first home buyers entering the market.

Invariably parents come to the party and assist their children to put a deposit together in order to purchase their first home. This can be fraught with difficulties especially when funds are provided as part of an informal family arrangement and no documentation is put in place.

What then happens in the eventuality of death or a relationship breakdown? There are numerous instances in the New Zealand Family Court where all of sudden that informal loan is said to be a gift! However without any formal documentation other than a transfer on a bank statement proving the provision of funds were in fact a loan (not a gift) can be problematic.

If it is a gift then of course half belongs to the partner or spouse of your child in eventuality of death or relationship breakdown.

How can this be avoided?:

- Firstly it is essential that any arrangement be documented;
- The document should express the advance to be a loan (as opposed to a gift) because then you retain some control over the situation in the eventuality of separation or

death. This means when the relationship breaks down the loan needs to be repaid like any other debt and not divided in half as an asset;

- Alternatively you could consider that a proportionate ownership share in the property being purchased.

Provision of Guarantee

Where a loan / or a gift has not been provided it is not uncommon for parents to assist children by the provision of a Bank Guarantee. It would be our recommendation that any Guarantee given be restricted to the provision of the deposit rather than providing a full guarantee for the total loan.

If the child experienced liquidity problems with their business then as far as the Bank is concerned you would liable for 100% of the loan under the Guarantee.

Where there is any doubt we would recommend that you take independent legal advice on any Guarantee at all times.

20 MINUTE FREE

**WANT to review your Family Trust structure?
 THEN call us and take advantage of our 20 Minute Free interview**