Why Bank of Mum and Dad needs to grow

by Bob Pannell, economic adviser to IMLA

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First-time buyer numbers eased back a little in the third quarter compared with a year earlier, the first such reverse in more than four years. Who knows whether this will mark a more subdued period for first-time buyers, but with Brexit winds now swirling around, we should not be surprised if this proves to be the case.

Longer-term, the Government has announced that its flagship Help to Buy Equity Loan scheme will run for a further two years, albeit on a modified basis and only for first-time buyers, until March 2023. No successor scheme is envisaged after this date. Mortgage lenders and house-builders have welcomed the certainty this provides, but wise heads must already be contemplating how the gap left by closure of the scheme will be smoothed over. With the latest metrics showing that Help to Buy currently supports about 40,000 first-time buyers annually in England, quite a bit of smoothing will be needed!

Fintech firms have begun to disrupt the financial landscape, and it is possible that they may develop business models that allow huge volumes of investment funds and/or personal savings to be recycled into private equity loans on a sustainable basis, but somehow I doubt it (not by 2023, at any rate).

It seems much more likely that the more prosaic solution will arrive in the form of greater help from families.

The phenomenon of the Bank of Mum and Dad has mushroomed over the past decade, and not just here in the UK, but across a number of jurisdictions where house prices have recovered strongly and regulators have taken steps to require larger deposits.

Nowadays, a majority of first-time buyers get, or expect to get, financial help from family members in Australia and New Zealand, as well as in the UK, and in all three countries the Bank of Mum and Dad ranks as a top ten national lender.

The economic and financial factors that have intensified the affordability challenges facing today's would-be first-time buyers have at the same time strengthened the financial position of older households, whilst demographic factors have added to their weight of numbers.

No surprise then that the Bank of Mum and Dad has emerged as a major coping strategy for many younger households.

Here in the UK, following the recent Budget changes, the Help to Buy Equity Loan scheme boasts impressive firepower, with total committed funding of nearly £30 billion. Yet, the

Bank of Mum and Dad already dwarves this, helping almost three times the number of households get on the housing ladder each year.

There has a been considerable innovation around Bank of Mum and Dad over recent years, such that it is no longer simply a moniker for affluent parents gifting their kids a place on the housing ladder.

Nowadays, financial help comes from a wider mix of family members and takes many forms. For example, developments in the equity release space have meant greater opportunity for grandparents, aunts or uncles to offer support.

Where older households do not feel able or willing to provide gifts or loans, product innovation can allow them to use their own housing wealth and/or savings to secure larger and higher LTV loans for younger family members. Elsewhere, the potentially adverse impact of changes in stamp duty arrangements on the attractiveness of parents buying jointly with their children can easily be sidestepped by ensuring that only the latter are the legal owner of the property.

Whilst family-based solutions typically require specialist underwriting and a greater degree of manual interaction, there is huge potential to promote better understanding, take-up and development of new products to bolster the position of first-time buyers (and, increasingly, second steppers also).

The Bank of Mum and Dad does not offer a panacea for all the problems and challenges in our housing market, nor the void that may arise when the Help to Buy Equity Loan scheme finally closes, but clearly there is scope for it to play a wider role in the years ahead.

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