Helping the next generation: a considered approach to family gifting and lending

Helping a child buy their first home, funding a grandchild's education or providing financial breathing room can be a rewarding use of family wealth. For financial advisers, these conversations are an opportunity to connect a client's generosity with their broader financial plan.

The Australian Financial Review's recent article, "Bank of mum and dad gifts revealed: How do you compare?", puts family gifting in the spotlight. Yet comparisons with other families can only take the conversation so far. The more useful questions are what a client can comfortably afford, what they want to achieve and how the support should be structured.

The ABC's "The risks of borrowing from the bank of mum and dad", by Kellie Scott, highlights a fundamental difficulty: parents and adult children can have different understandings about whether money is a gift or a loan. Unclear expectations can put both finances and relationships under pressure.

At Lydian Financial, we see an important role for coordinated advice: bringing the financial adviser, lending specialist, solicitor and accountant together before money changes hands.

Start with the client's own financial security

A client's willingness to help may exceed their capacity to do so comfortably.

Before discussing a funding solution, the financial adviser can assess how the proposed support fits with retirement income, liquidity, future care costs and other family commitments.

A useful starting question is: **If this money were never repaid, would the client's financial plan still work?**

For a proposed loan, that question helps test the consequences of delayed or missed repayments. For a gift, it focuses attention on the permanent reduction in available capital.

The same discipline applies when supporting grandchildren. A smaller contribution today may need to be considered alongside future commitments to other grandchildren and the client's changing needs.

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From The Lion's Den

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Give the arrangement a clear purpose

A home deposit, education contribution and temporary cash-flow loan serve different purposes. The structure should reflect the intended outcome.

Families should establish whether support is:

- An outright gift, with no expectation of repayment.
- A family loan, with agreed repayment obligations.
- A combination of gifted and loaned funds.
- Support involving external borrowing or a guarantee.

These choices should be explored before a property purchase or finance application creates time pressure.

The ABC article reinforces the importance of documenting the arrangement and discussing what happens if circumstances change, including separation, death or financial difficulty. A solicitor should advise on the appropriate agreement, any security and its interaction with estate planning.

Documentation helps establish the parties' intentions; its legal effect depends on the circumstances.

Source: ABC News

Connect the family's intentions with the lending structure

Where property is involved, a financial contribution is only one part of the equation. The proposed purchaser also needs a sustainable funding arrangement.

Lydian Financial's role is to work alongside the financial adviser to assess the lending options and how they fit the agreed strategy. This may involve reviewing the child's borrowing capacity, assessing an existing debt structure or exploring whether an appropriately structured family funding arrangement is feasible.

For some clients, releasing equity may be an option to investigate. However, available equity does not establish affordability. Borrowing to help a family member creates repayment obligations for the borrower and may expose their property to risk.

Guarantees also require careful consideration. ASIC's Moneysmart explains that a guarantor can become responsible for the debt if the borrower cannot repay, and property offered as security may be at risk.

Any finance application and supporting documents must accurately describe whether family funds are repayable.

Source: Moneysmart.

Consider the wider family and estate plan

Supporting one family member can raise questions about fairness across generations.

Does a contribution count towards a future inheritance? Will other children or grandchildren receive comparable support? What happens to an outstanding family loan when the lender dies?

These are useful questions for the adviser to identify and the estate-planning solicitor to address. Recording decisions and reviewing them as circumstances change can help the financial plan and estate documents remain aligned.

Government entitlements also deserve attention. Services Australia notes that gifts can continue to affect income and assets tests, while money lent is included among financial investments assessed for Age Pension purposes. A family loan should therefore not be assumed to remove funds from assessment.

Sources: gifting rules, asset types.

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How Lydian supports the adviser relationship

Lydian works alongside financial advisers, accountants and other professional advisers, providing specialist lending support that complements the client's broader financial strategy.

In a family gifting or lending conversation, this creates a practical division of responsibilities: the financial adviser establishes the client's capacity and objectives; Lydian Financial assesses suitable lending pathways; and the client's legal and tax advisers address documentation, ownership, estate planning and tax consequences.

Together, that advice can help families move from a generous intention to a considered arrangement.

If your clients are considering helping children or grandchildren, involve Lydian early to explore the lending implications alongside their financial plan—before funds are transferred or purchase commitments are made.

This article provides general information only and does not take account of any person's objectives, financial situation or needs. Financial, credit, legal and tax advice should be obtained as appropriate. Lending is subject to lender assessment and approval.

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