

Bank of Mum and Dad





Despite a slowdown in house prices, the Bank of Mum and Dad (BoMaD) is digging ever deeper to help their loved ones buy a home in 2019. The average contribution of generous families and friends has increased by more than £6,000 this year to a massive £24,100.

And in some areas it's even higher – £31,000 on average in London, for example. That means that, even though we're seeing fewer transactions in a more cautious housing market, the value of BoMaD lending will add up to £6.3bn in 2019 – up more than 10% from the £5.7bn of lending we saw in 2018.

The figure effectively makes BoMaD the 11th largest mortgage lender in the UK.¹ And its contribution dwarfs government schemes to address the problem of housing affordability, such as the Help to Buy schemes. The longest running of these – the Help to Buy equity loan – has still helped fewer people to buy than BoMaD does in a single year.

Despite BoMaD funding fewer property sales this year as we see fewer transactions overall, it's still a massive player in the market and vital for hundreds of thousands of buyers – young and old. In 2019 it will support more than a quarter of a million (259,400) buyers – one in five (19%) of every property purchases this year, or two in five in the capital. In total, BoMaD will help people to buy nearly £70bn worth of property in 2019.

| Property purchases supported by BoMaD | | | |
|-----------------------------------------------|---------|---------|---------|
| 2016 | 2017 | 2018 | 2019 |
| 305,900 | 298,300 | 316,600 | 259,400 |
| year-on-year change | | | |
| | -2% | 6% | -18% |
| Value of BoMaD lending, £bn | | | |
| 2016 | 2017 | 2018 | 2019 |
| £5.37 | £6.46 | £5.71 | £6.26 |
| year-on-year change | | | |
| | 20% | -12% | 10% |
| Value of properties purchased with BoMaD, £bn | | | |
| 2016 | 2017 | 2018 | 2019 |
| £77.49 | £75.38 | £81.71 | £69.51 |
| year-on-year change | | | |
| | -3% | 8% | -15% |

Source: Cebr analysis

1. <https://www.ukfinance.org.uk/blogs/largest-mortgage-lenders-2017---challengers-and-specialists-lead-way>

Introduction and summary

Of course, many of those receiving help are young, struggling to buy after unrelenting house price increases and a decade in which wages were, until recently, stagnant. Indeed, 62% of those under 35 years old say they received help with their most recent home purchase. But the same is true of 36% of 35 to 44 year olds, and even 22% of 45 to 54 year olds.

We should welcome the willingness of so many family and friends to help their loved ones onto and up the housing ladder, but it should concern us, too. For too many, the Bank of Mum and Dad isn't just about generosity; it's about dependency. And that dependency can reach well into middle age. At Legal & General, we believe reliance on the Bank of Mum and Dad to keep the housing market moving creates a sharp division between the haves and the have-nots, particularly among our young people. It helps many to buy, but does nothing to address a 'locked out' generation of first time buyers who aren't lucky enough to benefit from this kind of help.

Added to that, though, the Bank of Mum and Dad has a real cost for those that fund it. At a time when increasing longevity means retirement savings have to last ever longer, it risks eroding many older people's finances when they need financial security.

BoMaD support usually comes from the very same pots used to fund their care and retirement. Parents, grandparents, and even friends are accessing cash savings, ISAs, home equity and pensions to serve as BoMaD lenders. That has real consequences: in our survey, over a quarter (26%) of BoMaD lenders say they are not confident they will have enough to live on in retirement; 6% say they have had to postpone their retirement to enable them to help.

It's encouraging that our latest report on the Bank of Mum and Dad shows more parents and grandparents are thinking holistically about the full suite of retirement funding avenues available to them. Better informed decisions and greater access to the right advice means more BoMaD lenders are looking at options such as lifetime mortgages to access the value of their homes in order to provide a 'living inheritance' to their loved ones, for example. This should help more generous parents and grandparents to support others to buy, without sacrificing their own living standards, particularly in retirement when incomes are lower.

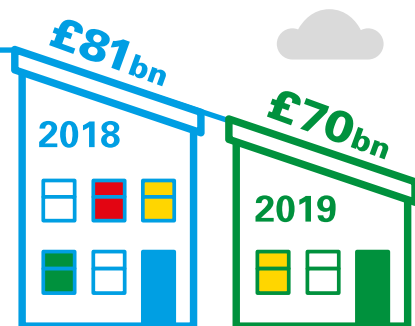
Even so, the Bank of Mum and Dad remains a symptom of Britain's broken housing market – and a chronic one at that. Real action is needed to deliver thousands more new and affordable homes to change the market for good, across a range of tenures. At Legal & General we believe we are playing our part, working to bring positive change by investing in towns and cities throughout the country – delivering the jobs, infrastructure and homes that our thriving communities need.

A ray of light as house prices ease

First time buyers are finally enjoying slightly more favourable market conditions. UK house price growth has slowed recently, to just 3.3% in 2018 (and just 3.0% for England). That's less than half the rate only two years before (7.0%) and the weakest since 2013.² NS data shows annual house price growth at the end of March at just 1.1%,³ which is below the rate of inflation (1.8% at the same date).⁴

Much of this slowdown is the result of falling prices in places where affordability has historically been most stretched. In London, prices fell 1.9% in the year to March, the biggest drop in the UK. The South East also helped to pull down the average, with sale prices dropping 0.4%.⁵

At the same time, slowing house price growth has coincided with a period where the economy has proved unexpectedly robust. Growth has continued, with GDP up 0.5% in the first quarter;⁶ more people are in work than ever before;⁷ and, crucially, real wage growth has finally returned to the UK, a decade after the financial crisis.⁸ Mortgage rates, meanwhile, remain at near record lows and competition is intense.



£70bn of property will be supported by the Bank of Mum and Dad in 2019

2. <https://www.gov.uk/government/news/uk-house-price-index-uk-hpi-annual-review-2018>

3. <https://www.gov.uk/government/news/uk-house-price-index-for-march-2019>

4. <https://www.ons.gov.uk/economy/inflationandpriceindices>

5. <https://www.gov.uk/government/publications/uk-house-price-index-summary-march-2019/uk-house-price-index-summary-march-2019>

6. <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/march2019>

7. <https://www.gov.uk/government/news/uk-employment-rate-at-joint-record-high>

8. <https://www.theguardian.com/business/2019/apr/16/uk-pay-grows-at-fastest-rate-since-financial-crisis-ons>

Affordability issues

Despite these positive trends for many homebuyers, however, the recent slowdown in prices has done little to offset the rapid price growth of the past decade. Ten years ago the average house price was little more than £150,000.⁹ By 2023, it looks likely to average close to double that.

London, for instance, still remains by far the most expensive region in the UK, with an average price of £463,000 – a figure well out of reach for most potential buyers without help. But it's not just the capital where buyers struggle. Average prices in Suffolk in the East of England, for example, are almost nine times average salaries there.¹⁰ Elsewhere, prices have continued to rise, growing at more than 3% per annum in the likes of Yorkshire and The Humber and the West Midlands, as well as in Scotland, Wales and Northern Ireland.

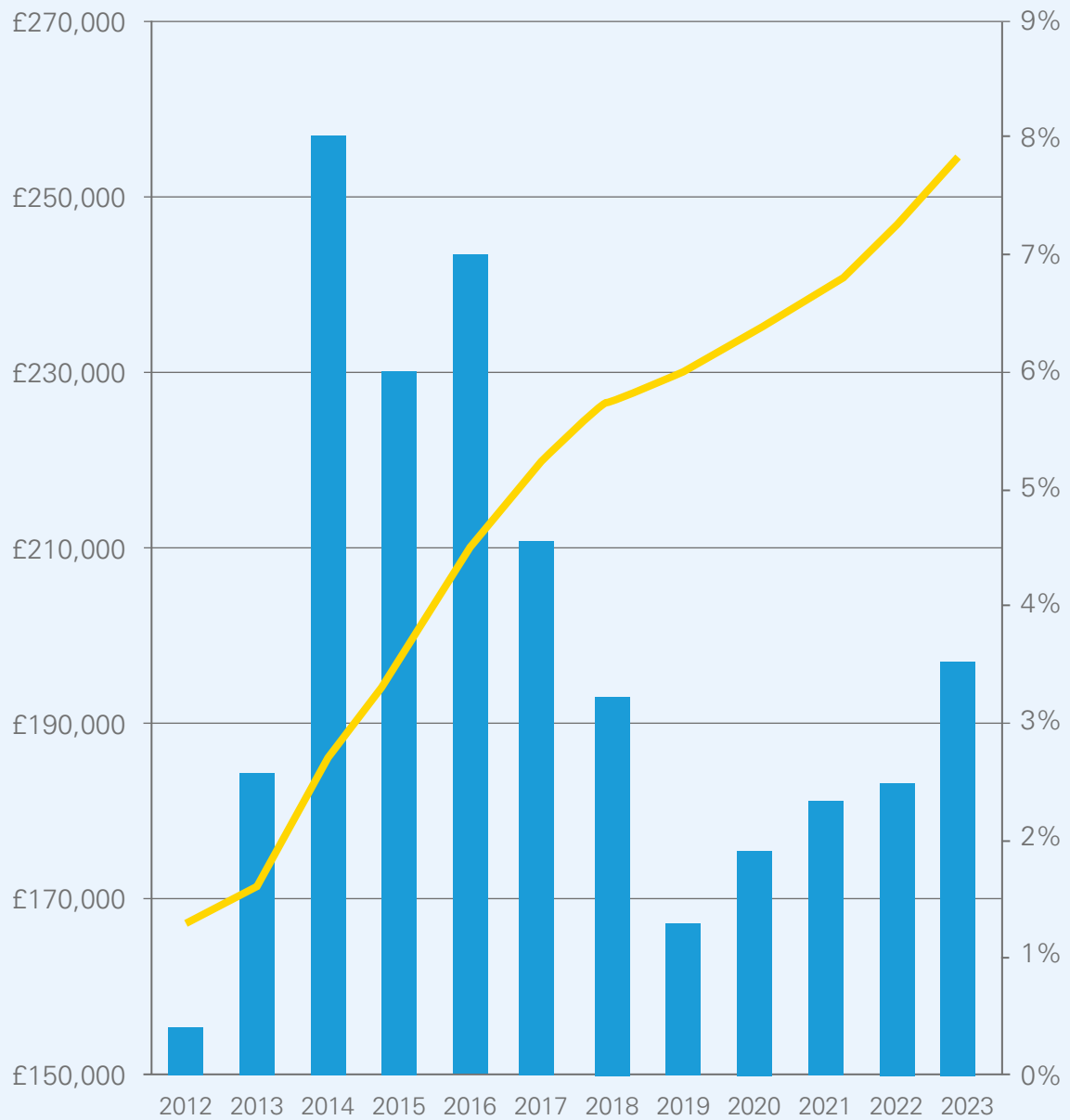
If prices rise only 1% this year as forecast, it will do little to ease things, and that's particularly true if the slowdown in price increases proves temporary. Faster GDP growth in 2019, a strong labour market and rising rents hint at better prospects. Cebr forecasts that house price growth will rise again from next year, returning to 4% per annum by 2023.



Over 1 in 3 (35%) who are planning to buy a home in the next 5 years expect to rely on 'BoMaD'

9. <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/march2019>

10. <https://www.eadt.co.uk/news/new-ons-figures-reveal-suffolk-housing-crisis-1-6050848>



Average UK house prices and year on year growth rates
Source: Land Registry, Cebr analysis

Family matters

Consequently, affordability is still the biggest issue in housing – and the help of family and friends remains a vital cog in the machine that keeps the market moving.

Our latest study of prospective and existing homeowners finds that one in five (19%) say that they received financial help from family or friends to buy their home. Among the under 35s who own a home, that rises to 62%. If you know a young person who lives in their own home, it's more than likely their parents or grandparents played a big part in putting them there. Even older buyers need significant levels of help, however – whether that's those only now managing to get on the housing ladder or looking to move somewhere bigger as their families grow or needs change. Our survey found more than a third (37%) of those aged 35 to 44 and more than a fifth (22%) of 45 to 54 years olds also received help with their purchase in the last five years.

Consequently, it's not just starter homes people are helping to buy. Part of the reason BoMaD lenders are giving more is that they're buying bigger properties: three-bedroom houses or flats were the most commonly purchased properties in 2019 – 44%, against 38% having helped family or friends to buy a two-bedroom property. 15% even helped loved ones to buy a home of four or more bedrooms. We also found that, despite English housing survey data showing that around one in five owner-occupied and one in three private rented properties were built before the First World War, that just one in 10 BoMaD lenders provided funds for a house constructed

before 1914, and even fewer (3%) for a flat in a period building. By contrast, 42% provided support for the purchase of a pre-owned modern house.

In total, we estimate that the Bank of Mum and Dad will finance more than 250,000 house purchases in 2019, most of them helped by parents (181,000), with a minority receiving help from their grandparents (27,200) or other family and friends (51,200). And there's little sign of this declining: among prospective buyers, 45% of those 35 and under, and 35% among all ages, expect to receive help from the Bank of Mum and Dad.

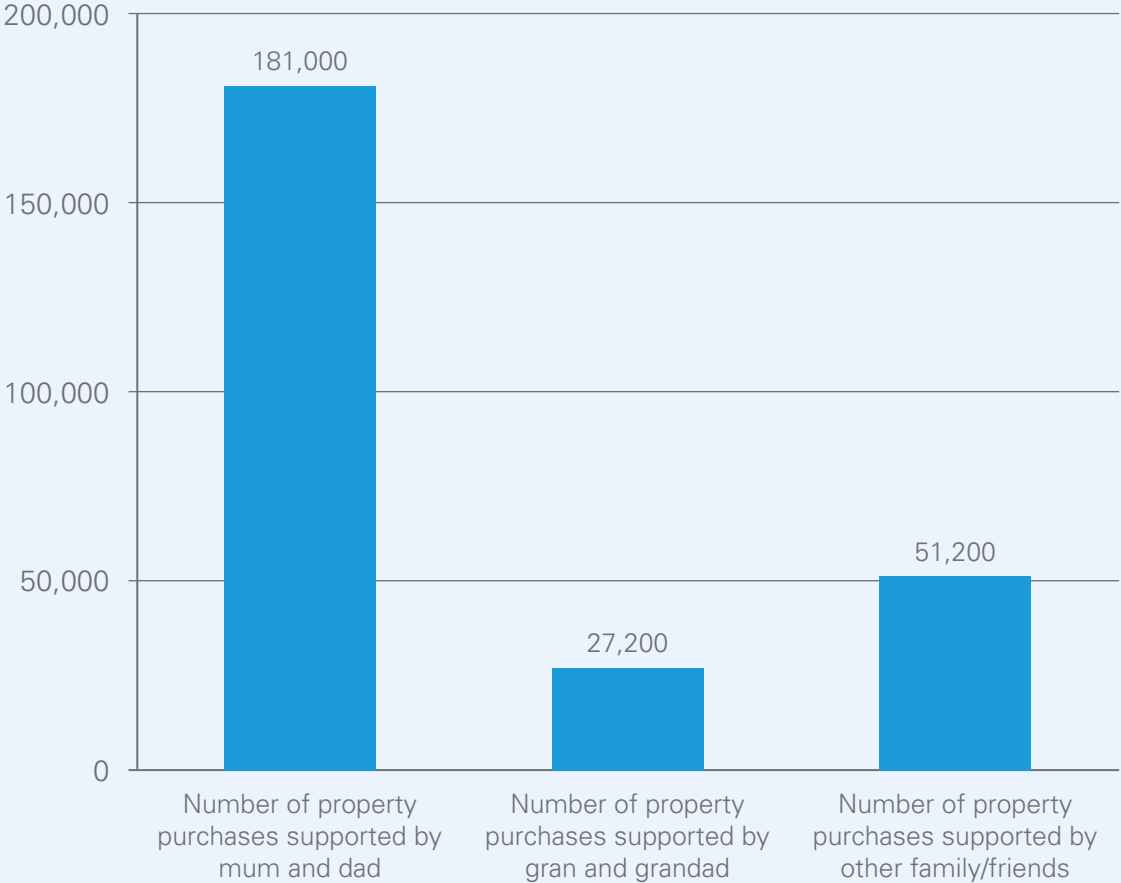
| Age | Current home owners | Prospective home owners |
|----------|---------------------|-------------------------|
| Under 35 | 62% | 45% |
| 35-44 | 36% | 33% |
| 45-54 | 22% | 24% |
| 55+ | 7% | 14% |
| All ages | 19% | 35% |

Source: Survey of over 1,500 UK adults commissioned by Legal & General in April 2019, Cebr analysis

In monetary terms, the Bank of Mum and Dad will provide £6.3 billion in funding in 2019 to help its loved ones buy property worth £70 billion.



Over a fifth (22%) of those aged between 45 to 54 have also received help from the Bank of Mum and Dad



Meet the Bank of Mum and Dad: Who's funding it?
Source: Survey of over 1,500 UK adults, commissioned by Legal & General in April 2019, Cebr analysis

Help to Buy?

While a quarter of a million homes purchased through BoMaD is a huge number, it is still a decline from last year. The money given by BoMaD is up 10%, from £5.7 billion in 2018, but the number of properties bought is down, from 316,600 purchases.

For the most part, this probably reflects slower activity in the market overall. Transactions have, in most areas declined much faster than prices. But it also may point to the success of other sources of help. In particular, some buyers who might otherwise have relied on the Bank of Mum and Dad have, no doubt, been able to access help through the government's Help to Buy scheme – which since 2013 covers older properties not just new builds.

Almost one in ten (9%) of recent or prospective homeowners in our survey said they have or would consider using a Help to Buy equity loan, which enables buyers to raise only 5% of the property price as a deposit, and secure a 75% mortgage.¹¹ A further 5% in the survey said that they have or would consider using Lifetime ISAs, launched in April 2017, to fund their property purchase. These offer a 25% bonus from the government on savings capped to a limited amount (depending on the type of ISA). Another 15%

say they have used or would consider a Help to Buy ISA, with the government providing a 25% bonus (up to £3,000) on any funds put into the savings vehicle.¹²

All this support is to be welcomed, but it can't match and it's nowhere near a replacement for the Bank of Mum and Dad. In the five years since the launch of the Help to Buy equity loan scheme in April 2013 to the start of 2019, for example, it has assisted in the purchases of 210,964 properties: fewer than BoMaD supports in a single year. Indeed, 61% said that they would use none of these options to help with their home purchase, so Help to Buy remains a minority funding stream, as well as one facing an uncertain future after its cut-off point comes in 2023 (extended from 2021). The Bank of Mum and Dad, by contrast, is entirely mainstream and – for better or worse – looks like it's here to stay.



Nearly 1 in 10 (9%) of recent or prospective homeowners said they have or would consider using Help to Buy

11. <https://www.help2obuy.gov.uk/equity-loan/equity-loans>

12. <https://www.help2obuy.gov.uk/help-to-buy-isa/how-does-it-work>

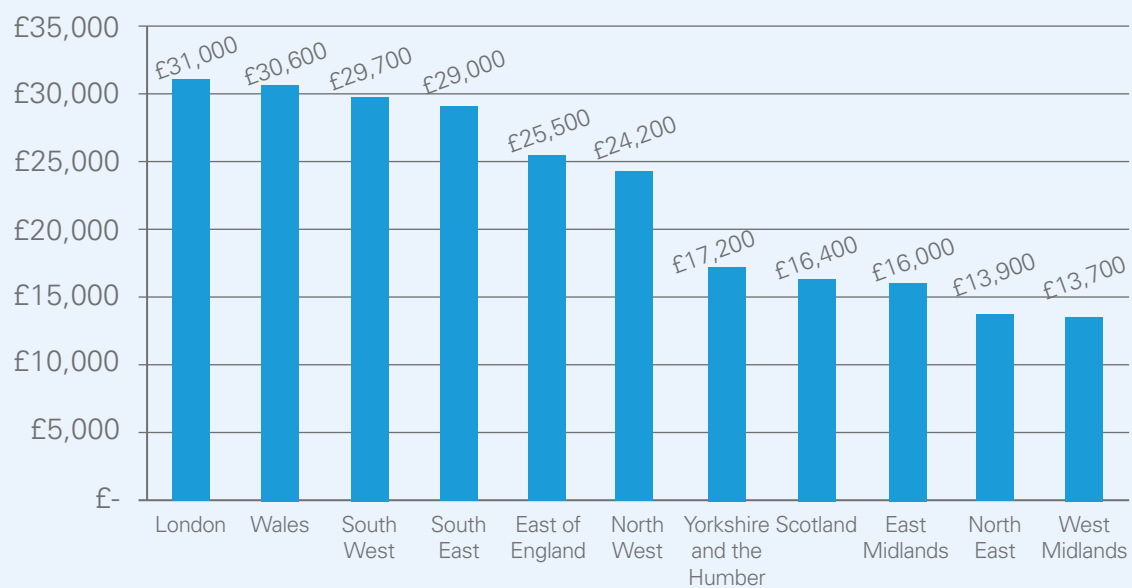
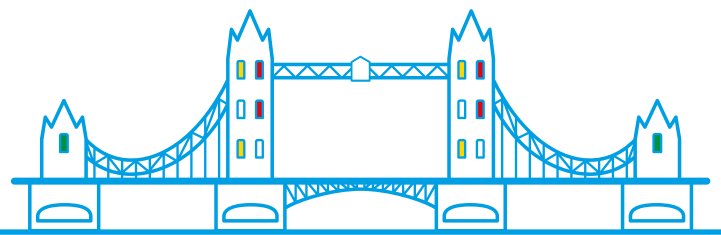
Generosity knows no bounds: The regional picture

The important role of the Bank of Mum and Dad is abundantly clear when we look at the regional variations. The recent price drops in London have done little to diminish buyers' need for help. The average contribution from family or friends in the capital remains the highest in the UK, at £31,000, and it is also the region with the highest share to have received financial support (41%).

At the same time, Wales has property that is much cheaper, with an average house price at just £158,696 at the end of March 2019.¹³ The average support by family and friends, though, was the second highest in the UK, and only a little behind London at £30,600, reflecting, most likely, the lower than average earnings in the region.

Even where the Bank of Mum and Dad has been less active this year, continued price rises may mean the numbers seeking help are likely to increase. In the West Midlands, for example, half (49%) of prospective owners now say they expect to receive help to buy from loved ones, the highest in the country, and up from only a fifth (19%) of current owners there who received assistance.

There are variations between regions, then, but it really doesn't matter where you look; there are significant numbers putting large amounts of money up to help their family and friends buy in every part of the UK.



Average BoMaD contribution (where help was given) by region

Source: Survey of over 1,500 UK adults commissioned by Legal & General in April 2019, Cebr analysis

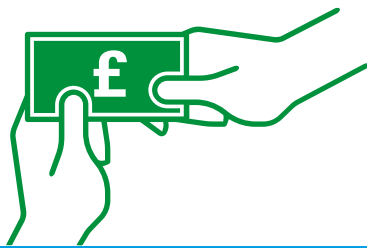
13. [ibid https://www.gov.uk/government/news/uk-house-price-index-for-march-2019](https://www.gov.uk/government/news/uk-house-price-index-for-march-2019)

Digging deep

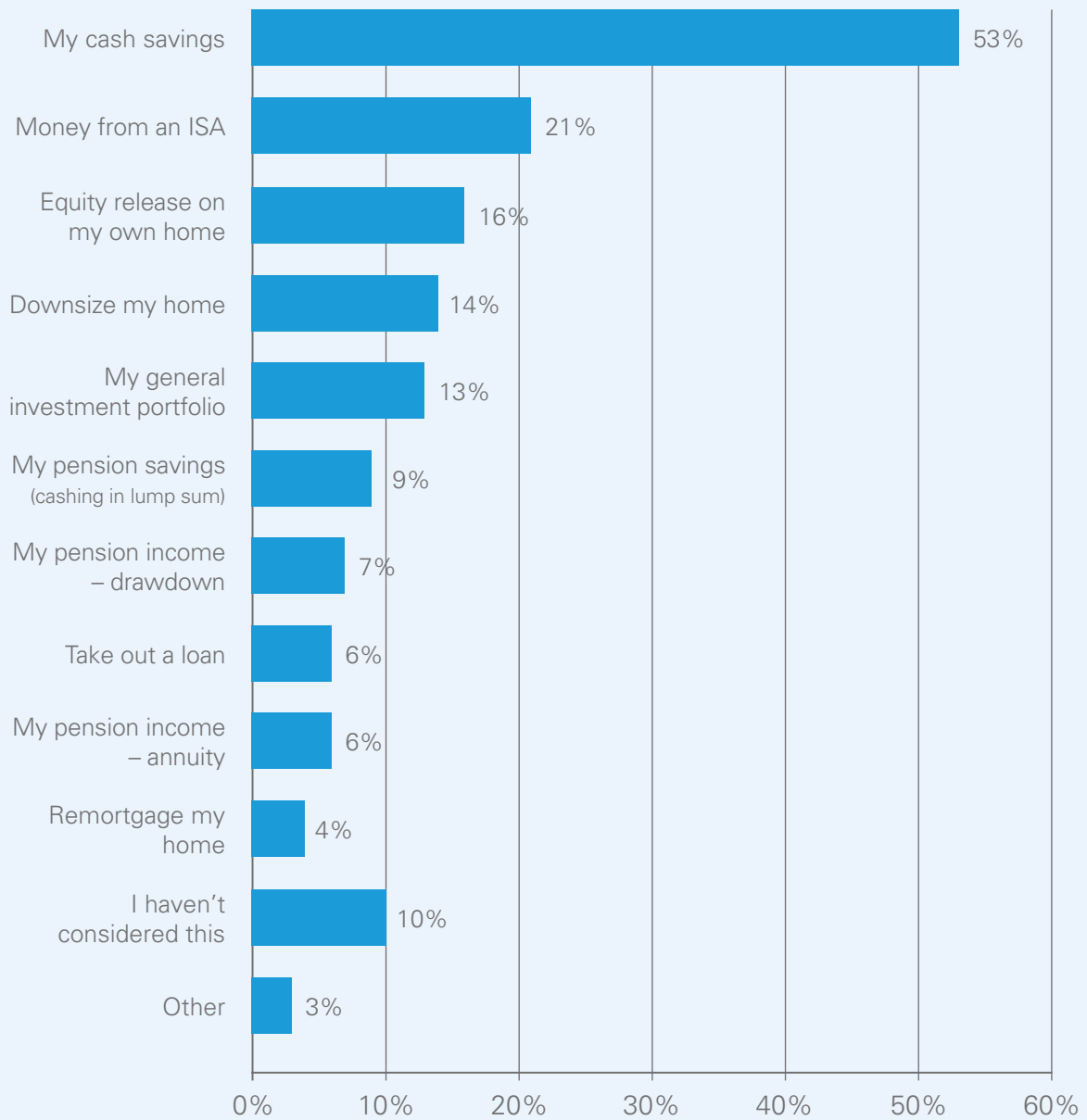
The Bank of Mum and Dad remains a forgiving lender. In most cases (59%), the money is a gift with no requirement to pay it back, and a further 14% of borrowers receive a mix of a gift and loan. And only 6% of those who received financial help from friends or family were charged interest. Among those who are providing the help, just 8% say they have taken or would want an equity stake in return for their help.

With most lenders seeing no return on their money, then, there are choices to be made about how to fund the lending the Bank of Mum and Dad provides. Fortunately, many of those grandparents or parents who help others to buy property have substantial savings. Over half (53%) of lenders say they drew or would draw on their cash savings to provide the money, while 21% took money from ISAs. This is often the result of deliberate planning. About one in five (19%) of those supporting purchases save money in a specific savings account; 13% use a Help to Buy or Lifetime ISA in their children's name to take advantage of the 25% bonus the government provides for first time buyers; and about one in ten (9%) say they have invested in shares or other assets for the specific purpose of helping with a house purchase.

Not all lenders have such nest eggs, however, which means they tend to draw on a range of sources – from cashing in their pensions as a lump sum (9%), using equity release (16%), downsizing (14%) or even taking out further borrowing themselves (6%).



In most cases (59%) the money is a gift with no requirement to pay it back



Ways in which funds for BoMaD assistance were raised

Source: Survey of 2,000 UK adults commissioned by Legal & General in April 2019, Cebr analysis

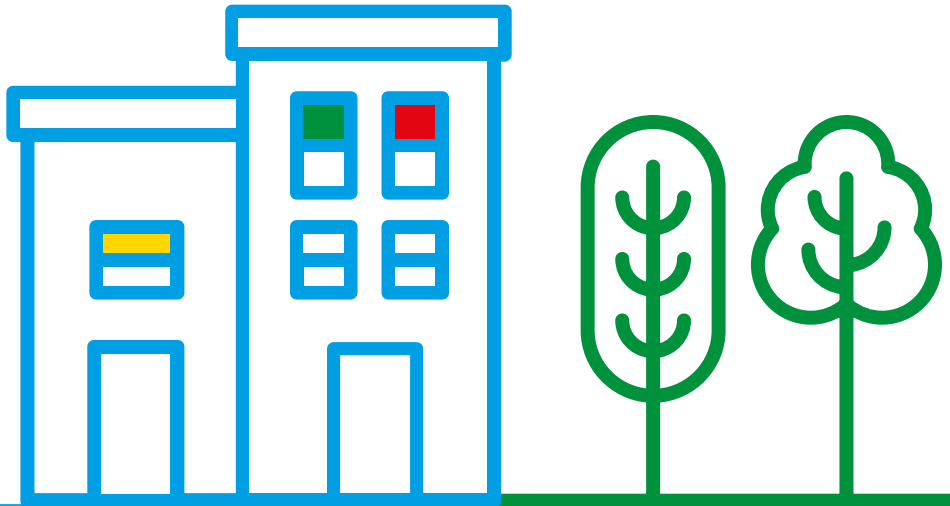
Doesn't grow on trees: BoMaD's funding

Many others would like to help or to give more, but they feel unable to do so. For parents and grandparents, the biggest barriers to lending or gifting money are a lack of income (20%) or a lack of savings (19%). Already, 15% of those who have lent or given money say they've had to accept a lower standard of living, meaning that while their loved ones may own their own home, they have had to give up luxuries in their own life. Additionally, 11% agree that they feel less secure in their future due to giving money. Over a quarter (26%) are not confident they will have enough to live on in retirement. Strikingly, 6% said they had postponed their retirement to enable them to help.

Despite these sacrifices, it's encouraging to see that there's little sign of reliance on the Bank of Mum and Dad leading to family conflict. Respondents who have received money from loved ones for a home purchase are most likely to say that it has not changed their relationship (38%), or that they just feel a debt of gratitude (37%). About one in ten (11%) said it brought them closer together. Still, though, a significant minority, 21%, said that asking their parents or grandparents for financial help to buy a property did make them feel uncomfortable or uneasy.

Among 'lenders', meanwhile, most grandparents or parents who have or would help financially say they're willing to do so simply because it is a nice thing to do (65%). Almost none (just 1%) said they felt others expected them to assist younger family members purchase a home.

Whatever other problems there may be with it, there's little sign BoMaD damages relationships between its lenders and borrowers, even if the latter are a little more likely to feel indebted (emotionally, rather than financially) as a result.



**More than a quarter (26%)
are not confident they will have
enough to live on in retirement
after gifting money**

Increasing help from the lifetime mortgage market

That's just as well, because we can expect the Bank of Mum and Dad to remain a feature of our housing market for years to come. There's little sign that the need for families' financial support will disappear any time soon.

Even if it is not damaging relationships, though, this means it's in everyone's interests to look for ways to ease the burden on those who do help. One way would be to make greater use of the financial tools already available. For those saving specifically to help others with a house purchase, there is clearly scope for greater uptake of Help to Buy or Lifetime ISAs. For many others, a lifetime mortgage – purchased with the support of a financial adviser with experience in the sector – could be a suitable option.

The over 50s in the UK currently hold about three quarters of the nation's housing wealth, with more than £2.8 trillion in equity.¹⁴ The total stock of housing wealth owned by "last time buyers", meanwhile, exceeded £1 trillion for the first time in 2018, up from £820bn in 2015, when we first analysed this market.¹⁵ And the UK's ageing population means this is likely to increase. By 2021 there will be 3.4 million Last Time Buyer households with a housing stock value of £1.2 trillion.¹⁶

The lifetime mortgage market provides the potential for households to access this housing wealth and, in the process, radically increase the funding available to BoMAD – without having to downsize. Among BoMaD lenders and potential lenders, nearly a fifth (16%) name lifetime mortgages as a funding source they would consider. More widely, 29% among those who haven't used equity release say they would be open to considering it.

With a majority of over 55s owning their own home, greater use of equity release could have a profound impact on opening up home ownership to more buyers. But it could also provide a more comfortable and colourful retirement for many older homeowners, who can see a range of possibilities if they had the money. Indeed, the most popular use or potential use that parents and grandparents see for lifetime mortgages is to free up cash while being able to stay in their own home, with 58% naming this as a reason for considering a lifetime mortgage. Others would spend it on renovations or big purchases like holidays or cars.

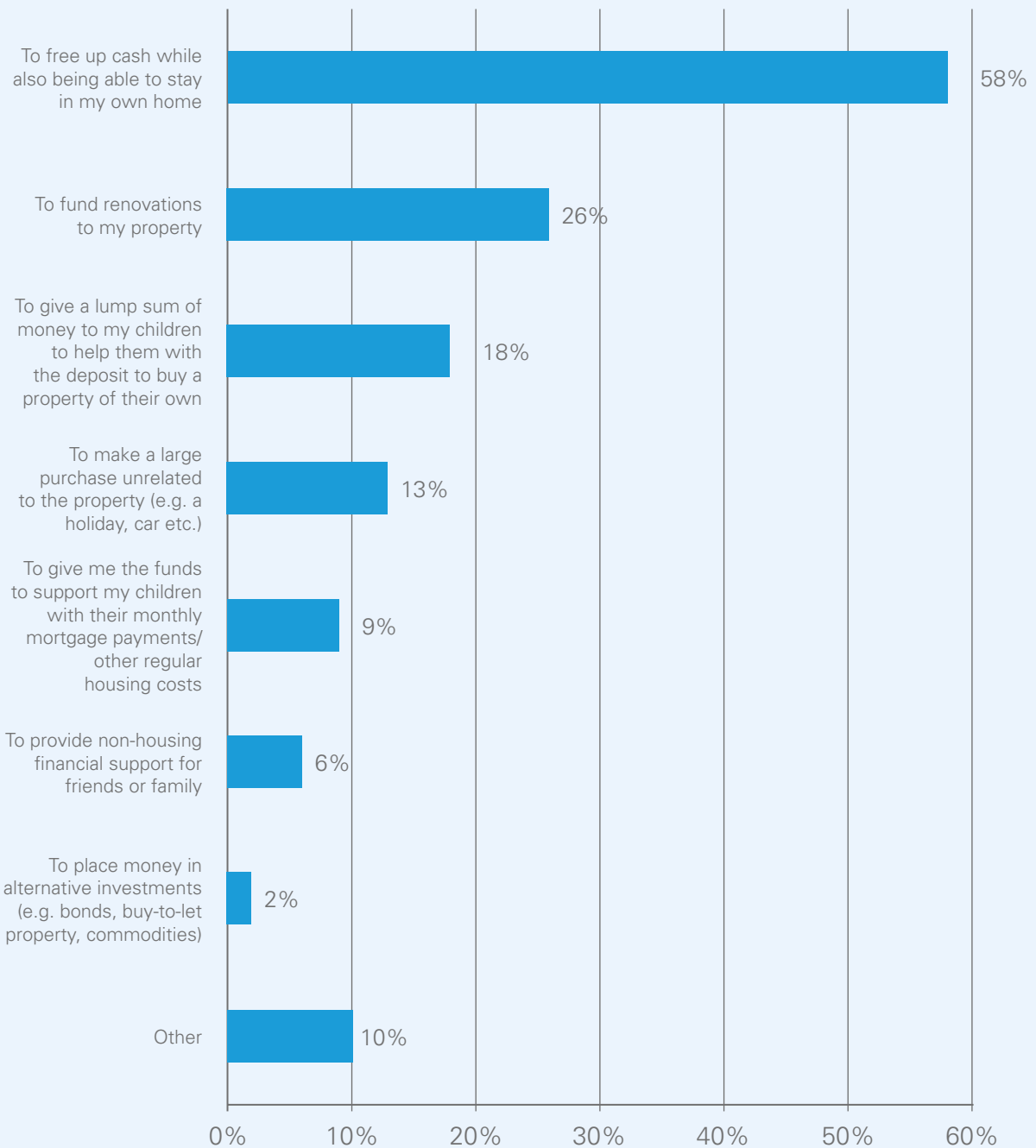
16% of 'lenders' named lifetime mortgages as a source of funding they would consider



14. <https://www.telegraph.co.uk/property/news/over-50s-hold-three-quarters-uk-housing-wealth>

15. <https://www.legalandgeneralgroup.com/media-centre/reports/last-time-buyers-1>

16. <https://www.legalandgeneralgroup.com/media/2437/30042018-lg-ltbs-draft-v9.pdf>



Reason for use of equity release for those who have or would use equity release and own their property

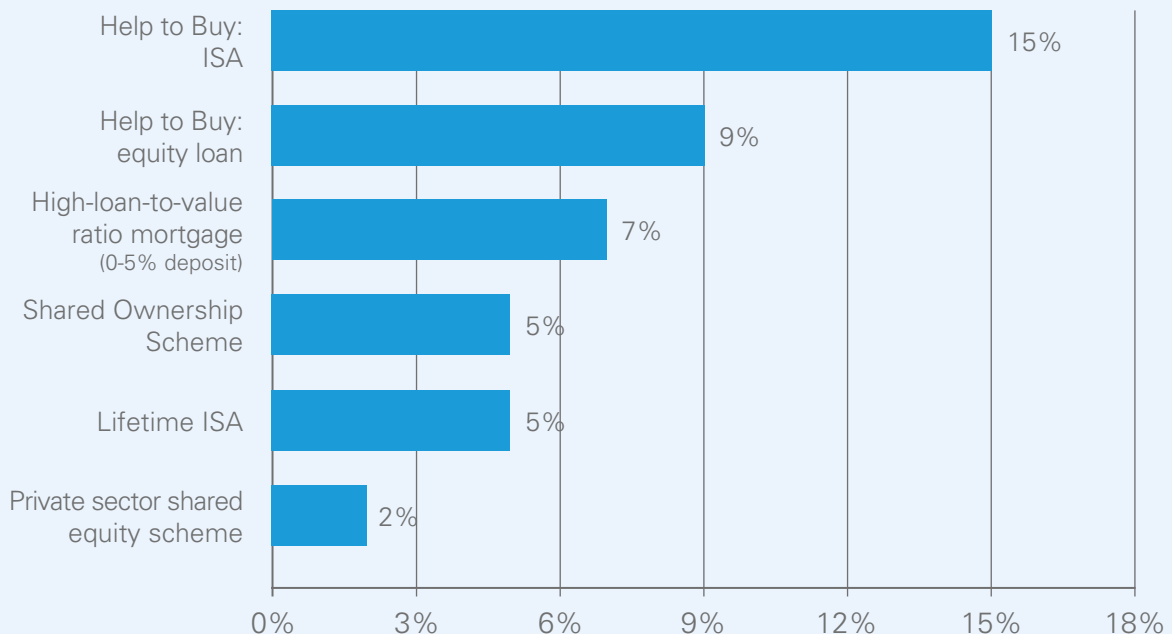
Source: Survey of 2,000 UK adults commissioned by Legal & General in April 2019, Cebr analysis

The need for advice

The big obstacle to greater use of equity release is still consumer education, however. Among those who have not used it there remains some confusion and uncertainty about how it works and what it offers.

The proportion of BoMaD lenders claiming to have a good understanding of equity release is lowest in precisely some of the key areas of the country where it could prove most useful. Just a third (33%) of parents and grandparents in London, for example, say they have a good knowledge of these products. In the South East, the proportion was only a little higher (41%). Only in the South West did a majority (albeit a slim one at 51%) say they had a good understanding of lifetime mortgages.

That's just one indication of how important access to good financial advice is. At the moment, fewer than a third of lenders (31%) say they did or would take professional financial advice before helping loved ones to buy. Increasing this number could help more lenders at least explore other ways of helping, including lifetime mortgages. It could also help ensure that buyers have considered all the options and alternatives – not just Help to Buy schemes, but shared equity schemes, high loan to value mortgage deals and lifetime ISAs. On the whole, these products still see relatively little use, with only Help to Buy ISAs seeing more than a 10% uptake.



Alternative house purchase schemes which recent buyers have used, or potential buyers would use

Source: Survey of over 1,500 UK adults commissioned by Legal & General in April 2019, Cebr analysis

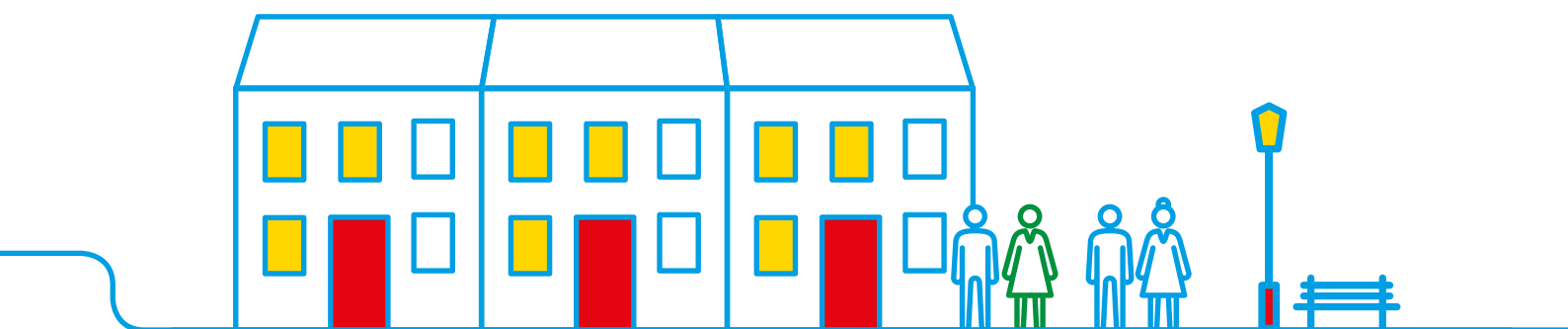
What does the future hold?

The Bank of Mum and Dad is a growing force in the UK housing sector – but friends and family can't be expected to solve this structural problem in the UK market in perpetuity. It is unrealistic and unfair to expect them to do so. For one thing, we are living longer and healthier lives than in generations past. This is good news for individuals and families – but it also means that retirement funding sources will need to work harder than ever, supporting retirements of several decades and much longer later life care needs. BoMaD lenders in the future could be more constrained by what they're able to lend. At the same time, the demand for BoMaD help is likely to increase, particularly when the Government's Help to Buy scheme comes to an end in 2023.

The challenges of the UK's housing market are not down to a lack of generosity on the part of existing homeowners; far from it. Without the help of older homeowners, friends and family, far fewer young people would be able to join them in enjoying the benefits of ownership. But if the dream of home ownership is to be a realistic aspiration for the many, rather than a privilege reserved for a few, the issues of supply and affordability relative to wages must be addressed. At the moment, we are running a fundamental imbalance between increasing demand for homes and persistently inadequate supply from new construction.

The Bank of Mum and Dad is playing its part to ease some of the symptoms, but it can't fix the problem. There is a need to increase the overall supply of housing, and not just for first time buyers; there also needs to be a greater focus on addressing the significant undersupply of housing designed and built for over 55s, including retirement villages. Supporting last time buyers – older homeowners who live in properties that are now too large for them, and who would like to downsize – is a key part of increasing housing stock accessibility for young people. To date, Government housing policy has failed to reflect both the scale of the challenge and the nuanced nature of housing demand.

If we're to treat the causes of the housing crisis rather than just the symptoms, we must deliver more homes across a range of tenures and types, increasing supply to deliver the properties needed by the UK's population – young, old and in between. Until that happens, however, the Bank of Mum and Dad will be a necessary part of the market. For everyone's sake, it needs to be careful to make the best use of its resources and protect its own interests as well as those it's trying to help.



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