The Bank of Mum and Dad: helping your kids without risking your own future

Family money now underwrites a huge share of first homes in Australia. Here is how to give real help without creating a legal, tax or retirement problem.

Helping an adult child into their first home is one of the most rewarding things a parent can do — and, increasingly, one of the most common. With prices where they are, a hand from parents is often the difference between a child buying in their twenties or thirties and not buying at all. Done well, an early leg-up can compound into a real head start over a lifetime.

It has also become big money. Taken together, parents now rank among the country's largest sources of home-deposit funding — an estimated $35 billion a year, by some measures around the fifth-largest lender in Australia. Yet most of that help changes hands on a handshake. The trouble almost never starts as trouble: it starts as generosity between people who trusted each other and never expected anything to go wrong.

$35bn	5th	$33k	75%
estimated family lending into housing each year	about where the Bank of Mum and Dad ranks among lenders	average parental contribution to a deposit	of parental help is given as a gift, not a loan

In a nutshell

- A gift and a loan are both perfectly legitimate. Problems come from ambiguity, not generosity — if it is not written down, the law generally presumes parent-to-child money is a gift.
- That matters if your child later divorces or goes bankrupt: an undocumented ‘loan’ can be swallowed into a property settlement or reached by their creditors.
- Helping can quietly damage your own retirement, Age Pension and borrowing capacity. Model the cost to you before you give.
- A properly drafted loan agreement — sometimes backed by a mortgage, a binding financial agreement, or an updated Will — is cheap insurance. Talk to us before any money moves.

Australia's fifth-biggest home lender

The scale of family lending is easy to underestimate. Research suggests a large majority of first-home buyers now receive some form of financial help from family to get in, with the average contribution sitting around $33,000 — and far larger sums common in capital-city markets. If the Bank of Mum and Dad were an actual lender, it would sit among the biggest mortgage providers in the country.

None of this is a reason not to help. It is a reason to help properly. The larger the sums and the more families involved, the more the informal approach — money transferred with nothing on paper — exposes both you and your child to risks that a small amount of planning would have removed.

Gift or loan? The law decides if you don't

The single most important decision is also the one most often left unspoken: is this money a gift or a loan? Both are fine. What causes damage is leaving it ambiguous — because if a dispute ever reaches a court, the law starts from a default position. Money passing from parent to child is generally presumed to be a gift unless there is clear evidence it was a loan.

And a loan on paper is not enough on its own. Courts have repeatedly treated a ‘loan’ that was never enforced — no interest, no repayments, no demand ever made — as a gift in substance, no matter what the document said. If it is a loan, it has to behave like one.

What the difference actually means

	If it's treated as a gift	If it's a genuine, documented loan
Your child divorces	The money is added to the asset pool divided with their former partner.	Counted as a debt the couple owes you, reducing the pool that gets divided.
Your child goes bankrupt	It is your child's money — reachable by their creditors.	You rank as a creditor; if secured by a mortgage, ahead of unsecured ones.
Getting it back	No right to repayment.	Enforceable on the agreed terms.
Centrelink	Assessed as a gift — deprivation rules can apply (see below).	Remains your asset as a receivable, assessed accordingly.
With no paperwork	The default: presumed a gift.	Hard to prove — and a loan never enforced is treated as a gift.

The risks parents don't see coming

When families picture what could go wrong, they picture their child failing to repay. In practice, the expensive surprises usually come from somewhere else entirely:

- Your child's relationship breakdown. This is the big one. Money you thought was helping your child can end up shared with a former son- or daughter-in-law — unless it was clearly structured as a loan and treated as one.
- Your child's financial trouble. If your child is a business owner, a guarantor, or simply unlucky, undocumented help can be reached by their creditors. A documented, secured loan gives you standing that a gift never does.
- Moving in, not just chipping in. A growing number of parents contribute their savings not for a deposit but for housing security — funding a granny flat or a ‘right to live here for life’ in a child's home. When the relationship sours, a parent with no documented interest can be left fighting to recover anything at all.
- Fairness between your children. Help given to one child, years before you die, is quietly forgotten by no one. Recording it — and dealing with it in your Will — heads off a dispute among siblings later.

Going guarantor: your own home is on the line

Instead of handing over cash, many parents go guarantor — using the equity in their own home as security so their child can borrow more, often avoiding lenders mortgage insurance. It can be a smart, low-cash way to help, but the risk is real and frequently understated: if your child cannot pay, the lender can pursue you, and ultimately force the sale of your home to recover the guaranteed amount. While the guarantee is in place it can also reduce your own borrowing capacity, which matters if you plan to downsize or renovate.

Two things make a guarantee much safer. First, cap it — limit the guarantee to a specific amount (often around 20 per cent of the loan) rather than the whole debt. Second, plan the exit: once the loan falls below about 80 per cent of the property's value, through repayments or price growth, the guarantee can usually be released. Go in knowing the number that gets you out.

Don't forget your own retirement

The most overlooked cost of the Bank of Mum and Dad is the one to the bank itself — you. Money out the door in your fifties or sixties is money not compounding for your own retirement, and topping it back up later is hard. Research suggests more than half of children who borrow from their parents are under financial stress, which is precisely when parents feel pressure to give again.

Watch the Age Pension gifting rules

If you are on, or approaching, the Age Pension, giving money away is not cost-free. Centrelink lets you gift up to $10,000 in a financial year, and no more than $30,000 over any five years, without affecting your pension. Give more than that and the excess is treated as a deprived asset: it stays in your assets test for five years from the date of the gift and is deemed to earn income over that period, as if you still held it. Forgiving a loan counts as a gift too, and gifts must be reported to Centrelink within 14 days. Timing a gift well — and knowing how it interacts with your pension — can be worth real money.

How to help well: the toolkit

None of this is an argument against helping your children. It is an argument for doing it properly. Depending on your family, some combination of the following turns a risky handshake into genuine, protected help:

Tool	What it does
Written loan agreement	Sets out the amount, any interest, the repayment expectation and what happens on default. This is the foundation everything else builds on.
Registered mortgage	Secures your loan against the property so it can't be sold out from under you, and ranks you as a secured creditor. Often overlooked, and powerful.
All owners as parties	If your child owns with a partner, both should sign the loan and acknowledge the security — not just your child.
Binding financial agreement	A formal agreement for your child's couple that can help quarantine your contribution from a future relationship split.
Update your Will	Record the loan, deal with what happens if you die before it's repaid, and consider fairness across your other children.
Keep the records	Bank evidence of repayments — and a letter of demand if one is missed — is what turns a ‘loan’ into a loan the courts will respect.

The bottom line

Helping your children into a home can be one of the best uses of your money — and one of the most satisfying. The families who regret it are almost always the ones who did it informally and then hit a divorce, a bankruptcy, or a falling-out no one saw coming. A modest amount spent getting the arrangement in writing at the start is trivial next to the cost, financial and emotional, of untangling it later. Decide clearly whether it is a gift or a loan, document it, protect it, and make sure it fits inside your own retirement plan — not at the expense of it.

We are here to help

If you are thinking about helping your children — or you already have — we can model what it does to your own retirement and cashflow, weigh gift versus loan, and work alongside your solicitor and accountant so the paperwork, the structure and your estate plan all line up.

Book a complimentary, no-obligation chat with us, or call the office on 0478 745 533.

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