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More Homebuyers Turn to Parents for Help

With many first-time and even move-up buyers strapped for down-payment cash, an increasing number of parents are helping their grown children buy a home — and taking an equity share in return.

Typically, parents put in cash to help the buyers amass a down payment of at least 20 percent. That allows buyers to qualify for a conventional 30-year fixed-rate mortgage. The equity sharers get back their initial stake plus 10 percent to 50 percent of the profits.

Generally, a written contract spells out that the home owners are responsible for mortgage payments and get the tax deduction that comes with it. The contract also specifies who pays the property taxes — often that's a 50-50 split. In some cases, the parent's name is on the loan. In others, it isn't.

Economist Andrew Caplin of New York University and a number of other experts are designing standardized shared-equity mortgages that would allow outside investors to buy a piece of the equity gain. Caplin estimates that about 25 percent of first-time homebuyers could find such arrangements attractive. One thing is certain: Investors in it for the money will extract stiffer terms than mom or dad.

Source: Business Week, Christopher Farrell (04/23/07)