The Bank of Mum and Dad

August 2020

Foreword

The Bank of Mum and Dad – like the rest of the country – has spent much of 2020 in lockdown. Whilst the housing market closure in March cut off 'BoMaD' lending at source, the 'bank' will still be behind 175,000 property transactions this year.

The Bank of Mum and Dad typically lends around £6bn, making it the equivalent of a top ten UK mortgage lender in a typical year. In 2020, it will 'only' lend £3.49bn. Parental contributions will average £20,000 this year (down from £24,000 in 2019) and BoMaD will support the purchase of some £50bn of property in 2020, compared to £70bn in 2019.

The role of parents and grandparents in supporting their loved ones onto the housing ladder remains vital. Just under a quarter (24%) of prospective borrowers say they're more reliant on help from BoMaD as a result of the pandemic. BoMaD's involvement in property sales will grow from 19% in 2019 to 23% in 2020, meaning it will support 174,982 separate property transactions this year. Generous parents, grandparents, family members and friends are gifting thousands towards deposits, with BoMaD outpacing even the recent stamp duty cuts as a driver of renewed housing market activity. Many of 2020's house purchases simply would not happen without the Bank of Mum and Dad providing some or all of the deposit.

Let us be in no doubt that the generosity of parents and grandparents carries a cost to their own financial futures.

A whole generation of buyers has grown up with the Bank of Mum and Dad being a 'normal' part of the housing market, when of course, the very existence of BoMaD is symptomatic of a broken market. Our young people have now been hammered with two 'once in a lifetime' events – the 2008 financial crisis and the 2020 Covid-19 crisis – and their hopes of affording a similar lifestyle to that of their parents' generation have long since receded into the distance.

Let us be in no doubt that the generosity of parents and grandparents carries a cost to their own financial futures. It is reassuring to see that 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. A fifth (21%) of 'lenders' (parents and grandparents) have seen their incomes fall as a result of the crisis and 12% have cut spending.

As we attempt to build back better in the aftermath of lockdown and the impact of the pandemic on the economy, disruptive thinking that challenges the way our housing market operates and how it is funded is needed. At Legal & General we are striving to play our part, working to bring positive change by investing in towns and cities throughout the country – delivering sustainable jobs, infrastructure and homes for communities across the UK. Our model of inclusive capitalism demands a focus on investing in a system that means more people are the beneficiaries of economic growth. This means using investments as a force for good – to create jobs and better infrastructure to transform cities and towns, tackling issues such as housing and ageing demographics.

A housing market divided by BoMaD 'haves' and 'have nots' is not a symbol of inclusive capitalism. While the world awaits a vaccine breakthrough, we can start work immediately on breakthroughs in the way we supply, fund and build housing in this country, and in doing so, secure a better future for our young people.

The Bank of Mum and Dad

Summary

This year's Bank of Mum and Dad (BoMaD) report reflects the reduced housing market activity as a result of the COVID-19 crisis.

Parents, grandparents, friends and family will still step in to help their loved ones buy. But job losses, lower pay and general economic uncertainty will mean the chances – and perhaps ability – to do so will be more limited than in previous years.

The number of transactions supported by BoMaD will drop by a third this year, and the value of support by £2.77 billion. And yet, the generosity of parents, grandparents and others, means that they will still give or sometimes lend £3.49bn this year – an average of £20,000 each – and support almost 175,000 house purchases.

That means that Bank of Mum and Dad will still be responsible for over £50bn worth of property transactions in 2020, and could well be a key driving force behind the recovery of Britain's housing market as buyers struggle with the economic impact of the pandemic.

The role of parents and grandparents in supporting their loved ones is becoming more important than ever. That's true for those buying, with a quarter (24%) of prospective borrowers saying they're more reliant on help as a result of the pandemic. And it's true for the housing market recovery overall. BoMaD's involvement in property sales has actually grown, from 19% in 2019 to 23% in 2020, and this year it will support purchases of property worth £50.3bn. Many of these would not happen without it.

134,100

Number of property purchases supported by mum and dad

19,700

Number of property purchases supported by gran and grandad

21,100

Number of property purchases supported by other family/friends

Number of UK residential property purchases supported by family members and others in 2020.

Source: Cebr analysis, YouGov survey

One other point is important to note: This help comes at a time when BoMaD is hurting, too. As this report outlines, the over 55s have been far from immune to the economic impacts of the pandemic. Many face job losses, lower pay or a hit to their savings and pensions.

Yet, while regular lenders withdraw from high loan-to-value mortgages, the Bank of Mum and Dad responds with even greater generosity. Even among those who've seen their incomes decrease as a result of the crisis, three quarters (74%) say they are no less willing to support their children or grandchildren. Overall, 15% of BoMaD lenders say they would give more than before the crisis, against 4% giving less. Of those lenders who would give a different amount to loved ones post-crisis, a fifth (22%) said that they would give 20% more, while 12% said that they would give 50% more.

In order to finance their BoMaD lending activities, a significant portion (27%) of lenders are using inherited funds to help their children and grandchildren onto the ladder. In these cases, inheritance is in effect skipping a generation and acting instead as an intergenerational gift.

Much of the government response to the pandemic – including the Stamp Duty holiday and, more importantly, the furlough scheme – may have merely delayed its worst impacts on the housing market. The kindness and willingness of parents and grandparents to step in and help their loved ones buy, however, is genuinely reducing its severity and helping keep the dream of homeownership alive for many young buyers. In the months and years ahead, it's likely to be central to the market's recovery, too.

£38,561

Value of property purchases supported by mum and dad

£5,676

Value of property purchases supported by gran and grandad

£6,068

Value of property purchases supported by other family/friends

Aggregate value (£m) of UK residential properties bought with the financial help from family and friends in 2020.

Source: Cebr analysis, YouGov survey

Housing market recovery

The Stamp Duty holiday announced by the UK Chancellor in July will save homebuyers up to £15,000[1] on their house purchase until March 2021. On the average UK house price of about £235,000,[2] no stamp duty will be paid at all, whereas previously it kicked in at £125,000 (or £300,000 for first-time buyers). However, it will take more than this tax break to revive the housing market from the shock of lockdown.

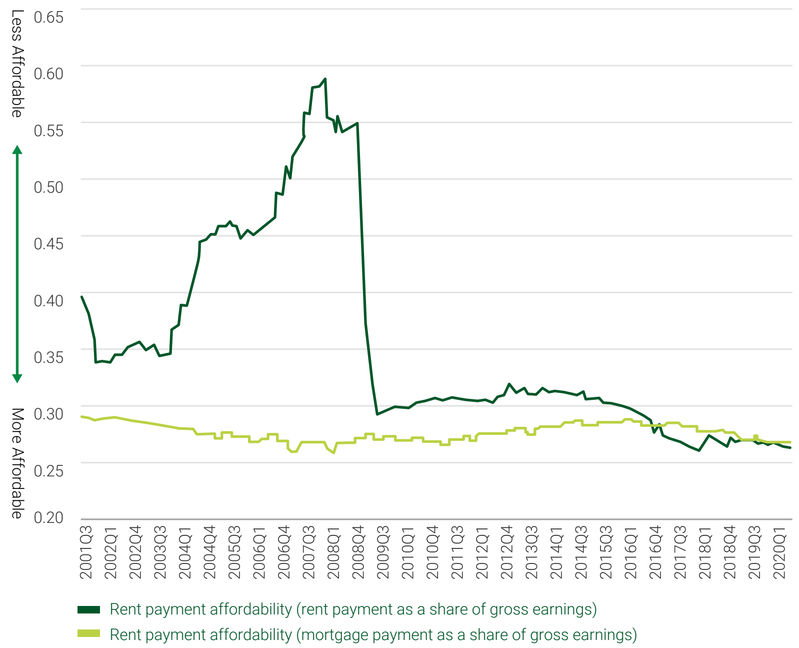
Despite this, the housing market is showing early signs of recovery. Data from HMRC shows that whilst UK residential property transactions in July 2020 were 27.4% lower than in July 2019, the numbers are already 14.5% higher than June 2020.[3]

The generosity of the Bank of Mum and Dad will be key if this fledgling recovery is to really take root. Whilst 53% of prospective buyers claim the coronavirus crisis has not caused them to change the timeline of their plans to buy a home, a quarter (24%) of prospective BoMaD borrowers said that they are now more reliant on funding from loved ones for their future home purchase.

1. The maximum saving is realised by those buying properties of £500,000 and above.
2. https://landregistry.data.gov.uk/app/ukhpi#:~:text=Current%20index,compared%20to%20the%20previous%20year.
3. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/910642/MPT_Com_Aug_20__cir_.pdfhttps://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900759/Forecomp_July_2020.pdf

A double-edged sword

Affordability remains the perennial problem in UK housing. In 2019, someone in full-time work would have to spend 7.8 times their annual income to purchase a home on average.[4] As ever, the problem for many is not the mortgage payments. Many potential purchasers are already paying rent, and low interest rates usually make repayments cheaper (see graph).



Affordability of rent vs mortgages.

Source: Office for National Statistics, Cebr analysis

Instead, it's the deposit. According to one study, first-time buyers in 2019 typically needed a deposit of over £46,000; in London, it was over £100,000.[5] On the average UK salary of a little over £30,000,[6] that's a tall order.

In theory, a decline in values could help reduce the amount required to buy. On the other hand, with rising unemployment, even those who keep their jobs face increased uncertainty and a lower likelihood of wage rises (outside the public sector). Moreover, increasing doubts over the speed of the UK's economic recovery[7] is seeing lenders be more cautious about offering mortgages with a high loan to value ratio.[8]

It might be a buyer's market, but the economic outlook is far from ideal for those looking to purchase.

4. https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2019
5. https://www.which.co.uk/news/2020/02/how-big-a-deposit-do-you-need-to-buy-property-where-you-live/
6. https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/2019
7. https://www.ft.com/content/2c9d168b-99d2-46e8-8952-0a89bdf64cd0
8. https://www.ftadviser.com/mortgages/2020/08/10/warning-high-ltv-shortage-could-drive-down-house-prices/

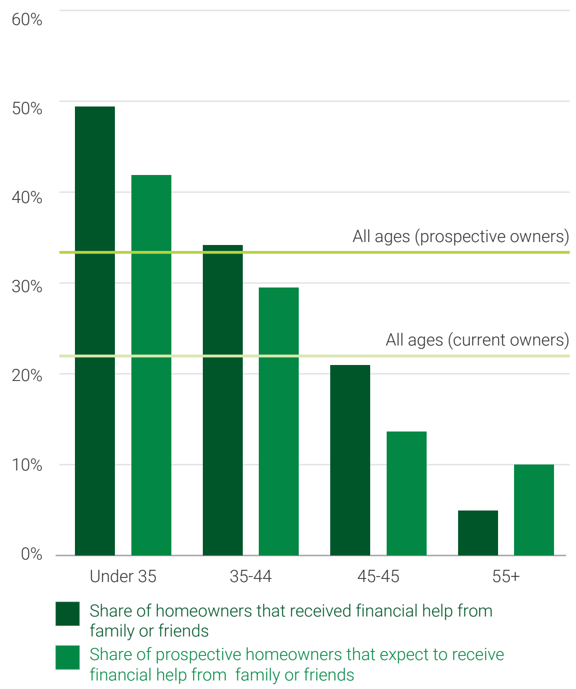
Bomad – A big fish in a smaller pond

In practice, this means the Bank of Mum and Dad will be less busy but more important than ever in 2020.

On the one hand, activity in the housing market is likely to slow. From April to the end of June, government data shows transactions fell by nearly half compared to the same months last year.[9] With far fewer transactions happening overall, the number of purchases supported by parents, grandparents and other family and friends will fall. This year, the Bank of Mum and Dad will fund 85,000 fewer transactions than it did in 2019 – a reflection of the profound hit taken by the economy. Consequently, the overall amount lent will fall by about 44% to £3.5 billion, compared to £6.3bn in 2019.

On the other hand, the contribution of those helping loved ones to buy is crucial. On average they will lend £20,000 each this year – close to half the typical deposit. Furthermore, of the sales that do occur a greater proportion are likely to be facilitated by gifts. In our survey of recent buyers, 23% said they'd received help from friends and family, compared to 19% last year. Among buyers under 35, it was almost half (49%), and it was much higher in London, too (see the regional picture, below).

Reliance on the Bank of Mum and Dad will continue going forward, too, regardless of any falls in prices that we see. Among the under 35s planning to buy in the next five years, 42% said they expected to receive financial help from family or friends. The same was true for 29% of those aged 35 to 44, too.



Counting on the Bank of Mum and Dad: Support from family and friends among recent and prospective purchasers.

Source: Cebr analysis, YouGov survey

9. https://www.gov.uk/government/statistics/monthly-property-transactions-completed-in-the-uk-with-value-40000-or-above

For most of these buyers this support is critical:

65%

of people who recently bought a house with BoMaD assistance said that it would be not that likely, or not likely at all that the purchase would have gone ahead without help.

19%

said they would have had to delay their purchase by more than five years

14%

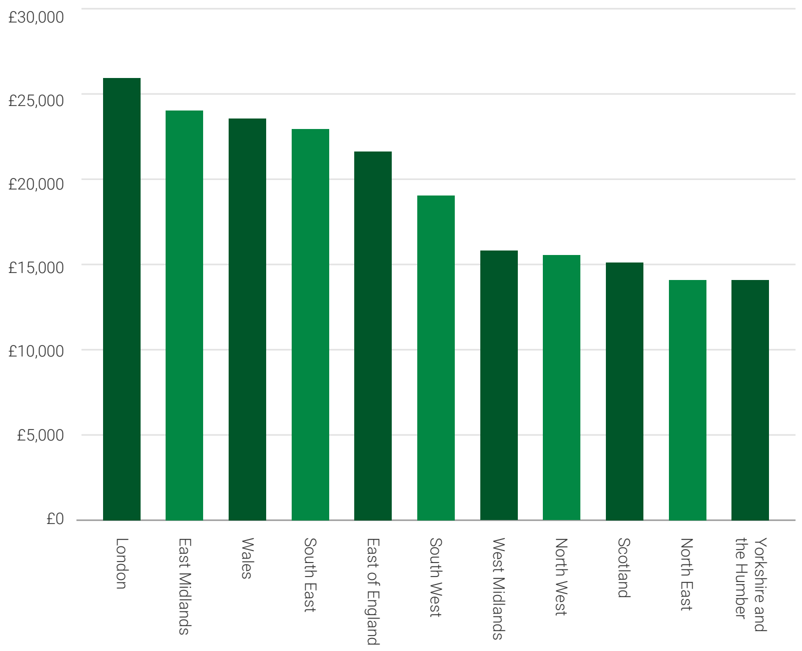
said they would never have been able to buy their home without help.

£50bn

In the current year alone, this help will fund purchases of property worth an estimated £50bn. In the years to come, it will play a central role in the recovery of the UK housing market.

The regional picture

It is not surprising that those in London are given more by parents and grandparents to buy. The average first-time buyer property in the capital cost almost £400,000 in 2019.



Average BoMaD contribution by region.
Source: Cebr analysis, YouGov survey

Four in ten (41%) buyers in the capital get support and BoMaD lenders give an average of £25,800 – the highest anywhere in the UK. Similarly, high priced areas like the South East and East of England see parents stumping up even more than the average £20,000 to help their children to buy.

But there's no simple correlation between prices and help: BoMaD lenders in the East Midlands and Wales, both with average property prices well below the UK average[11] also dig especially deep, giving £24,100 and £23,900, respectively, on average.

Likewise, while recent buyers in London were much more likely to have received help, fewer than average in the South East were supported. The share of prospective homeowners expecting to receive help in future also has little correlation to regional variations in house prices or even average earnings.[12]

Perhaps the best way to explain the differences is the simplest: That most buyers could do with some help when they purchase property; and that parents and grandparents do what they can, when they can.

10. https://www.which.co.uk/money/mortgages-and-property/first-time-buyers/buying-a-home/buying-a-house-or-flat-in-london-arf8g3r8sxpp#:~:text=In%20London%2C%20the%20average%20first,137%2C900%20and%20%C2%A3123%2C756%20respectively.
11. https://www.gov.uk/government/news/uk-house-price-index-for-january-2020
12. https://commonslibrary.parliament.uk/research-briefings/cbp-8456/

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Sharing the pain

One thing the Coronavirus hasn't changed is the appetite for homeownership. Where they can, prospective buyers remain keen to press on with their ambitions to buy. Over half (53%) say the pandemic hasn't made a difference to their homeownership plans. On the other hand, one in five (21%) say they have pushed back their purchase – and 16% by over a year.

Regardless of whether their plans were delayed, a quarter (24%) of prospective buyers said they were now more reliant on funding from loved ones to buy. With the pandemic's full impact on jobs and pay yet to be felt, these figures could grow.

But it's not just BoMaD's borrowers hit by the crisis. Those providing the funding are also likely to see their finances suffer. According to the UK's financial regulator, the FCA, the over 55s have experienced a significant fallout. They're as likely as any other age groups to have been furloughed or lost their jobs. They're also more likely to have seen reduced hours and pay, and experienced bigger drops when they do.[13]

Impact of Coronavirus on prospective buyers' plans.

Source: Cebr analysis, YouGov survey

3% Pushed back their home purchase by 5 or more years

13% Pushed back their home purchase by 1 to 4 years

5% Pushed back their home purchase by less than a year

53% Plans to buy their next house have not changed

4% Have brought forward their home purchase by less than one year

6% Have brought forward their home purchase by 1-4 years

2% Have brought forward their home purchase by 1-4 years

13% Don't know

Younger workers face a severe blow and impaired employment prospects, the FCA report concedes, but they're not alone in suffering. "[O]lder workers who are not yet retired have also been impacted disproportionately and some are now confronting real financial hardship and challenges ahead," it adds.

Those who have retired, meanwhile, have seen interest rates further cut to a record 0.1% since March, and significant volatility in investment markets. Overall, the Cebr/Yougov survey found that one in five (21%) over 55s had seen a reduction in their income due to the pandemic.

Average earning loss by generation

Source: National Institute of Economic and Social Research/FCA

-19% Millennials

-16% Generation X

-23% Baby boomers

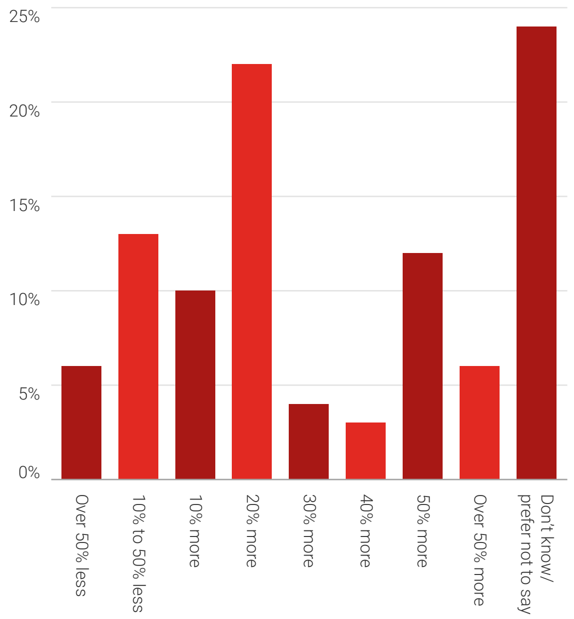
13. https://www.fca.org.uk/insight/coronavirus-and-intergenerational-difference-emerging-picture

Digging deep

Despite this, the generosity of BoMaD lenders remains undimmed. In fact, of those BoMaD lenders who have seen their income fall, three quarters (74%) said it had made them no less willing to help their loved ones buy.

More generally, 71% of parents and grandparents over 55 said the virus made no difference to how much they'd be willing to give. A further 15% even said they'd give more, against just 4% who would give less. In some cases, the Bank of Mum and Dad is willing to provide considerably more. That may be to make up for reduced savings and tighter lending criteria from high street lenders, or just to provide extra support in highly uncertain times.

Even among those over 55s unable or unwilling to help with a house purchase, more than one in ten (12%) still intend to support family or friends financially in other ways. Some of the rest have their savings set aside for their own big purchase, such as a car or holiday. More often, the reason for not helping is that they need the money they have for everyday expenses or even to pay off debt. In a shockingly high number of cases (32%), there are no savings.



Change in amount lenders would give due to coronavirus pandemic, compared to before, for those who would give a different amount.

Source: Cebr analysis, YouGov survey

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Keeping it to themselves: What grandparents and parents not giving money for a home purchase intend to do with their savings.

Source: Cebr analysis, YouGov survey

25% to cover everyday expenses/supplement my income

19% for refurbishment of my own property

15% to purchase a one off item for myself (e.g. a car or holiday)

12% to financially support my family/ friends in other ways

5% to make an investment(s) (e.g. in shares etc.)

3% to purchase a property for myself

2% to save into a pension for retirement

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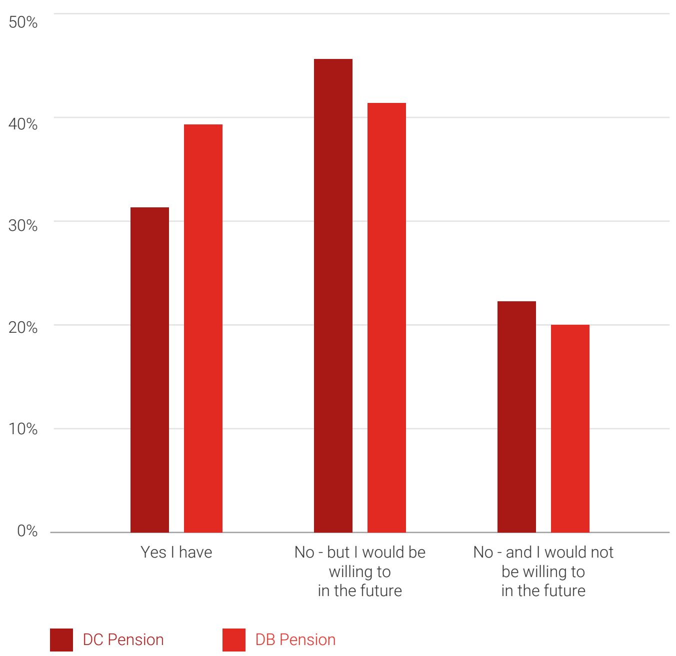
Nervous bank managers

It is probably not surprising given recent turbulence that those with the certainty of a final salary pension are more likely to have already given money to fund a house purchase. At the same time, though, those with defined contribution schemes are more likely to say they will do so in future. Perhaps, in the end, it will all even out.



Lending by pension type.

Source: Cebr analysis, YouGov survey

Nevertheless, recent events have made many of the over 55s more cautious. While 55% say the pandemic has made no difference to their retirement plans, for many others it's had a profound impact:

15%

say they value the security of their pensions or investments more

12%

have cut back on their expenditure in retirement because they're concerned about their savings and investments

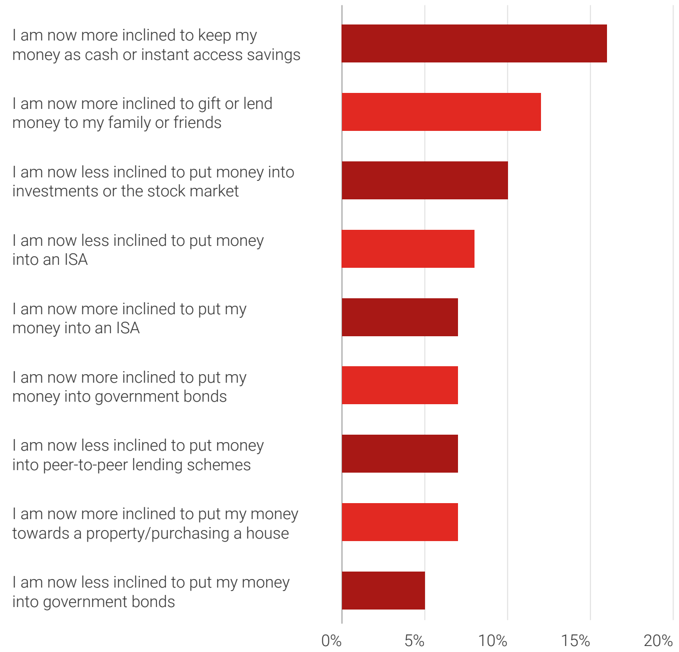
9%

say they're worried even if they've not yet made changes to address their concerns

3%

are planning on delaying retirement to save more.

Market turbulence, which saw the FTSE 100 fall to under 5,000 in March, has also left some less inclined to put money into shares, and more prone to keep it accessible in cash.



Changing attitudes to finances among over 55s as a result of Coronavirus.

Source: Cebr analysis, YouGov survey

Eggs in one basket

In the short term, at least, these changing attitudes could be good news for those looking for help from the Bank of Mum and Dad. If nothing else, 12% say the crisis has made them more inclined to gift or lend money to family or friends. After all, with interest rates of 0.1%, savings are not producing much of a return.

The decision to keep money in cash may also benefit BoMaD borrowers. Cash savings are the most common source of funds used by the over 55s to help others buy – preferred by 39% of those helping. That dwarfs the numbers who use or would consider using investments (16%) or their pensions savings (10%) to help finance a loved one's property purchase. In theory, then, more money in cash savings means more funding ready for lending by the Bank of Mum and Dad.

In practice, though, we face massive economic uncertainty in the coming months, not just from the pandemic, but from the end of the Brexit transition period at the end of the year, too. Both could have a significant impact on the finances of BoMaD lenders in the future.

We've already seen the effect of the crisis on some of those over 55s who are still working. As many of as a quarter of a million, according to some reports, may never work again.[14] Those with significant pensions money or investments in shares, meanwhile, face significant volatility for the foreseeable future. Those with savings mostly in cash, must contend with low interest rates and little clarity from experts as to how inflation could erode their savings in coming months and years.[15]

Demand for funding from the Bank of Mum and Dad is as strong as ever, and even increasing. The strain of meeting it could get harder to bear, and there will be an increasing need for the over 55s to consider all their options.

Where the money comes from: How BoMaD lenders have or would choose to fund help for property purchases.

Source: Cebr analysis, YouGov survey

39%
My cash savings (non-ISA)

12%
Downsize my home

27%
Inheritance

10%
My pension savings

22%
Money from an ISA

6%
Equity release on my own home

16%
My general investment portfolio

5%
Take out a loan

5%
Re-Mortgage my home

14. https://www.telegraph.co.uk/money/consumer-affairs/quarter-million-over-50s-will-never-work-coronavirus/
15. https://www.thetimes.co.uk/article/inflation-outcome-holds-key-to-the-economic-legacy-of-the-pandemic-0qwdtm6lr

Financing options for the bank of mum and dad

Some will continue to wait to pass on their money when they die. If the beneficiaries rely on this to buy, though, we will see the age of first-time buyers continuing to rise. Given an average age of 28 for first time mothers in the UK[16] and female life expectancy at birth of about 83,[17] a crude calculation puts the typical orphan in his or her mid-50s.

Others will continue to rely on cash savings, ISAs or other investments – with the potential problems those bring. Options such as equity release remain significantly underutilised, with just 6% opting for this, down from 16% last year. It's even lower in London (3%), where property prices are highest, though higher in the South East (11%). The additional tax-free allowance for main residences under inheritance tax rules probably has something to do with this. Nevertheless, it remains striking to see so few draw on what is usually their main asset.

The real solution, though, remains tackling not the supply of BoMaD funding but the demand. The crisis makes it more important than ever to address the affordability crisis in the UK housing market. A generation at the very start of their careers faces a tougher jobs market and years of uncertainty ahead. We must try to keep the prospects of home ownership alive. And it must be an ambition not wholly reliant on the generations ahead – who may find they face significant challenges of their own.

16. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/livebirths/bulletins/birthcharacteristicsinenglandandwales/2017#:~:text=The%20average%20age%20of%20first,or%20subsequent%20births%20in%202017.
15. https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/bulletins/nationallifetablesunitedkingdom/2015to2017#:~:text=1.-,Main%20points,and%2082.9%20years%20for%20females.

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