WHAT'S YOUR ROLE?

→ Think twice before helping adult children buy property

When many young adults buy their first home, they get financing from the Bank of Mom & Dad. In 2014, 26 percent of first-time homebuyers received a gift of money, while another 6 percent received a loan from a family member, according to the National Association of Realtors.

While helping your family may seem like a no-brainer, I advise my clients to do the opposite: Put some serious thought into whether helping your adult child buy a home is a smart financial decision and how to go about it.

The first question for parents to answer is: *How secure are your finances?* You shouldn't give or loan money without knowing you can live without it being paid back. This is especially important if you're close to retirement, when you'll have to live off your savings and investments.

Think of it this way: Children will likely have another opportunity to buy a home, but parents might not have another chance to catch up on retirement savings.

The second question is: *Why does the adult child need financial help?* Parents should look into their children's finances as well as their own. Before you agree to help, ask your kids to see their credit scores, paychecks and credit card debt. If children are struggling with their money, helping them buy a home that's beyond their means may just get them into more financial trouble.

If both parents and kids have a solid financial picture and parents decide to help out, consider the following options:

Give a gift

Giving cash for a down payment or closing costs is the simplest way for parents to help their children. Parents can give up to $14,000 directly to their child in 2016 without having to pay the federal gift tax.

Both spouses can give $14,000, for a total of $28,000. If you do give the money as a gift, write a letter saying you don't expect to be paid back.

Family loans

If you prefer to loan the money, put everything in writing to make sure there are no misunderstandings. Your written agreement should specify the terms of the loan, including a timeline, a schedule for making weekly or monthly payments and what happens if the loan goes unpaid.

Even if your goal isn't to make money, charge at least the minimum interest rate set by the IRS, which is published monthly, to avoid tax consequences.

Co-signing the mortgage

This is an option when the adult child's income is too low to qualify for a mortgage on the home they want. A word of caution for parents considering co-signing a loan: Such a move could impact your finances as well. The mortgage will show up on your credit as an outstanding loan, which could impact your ability to refinance or buy another home. Keep in mind, if the child can't pay off the mortgage, it becomes your responsibility.

Before making any decisions, it's important to sit down with a financial professional who can help you run the numbers to determine what's best for you and your family. You may also want to consult your tax preparer about potential tax implications.

Finally, make sure everyone in the family is on the same page to avoid any conflict. Set family meetings and put everything in writing. Don't allow money to be the source of conflict; after all, this could be the home where you watch your grandchildren grow up.

Skip Johnson is an advisor at Great Waters Financial, a financial-planning firm and Minnesota insurance agency in New Hope. See greatwatersfinancial.com. Skip also offers investment advisory services through AdvisorNet Wealth Management, a registered investment advisor.