

Bank of Mom and Dad

Funding the American Dream of Home Ownership for
1.2 Million Next Gen Buyers



Charity Begins at Home: The Role of Bank of Mom and Dad in U.S. Housing

It has millions of satisfied customers, has never asked for a bailout, and really cares about its borrowers: As a home loan lender in the United States, the Bank of Mom and Dad stands alone.



A new report sponsored by Legal & General Group shows that family and friends are a major force in the U.S. housing market, supporting the purchase of \$317 billion worth of property across America in 2018. That's 1.2 million homes, with one in five U.S. homeowners receiving gifts or loans to help them buy. If it really were a business, the Bank of Mom and Dad (BoMaD) would be a top ten mortgage lender, the seventh biggest in America.

Most of that money comes from parents, but grandparents and even other family and friends play a part to help loved ones buy their own home. And the sums they offer are substantial – an average of \$39,000 each – and most commonly that is given as a gift, or otherwise as an interest-free loan.

As our survey shows, many “lenders” are giving until it hurts – putting off retirement or accepting a lower standard of living in their golden years to help the next generation.

But we can celebrate that generosity while worrying about the need for it. For many, perhaps most, young adults, buying a home without help is increasingly unaffordable. More than half (51 percent) of

prospective owners under the age of 35 now expect to have help to buy from family or friends. Of those who have already bought, a similar proportion say they would have had to delay buying for at least three years without it.

With median housing prices in the U.S. at over \$300,000 for most of the last three years, the deposit required to buy puts home ownership out of reach for increasing numbers.

That means those without families who can afford to help are at a significant disadvantage, but it also puts a significant strain on those families who do put money up. Many have already provided tens of thousands to help pay college bills: More than half (52 percent) of college graduates who recently bought a home received help from friends or family while at college, too – receiving an average of \$41,500.

It's not just home loans: The Bank of Mom and Dad is a big player in student loans, too.

It all comes at a cost, though. More than half (54 percent) of BoMaD lenders rely on their cash savings to help their children or other family buy, but others

draw on a range of sources. That may mean taking a loan themselves (15 percent), drawing money from their IRA or 401(k) savings (8 percent each), or downsizing their own home (6 percent).

In our survey, more than one in seven (15 percent) say that they've had to accept a lower standard of living as a result of lending money to younger generations. Almost the same number (14 percent) say they feel less secure about their own future due to their efforts to help loved ones. This means that, at the very time when older workers and retirees are planning or enjoying their retirement years, they're having to make real sacrifices to help secure the future of their children and grandchildren, too. Of those who have helped younger buyers, 7 percent say they actually had to postpone retirement.

The generosity of these families has probably not yet reached its limits. The survey shows they are willing to go to considerable lengths to help the next generation buy a home, and there are still avenues to explore. Few so far have used reverse mortgages to release the equity in their own homes, just 2 percent of the over 55s, for example. That's a market that is likely to see growth in future and

could fund more purchases in the years ahead. But it is treating the symptoms rather than the cause of the problem: a significant shortage of affordable housing in key U.S. markets.

Until that is addressed, the Bank of Mom and Dad will continue to play a crucial role in the dreams of home ownership for millions of young Americans.

More than half (54 percent) of BoMaD lenders rely on their cash savings to help their children or other family buy



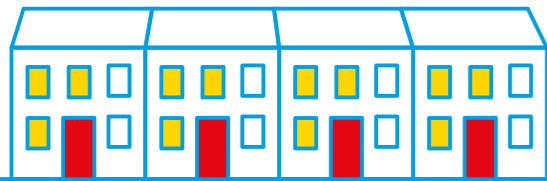
Introduction: U.S. house prices – Out of reach

“The secret of getting ahead is getting started,” according to the maxim, but when it comes to the housing market, getting started is often the hardest part – perhaps more so now than ever.

The average home prices in the U.S. in the second quarter of 2018 was almost \$310,000, according to

the Federal Housing Finance Agency. That compares to a peak of \$257,400 before the financial crisis last decade. Following a slump in the years after 2007, home prices have been rising again since 2012, and at more than 4 percent year-on-year for the last five years. In the first half of 2018, prices grew at more than 6 percent.

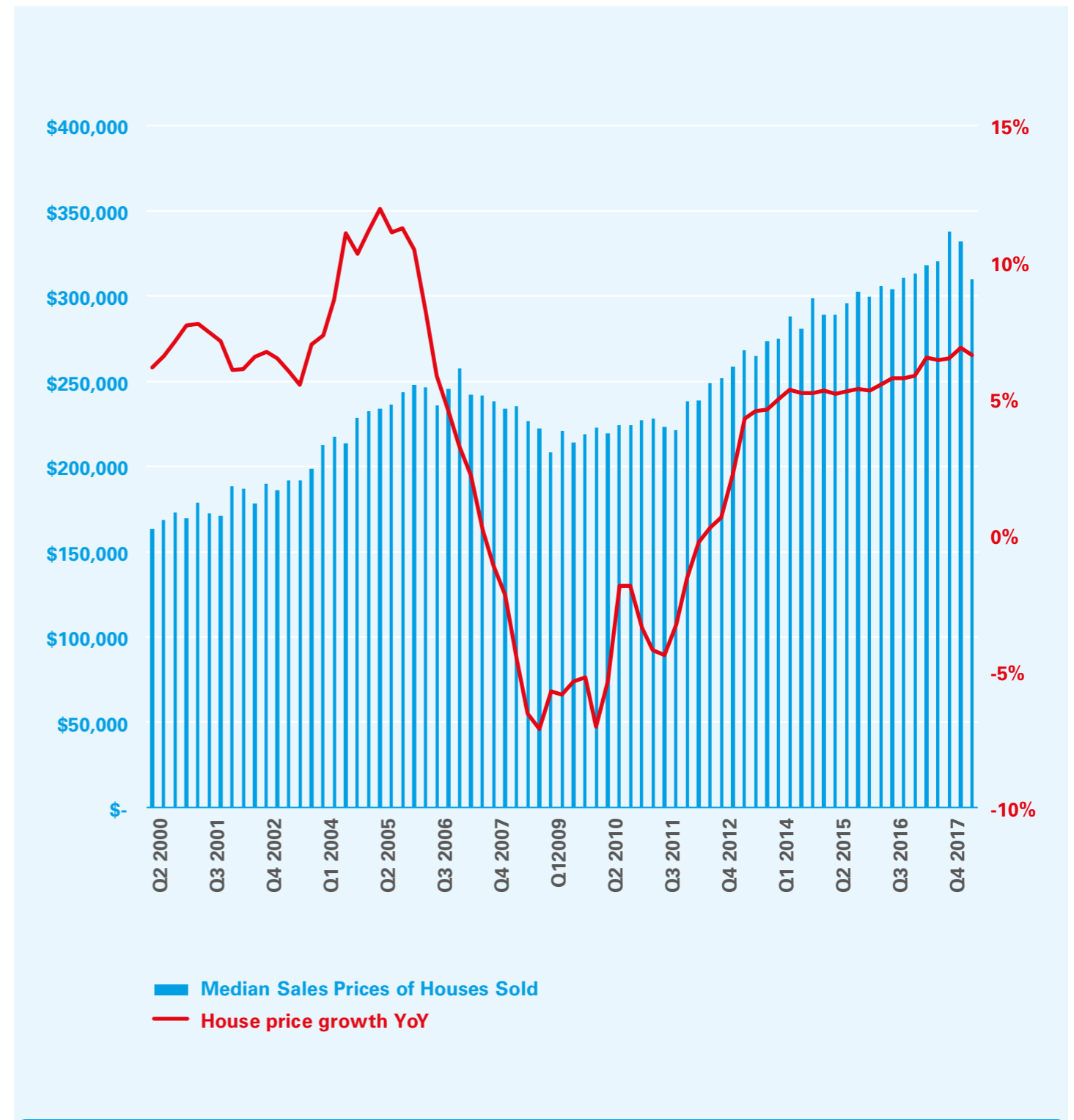
Average U.S. house price:
\$310,000



new home sales in September 2018 plunged to their lowest level in almost two years

Those are figures that dwarf wage growth in the U.S., which was only 2.9 percent in September 2018 – and that was a nine-year high.¹ It’s the “missing component of the economic recovery” in the U.S., according to commentators.² Combined with regular interest rate hikes from the Federal Reserve since the end of 2015, the result is that housing affordability has significantly declined in the last five years. The cost of servicing mortgage debt as a percentage of income in metropolitan areas rose to 17.5 percent in the second quarter 2018, up from 12 percent in the final quarter of 2012.

The real killer for most is the down payment, though. In order to qualify for a conventional loan, many banks still require a down payment of 20 percent of the home value. Even government backed Federal Housing Administration loans require a 3.5 percent down payment: almost \$11,000 on the average home price. Meanwhile, savings accounts in American households have a median balance of just \$7,000.³ Other surveys have found that a majority of adults don’t even have \$1,000 in savings.⁴



Median U.S. home prices (left hand side) and year-on-year housing price index growth rates (right)

1 <https://www.reuters.com/article/us-usa-economy/u-s-job-growth-surges-annual-wage-gain-largest-since-2009-idUSKCN1LN0BG>
 2 <https://www.cnbc.com/2018/07/31/worker-pay-rate-hits-highest-level-since-2008.html>
 3 <https://www.valuepenguin.com/banking/average-savings-account-balance>
 4 <https://www.gobankingrates.com/saving-money/savings-advice/average-american-savings-account-balance/>

A generational divide

The challenge is particularly acute for the millennial generation, many of whose members came of age (and into the job market) in the post-crisis years. Some have never known anything but near stagnant wage growth and fast increasing property prices.

In the early years of their career (with correspondingly lower pay), many also contend with significant college debt:

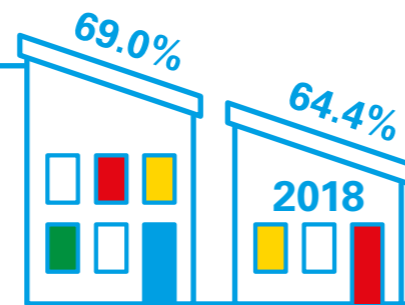
- Our survey finds that a quarter (25 percent) of college graduates who don't own their own home are more than \$30,000 in debt
- Over half of those who don't own their home agree that their college debt makes it much (35 percent) or slightly (21 percent) harder to save for a home purchase
- In practice, this means those who graduate without debt are much more likely to own their home than those who don't (51 percent versus 39 percent).

As a result, many millennials have effectively given up on owning their own home – at least in the near term. Of those under 35 who don't already own, 43 percent say they don't expect that to change in the next five years – most often (40 percent) because it's simply not feasible to save for a down payment in that time frame.

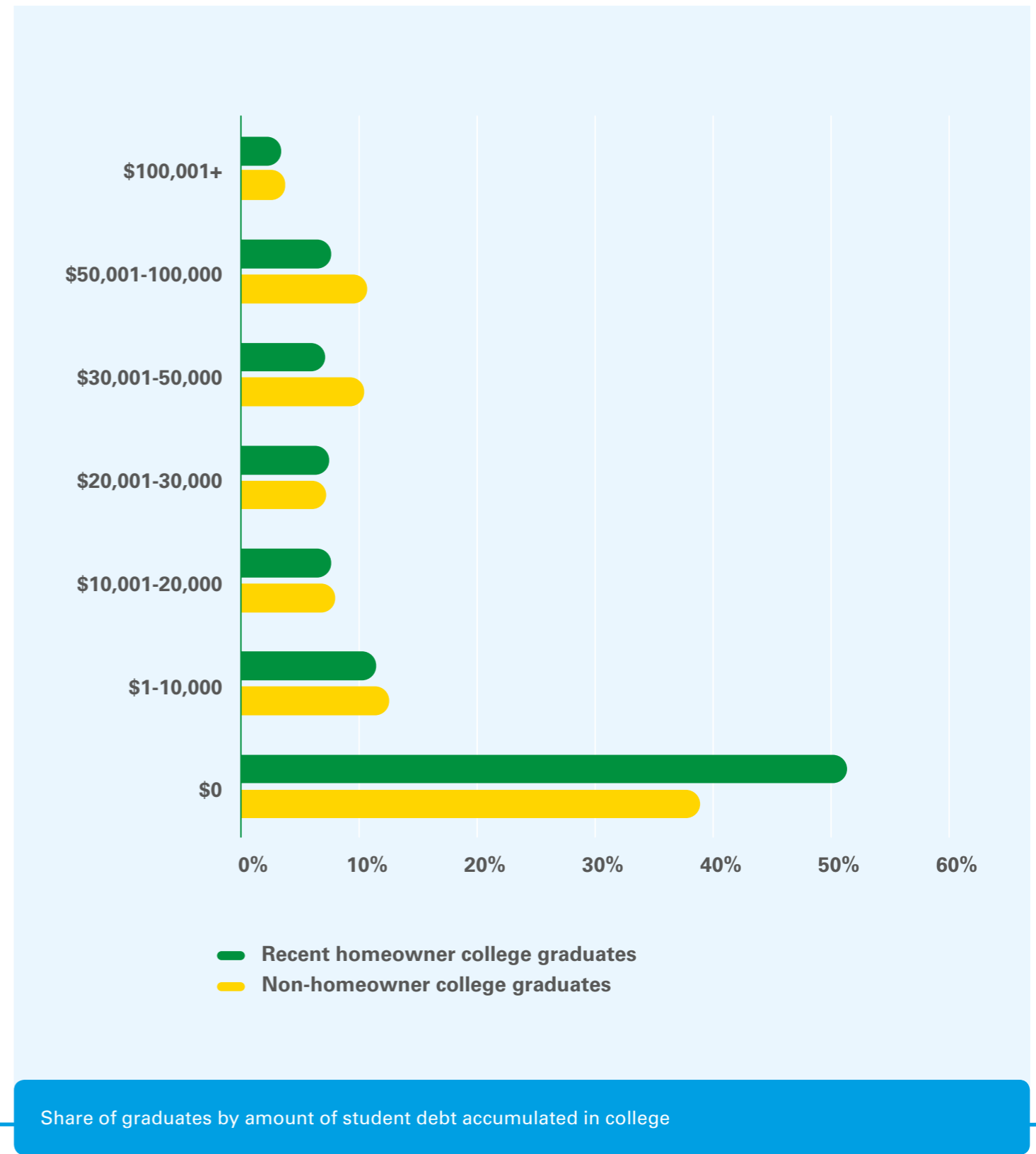
More than a third of this group don't ever expect to buy a home.

Home ownership rates in the U.S. have fallen significantly from a pre-crisis peak of 69.0 percent to 64.4 percent at the end of the third quarter 2018, according to the U.S. Census Bureau.⁵ There is, however, a sharp divide in ownership by age. While over three-quarters of those aged 55 and over owned their own home going into the end of 2018, little more than a third (36.8 percent) of those under 35 did.⁶

Home ownership rates in the U.S. have fallen significantly



...many millennials have effectively given up on owning their own home – at least in the near term.



Share of graduates by amount of student debt accumulated in college

5 <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>
 6 *ibid*

Helping hands

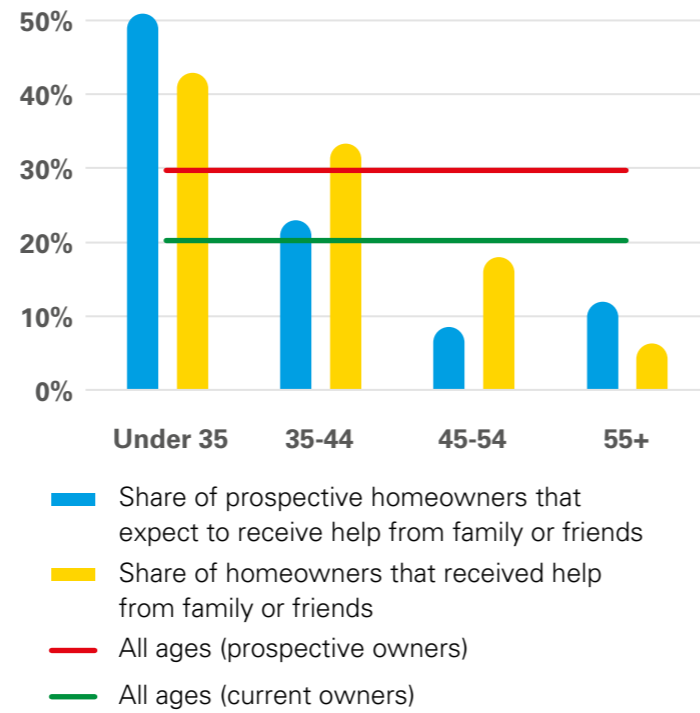
No one could accuse the older generations of keeping this good fortune to themselves, however. The fact is that a third of millennials are only able to own a home thanks to the generosity of retirees and over 55s. Those under 35 are by far the most likely to have already received help to buy if they are homeowners (43 percent), or expect to, if they are not yet (51 percent). By contrast, hardly any of those in or approaching retirement received help – just 6 percent of homeowners aged 55 and above.

Those who put up the money are most often parents (accounting for 72 percent of the lending), but grandparents and other family or friends also help. The assistance usually comes in the form of gifts (37 percent of those helping), a loan (33 percent) or a combination of the two. Only 9 percent say they would or have charged any interest on the help provided.

However it is provided and whomever it's from, though, together it makes the Bank of Mom and Dad a massive player in U.S. housing finance today:

- BoMaD supports one in every five existing home buyers and the purchase of 1.2 million homes this year
- BoMaD provides buyers with an average of \$39,000, financing \$317 billion worth of homes
- BoMaD lends or gives \$47 billion to help others purchase, a sum greater than four of the top ten largest lending banks.

Clearly BoMaD is a force to be reckoned with.



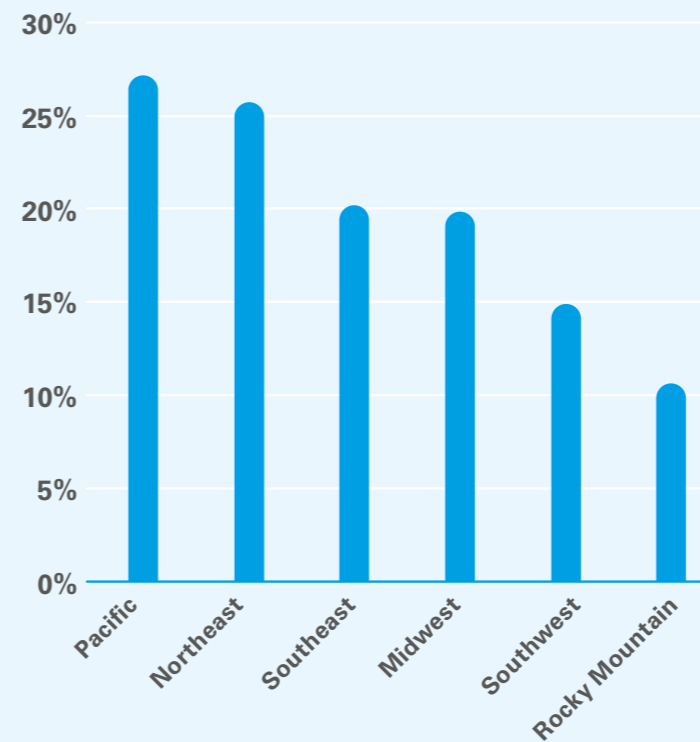
Share of current and prospective homeowners who have received or expect to receive financial assistance from family or friends toward their purchase

Rank	Bank	Origination volume, billions
1	Wells Fargo	\$249
2	JP Morgan Chase	\$104
3	Quicken Loans	\$96.0
4	Bank of America	\$79.4
5	U.S. Bancorp	\$57.3
6	Freedom Mortgage Corp	\$53.6
7	BoMaD	\$47.3
8	Caliber Home Loans	\$40.6
9	loanDepot	\$38.1
10	Flagstar Bank	\$32.0

The bank that likes to say yes: BoMaD – the U.S.'s 7th biggest lender

The regional picture

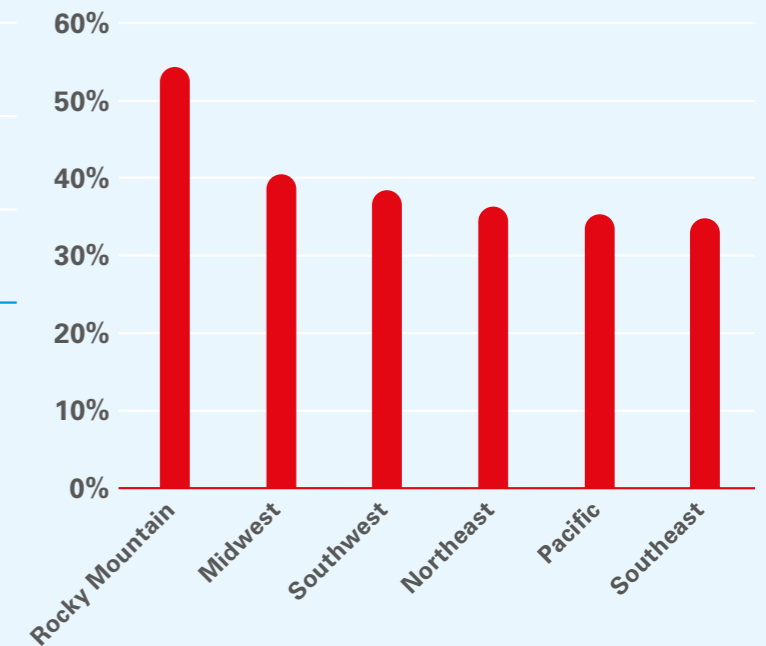
Along with age, the geographic areas where people live, has a significant impact on whether they're likely to have received help to buy. The proportion given money by family or friends for a home purchase varies considerably by region – from over a quarter in the Pacific region (27 percent) to about just one in ten (11 percent) in the Rocky Mountains.



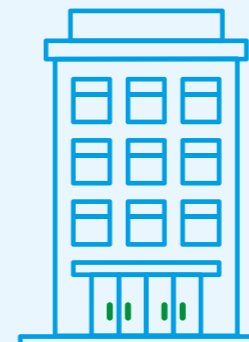
Share of current homeowners that received financial assistance toward a home purchase from family or friends

When it comes to the proportion of those who have not helped but would be willing to provide financial assistance, however, the Mountain states actually have the highest numbers (53 percent), while the Pacific region has the lowest (35 percent, along with the Southeast region).

This disparity might reflect those in the Rocky Mountains being unable to help, despite being willing, or it could be that younger buyers were less in need of help: The recovery in prices in some states such as New Mexico and Wyoming after the recession was relatively slow, although in places such as Colorado, prices have long since passed prerecession peaks.⁷



Lenders who have not, but would be willing to provide financial support for their children or grandchildren's home purchase



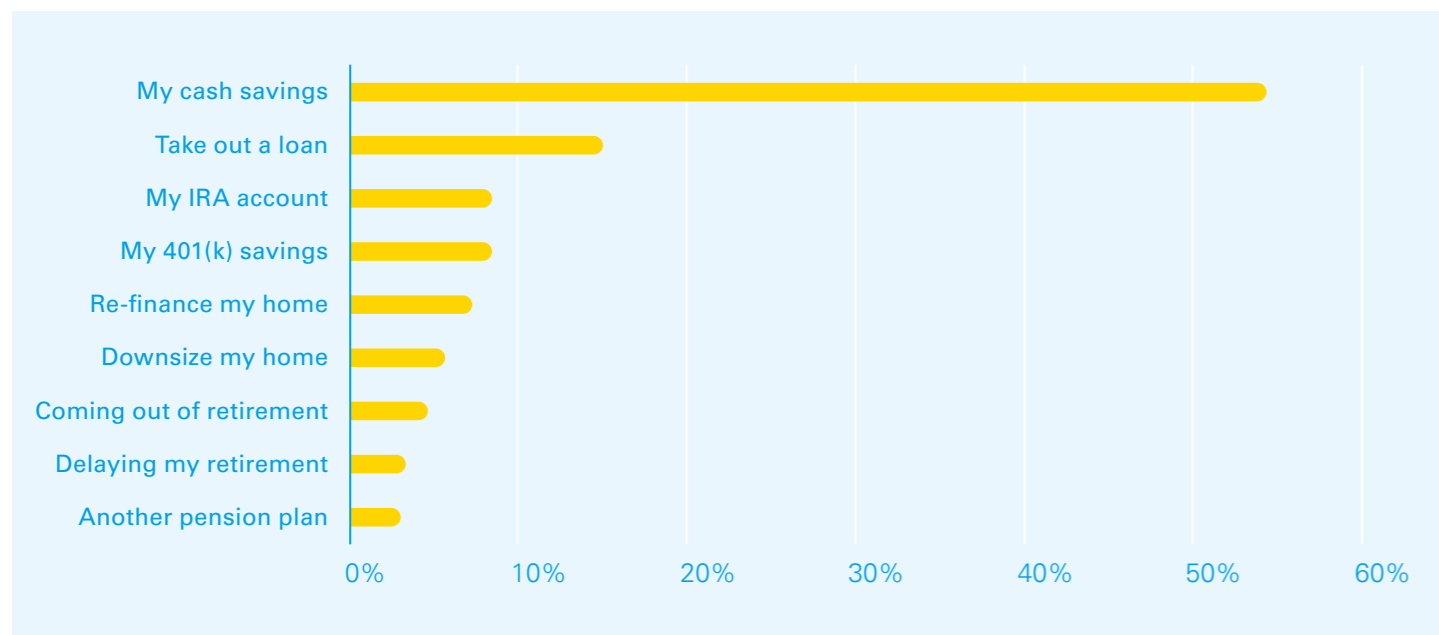
Digging deep

Like all banks, though, BoMaD has its limits and, unlike for some, there's no one to step in if its capital runs out. One way or another, many of those helping their loved ones to buy are already making real sacrifices to do so. The survey shows many people at or approaching retirement age – and many who are adjusting to life on a lower income are making real sacrifices to help younger buyers.

On the one hand, the Baby Boomer generation, born post-war, is the wealthiest in history. By 2020, they are expected to account for just over half of all net household wealth in the U.S.,⁹ and will eventually be passing on \$30 trillion to their heirs.¹⁰ Many have put substantial money aside, and despite the high average amount provided (close to \$40,000), more than half (54 percent) of those in our survey who have helped family and friends to buy were able to finance it from their cash savings.

On the other, that still leaves a significant proportion having to find other ways to finance purchases, and BoMaD “lenders” go to significant lengths to help. Asked how they have or would finance help for their loved ones, people look to a whole range of options from taking out a loan (15 percent) and raiding their 401(k) savings (8 percent) to downsizing their own home (6 percent) and even delaying (3 percent) or coming out of retirement (5 percent).

The baby boomer generation... are expected to account for just over half of all net household wealth in the U.S. and will eventually be passing on \$30 trillion to their heirs



How BoMaD is funded: Where the money comes from

Stretching a point

This last proposition—delaying retirement—is a real option for a number of retirees. Of those who had already helped their loved ones to buy, 7 percent have actually postponed retirement – by an average of four years.

Many others don't have to push back retirement or go back to work, but still face a very different old age from the one they had planned:

- 14 percent of BoMaD lenders say they feel less secure about their own financial future as a result of giving money for a home purchase to children or grandchildren
- About the same number, 15 percent, say they've had to accept a lower standard of living as a result of giving the money.

After decades of work and saving, there's a substantial proportion of Baby Boomers giving up luxuries and facing a less certain retirement to help their children.

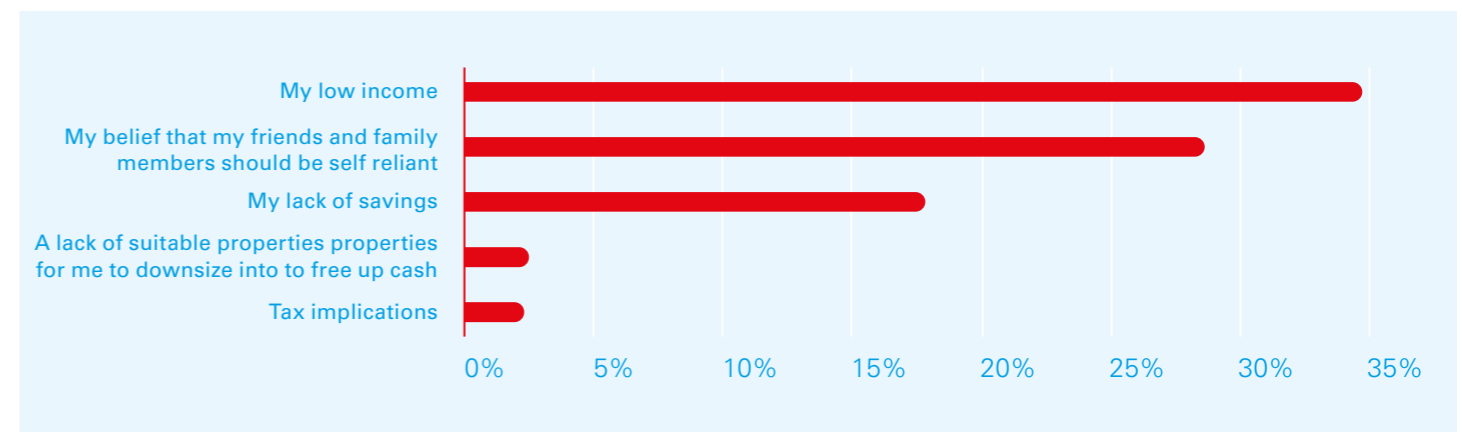
This is not surprising, despite the wealth of some of the post-war generation, given the sums involved.

After all, there are other calls on this generation's finances, including from their children for other reasons. More than half in our survey received help from family or friends while at college, for example, with those who did receiving an average of over \$41,000 (\$41,500 for homeowners, \$41,200 for those who don't own). Among recent home purchasers, more than one in ten (12 percent) had received over \$50,000 in help while at college.

Moreover, many more would like to help but simply feel unable. The most common barrier to prevent them is, unsurprisingly given that many of these are no longer working, is income constraints:

- More than a third (35 percent) say their income isn't high enough to be able to afford to support others to buy
- About one in five (18 percent) cite a lack of savings
- For a significant minority (29 percent) a belief in self-reliance is also a barrier to providing financial support.

By and large, though, the results show that BoMaD would provide even more support if it could.



The limits of generosity: Barriers to providing financial support

9 <https://www2.deloitte.com/insights/us/en/industry/investment-management/us-generational-wealth-trends.html>
 10 <https://www.cnn.com/2018/06/28/wealth-transfer-baby-boomers-estate-heir-inheritance.html>

Some way to run

Despite an increase in the number of vacant housing units for sale (an indicator of supply) in the third quarter of 2018, supply shortages persist in many parts of the U.S. market. That’s particularly true for the starter homes that millennials are most likely to seek. Given the size of this generation – soon to be the largest in U.S. – demand is likely to remain high, and even grow. There is little reason to think that affordability will improve substantially in the near or medium term.

Given these realities, older generations are likely to continue to look for ways they can help their children and grandchildren buy a home. One obvious route is to tap into the equity many have in their own homes, partly as a result of long years of rising prices that are making life so difficult for younger prospective buyers. At age 65 and over, close to 80 percent of the population own their own home.

Some are already using this asset to help others buy, whether by refinancing (7 percent) or simply downsizing (6 percent). The difficulty finding appropriate housing as they get older (another area where supply is likely to be particularly stretched in coming years) and restrictions on conventional mortgages for older borrowers limit the scope of both of these options, however.

One area with significant potential for growth, though, is reverse mortgages. At present just 2 percent of the over 55s in our survey say they have used one to release equity from their property. Even in the Pacific region, where its use was most common, only 5 percent have undertaken a reverse mortgage. But one in five (19 percent) nationwide said they would consider it.

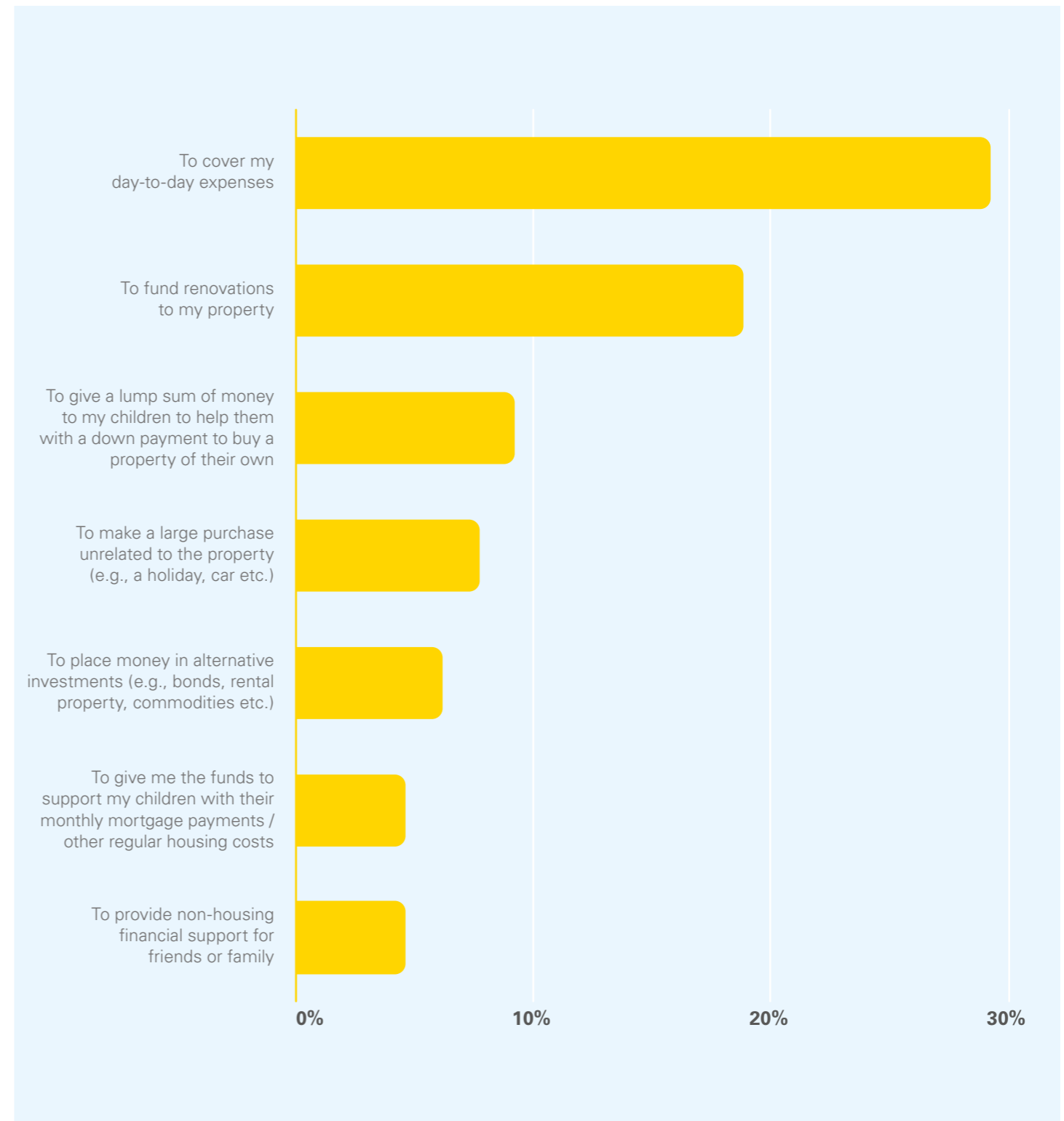
Allowing homeowners to draw on the value of their property, either as a lump sum or as regular amounts – without requiring them to move – reverse mortgages could be more widely used for a variety of purposes:

- Of those who have taken one or said they would consider it, the most common use for the money is to cover day-to-day expenses (29 percent)
- Almost one in five said they would use the money to fund renovations to their property (19 percent)
- The third most popular use for the money was to provide funds for their children to put a down payment on property of their own (9 percent).

Tapping into housing wealth can make a lot of sense for this generation. Many who have reached retirement already find themselves with significant wealth in terms of assets, but relatively low incomes. Reverse mortgages could enable more to achieve the lifestyles they desire in retirement, as well as help their loved ones buy properties of their own.



of homeowners would cover day-to-day expenses with a reverse mortgage



Reversals of fortunes: Most popular uses for reverse mortgages

10 U.S. Bureau of the Census

11 <https://www.thestreet.com/personal-finance/are-starter-homes-still-worth-it-14561875>

12 <http://www.pewresearch.org/fact-tank/2018/03/01/millennials-overtake-baby-boomers/>

13 U.S. Census Bureau, *ibid*

14 <https://www.thestreet.com/story/13640644/1/inside-the-nation-s-looming-senior-housing-crisis.html>

Unsustainable answers

Greater use of reverse mortgages and the willingness of generous homeowners to make sacrifices for their loved ones means the Bank of Mom and Dad will remain open for business for a long time to come. It is not, however, a sensible or fair long-term solution to the crisis that exists in some parts of the U.S. housing market.

The current situation puts undue strain on many who have worked hard to secure a comfortable retirement,

and even sees some pushing back their retirement or returning to work. And it leaves many of the younger generation dependent on their parents and grandparents to buy. Meanwhile others, whose families do not have the means, find themselves locked out of home ownership altogether. Despite working hard and having good jobs, they find that they still cannot realize the security of home ownership that their parents were able to achieve at the same age or earlier.

The cause is a housing market where, although some progress has been made, significant problems remain in matching the supply and demand of different types of housing.¹⁵ As the population changes and the millennial generation strives to join the homeownership democracy, new thinking is due on meeting the needs and aspirations of Americans.



About Legal & General Group

Established in 1836, UK-based Legal & General Group is a leading global financial services group and a major global investor, with a number of growing businesses in the U.S. Around fifteen million people worldwide rely on Legal & General Group to help them save for the future and to protect their families and their homes. As of the end of 2017, the group holds over £58 billion (US\$75 billion) in retirement annuities for one million people; close to £1 trillion (US\$1.3 trillion) in assets under management; and £2.9 billion (US\$3.7 billion) in gross premiums, providing life insurance to over one million people in the U.S. alone. In the U.S. Legal & General Group sells life insurance through Legal & General America.

CONTACT US

For further information, please contact Legal & General Group



03330 048 444



mediarelations@landg.com

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Registered in England and Wales No. 00166055
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