



Supporting your children on the path to homeownership

Do you have more than \$1 million in assets and want to help your adult children financially, responsibly? One idea worth exploring: 100% financing their home.

One of the most challenging obstacles on the path to home ownership is accumulating the down payment – fortunately, Raymond James offers a solution that may be right for you and your family. See how strategic financing works, some of the risks involved and key questions to ask to determine if it's the right approach for you.

THE CONCEPT

Raymond James provides an opportunity for the children of qualifying clients to receive a loan covering 100% of a home purchase price, allowing them to become homeowners without needing a down payment.

Due to the structure of this arrangement, there are no additional payments such as private mortgage insurance (PMI). PMI is typically required when a borrower has a down payment of less than 20%, and it serves as insurance for the lender in case the borrower defaults. However, with this structure, the interest rate is the only rate applied, making it a straightforward financial arrangement.

ATTRACTIVE MORTGAGE STRUCTURES

This financing option pairs well with Raymond James' five, seven, and ten-year interest-only mortgages. For instance, hypothetically with a mortgage rate of 7% and a purchase price of \$500,000, the monthly payment would be approximately \$2,916, equating to approximately \$35,000 annually.

Similarly, a \$1 million home would cost about \$5,833 per month with no down payment required. It's important to note that actual terms and rates change daily and are subject to change, the purpose with this example is to illustrate the concept and the potential benefits.

HOW IT WORKS

The parent pledges an amount greater than the down payment. For example, in the case of a \$500,000 purchase, the parent would pledge \$200,000. This pledged amount secures the loan, allowing the parent to buy, sell, trade and invest as usual. However, the parent cannot withdraw the pledged amount until the loan is repaid.

There's no cost to the parent or the child beyond the pledged amount. The primary cost is the liquidity, as the parent must be prepared not to access that money during the loan term. Maintaining liquidity is a significant consideration, so parents must be comfortable setting that amount aside.

Additionally, it's crucial to keep a buffer above the minimum pledge requirement to avoid any financial strain. It's also important to note that tax-deferred assets, such as an IRA, cannot be used for this purpose.

A GENERAL RULE

Multiply the purchase price by 20% and then by 3. For example, $\$500,000 \times 20\% \times 3 = \$300,000$. If you have \$300,000 in taxable (non-IRA) assets that you do not intend to use for a long time, you may be positioned to benefit from this approach. Your advisor can help.

OWNERSHIP AND APPRECIATION

An advantage of this approach is that parents aren't forced to co-sign the loan. The home's appreciation goes entirely to the owner (in this case, the child). However, if the property value decreases and the child does not repay the difference, the parent would be responsible for covering the shortfall.

POTENTIAL RISKS TO CONSIDER

- **Loss of liquidity:** The parent must be comfortable with the funds being tied up and inaccessible until the loan is repaid.
- **Additional contributions:** If the pledged account falls below the required amount, the parent may need to add funds.
- **Decline in property value:** If the home's value decreases, the financial impact must be considered.

FINDING THE RIGHT APPROACH

It's a dream of every parent for their children to one day become homeowners. If the idea of helping your children buy property without the need for a down payment interests you, it's crucial to discuss it further with your Raymond James advisor to ensure it aligns with your financial goals and risk tolerance.

ASK YOUR RAYMOND JAMES ADVISOR

To help make the right decisions to fit your financial picture, consider discussing the following questions with your advisor.

1. Do I have enough assets to retire? If not, how much more do I need to save?
2. What debts do I currently have with interest rates under 5%, between 5% and 10%, and over 10%?
3. What are the tax implications of my debt management strategy?
4. How should debt fit into my overall financial strategy?
5. What's the optimal strategy for managing each type of debt?
6. How can I maintain sufficient liquidity while paying down debt?
7. If I have excess assets, should I consider paying off my mortgage?
8. How can I optimize investment returns while managing debt?
9. What scenarios should I consider when planning my long-term goals?

LOAN DISCLOSURES AND ASSUMPTIONS

Adjustable Rate Mortgages based on a loan amount of \$800,000				
If the loan product is...	...and an interest rate of...	...then the APR will be...	The loan will have an initial rate period of...	...months with an initial principal and interest payment* of...
5/1 ARM	6.250%	7.088%	60	\$4,925.74
5/1 Interest Only ARM**	6.500%	7.262%	60	\$4,333.33
7/1 ARM	6.375%	6.991%	84	\$4,990.96
7/1 Interest Only ARM**	6.625%	7.133%	84	\$4,416.67
10/1 ARM	6.500%	6.895%	120	\$5,056.54
10/1 Interest Only ARM**	6.750%	7.077%	120	\$4,500.00
15/1 ARM***	7.000%	7.122%	180	\$5,322.42

The maximum amount the interest rates can rise in a single year is 2% with a limit of 5% over the life of the loan.

*Initial Payment amounts do not include Private Mortgage Insurance, taxes, insurance, or escrow for any taxes or insurance.

**Interest Only Loan Initial Payment amounts do not include payments to principal.

*** The maximum amount the interest rate can rise at the first rate change is 5%, the maximum in any subsequent single year is 2% with a limit of 5% over the life of the loan.

Fixed Rate Loan Based on Loan Amount of \$360,000				
If the loan product is...	...and an interest rate of...	...then the APR will be...	The loan will have a fixed rate period of...	...months with an initial principal and interest payment* of...
15 Year Fixed	5.625%	5.703%	180	\$2,965.43
30 Year Fixed	6.000%	6.079%	360	\$2,158.38
30 Year FHA	7.500%	8.109%	360	\$2,517.17
30 Year VA	7.500%	8.202%	360	\$2,552.41

The maximum amount the interest rates can rise in a single year is 2% with a limit of 5% over the life of the loan.

*Initial Payment amounts do not include Private Mortgage Insurance, taxes, insurance, or escrow for any taxes or insurance.

Products, terms, and conditions subject to change. Subject to standard credit criteria. Property insurance is required.

Flood insurance is required if property is in a designated flood zone of 'A' or 'V.'

This content was created by Tom Anderson, founder of Supernova Companies and CEO of Anasova, for Raymond James Bank. Raymond James is not affiliated with Tom Anderson, Supernova Companies or Anasova. Any opinions are those of Tom Anderson and not necessarily those of Raymond James.

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The proceeds from a Raymond James Bank Mortgage or Home Equity Line of Credit (HELOC) cannot be (a) used to purchase or carry securities; (b) deposited into a Raymond James investment or trust account; (c) used to purchase any product issued or brokered through an affiliate of Raymond James, including insurance; or (d) otherwise used for the benefit of, or transferred to, an affiliate or Raymond James.

The benefit of certain mortgage options may vary depending on market conditions, your financial situation and other circumstances. When the principal and interest payment period commences, monthly payments will be higher. The principal balance will not be reduced during the period that interest-only payments are made. Interest payments are calculated based on the outstanding principal balance. A client will pay more interest over the life of the loan if they choose to make interest only payments exclusively than they would under a traditional loan with the same interest rate featuring principal and interest payments. When your interest-only period ends, your monthly mortgage payment will be recalculated to include full principal repayment over the remaining years left on the loan. Your payment may rise significantly based on the shorter remaining term and if you have an upward rate adjustment on an adjustable rate mortgage. During the interest-only period, without making principal payments towards your outstanding loan balance, home price appreciation is the only way your equity will grow. The equity in your home is the difference between its market value and the amount owed on loans secured by the property. There is also a risk that, by not paying down the balance of your loan, you may be in a situation where you owe more on your property than you could sell it for if your home value declines.



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