

GIFTED DOWN PAYMENTS

What you need to know before getting started

Homeownership is a major life decision that your family members may want to assist you in, however, it is not as simple as giving cash to someone for their mortgage. Necessary considerations have to be made by both the gifting and receiving parties so your gifted down payment is approved by lenders.

CONSIDERATIONS TO BE MADE BY THE GIFTING PARTY

Who can gift money for a down payment?

A gifted down payment should come from an immediate family member, those being a grandparent, parent, sibling, or child. Mortgage lenders & financial institutions prefer direct family to be the gifting party as it is then likely that the gifted cash represents a true gift, one without repayment expectations.

How much money can be gifted as a down payment?

There is no limit or taxation applied on the amount gifted as a down payment. Despite this, minimum down payment rules still apply to the property being acquired, typically being an offer of 5 - 20% of the home price.

What is a gift letter and are they necessary?

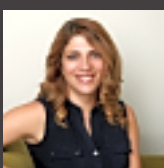
A gift letter is essential if a gifted down payment is to be used for your mortgage. Most mortgage lenders require the gifter to fill and sign this document which confirms that there is no obligation to repay the funds, affirming that it is a genuine gift. A gift letter includes where the money was sourced, the amount given, relationship between parties, date, and an explicit statement that the money is to be used for a down payment.

A gift is not a loan.

Any money gifted for a down payment is done so without any expectation of repayment and is legally understood as a one way transaction. Borrowed money can be given by the gifter who is then obligated to pay back the borrowed amount with no assistance from the recipient.

How can you prepare for a gifted down payment?

- 1) If you are self employed, a minimum of 5% of your down payment must be clearly sourced from your earnings. The remaining portion can come from a gift as long as there is proof of transfer and source. Ensure that you have 5% of the down payment within your account for three months prior to any mortgage application, this proof is for lenders to see that you can realistically make future mortgage payments.
- 2) If you have a unique relationship with your donor then make sure you have proof of such. The bank may still reject it but an official letter or certificate proving a history of relations is essential if the donor is not direct family.



Janice Altvater

Mortgage Broker

janice@mortgagesbyjanice.com

403.308.9764

<https://mortgagesbyjanice.com>

