

## **Gift Funds**

One of the biggest hurdles to homeownership is saving for a down payment. It's a common misconception that you must pay 20% upfront for your down payment in order to qualify for a mortgage. The reality is that some homebuyers may qualify for a down payment as low as 0% to 3%.

Regardless, budgeting for a down payment can be difficult—but that's where gift funds can come into play. If you're fortunate enough to have a generous relative, they can offer financial assistance to cover or supplement your down payment.

If you plan on using a gift for your purchase, please let your loan officer know. The loan officer must run your scenario through the automated system to ensure your file is still eligible for the gift.

### **What is a gift letter?**

A gift letter, documents money or "gift funds" given to a homebuyer by a partner or family member to be used for a down payment on a home. Some folks may elect to use gift funds to meet the minimum down payment, while others use gift funds to put more money down and lower the size of their loan.

For example, if you were looking to purchase a \$500,000 home and you had saved \$25,000 for a down payment (5%), you would be looking to borrow \$475,000. Now say a relative gifts you \$25,000 towards buying a home. If you supplement your down payment with the gift funds you are now putting down 10% and only borrowing \$450,000 which may lower your interest rate. Gift funds are beneficial because the more money you can put down, the less you need to borrow and the smaller your monthly payments will be.

### **When can you use gift funds?**

Gift funds can be used to purchase primary and second homes. They can be used for down payment, closing cost, and reserve requirements.

They cannot be used to purchase an investment property.

## **Who can give gift funds?**

A gift donor can be a domestic partner, engaged partner, or relative by blood, marriage, adoption, or legal guardianship. A donor cannot be an interested party to the transaction such as a real estate agent, real estate developer, or someone affiliated with the builder due to a conflict of interest.

The funds must be given with the intention as a gift with no expectation of repayment— otherwise it would be considered a personal loan and counted as debt in your loan application. All debts are considered for your mortgage application to calculate your debt-to-income ratio (DTI), a major factor when determining your ability to repay a mortgage.

## **How do I document the gift?**

To document the transfer of gift funds from a donor to you, your lender would need to see:

1. A completed gift letter form with the donor's information and signature (your loan officer will give you a template and take you through the specifics).
2. Evidence of the gift funds transferred from the donor's account to your bank account. This can usually be satisfied with a copy of the donor's check and a copy of your bank statement showing the funds deposited into your account.
3. Copy of the donor's bank statement to show availability of funds.

Another option is for the gift donor to transfer the funds directly to escrow. In this case, the lender would want to see a copy of the cashier's check or wire that the donor sent.