

SOUND OFF *Karen Sheffell*

## What are some tips on buying a home with gift money?

**I**t is not unusual for parents, grandparents or a good friend to give you money to buy a home.

It doesn't matter if it is a house or a condo, a first or second home. It is not as easy as, "Here's the check you need."

In fact, there are some things you need to know before you go down this road. Your lender is going to look at every aspect of your financials so here are some steps to consider to make this easier for you.

1. The person(s) giving you the money should write a note to you indicating that this is a gift versus a loan, and repayment is not expected. If it is a loan, the terms

need to be spelled out. The donor should indicate their name, address and phone number in the letter. The letter should indicate the relationship to the recipient, and the date the gift is given. If you know the address of the property being purchased, then include that as well. The donor should sign and date the letter.

2. Timing is everything. The earlier you have the money in your account, the better. Lenders ask for a great deal of documentation. If you have funds in the bank for longer than 60 days or so, the funds are "seasoned" and come under less scrutiny than large deposits made closer to mortgage application time. The



lender may still ask for documentation regarding the gift, including the letter and, potentially, information from the donor. Lenders will verify the source of any large deposit. FYI, the criteria for 'large deposit' varies by loan

type (conventional loan, FHA, VA, Jumbo, etc.)

3. The type of loan you apply for will be impacted by the amount of your gift versus the money you are putting up. Conventional loans' criteria differs from FHA and VA loans. So you must go over the criteria with your lender as you start your home search. Gifts can only be applied to mortgages for properties where you will be residing, usually not for investment properties.

4. If you are giving the gift, be aware of what Ben Franklin said about only two things being certain, death and taxes. Gifting has tax implications, so if you are

thinking about donating money toward someone's home purchase, talk to your accountant about breaking it up to smaller pieces so that the recipient isn't hit with taxes and how it impacts your tax bill at the end of the year. The key is to talk to your lender at the beginning of your home search process. They will explain their process and it will involve keeping critical records of any donation. As a buyer, knowing requirements from the outset will make the whole process go smoother.

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