

the Mortgage Bulletin

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“A pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.”
Winston Churchill

Gift for down payment

Home buyers with insufficient funds for down payment can use gift funds. The ground rules vary from lender to lender and may also vary depending on the loan product and loan amount. So buyers contemplating a gift for down payment should discuss specifics with their mortgage broker.

Please note: any tax consequences that accompany a gift are the responsibility of the donor and recipient. And in that context, no documentation surrounding the gift is given to anyone except the lender.

In the typical example of required gift fund documentation, a gift letter is signed by the donor and the borrower. Sample gift letter forms are available for this purpose and can be provided by your mortgage broker.

In this example, the donor certifies that they are making a gift of \$X to the borrower who is (son, daughter, niece, etc), that the gift is to be applied to the purchase of X property, that no repayment of the gift is expected or implied, that the gift funds were not made available TO THE DONOR from any person or entity with an interest in the sale of the property, and that the source of the gift is Account#1234 at XYZ Bank.

In some instances, but rarely, the lender will require a statement from the donor's XYZ Bank. In such cases, the statement is private between the donor and lender and is not shown to the borrower for obvious reasons.

Gifts can come from a relative by blood, marriage, adoption, or a dependent of the borrower, guardian, fiancé or domestic partner, municipality, non-profit religious organization, non-profit community organization, or BORROWER'S EMPLOYER.

Documentation for transfer of the gift funds to the borrower varies widely.

If the asset documentation provided when you make application already contains the gift funds, then the loan application must show the donor's name, mailing address, amount of

gift, and donor's relationship.

If the funds are transferred after application, but prior to closing, the documentation of the transfer can be: cancelled check from donor, copy of donor's withdrawal receipt, copy of check before it is cashed with evidence from the bank that it has cleared, or wire transfer confirmation.

Receipt of funds can be: borrower's deposit receipt, borrower's bank statement showing deposit, or wire transfer confirmation.

If the funds are transferred at closing, the documentation is the same as above.

The above ground rules come from just one lender, but are representative of industry standards.

How much of the down payment can come from gift funds?

Again, this varies. In some cases, the full down payment can be gift funds, and in some cases a minimum of 5% of the down payment must come from the borrower's own funds. This is something to discuss with your mortgage broker.

Typically for true jumbo loans, gifts are allowed only in addition to the minimum down payment per lender guidelines, which must come from borrower's own funds.

For conforming and high balance conforming loans, gift funds can provide all down payment funds unless the loan is over 80% of purchase price: then 5% of purchase price must come from borrower's own funds. Put another way, 80% financing with a gift for 20% of purchase price is available.

As you can see, documentation surrounding gift funds can be quite detailed. So if you plan on a gift, be prepared.

If, on the other hand, your favorite aunt, uncle, or any of the people or institutions named earlier in this article want to give you a boost when you buy a house in six months, ask them to give it to you now. Then no gift documentation is required.

Something to think about.



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