

There is a little-known mortgage program (Gift of Equity) that could provide the vehicle for the right person to get into a home. If a person sells their home to a relative for less than the fair market value, the difference in the appraised value and the sales price can be considered a gift of equity for the buyer.

FHA requires that borrowers receive gifts of equity only from family members transferring title to the borrower.

An appraisal is required to determine the value of the home. The sales price is subtracted from the appraised value to determine the equity to be gifted. If a home appraises for \$300,000 when the owner will sell it for \$250,000, the gift is \$50,000.

The gift is applied to the down payment. In this example, the borrower would have to qualify for a \$250,000 mortgage which would require private mortgage insurance because a 20% down payment on a \$300,000 home would be \$60,000. If the buyer had an additional \$10,000 in cash to put down, the PMI would not be required, and the monthly payments would be lower.

The seller would need to provide a gift letter stating the amount of the gift, the date the gift, and that no repayment is expected or required. It also needs to have the donor's name, address, phone, email and relationship to the buyer. In addition, the settlement statement will need to show the gift being credited from the seller to the buyer. The lender may require additional documentation.

Beginning in 2018, the annual gift tax exemption is increased to \$15,000 per person per year and lifetime exemption to \$5.6 million. The fact that the \$50,000 exceeds the individual amount doesn't mean there will necessarily be any gift tax due now. The seller should consult their tax professional.

**Note:** Important to note, this loan program (Gift of Equity) would best be used with a conventional loan if the amount gifted to the buyer equals or is more than 20% of the appraised value. This approach allow for a 30 mortgage with no mortgage insurance required.

Note: If this article generates additional questions or a need for additional information, the following button will allow you to ask your question(s), request additional information or make comments. It is not my intent to bug you with unwanted phone calls, emails, or text messages! It is my intent to allow you to benefit from my 35+ years real estate activity and to give you a buying experience beyond your expectations!

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