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Serving the Greater Houston Area

When Parents Help With the Down Payment: Documenting Gift Funds

How family money must move — and be documented — so the loan stays on track

Money from parents can help — or stall your loan. The gift letter, the paper trail and the gift-tax question, and what the bank and lender actually check: get the paperwork right before the money moves, and the loan stays on track.

When Parents Help With the Down Payment: Documenting Gift Funds

Paper Trail Before the Money Moves

1. Gifted down payments are normal — but the lender needs a paper trail

A gift toward the down payment and closing costs from parents or other immediate family is a standard arrangement lenders accept — provided it is documented: a gift letter naming the donor, the recipient, the relationship, and the amount, and stating that the money does not have to be repaid; plus the money trail — the donor's bank statements, the transfer record, and the deposit into the buyer's account. The underwriter must be able to trace the funds from the parents' account into the purchase. Unexplained cash deposits are the most common reason this stalls an approval.

2. Money that must be repaid is not a gift

If the money is expected back, underwriting treats it as a loan and a liability: it counts in your debt-to-income ratio (DTI), and some loan programs restrict borrowed down payments further. Dressing a loan up as a gift in a gift letter can lead to a denial or worse if it surfaces. Decide at home first whether it is a gift or a loan — then paper it as what it really is.

3. Gift tax: filing a return and owing tax are two different things

Gift tax, where it applies, falls on the donor. Each donor gets an annual tax-free amount per recipient (the IRS publishes the figure each year); gifts to one person above that amount in a year generally require a gift tax return (Form 709), with the excess absorbed first by the lifetime

exemption — which is why most families end up "filing, but owing nothing now." Two parents can each give, with separate allowances. Have a CPA confirm your filing position before tax season.

4. "Add their name now" vs. "let them inherit" — the tax basis is very different

This is the point most often missed. A lifetime gift of a home (or a share of one) carries over the donor's original cost basis, so the children's taxable gain when they sell one day is larger. Property acquired by inheritance generally gets its basis reset to market value at death (a step-up). So before parents pay in full and title the home directly in a child's name — or add a child to their own deed — run this comparison first: the convenient route is not always the tax-efficient one.

If this is sitting inside your transaction right now, ask me — free consultation: (347) 774-5396 | owenrealestatetx.com

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