



Downpayment Gift Assistance Programs

From Janet Wickell, Your Guide to Home Buying / Selling.

Helping home buyers cover downpayment and closing costs

Potential home buyers who can make a house payment with no difficulty sometimes can't buy a house because they don't have the funds required for a downpayment and closing costs. One solution to the problem—use a downpayment gift assistance program, sometimes called a downpayment grant program.

How Downpayment Gift Assistance Programs Work

A little bit of background first. Home sellers can help buyers pay closing costs by giving a portion of their proceeds back to the buyer at closing. The amount of seller assistance that's allowed depends on the type of loan the buyer is getting.

Sellers are *not* allowed to give home buyers downpayment funds. That's where gift assistance programs step in, providing a "work around" of those laws.

1. The seller enrolls their house in a suitable program and contributes an amount equal to the assistance their buyer will receive at closing plus a fee. (Most Web sites that disclosed the fee stated that it's 0.75% of the home's sales price.)
2. When the transaction closes, the downpayment funds are wired from the gift assistance program to the closing agent. The seller has no part in the transfer of funds.

Does HUD Approve Gift Assistance Companies?

Yes and no. Here's what HUD says about the programs:

"HUD does not approve "gift" programs administered by charitable organizations and, thus, will not offer a formal approval of your program. Mortgage lenders are responsible for assuring that the gift to the homebuyer from the charitable organization meets the instructions described in HUD Handbook 4155.1 REV-4, CHG-1 Paragraph 2-10(C) (e.g., no repayment implied, etc.). Those charitable organizations that comply with existing regulations and policy guidelines are permitted to give cash gifts to eligible homebuyers and do not need prior FHA approval to do so."

So HUD does not issue formal approvals for gift programs—it puts the burden of working with a legitimate program on the lender. The major programs all appear to comply with HUD's requirements. Your lender can verify that the program you choose is one that is acceptable.

FAQ About Downpayment Gift Assistance Programs

Program guidelines may differ slightly, but they all offer the same basic services.

- Home buyers must qualify for a loan that allows gift funds.
- There are no minimum or maximum income requirements for buyers, but there may be top limits set on the sales price of homes.
- Typical assistance seems to range from 1% to 7%.
- Funds can be used for the downpayment and for closing costs.
- Gift funds can be used for new or existing homes.
- Unused funds must be returned to the gift program.
- Assistance programs cannot be used to refinance a house or to make home improvements.

- Sellers cannot use the gift as a charitable contribution, but it may be deductible as a selling expense. Talk to a tax professional.

Why Would a Seller Want to Participate

Home sellers usually price their homes to include some negotiation space. What matters to a seller is his bottom -line—how much money he takes away from the closing table. A buyer who has the funds to close may get a better deal on the house, while a buyer who needs help will pay closer to (or more than) the asking price, but in return can negotiate help from the seller.

One thing you must keep in mind is the home's appraisal value. The lender will not allow gift funds that result in a loan that exceeds the appraised value of the home. If you're working with a real estate agent, she can help you determine if the home is realistically priced and will appraise where it should.

Your lender can help you choose a downpayment assistance program and explain how your offer to purchase should be worded to ensure compliance with its underwriting guidelines.

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