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FIRST-TIME BUYERS

# Gift Funds 101: How Parents Can Legally Help With a Down Payment

**Coltrain Mortgage Team** · September 2026 · 6 min read

Family help with a down payment is common, and completely allowed — but a poorly documented gift is one of the most common reasons a closing gets delayed at the last minute. Here's how to do it the right way the first time.

## What actually counts as a "gift" to a lender

To a mortgage lender, a gift is money given with no expectation of repayment, from an acceptable donor relationship — typically a family member, and often a fiancé(e) or domestic partner as well. It's not a loan in disguise, and it can't come with any strings attached, spoken or unspoken.

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| **Eligible Donor Relationship** | **No Repayment Expected** | **Signed Gift Letter** | **Funds Must Be Sourced** |

## The gift letter: what it actually needs to say

Every lender requires a signed gift letter before the funds can be used. At minimum, it needs to include the donor's name and relationship to the borrower, the dollar amount being gifted, the address of the property being purchased, and a clear statement that no repayment is expected or implied. The donor signs it, and it becomes part of your loan file.

> **This is the easy part.** Most gift letters take five minutes to complete. Where things actually get held up is the next step: proving where the money came from.

## "Sourcing" the gift: the part that trips people up

Lenders don't just need to know a gift happened — they need to see a clean paper trail. That generally means documenting the money in the donor's account before it moves, and then showing it land in the borrower's account (or going directly to the closing agent). A wad of cash or an unexplained deposit, even a legitimate one, can trigger extra questions and delay your closing while it gets sorted out.

# 2 Bank Statements

Showing the donor's funds before the transfer, and the borrower's account after, is typically enough to satisfy most lenders' sourcing requirements.

## Mistakes that delay closing

**CASH GIFTS**

Cash with no paper trail is very difficult to document, no matter how legitimate the source.

**GIFTED TOO LATE**

A large, unexplained deposit right before closing raises questions your file wasn't built to answer quickly.

**SPLIT ACROSS ACCOUNTS**

Moving the gift through multiple accounts on its way to you makes the paper trail harder to follow, not easier.

**INELIGIBLE DONOR**

Not every relationship qualifies as an acceptable donor under every loan program — this is worth confirming early.

## How much can actually be gifted?

This depends on the loan program, your down payment amount, and whether the home will be your primary residence. Some programs allow the entire down payment to come from gift funds; others require the borrower to contribute a minimum amount from their own funds first. This is exactly the kind of detail worth confirming with your loan officer before your family member wires anything.

## Plan the gift before the money moves

The single best thing you can do is have this conversation with your loan officer *before* the money changes hands, not after. A five-minute call up front can save weeks of back-and-forth documentation later.

### Planning to use gift funds for your down payment?

**Ready to talk it through?**
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No pressure, no obligation — just a clear answer from a local loan officer.

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