



MORTGAGES • INSURANCE • ADVICE



The Outline Guide to Family Gifting

With the average price for a Toronto detached home approaching \$1,800,000 (average price condo approaching \$800,000)*, potential purchasers are stretching themselves further than ever to become homeowners. To try and turn their dream into a reality, buyers are turning to their parents, grandparents, or other family members for help. More often than not, that help is coming in the form of a gift to help cover their down payment and closing costs.



How many first-time home buyers are receiving a family gift?

A recent study published by CIBC Economist Benjamin Tal helped shed some light on how prevalent family gifting has become.

Their data concluded that in 2021 *approximately 30% of all first-time homebuyers received help from family members* (up from 20% in 2015). As for the size? The Canadian average gift was approximately \$85,000, while *Toronto had a much higher average gift size of over \$130,000.*

*Figures are from the February 2022 Toronto Regional Real Estate Board Market Watch Report – average price across all regions (416 & 905).

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Are repeat home buyers also receiving help?

While first-time homebuyers make up the largest group of gift recipients, repeat buyers are also receiving help. The study concluded that approximately 9% of mover uppers received a family gift in 2021. The average size of the gift was approximately \$128,000 across Canada, but Toronto mover-uppers enjoyed a much higher average gift size of approximately \$200,000.

The average gift size was over \$130,000 in Toronto.

What's fueling the growth in family gifting?

Between 2016 and 2026, Canadians are expected to pass down over \$1 Trillion dollars in wealth to their children and grandchildren. Many families are using gifting as a tax-efficient way to transfer wealth as part of a living will. Further, given the rapid increase in home prices across Canada, many families see gifting as a viable option to help their children purchase in a preferred location or purchase a preferred property type.

How do banks and mortgage lenders view gifted down payment?

When a bank or other mortgage lender analyzes the creditworthiness of a potential borrower, they consider factors like:

- ✓ Income
- ✓ Liabilities / expenses
- ✓ Credit history
- ✓ Property being purchased
- ✓ Down payment

When it comes to down payment, a bank/lender will need to confirm that the buyer has sufficient funds from their "own sources" to cover the down payment. "Own sources" typically includes items such as cash, non-registered investments, TFSA's, and even RRSPs for first-time homebuyers. *Another acceptable form of down payment is a gift from an immediate family member.*

When should a gift be deposited?

Typically, banks and other lenders will require a confirmation that gifted funds have been in a borrower's bank account at least 14 days ahead of the purchase closing date (30 days if the money is originating from outside the country). If funds are not deposited within that timeframe, the bank/lender may not accept the funds as proof of down payment, which could impact the purchase or closing date.

** Please note, this is a general guide and is intended as an overview for gifting and gifting options. As every scenario is different, please contact an Outline Financial mortgage agent to discuss your specific circumstances.*

A gift from an immediate family member is an acceptable form of down payment.

The gift letter (a gift is not a loan)

In addition to the confirmation of deposit, the bank/lender will also require a signed gift letter for their file. While each bank/lender will have their own specific template, the letter will typically include:

- ✓ Amount of the gift
- ✓ Gift recipient name
- ✓ Giftor name and giftor's relationship to the recipient
- ✓ Explicit statement that the money is a genuine gift and does not have to be repaid
- ✓ Signatures by all parties confirming the above

In addition to the signed letter, the bank/lender may also call the giftor to confirm the details contained in the letter.

In some cases, a parent that is providing a gift to their child (and child's spouse) may have concerns about protecting themselves and their child in the event of a dissolution of said child's relationship. In these circumstances, we recommend the giftor discuss the circumstances with their family and/or real estate lawyer, as there may be options to protect all parties and allow for a satisfactory outcome in the event of a marriage or relationship breakdown.

Key takeaways to help ensure a seamless gifting experience for your home purchase:

1. Make sure you understand and can confirm the amount of the gifted funds **PRIOR** to buying. This is crucial as purchasing a home involves entering a legally binding contract and, ultimately, if the gift does not come through, it will impact your purchase.
2. When you are confirming your approval, always let the bank or mortgage lender know that your down payment is coming from gifted funds.
3. Ensure your gift givers are mindful of the timelines in which the gift should be received.
4. Ensure that gifted money is in your bank account as early as possible to avoid any last-minute delays.

PLEASE NOTE

This is a general guide and is intended as an overview for gifting and gifting options. As every scenario is different, please contact and Outline Financial mortgage agent to discuss your circumstances and goals.





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