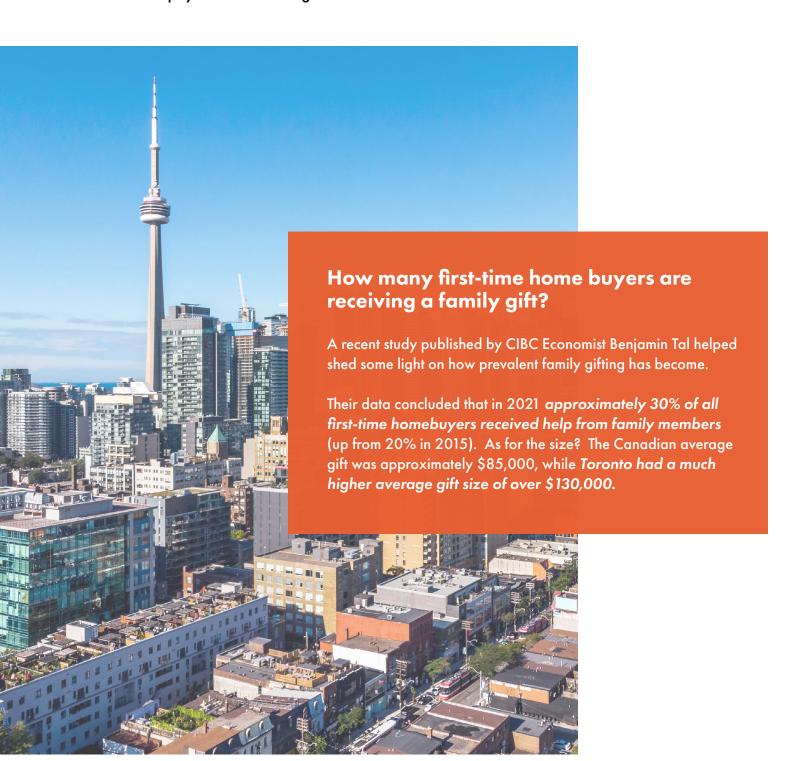


MORTGAGES • INSURANCE • ADVICE



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 realty, 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.



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





#### 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?

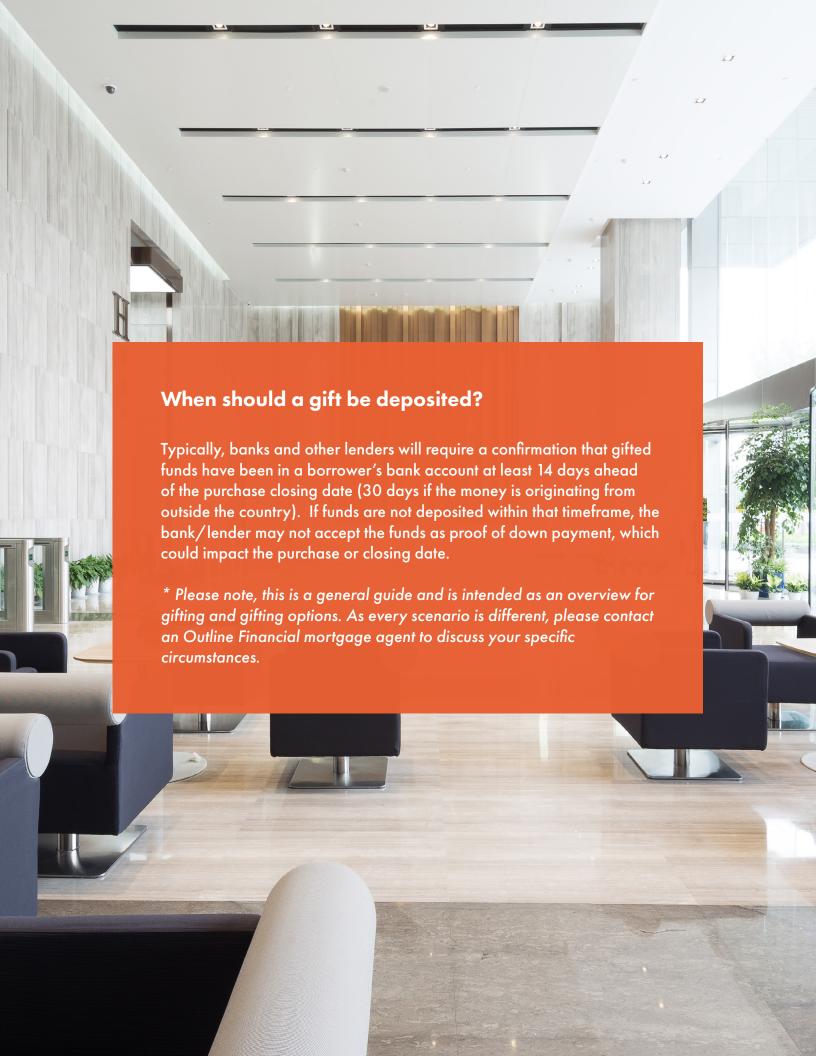
Between 2016 and 2026, Canadians are expected to pass down over \$1 Trillion dollars in wealth to their children and grandchildren. Many families are using gifting as a tax-efficient way to transfer wealth as part of a living will. Further, given the rapid increase in home prices across Canada, many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



# 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:

- 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.
- When you are confirming your approval, always let the bank or mortgage lender know that your down payment is coming from gifted funds.
- Ensure your gift giftors are mindful of the timelines in which the gift should be received.
- Ensure that gifted money is in your bank account as early as possible to avoid any last-minute delays.







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