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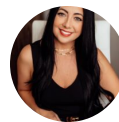
ALIGN LENDING GUIDE · NO. 06

Buying a Home for a Parent or an Adult Child

A Michigan guide to the loan rules, the paperwork and the questions to ask before anyone signs

INSIDE THIS GUIDE

- ✓ Start with two questions: who lives there, and who owns it
- ✓ When the home can count as your principal residence
- ✓ When the person who lives there is the buyer, and you help
- ✓ When neither fits: a second home or an investment property
- ✓ Gift funds and gifts of equity



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A Michigan guide to the loan rules, the paperwork and the questions to ask before anyone signs

This guide is for families helping one generation into a home: It summarizes what Fannie Mae, Freddie Mac and FHA publish, the documents lenders ask for, and how Michigan property taxes treat a home bought this way. Those are the agencies' rules, not Align's terms, and lenders can add their own. Title, estate and tax questions belong with an attorney or a tax professional. This guide gives you the questions to bring them.

HOW SAMANTHA HELPS

"Then let's build the housing decision around your life instead of making your life fit around the mortgage."

With a family purchase, Samantha's first questions are who lives there, who owns it, and whose income carries the loan. Those answers decide whether the home can count as a principal residence and whether a co-borrower or a gift fits better. Then she compares multiple wholesale lenders, because their added rules on non-occupant borrowers and family sales differ, and she stays the one person on your file from the first call to the closing table.

Call or text Samantha at 248-506-5727, email samantha@alignlending.com, or schedule a call at calendly.com/samanthashelton.

Start with two questions: who lives there, and who owns it

Every route here follows from two answers: who lives in the home, and whose names go on the loan and the deed. Lenders sort every loan into one of three occupancy types:

- ☐ **Principal residence** the home the borrower lives in, with two family exceptions covered next.
- ☐ **Second home** a home the borrower uses for part of the year and controls.
- ☐ **Investment property** a home the borrower owns but does not live in.

The occupancy type decides how much can be borrowed against the price, whether gift funds can be used, and how the loan is priced. Settle it before you look at houses.

When the home can count as your principal residence

Fannie Mae's Selling Guide lists two family situations in which it treats a home as the borrower's principal residence even though the borrower will not live there (B2-1.1-01, Occupancy Types):

- ☐ **A parent or legal guardian providing housing for an adult child with a disability** If the child is unable to work or does not have enough income to qualify for a mortgage alone, Fannie Mae considers the parent or guardian the owner-occupant.
- ☐ **An adult child providing housing for a parent** If the parent is unable to work or does not have enough income to qualify alone, Fannie Mae considers the child the owner-occupant.

In both, you are the borrower. Your income, debts and credit qualify the loan, and the new payment counts in your debt-to-income ratio next to your own housing payment. Run both before you shop; our debt-to-income guide shows the math.

Freddie Mac's Single-Family Guide also treats a home as a primary residence when it is occupied by the borrower's parent, or by a person with a disability whose parent or legal guardian is the borrower (Guide Section 4201.11). The lender confirms the exact conditions that apply to your loan.

To show that your parent or child cannot qualify alone, lenders usually ask for a signed letter explaining the situation, plus the income documents of the person who will live in the home. Each lender decides exactly what it needs, so ask early.

FHA works differently. HUD defines a principal residence as the home where the borrower lives for most of the year, so on an FHA loan the person living there is usually the borrower, and a relative helps as described next.

When the person who lives there is the buyer, and you help

Often the cleaner path is for your parent or adult child to buy the home, with you on the loan beside them. Each role signs different papers.

A co-borrower (non-occupant borrower) signs the note, shares full liability for the loan, and may or may not be on the title. On a principal residence, Fannie Mae needs only one borrower to live in the home and take title (B2-1.1-01). When a borrower on a Desktop Underwriter loan will not live in the home, Fannie Mae limits the loan to 95 percent of the home's value (B2-2-04).

A co-signer or guarantor signs the note and shares full liability, but has no ownership interest shown on the title (Fannie Mae B2-2-04). HUD defines a co-signer as a third party to a debt who backs its repayment (Handbook 4000.1 Glossary).

On an FHA loan, a transaction where one or more borrowers will not live in the home is a non-occupying borrower transaction. FHA limits it to 75 percent of the home's value, and allows up to 96.5 percent when the borrowers are family members as HUD defines them. That family exception does not apply to a two- to four-unit home, or when a family member is selling to a family member who will be the non-occupying co-borrower (HUD Handbook 4000.1). HUD's family member list includes parents, children, grandparents, siblings, spouses or domestic partners, aunts, uncles and in-laws (4000.1 Glossary).

Either way, the full payment counts in your own debt-to-income ratio, and a late payment shows on every signer's credit. Our guides to co-signing a mortgage and co-buying with family go further.

When neither fits: a second home or an investment property

If you will own the home yourself and your situation does not match the rules in section 2, it is a second home or an investment property for you.

Fannie Mae's second home rules (B2-1.1-01): you occupy the home for some portion of the year, it is a one-unit home suitable for year-round use, you have exclusive control over it, and it is not rental property or a timeshare. If your parent or child pays you rent, it is rental property and does not meet those rules. A home you own but do not live in is an investment property.

Both carry extra pricing adjustments at Fannie Mae, and gift funds cannot be used on an investment property (B3-4.3-04). Our guides to buying a second home and buying an investment property cover the rest.

Gift funds and gifts of equity

Families often help with cash rather than a signature. Fannie Mae's rules (B3-4.3-04, Personal Gifts):

- ☐ **Who can give** a relative, meaning a spouse, child, other dependent, or anyone related by blood, marriage, adoption or legal guardianship, and certain non-relatives with a familial relationship, such as a domestic partner or a person engaged to marry the borrower. The giver cannot be tied to the builder, the agent or another party to the sale.
- ☐ **How much can be a gift** on a one-unit principal residence, all of the money needed can come from a gift. When the loan is above 80 percent of the value on a second home or a two- to four-unit home, the borrower puts in some of their own money first.
- ☐ **The gift letter** signed by the giver, with the actual or maximum amount, a statement that no repayment is expected, and the giver's name, address, phone number and relationship.
- ☐ **The paper trail** proof the money is in the giver's account or has moved to the borrower or the closing agent.

BUYING A PARENT'S HOME?

The parent selling can give part of their equity as a credit at closing. Fannie Mae allows a gift of equity on a principal residence or second home purchase, for the down payment and closing costs but not reserves (B3-4.3-05). HUD calls a sale between family members an identity of interest transaction, with its own FHA rules, so ask the lender how its program treats one.

A large gift can raise federal gift tax filing questions for the giver; ask a tax professional before the money moves. Our gift funds guide covers the lender side.

Michigan property taxes on a home bought for family

THE BILL RESETS

The year after a Michigan home sells, its taxable value resets to half of the assessor's market value, so the seller's tax bill is not your tax bill. A rough rule for planning: after uncapping, the annual tax runs about half the purchase price times the millage, divided by 1,000. Our taxable value guide explains the reset, and the Michigan property tax calculator shows a planning figure from the published millage for an address.

THE EXEMPTION FOLLOWS THE OWNER

Michigan's Principal Residence Exemption exempts an owner's principal residence from local school operating millage, up to 18 mills (Michigan Department of Treasury). The law defines a principal residence as the one place where an owner has their true, fixed and permanent home (MCL 211.7dd(c)). So a home can count as your principal residence for a Fannie Mae loan and not for Michigan property tax. If you own it and your parent or child lives there, plan on the non-homestead rate until the assessor or a tax professional says an exemption applies.

FILE ON TIME

After a purchase, the buyer files a Property Transfer Affidavit with the local assessing office within 45 days (MCL 211.27a(10)). Any exemption affidavit is filed separately.

LATER TRANSFERS INSIDE THE FAMILY

Michigan law lists some transfers that do not uncap taxable value, including a transfer of residential property to the owner's, or the owner's spouse's, parent, sibling, child or grandchild when the property is not used for a commercial purpose afterward (MCL 211.27a(7)(u)). Whether a future deed qualifies is a question for a tax professional or the assessor before anyone signs it.

Title and estate questions for an attorney

Align arranges the loan. How the home should be owned is a question for a Michigan real estate or elder law attorney, before closing. Bring the lender's answer on which forms of title it allows, and ask:

- ☐ **Who should be on the deed, and how: joint tenancy with rights of survivorship, tenancy in common, a trust, or a life estate? What happens if the owner dies or the person living there moves out?**
- ☐ **Could owning this home, being on its title, or receiving a gift affect long-term care benefits for a parent or disability benefits for an adult child?**

- ☐ Who can sign for a parent or child who cannot: a power of attorney, a guardian or a trustee?
Will the lender and title company accept those papers?
- ☐ Should the family sign a written agreement covering payments, repairs, taxes and what happens if someone wants out?

Checklist: before anyone signs

BEFORE YOU START

- ☐ Decide who lives in the home and whose names go on the loan and the deed.
- ☐ Pull your own credit, income and debts, including your current housing payment.
- ☐ If you plan to use Fannie Mae's family rule, write a signed letter explaining why your parent or child cannot qualify alone, and gather their income documents.
- ☐ If anyone is giving money, line up the gift letter and the account statements now.
- ☐ Check the Michigan tax picture for each address you consider, at both the homestead and non-homestead rates.

QUESTIONS TO ASK THE LENDER

- ☐ Will this home be a principal residence, second home or investment property for me, and why?
- ☐ Does your program follow Fannie Mae's rule for an adult child with a disability or a parent?
What documents do you need?
- ☐ If I join as a co-borrower or a co-signer, how does that change the amount we can borrow, and the ratios?
- ☐ Can gift funds or a gift of equity be used here, and how do you treat a sale between family members?
- ☐ Which forms of title, trusts or life estates does your program allow at closing?

QUESTIONS TO ASK AN ATTORNEY OR TAX PROFESSIONAL

- ☐ How should the deed be written, and could ownership or a gift affect long-term care or disability benefits?
- ☐ Does any gift need a federal gift tax filing?

- ☐ **Can anyone claim Michigan's Principal Residence Exemption on this home?**
- ☐ **Would a later transfer to my parent or child uncap the taxable value?**
- ☐ **Do we need a power of attorney, a guardianship or a trust in place before closing?**

Sources

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Michigan Department of Treasury, Principal Residence Exemption: <https://www.michigan.gov/taxes/property/principal-residence-exemption>

Michigan Department of Treasury, Changes in Ownership and Uncapping of Property: <https://www.michigan.gov/taxes/property/change-ownership>

Michigan State Tax Commission, Transfer of Ownership Guidelines: https://www.michigan.gov/-/media/Project/Websites/treasury/MISC_9/TransferOwnershipGuidelines.pdf

Michigan General Property Tax Act, MCL 211.27a (uncapping, transfer exceptions, Property Transfer Affidavit): <https://legislature.mi.gov/Laws/MCL?objectName=mcl-211-27a>

Michigan General Property Tax Act, MCL 211.7dd (definition of principal residence): <https://legislature.mi.gov/Laws/MCL?objectName=mcl-211-7dd>

Internal Revenue Service, Gift Tax: <https://www.irs.gov/businesses/small-businesses-self-employed/gift-tax>

NEXT STEP

Talk it through before you decide anything

The first conversation does not have to turn into anything. No application, no credit pull, and no obligation to go further.

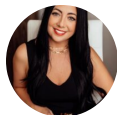
Tell Samantha what you are trying to do and she will tell you what actually matters in your situation. If the answer is that you should wait, she will say that too.

Open the Homebuyer Game Plan →

alignlending.com/purchase/homebuyer-game-plan/



Scan to open the
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