

Tips for buying a home from a family member



Featured image.

Alt-text: A family gathered at the kitchen counter.

If your family member is selling their Texas home and you need one at the same time, they may offer you to buy the home from them. Aside from the benefits and potential risks, it is important to be aware of all the differences between a regular home-buying process and the process of buying a home from a family member. Understanding all the transactions and the following tips and guidelines is a sure way to successfully close the deal.

How is buying a home from a family member different?

There are two main categories of real estate transactions: arm's length transactions and non-arm's length transactions (also known as an arm-in-arm transaction). The latter implies an identity of interest between the buyer and seller. This is the type of transaction that occurs when you're [buying a home](#) from a family member. Why is this important?

When parties involved in the financial transaction have a personal or professional relationship, they do not tend to work in their interest but of the other party. For example, this is the case when parents are selling their home to their child and look for a way to discount the price. Even though the transaction itself may be mutually beneficial, certain issues may stem from the transaction later if they are not addressed in the beginning.

Moreover, as you're buying a house you know well, there's no need for listings, marketing strategies, and other actions that are a part of the regular home buying process in Texas. However, there are some things you should focus on when buying a home from a family member:

- Discuss the sale openly with a family member and make sure each other's expectations are clear.

- Determine the home price and if there will be a gift of equity as it will have financial implications.
- Before you hire an independent home inspection, determine which party will bear the costs of any repairs.
- Hire a reputable local real estate agent to handle the process from the beginning, and deal with paperwork and title agency.

Finally, if you need [help moving into your new family home](#) once the deal is successfully closed, look for professional Texas movers. No one else knows the locale better.



Alt-text: A wooden model of a home next to stacks of coins.

The process of buying a home from a family member

Discussing and agreeing on a sale price is a basis upon which rests the process of buying property from a parent or sibling. No matter how much they would want to discount the price in your favor, you should both take care of the tax and other financial implications.

Mortgage approval

Once you decide to [apply for a mortgage](#), make sure you point out that you're purchasing a home from a family member and get pre-approved. Not only do you need to prove your credit history, debt-to-income ratio, and income are acceptable, you should also confirm that there are no liens on the property and that your family member is making regular mortgage payments.

Home inspection

Another important aspect of the home buying process is an inspection and you shouldn't avoid it even if you know the house well. There may be structural issues that not even the current residents know about. The cost of necessary repairs may significantly affect the price of the home, which is a point you should discuss with your family member. If you need to temporarily relocate the bulky belongings to conduct structural repairs, reaching out to professionals like [Small World Moving Texas](#) for their storage services is the easiest thing to do.



Alt-text: A home that should be inspected.

Tax implications

If with the home you receive a gift of equity, your family member will have to report the gift to the IRS and pay taxes on it. Furthermore, if you choose to sell the generously discounted home soon after, you will likely face a big capital gains tax. Not to forget that a tax audit may be in line if the discount seems too high compared to the market value. To solve this, ask for several independent appraisals and determine the market value, as discounts close to the market value are acceptable. If the family member wishes to give you a higher discount, they can cover the closing fees.

Choose a real estate agent

Even though you're closing a deal with a family member, you are still closing a legally binding deal and documentation should be in good order. It would be best if you [choose a real estate agent](#) to assist you to write and negotiate contract terms, handle any potential issues, work with the title company and close and review all the transactions on your behalf. As there is no need to market the home, the fees would be significantly lower. You can also consider hiring a real estate attorney to draft a purchase agreement on behalf of you and your family member. They will also clearly explain the terms of this binding contract to you both.



Alt-text: Signing a contract is important even if you're buying a home from a family member.

Avoid the pitfalls of purchasing a property from a family member

Warm family relations are most likely one of the important factors influencing your decision to purchase a property from someone in your family. You should keep it that way by doing your best to avoid pitfalls and potential risks that may arise. Keep your communication honest and open from the beginning. It wouldn't be the first time that a family member inflates the price and tries to take advantage. That is why you should ask for several appraisals, as well as home inspection valuations.

Checking everything is the best way to steer away from awkward family reunions. Hopefully, your family member has your best interest in mind. Still, you know best if they are in the habit of gifting you something and then holding it against you. When it comes to a gift of equity and favors, they may expect something in return, and things can easily turn sour in the future.

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