



Guide to Borrowing Home Equity With an Intrafamily Mortgage Loan

The smart way to manage real estate loans between family members.



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(Yes, this guide is 29 Pages and it's all important. Please read it carefully – don't rely on an AI summary!)

National Family Mortgage ®

Guide to Borrowing Home Equity (Lump-Sum)

This guide is all about how an intrafamily mortgage loan can help someone:

Borrow Home Equity (Lump Sum)



As Featured By



We also offer the following three separate guides all about how an intrafamily mortgage loan can help someone:

Buy a Home



Buy a Relative's Home



Refinance out of a Commercial Mortgage Loan



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THE LEGAL FINE PRINT

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About Us

For generations, families have stepped in to help one another build and protect what matters most — their homes. Today, that spirit of support is more important than ever. With home prices and mortgage rates having nearly doubled in recent years, many families find themselves *equity rich but cash constrained* — unable to move, upgrade, or expand without sacrificing their low-rate mortgage.

A lump-sum family home equity loan can be the bridge. By using a properly structured **intrafamily mortgage**, usually in second position behind the bank, relatives can unlock the equity already in a home — helping fund renovations, additions, or major life needs — all while keeping the benefits of the homeowner's existing low-rate bank loan. It's a modern, flexible way to invest in the family's quality of life without starting over with a new commercial mortgage at today's higher rates.

But even with the best intentions, family financial arrangements can be complicated. Everyone wants to give and receive support in a way that builds stability while protecting shared financial interests, ensuring fairness, and avoiding unintended tax or legal issues.

That's where **National Family Mortgage®** comes in.

We're not a bank or a mortgage broker. We're a specialized online company that helps families create **safe, legal, and IRS-compliant intrafamily mortgage loans** for home improvements, renovations, and equity access. Our process transforms informal family generosity into a professional, enforceable, and tax-compliant arrangement — protecting the Lender's investment and giving the Borrower the freedom to improve their home on fair, flexible terms.

With **National Family Mortgage®**, families avoid the tax, legal, and relationship risks that come with undocumented loans, unrecorded liens, or gift confusion — while preserving the homeowner's original mortgage and interest rate advantage.

Since 2010, we've helped thousands of families nationwide document and manage billions in family mortgages — with a loan default rate consistently under 1%.

Our work — and the success of our clients — has been featured in **The Wall Street Journal**, **The New York Times**, **Consumer Reports**, **Kiplinger**, **ABC News**, as well as by **Michael Kitces**, the late, great **Jonathan Clements** and other respected publishers.

We're here to make **family home equity lending** — and family mortgage lending — safe, simple, and successful. Because when families can replace financial pressure with clarity, fairness, and confidence, everyone wins — today and for years to come.



National Family Mortgage® reflects Founder and CEO Timothy Burke's long-standing commitment to helping families build, protect, and transfer wealth. Burke began his career in family lending at CircleLending, the peer-to-peer pioneer that launched the model in 2001. After CircleLending's 2007 acquisition by Sir Richard Branson and rebrand as Virgin Money USA, Burke helped carry the vision forward. When the Great Recession led Virgin to exit the U.S. market in 2010, Burke continued the mission by founding National Family Mortgage®.

Top 10 Dealbreakers

Is National Family Mortgage ® Right for Your Family?

National Family Mortgage ® is a specialized, scalable service. We operate within a narrow vertical to ensure every loan is enforceable, tax-compliant, and successful.

To save your time and minimize disappointment, please review these **Top 10 Dealbreakers**. If any apply to your family's situation, unfortunately, we cannot help you. Please contact a local estate attorney for assistance.

1. **Location Matters** 📍

✅ The Borrower's home is in one of our supported U.S. states:
AL, AZ, CA, CO, CT, DC, FL, GA, IL, IN, ME, MA, MN, MO, NV, NH, NJ, NM, NC, OR, PA, SC, TN, TX, UT, VT, WA, WI

All Lender(s) and Borrower(s) must have:

- A U.S. mailing address
- A U.S. Social Security Number or Tax ID Number

❌ We cannot support transactions anywhere else.

2. **Family Relationship Requirement** 👪

✅ At least one Lender and one Borrower must be **immediate family members** (parents, grandparents, children, or siblings — including adoptive / step).

A significant other, fiancé, or spouse may be included on the loan as a Co-Borrower if the Lender and primary Borrower share a qualifying relationship above.

Loans may also be to / from **Grantor(s) / Trustee(s) of a Trust** (Family, Living, Revocable / Irrevocable, Land, Realty, Special Needs), provided the Trustee and counterparty share a qualifying relationship above.

❌ Loans between friends, cousins, colleagues, or ex-spouses do not qualify.

❌ Loans through a business or retirement account do not qualify.

❌ Loans involving a deed transfer or buy-out / refi due to a divorce or breakup do not qualify.

3. **Don't Bet the Farm** 🏠

✅ Loans must be secured by a **1–2 family residence, condominium, townhouse, or rowhouse**.

Manufactured or modular homes are permitted only if permanently affixed to land under one tax ID number.

❌ We do not support construction loans or loans secured by vacant land, co-ops, mobile homes, tiny homes, tenant-in-common properties, or property zoned commercial or agricultural.

4. Timing Is Everything 🕒

- ✓ The family mortgage must be executed and recorded at the Borrower's loan closing with a local settlement agent — not afterward and not “on the sidelines.”
- ✓ The loan closing must be scheduled between the **4th and 25th of the month**, and at least two weeks away from completing our online checkout.
- ✗ If you've already closed or are closing too soon, we cannot assist.
- ✗ We do not support “after-the-fact” loans.
- ✗ Loan documents cannot be formatted to accommodate Borrower execution via Power of Attorney. However, your settlement agent may be able to modify the documents locally to accommodate execution via POA, remote, or digital notarization.

5. Marriage Matters 💍

- ✓ When not lending through a Trust, married Lenders must include their spouse on the loan. “A married couple, as joint lenders” is our standard vesting designation for two spouses acting together as Co-Lenders. This language is universally accepted for loan documentation and allows us to treat both spouses as joint parties to the transaction. *If your family attorney or settlement agent requires different vesting language for married Lenders, please contact your National Family Mortgage ® team member. We can make arrangements within your account to allow you to enter the requested language directly. **Please note, we do not support Lenders who wish to hold their loan as Tenants in Common.***
- ✓ Likewise, unless borrowing through a Trust, married Borrowers must include their spouse on both the property deed / title and the loan. If a Borrower has a spouse or unmarried partner who will appear on the property deed / title, that person must also be on the loan.
- ✗ National Family Mortgage ® does not review prenuptial agreements or support holding assets as “sole and separate estates.”
- ✗ Individual Borrowers / Lenders who wish to exclude their spouse or partner from loan documents or title do not qualify.

6. No Shared Ownership Between Lender and Borrower 🔑

- ✓ The Lender is simply playing the role of the bank and **cannot co-own** the Borrower's home.
- ✗ If the Lender will also appear on the property deed / title, the transaction does not qualify.

7. Keep It Simple: Two Lenders, Two Borrowers, Maximum 🔑

- ✓ National Family Mortgage ® supports up to **two Lenders** (typically a married couple living at the same address) and up to **two Borrowers**.
- ✓ Families wishing to combine funds from multiple households (e.g., parents and siblings, or both sides of a family) must structure **two separate Family Mortgages** as 1st and 2nd position liens.
- ✗ We cannot support:
 - Loans with more than two Lenders or Borrowers.
 - Sibling Co-Borrowers who are not borrowing through a qualifying Trust.
 - Crowdfunded or pooled family loans.

8. The Price Must Be Right \$

- ✔ For primary intrafamily mortgage loans, the Borrower's total mortgage indebtedness, including the family mortgage, may not exceed the home's current market value.
- ✔ For secondary (home equity) intrafamily mortgage loans, the Borrower's family mortgage indebtedness may not exceed the Borrower's available equity position, defined as the difference between the home's current market value and the outstanding balance of any existing primary (first-position) mortgage.
- ✘ Texas, if the loan includes any home-equity component ("cash-back refinance"), state law limits the total of all mortgage debt to 80% of the home's current market value. You can only have one home equity loan.

9. The Rate Must Be Right 💰

- ✔ The loan's interest rate must **meet or exceed the term appropriate annual IRS Applicable Federal Rate (AFR)** in effect at the time the loan is made, and may not exceed **8.00% (6.00% in PA or TN)**.
- ✘ Loans structured below the required AFR, or above the stated maximums, will not qualify.
- ✘ These rules apply regardless of whether your family intends to file a gift tax return or report imputed interest income differently.

10. Lending Is a Privilege, Not a Practice 🏛️

- ✔ The family Lender must **not have made three or more mortgage loans within the past 12 months**.
- ✘ Families engaged in frequent or ongoing private lending activity may be subject to additional federal and state licensing requirements.
- ✘ National Family Mortgage ® cannot participate in any loan that may be deemed a commercial or habitual lending practice.

You're Doing This for the Right Reasons ❤️

- ✔ A National Family Mortgage ® works best when it's about **family opportunity, not obligation** — a way to help loved ones build and strengthen their life, not just improve a balance sheet.

If you made it this far — and that's your "*why*" — then you're in the right place.

You're our people. Let's build something together. We're excited to help you!

The Problems We Solve

Problem #1 / Broken Banking

- Traditional lenders profit twice — charging your family higher interest rates on mortgage loans while paying your family almost nothing on low-risk deposit accounts.
- Families with substantial home equity are often forced to borrow back their own wealth at inflated commercial rates or reset their entire mortgage at today's higher rates.
- Family lending allows you to cut out the middleman: your family borrows at a fair rate, while family Lenders earn more interest than a bank would ever pay.

Real Numbers (February 17, 2026)

Traditional Banking	Family Mortgage
<i>Borrower pays: 6.22% Mortgage Rate Average interest rate for a 30-year fixed mortgage according to BankRate.com</i>	<i>Borrower pays: 4.72% Mortgage Rate March 2026 Long-Term, Annual, IRS Applicable Federal Rate</i>
<i>Lender earns: 4.125% 10 Year Treasury Note According to TreasuryDirect.com</i>	<i>Lender earns: 4.72% 10 Year Family Mortgage</i>
<i>Bank profit: 2.095%</i>	<i>Bank profit: 0.00%</i>

\$500K Family Mortgage Loan Example (30 Year Amortization w/ 10 Year Balloon)

- Borrower saves: \$470/month (\$74K in interest over 10 years)
- Lender earns: Nearly \$9K more than money parked with 10 Year Treasury Note
- Family keeps: Over \$215K that would go to bank profits

Problem #2 / Gifts That Backfire

- Outright gifts often lead to regret. A loan can always be forgiven later — but a gift can't be turned back into a loan.
- If your child divorces, half of your gift may walk away with the ex-in-law as home equity. A National Family Mortgage ® protects your family's wealth.
- Gifts without structure can create tension with other family members if things go wrong. Loans add accountability, fairness, clarity, and flexibility.
- Life can change quickly. A structured mortgage can be refinanced by a Borrower should a Lender need emergency liquidity later, like following a health issue — something a gift can't provide.

Problem #3 / IRS Scrutiny

- The IRS presumes all family transfers are gifts unless you can prove otherwise. That's why documentation and payment enforcement matter.
- For loans over \$100,000, the IRS requires Lenders to charge at least the **Applicable Federal Rate (AFR)** and to report annual interest income. If you don't, the IRS can **impute income** — taxing you on interest you never collected, but should have collected under federal law.
- The IRS annual gift tax limit (\$19,000 per person in 2025) is often overlooked in family transactions.
- Even if you draft a promissory note, your loan may not qualify as a legal mortgage — and your family member may not qualify for the mortgage interest deduction — unless the loan is secured by a lien indexed by the local real estate authorities..

Short-term Annual IRS AFR Rate - For Loans Up To 3 Years

March 2026	February 2026	January 2026
3.59%	3.56%	3.63%

Mid-term Annual IRS AFR Rate - For Loans More Than 3 & Up To 9 Years

March 2026	February 2026	January 2026
3.93%	3.86%	3.81%

Long-term Annual IRS AFR Rate - For Loans More Than 9 Years

March 2026	February 2026	January 2026
4.72%	4.70%	4.55%

Problem #4 / Awkward Thanksgiving

- Was it a loan, or was it a gift? Without anything in writing, misunderstandings can happen.
- Do you really want to remind your son-in-law each month that his payment is late?
- Should you apologize to your parents for missing a payment? (Yes!)
- Who's going to handle the bookkeeping, track balances, and issue IRS tax forms each year?



Optional loan servicing can handle the accounting, monthly statements, and year-end tax forms — so you don't have to bill collector.

Our Solutions

A **National Family Mortgage**® helps relatives lend and borrow directly with each other — eliminating the bank middleman while preventing legal, tax, and relationship problems. Borrowers enjoy better rates, Lenders earn stronger returns, and families build wealth together.

Legal and Tax Protection



- State / County specific mortgage documents designed for family lending
- Clear protections for both Borrowers and Lenders — legally, financially, and personally
- IRS-compliant structure; local lien recording ensures deductibility and tax compliance

Professional Service



- Streamlined documentation and compliance at every step
- Alignment with settlement agents, financial advisors, tax professionals, and estate planners
- Optional Dodd-Frank-compliant payment servicing with annual IRS tax reporting (Forms 1098 and 1099)

Simple Process



1. **Confirm Eligibility** – Review our Top 10 Dealbreakers (see Page 05)
2. **Build Your Loan** – Our online platform walks you through setup.
3. **Close Your Loan** – We confirm scheduling with your settlement agent. Lender disburses loan funds directly to settlement agent.
4. **Manage Payments** – Optional professional servicing keeps payments on track, tax reporting accurate, and relationships protected.

The Benefits

Lender Benefits

Wealth Protection



- Protect family wealth across generations — even in the event of divorce. Lend personally or as Trustee of a Trust.
- Ensure fairness for all heirs by structuring support as a loan instead of an outright gift. You hold a registered mortgage lien — just like a bank.
- Preserve access to your money in case of unexpected personal or medical expenses.

Earn a Strong Return



- Family Borrowers pay you, not the bank — keeping wealth in your family.
- Earn a better return than traditional low-yield savings accounts, CDs, or bonds.
- Enjoy helping loved ones unlock home equity to improve their home, consolidate student loan debt, or start a business

Monthly Income Stream



- Create steady, recurring monthly income from loan payments.
- Use this reliable revenue stream towards other investments, cover living expenses, or fund retirement.

Relationship Protection



- Formal documentation keeps the loan “business-like,” and transparent, preventing future misunderstandings.
- Borrowers remain accountable with clear terms, payment schedules and optional professional loan servicing.
- By separating family and finance, you protect both your investment and your relationships.

Tax Protection



- Avoid IRS scrutiny with properly documented and enforced family loans.
- Eliminate the risk of “imputed” interest income — being taxed on money you never collected, but legally should have collected.
- Manage annual gift tax exclusions correctly and confidently.
- Automate annual IRS reporting with professional servicing.

Borrower Benefits

Low Fees



- Save thousands of dollars by eliminating bank origination charges, application fees, and hidden costs.
- Unlock home equity to improve your home, refinance student loan debt, or finance other life needs.

Lower Interest Rates



- Family Lenders typically charge **1% or more below** traditional bank rates.
- That savings can often add up to **tens of thousands of dollars in savings** – and a more manageable monthly payment.
- **Keep your original, low-interest first position purchase money mortgage if desired.**

Simplified Approval



- Skip the weeks of stress and red tape that come with bank underwriting.
- Your family Lender sets terms directly with you, making the process faster and more flexible.

Tax Deductible Interest



- Properly documented family mortgages are eligible for the **same itemized interest deduction** as traditional home loans (primary or secondary residence).
- Prevent IRS scrutiny by structuring support as a compliant loan, not an informal gift.

! You can deduct your home mortgage interest on acquisition debt, including the interest on loans used to pay the actual costs of substantial home improvements, only if your loan is a secured debt. A secured debt is one in which you sign a Mortgage, Deed of Trust, or Security Deed that is properly recorded or is otherwise perfected under any state or local law that applies. A substantial home improvement must add value to your home, prolong its useful life or adapt it to new uses. For example, adding square footage or adding a bathroom is generally considered a substantial home improvement. The interest deduction is limited to no more than \$375K of acquisition debt for married individual filers, and \$750K of debt for married couples filing jointly, secured by your primary or secondary residence.



Loan Servicing Benefits

- Loan Servicing keeps family loans business-like, provides the Borrower with a professional experience, and helps remove the emotion and unnecessary conversations from managing the loan long-term.
- Having a 3rd buffer between the Lender and Borrower can help ensure Borrower accountability and protect family relationships, especially with new in-laws.
- Do you really want to handle the accounting and annual IRS tax reporting yourself?
- Professional, 3rd party administration can help demonstrate to the IRS that the loan is legitimate and being enforced. This is especially helpful in the event of an IRS audit of a deceased parent's estate.
- Third-party mortgage payment verification from a licensed, Dodd-Frank compliant mortgage loan servicer can make it easier for the Borrower to refinance out of a Family Mortgage and into a commercial loan if / when desired.
- Loan Servicing provides Lenders with an easy, cost-effective solution when they need to endorse the Promissory Note (via an Allonge) and Mortgage (via an Assignment) following the creation of a Trust, or a division of assets following a Lender's divorce.
- Loan Servicing provides an easy, cost-effective solution for the Lender to remove the Mortgage lien from the Borrower's property once the loan is over (except in Colorado, where local title agents or real estate attorneys usually handle it).

How it Works In 10 Detailed Steps

-  **1. Read this Guide:** Start by reading this guide and our [Terms of Service](#) online.
-  **2. Build the Loan:** Either the Borrower or Lender can begin the loan build and pay our one-time setup fee, with the following exceptions:
 - **IL, FL** → Lender must build / pay.
 - **TX, UT**, → Borrower must build / pay.
 - *If the Borrower builds, they must be the blood (adoptive / step) relative of the Lender and use a credit card in their own name.*
 - All loans must close on the 4th – 25th of the month. Please schedule your loan closing date accordingly.
-  **3. Confirm Timing:** You may start building anytime, but checkout requires:
 - Final loan amount
 - For secondary loans, disclosure of current primary mortgage balance
 - Completed [Pre-Closing Questionnaire](#) by settlement agent, and
 - Closing date scheduled within 2–3 weeks, on the **4th–25th** of the month.
-  **4. Welcome Call:** We'll call you to confirm details. Based upon the conversation, you may need to log back in to make updates before your documents are generated.
-  **5. Settlement Confirmation:** We call your settlement agent to confirm closing expectations. We're also available for your attorney, or financial / tax advisor.
-  **6. E-Draft Documents:** Final loan documents are generated within 7 business days of checkout and delivered for your family's review via Adobe Sign. If updates are needed, log in to make the changes (processing may take up to 3 business days).
-  **7. Review & E-Sign:** All parties review and e-approve the documents, including acceptance of our Terms of Service, through secure, mobile-friendly Adobe Sign.
-  **8. Delivery to Settlement Agent:** Once e-signed, documents and instructions are automatically emailed to your settlement agent. The Lender disburses loan funds directly to the settlement agent per their instructions.
-  **9. Optional Loan Servicing:** Professional servicing helps keep things business-like, protect family relationships, and simplify tax reporting.
-  **10. Celebrate!:** You've beat the bank! With a formal, secure National Family Mortgage ® in place, your entire family wins!

Building Your Loan

The Loan Documents

Now that you're ready to explore how to structure a family mortgage, here's what your loan documents actually include.

National Family Mortgage ® offers two home refinance loan products with three available templates:

- **Win-Win Mortgage** ® – Amortized (fixed principal & interest) – Amortized with Balloon payment
- **Gift Mortgage** ® – Interest-only template

All National Family Mortgage ® refinance loans must also meet the following additional Standards:

- Interest rates must meet or exceed the proper annual IRS Applicable Federal Rate (AFR) in effect at the loan closing, and may not exceed 8.00% (6.00% in PA and TN).
- Repayment or amortization terms must be between 1 and 30 years.
- Late payment fees must be between 1%–2% of the monthly payment, with a 15-day grace period.
- There are no pre-payment penalties.
- Payments are due on the 1st of each month. The first payment is due one full month after the last day of the month following the Loan Issue Date.

Examples:

- Loan issued Jan. 4 → First payment due Mar. 1
- Loan issued Jan. 25 → First payment due Mar. 1

We do not support deferring the first payment date. If you use FCI Loan Servicing, you may later arrange a deferral of **future** payments directly through FCI after the standard first payment has been made.

The Loan Closing

All family mortgage transactions are considered *private financing* and must be executed at the Borrower's loan closing with their local settlement agent. This ensures the loan is properly reflected on the settlement statement and recorded with the local authority.

- All loan closings must occur between the **4th–25th** of the month.
- The type of settlement agent varies by state (attorney, title company, or escrow agent).
The following states typically require closing attorneys:
AL, CT, DC, FL, GA, MA, NH, NJ, NC, NC, PA, SC, VT
- The settlement agent is responsible for:
 - Overseeing the Execution of the loan documents,
 - Attaching the Exhibit "A" legal description to the Mortgage,
 - All title work and applicable title insurance
 - Recording the lien with the proper government authority, and
 - Reflecting the loan on the Borrower's settlement disclosure (HUD-1 or ALTA)
 - *We do not make referrals to settlement agents.*

Why a Formal Loan Closing Is Required

Even though a family refinance isn't a traditional bank loan, it's still a **real estate transaction** — and that means your new mortgage must be executed and recorded just like any other home loan.

For everyone's protection, **National Family Mortgage®** requires all transactions to close through a **licensed local settlement agent** — typically a **title company** or, in some states, a **real estate attorney** or **escrow company**.

This process ensures:

- Your new family mortgage is properly recorded with the local authorities.
- The Borrower's title remains clear and insurable.
- The transaction meets state and federal real estate laws.

Even though it might feel like “just paperwork,” this step transforms your private arrangement into a **professionally documented, enforceable mortgage** that qualifies for the same legal and tax protections as any institutional loan.

What About Settlement Agent Fees?

Because every refinance must be executed through a licensed settlement agent — such as a title company, escrow company, or real estate attorney — families should expect to pay **standard settlement agent closing costs** for the municipality mortgage recording and any title-related services.

These costs vary by state and property value, but typically include:

- Settlement / closing fee
- Government recording fees for the new Mortgage, Deed of Trust, or Security Deed
- Any state or county document recording taxes (AL, FL, GA, MN, TN – see Page 24)
- Title search and title insurance premiums (if required)

In most cases, these professional fees total **a few hundred to a couple of thousand dollars**, similar to what you'd see in any traditional mortgage refinance.

Your chosen settlement agent can provide a detailed cost estimate in advance.

- ✓ While loan closing costs are separate from your National Family Mortgage® service fees, they're a vital part of ensuring your loan is properly recorded, insurable, and compliant with local real-estate law.

How to Contact a Settlement Agent

“I'm refinancing a private intrafamily mortgage on a residential property; it's actually a lump-sum home equity loan. The loan will be executed and recorded at closing, similar to a standard refinance, but the lender is a family member rather than a bank. We're working with National Family Mortgage® to document the loan; your role would be to conduct the loan closing, record the lien, issue the settlement statement and any required title insurance.”

Know the IRS Applicable Federal Rates

When families **lend over \$100,000 to a relative**, the IRS wants the transaction to look and behave like a legitimate loan.

That's where the **IRS Applicable Federal Rates (AFRs)** come in.

Each month, the IRS publishes interest rates called the **Applicable Federal Rates (AFRs)**. These rates serve as the **minimum interest the IRS expects to see** on family loans. If a loan is written below the appropriate AFR, the IRS may treat part of the loan as a **gift** and **tax the Lender as though AFR based interest had been collected by the Lender anyway**.

Using at least the current AFR keeps your loan fair, compliant, and free from unwanted tax complications.

The Three AFR Terms

- **Short-Term:** Loans of up to 3 years
- **Mid-Term:** Loans greater than 3 years and up to 9 years
- **Long-Term:** Loans longer than 9 years

The AFRs are based on the average yields of U.S. Treasury securities (T-Bills, T-Notes, T-Bonds) over the prior 60 days. They change monthly and set the benchmark rate that keeps a family loan recognized as a legitimate financing arrangement under federal tax law.

To choose the correct AFR:

1. Determine the **repayment term** you've agreed upon.
2. Use the AFR for that term **in effect for the month your loan is made**.

All National Family Mortgage ® loans are **term loans** with a clear maturity date — no variable or “on demand” loans — ensuring predictable payments and long-term compliance.

Once locked in, the AFR stays **fixed for the life of the loan** ([IRC §1274\(d\)](#)).

AFRs and Simple-Interest Loans

Even though all National Family Mortgage ® loans require **monthly payments**, they are **simple-interest, annual-rate loans**, not monthly-compounded loans.

That means:

- Interest is **calculated monthly using one-twelfth of the annual rate**, and

- Because Borrowers pay that interest in full each month, it **never compounds** (no “interest on interest”).

This is the same structure used by **Fannie Mae** and **Freddie Mac** mortgages.

The interest rate is **annual**, the calculation is **monthly**, and the compounding is **none** — keeping the loan transparent, consistent, and IRS-compliant.

Why the AFR Matters

If a family loan is written below the appropriate AFR:

- The IRS can **impute taxable interest income** to the Lender, and
- Treat the **unpaid interest** as a **gift** from the Lender to the Borrower ([IRC §7872](#)).

That “phantom interest” counts toward the Lender’s **annual gift tax exclusion** (currently \$19,000 per recipient in 2025).

If exceeded, the Lender must file a **gift tax return** ([Form 709](#)).

Ignoring the AFR can effectively penalize the Lender twice — once through extra taxable income, and again through reduced gift-tax exclusion.

National Family Mortgage’s ® Applicable Federal Rate (AFR) Standard

National Family Mortgage ® requires that every family loan or seller-financed transaction meet or exceed the **annual-compounded AFR** for the applicable term **in effect for the month of closing**.

This single-rate standard satisfies the statutory semiannual compounding requirement under **IRC § 7872**, exceeds the minimum yield required for **§ 1274(d)** installment-sale transactions, and eliminates ambiguity between loan and sale treatment.

If you want to read more about the IRS Applicable Federal Rate than you ever dreamed, check our Mr. Burke’s detailed explanation on our policies: [IRS AFR Compliance for Intra-Family Loans and Seller-Financed Home Sales: Understanding the Law, Myths, and Best Practices](#)



Always confirm tax implications with your own financial, legal, or tax advisor.

The Win-Win Mortgage ®

- **Principal & Interest**
- **No Prepayment Penalty**
- **1 – 30 years**
- **Fixed Rate & Monthly Payment**

The Win-Win Mortgage ® is a traditional amortized loan with fixed monthly principal-and-interest payments. It offers families a fair structure: Borrowers benefit from below-market rates, and Lenders earn more than they would from conservative investments.

- **IRS Rate Compliance:** All loans must meet or exceed the term appropriate annual IRS Applicable Federal Rate (AFR) at the time of closing. The rate is fixed for the life of the loan.
- **Traditional Amortization:** Monthly payments are fixed, covering both principal and interest. While the total payment is the same each month, the ratio of principal vs. interest shifts according to the amortization schedule.
- **Paying Ahead:** *If Borrowers make extra principal payments, **the monthly payment doesn't change – it's always fixed** – but the loan is paid off faster.*
- **Payment Timing:** Interest is paid monthly but calculated annually. As long as the Borrower makes each fixed payment, the loan will be fully paid by the end of its term.

The Win-Win Mortgage ® with Balloon

- **Principal & Interest**
- **No Prepayment Penalty**
- **1 – 29 years**
- **Fixed Rate & Monthly Payment**

The Win-Win Mortgage ® with Balloon provides the affordability of a long-term amortized payment schedule, but requires repayment of the remaining balance at an earlier, agreed-upon **Balloon Date**.

Example: A loan amortized over 30 years but with a 5-year Balloon requires the Borrower to make 30-year-level monthly payments, then repay the balance in full at year 5 — typically by refinancing or selling the home.

Why Families Choose a Balloon Structure

- **Flexibility for Lenders:** Some Lenders prefer not to commit funds long-term. A Balloon provides cash-flow flexibility for the Borrower, but sets a clear mid-term end date for the loan.
- **When a Borrower Needs More Time:** Families sometimes use a Balloon when a Borrower can't qualify for a bank loan (e.g., due to new employment or a credit blemish). The Balloon provides time to stabilize, with incentive to refinance by the Balloon Date.
- **Interest Rate Strategy:** If the IRS mid-term AFR (3–9 years) is lower than the long-term AFR (10–30 years), structuring a Balloon within the mid-term window can lock in compliance while reducing interest costs. For example, amortizing over 30 years but setting a 9-year Balloon allows use of the mid-term AFR, lowering monthly payments while ensuring IRS compliance.



The Gift Mortgage®

- Interest-Only • Fixed Rate • No Prepayment Penalty
- As Principal Decreases, Monthly Interest Payment Decreases • 1 – 30 years

The Borrower makes **monthly interest-only payments** for the agreed term (1–30 years). If the Borrower never reduces the principal, the **entire loan balance is due at the end** of the term in a Balloon payment.

Because payments only cover interest, the monthly obligation is lower than with a traditional amortized loan — giving the Borrower even more cash-flow flexibility. The Borrower may make additional principal payments at any time. *Each reduction in principal lowers the required interest-only payment going forward.*

Why Families Choose the Gift Mortgage®

- 1. Cash-Flow Flexibility:** Lower required monthly payments provide breathing room for the Borrower. This can make sense during temporary unemployment or the birth of a child. The Borrower can always pay more towards principal when ready.
- 2. Market-Confidence Strategy:** If the home is in a desirable, stable market and the Borrower plans to stay long-term, families may see low risk. Property appreciation over time often offsets the outstanding balance at resale.
- 4. Wealth Transfer Considerations:** Over time, some families may choose to apply discretionary principal reductions to an interest-only loan. When principal reductions are treated as gifts, applicable IRS gift tax rules may apply, and families typically consult their tax advisors to ensure proper treatment and reporting.

 *A Gift Mortgage® is always a loan, never a required gift. Families considering wealth transfer strategies should consult an attorney, financial advisor, or tax professional for proper guidance.*

How Much Does This Cost?

“National Family Mortgage ® provided top quality service and everything was accomplished quickly and efficiently. All in all an excellent way of setting up an inter-family transaction that makes the process as painless as possible, and at a reasonable price.” — Tom, California (Borrower)

One-Time Setup Fee

Loan Amount	Setup Fee
\$0 – \$300,000	\$1,175
\$300,001 – \$500,000	\$1,425
\$500,001+	\$1,875

What’s Included

- **Dedicated National Family Mortgage ® Team Member**
Your family will be assigned a dedicated specialist who will guide you through the entire process. We can also connect directly with your financial planner, tax consultant, or estate attorney.
- **Promissory Note**
This document establishes the legal debt between Borrower and Lender, including repayment terms.
- **Mortgage / Deed of Trust / Security Deed**
The lien security instrument pledges the Borrower’s property as collateral. Most states call this a “Mortgage,” some use a “Deed of Trust,” and Georgia requires a “Security Deed.”
- **Confirmation with the Borrower’s Settlement Agent**
We confirm scheduling details and expectations with the closing attorney, title company, or escrow agent. The settlement agent collects and remits municipality document recording fees (usually \$50–\$300, depending on state) and taxes. See Pages 15 and 16 for more about the settlement agent’s role, and Page 24 for details on recording taxes in AL, FL, GA, MN, TN.

Document Delivery

After working with your National Family Mortgage ® team member, you may need to log back in and update certain information before generating your documents. Final loan documents will be delivered via Adobe Sign within **7 business days of setup form completion**. All parties must also review, e-sign, and accept our Terms of Service. Document amendments may take up to three business days to process. Once approved via e-signature, final documents are automatically emailed to the settlement agent for execution and recording at Borrower’s loan closing.

Refund Policy

National Family Mortgage ® offers a **90-day refund of your purchase, valid any time prior to execution or government registration of the loan documents**. All refunds are subject to a \$75 processing fee.

Optional Loan Servicing Fees

[Powered by FCI Lender Services, Inc.](#) > One-time account setup fee: **\$65 (paid by the Lender)**

Loan Amount	Monthly Fee (Paid by Borrower or Lender)
\$0 – \$400K	\$20
\$400K+ – \$500K	\$30
\$500K+ – \$600K	\$40
\$600K+ – \$700K	\$50
\$700K+ – \$800K	\$60
\$800K+ – \$900K	\$70
\$900K+ – \$1M	\$80
\$1M+ – \$2M	\$100
\$2M+ – \$3M	\$120
\$3M+ – \$4M	\$140

New York surcharge: *If the Borrower's property is located in New York, add \$10 to the monthly servicing fee.*

What's Included

- Email reminders, monthly statements, full loan accounting
- Electronic payment processing, no pre-payment penalties
- Borrower / Lender mobile app & online portal / support
- Annual IRS reporting (Borrower 1098 / Lender 1099-INT)
- Payoff statements & lien release filing*

**Colorado requires lien release by local title company / attorney. See FAQs on Page 35 for details.*

Optional Monthly Escrow of Property Taxes / Insurance Upgrade

- \$175 one-time account analysis fee and up to an additional \$17.50/month.

About FCI Lender Services

Founded in 1982, FCI manages over **\$30B in loans** and is fully compliant with Dodd-Frank and state servicing rules. Licensing info: [nmlsconsumeraccess.org \(#4920\)](http://nmlsconsumeraccess.org/#4920).

FCI can assist with allonge preparation, assignment preparation and recording, payment deferral agreements, loan modification agreements, payoff statements, and lien releases. For a complete list of additional services and pricing, please visit MyFCI.com. Cancel anytime for \$90.

 **Bottom line:** Loan Servicing keeps family loans professional, IRS-compliant, and business-like — protecting both Lender and Borrower.

Title Insurance

There are two types of title insurance – owner’s title insurance (an Owner’s Policy), which protects the home owner, and Lender’s title insurance (a Lender’s Policy), which protects the Lender.

An Owner’s Policy identifies risk affecting the buyer’s ownership rights. The policy also provides the home owner with additional protections against various hazards, including those even the most thorough search of public real estate records do not disclose – such as document forgeries, unknown heirs of previous home owners, or local municipality document recording errors. The policy makes the home owner whole again in the event of another’s legitimate claim to the property.

A basic Lender’s Policy guarantees the Lender a valid and enforceable lien position (Mortgage, Deed of Trust, Security Deed), and assures that no claimant (other than those noted in the policy) has a prioritized claim against the real estate. A Lender’s Policy is issued in the amount of the loan, and liability decreases as the mortgage debt is reduced. The policy makes the Lender whole again in the event of a legitimate claim. Institutional mortgage Lenders always require the Borrower purchase a Lender’s Policy.

Most title insurance policies also offer Lender coverage enhancements, (endorsements, extensions) to provide additional insurance coverage for special situations. Available enhancements may include, but are not limited to, coverage for zoning, condominiums and planned unit developments, residential environment liens, and easement or mineral rights. These enhancements often overlap with coverages provided in the Owner’s Policy.

In over half the country, real estate and loan closings are *usually* handled entirely by title companies. Of course, title companies are primarily in the business of selling title insurance. Because the Borrower already owns the property, and presumably obtained Owner’s title insurance when purchasing their home, **most title companies will require the new family Lender to obtain a Lender’s title insurance policy as a condition of closing the loan.** This is simply a cost of doing in business in states that do not legally require attorney participation on real estate loans.

Who pays for the title insurance and how much it costs is a matter of state law and local customs. The cost of title insurance also varies widely from state to state and from title company to title company. In the case of a full refinance, any Lender’s Policy protecting the outgoing commercial lender will end once that lender is paid. The Borrower’s settlement agent offering the insurance, or a representative from the title insurance company, should be able to help your family make sense of local title insurance practices, Owner / Lender Policy differences and / or coverage overlaps, including policy costs. A residential real estate attorney (which may be hard to find in your state) *might* be willing to handle an intrafamily mortgage refinance with a Lender’s title insurance waiver.

Closing Protection Letter

If the Borrower’s loan settlement is being handled by a real estate attorney or escrow company who serves as an agent for various title insurance companies, we also recommend the Lender obtains a “Closing Protection Letter”. A Closing Protection Letter, commonly called a CPL (or in some states an “Insured Closing Letter” or “ICL”), is an agreement from a title insurance company designed to protect the Lender against issues that might arise from fraud or negligence on the part of a closing attorney or escrow company, including non-compliance with Lender written closing instructions. **The cost for a Closing Protection Letter also varies widely from state to state – typically, ranging from \$0 - \$250.**

The Borrower’s settlement agent, or a representative from the title company, should be able to help your family better understand the differences between a Lender’s Policy and a Closing Protection Letter, and how these protections can work together.



State Recording Taxes

Applicable in the following states: Alabama, Florida, Georgia, Minnesota, Tennessee,

In addition to our one-time setup fee, the following states require various Deed of Trust / Mortgage / Security Deed taxes be paid at the time of document recording with the proper government authority. These taxes only apply when the Borrower's home is in one of the states listed below. National Family Mortgage ® will confirm scheduling details and expectations with the Borrower's closing attorney, title company, or escrow company, who will collect the required taxes at settlement. It is the client's responsibility to pay all required local government document recording taxes.

Alabama: \$0.15/\$100

Florida: Intangible Tax: \$2.00/\$1,000
Documentary Stamp Tax: \$0.35/\$100*
*Miami-Dade County: \$0.60/\$100 plus surtax of \$0.45/\$100

Georgia: \$1.50/\$500 or fraction thereof

Minnesota: \$0.23/\$100
Hennepin and Ramsey Counties \$0.24/\$100

Tennessee: \$0.115/\$100

While we strive to keep the above estimated recording taxes up to date, please confirm current tax rates with the Borrower's closing attorney, title company, or escrow company.

FAQs

Q: I'm making a home equity loan to my relative to help them renovate their home. Can't I just document this myself with AI?

A: AI can generate words, but not **legally enforceable loan documents** — and unlikely ones tailored to your state's recording requirements or the IRS's family-lending rules.

A valid, compliant **family mortgage** is far more than a simple promissory note or contract. To protect your investment and preserve your family relationship, you must also:

- Create and record a **state- and county-approved** Mortgage / Deed of Trust / Security Deed
- Establish a clear repayment plan — tracking all **principal, interest, late, and pre-payments**
- Prepare **annual IRS tax reporting** for interest earned and paid

Without these components, your loan could be considered an informal gift, denied deductibility, or even unenforceable in court.

A recorded mortgage protects the Lender's interest in the event of the Borrower's divorce, death, or default — and ensures the Borrower can claim their mortgage interest deduction.

Even the best AI tools currently don't:

- Understand your state's / county's lien-recording laws
- Track IRS Applicable Federal Rates, imputed interest or gift tax rules
- Handle payment reporting or issue 1098 / 1099 forms

National Family Mortgage ® provides structured informational resources and a documentation platform designed specifically for intrafamily mortgage arrangements. Families establish their own terms and use the platform to document their arrangements in alignment with IRS-published guidance and applicable recording practices.

Q: Do we really have to report the Lender's interest income to the IRS?

A: Yes. For loans over \$100,000, Lenders are legally required to report interest income at a rate that meets or exceeds the proper **IRS Applicable Federal Rate (AFR)** in effect at the time of the loan.

Q: Why does it matter that we record the mortgage with public authorities?

A: Recording the mortgage proves to the IRS — and to any third party — that this is a legitimate secured loan, not a disguised gift.

- It makes the Lender's lien legally enforceable.
- It allows the Borrower to deduct mortgage interest on their tax return.

Unrecorded loans, even when documented by a promissory note, are not eligible for the mortgage interest deduction.

Q: Can we lock in today's IRS Applicable Federal Rate?

A: The IRS requires families to meet or exceed the term appropriate annual AFR **in effect at the time of loan origination** — typically, the Borrower's closing date. Rates can't be pre-locked; they must reflect the month the transaction occurs.

(continued >>>)

Q: Do we need an appraisal or title insurance?

A: While a formal appraisal isn't mandatory, under our Terms of Service, For **primary** intrafamily mortgage loans, the Borrower's *total mortgage indebtedness* — including the family mortgage — may not exceed the home's current market value. For **secondary** (home equity) intrafamily mortgage loans, the Borrower's *family mortgage indebtedness* may not exceed the Borrower's *available equity position* — defined as the difference between the home's current market value and the outstanding balance of any existing primary (first-position) mortgage. In **Texas**, if the loan includes any home-equity component ("cash-back refinance"), state law limits the *total* of all mortgage debt to 80% of the home's current market value.

Some families use:

- A professional appraisal if desired, or
- Recent comparable home sales,
- Online valuation tools (like Zillow, Redfin, or county assessment records)

While a formal appraisal isn't mandatory, some families still choose to obtain one for peace of mind or for documentation in their estate or financial planning files.

We continue to recommend Lender's Title Insurance when the property is being refinanced or when the family mortgage will sit in a secondary lien position. (See Page 23 for more details.)

Q: How should the Lender disburse the loan funds?

A: The Lender must disburse funds directly to the **Borrower's closing attorney, title company, or escrow company** — never directly to the Borrower or Seller.

National Family Mortgage ® does not handle disbursement of Lender funds.

This ensures the loan is executed as part of the Borrower's formal loan closing and properly recorded.

Q: What happens if the Lender or Borrower dies during the course of the Loan?

A:

- If the **Lender** dies, the Borrower repays the Lender's estate per the original terms.
- If the **Borrower** dies, their estate remains responsible for repaying the loan under the same terms.

Loan documents identify the parties to a valid loan but do not determine how that loan fits within a Lender's broader estate plan. Laws governing marital property, survivorship, and probate vary by state. Families concerned about how a loan may be treated after a lender's death should consult their legal or estate-planning advisor.

Q: Can a loan be forgiven upon the Lender's death?

A: Yes. In most cases, forgiveness of an intra-family loan at death is addressed through the lender's estate-planning documents rather than through the loan itself.

Many families provide in their will or trust that any remaining loan balance is forgiven at death. When handled this way, the loan remains a standard, enforceable obligation during the lender's lifetime and is resolved as part of the estate administration process.

Because forgiveness at death is an estate-planning matter, families should work with their legal and tax advisors to ensure the outcome aligns with their broader estate plan and reporting obligations.

Q: How does the optional Loan Servicing work?

A: If you elect to have your family mortgage serviced by **FCI Lender Services**, they will:

- Send monthly email statements to both parties.
- Process payments automatically via ACH
- Handle all loan accounting with no prepayment penalties
- Offer optional escrow of property taxes / insurance
- Provide online access and annual IRS forms (1098 for Borrower, 1099-INT for Lender)

(continued >>>>)

Q: Will the loan be reported to credit agencies?

A: No. Credit bureaus do not currently accept intrafamily loan reporting.

Q: How can a Lender give a financial gift to the Borrower?

A: Option 1 — Cash Gift: The Lender may make a direct cash gift to the Borrower up to the IRS annual exclusion limit, which the Borrower may elect to use to prepay loan principal.

Option 2 — Principal Reduction: In lieu of making a direct cash gift, the Lender may elect to use their annual IRS gift exclusion in the form of an ad hoc, discretionary principal reduction on the loan. If working with FCI Lender Services, the Lender may email FCI Lender Services authorization to reduce the loan balance by whatever amount the Lender wishes. FCI will charge the Lender \$65 to implement the principal reduction and update the account.

Always memorialize financial gifts clearly and consult your trusted tax advisor.

Q: How do we release the mortgage once the loan is repaid?

A: Typically, the settlement agent handling either the property sale or commercial refinance of a family mortgage will prepare and record the lien release.

If your loan is serviced by **FCI**, they can also prepare and file the release (except in Colorado, where local title agents or real estate attorneys usually handle it).

Q: Can we “refinance” or “amend” our interest rate if / when the IRS Applicable Federal Rates fall?

A: 1) What a true refinance means (cleanest for tax defense)

The Lender pays off the existing loan and originates an entirely new loan at the current, lower AFR.

Expect: a new Promissory Note, updated payment schedule, and a new **Mortgage / Deed of Trust / Security Deed** document, along with another loan closing through your local settlement agent.

Pros:

- Easiest to defend if ever reviewed by the IRS — the AFR economics reset cleanly at market.
- Removes any argument that the loan wasn't truly a fixed-term loan.

Cons:

- Requires liquidity to “pay off” your own loan (even if only momentarily at closing).
- Involves more paperwork, coordination, and closing costs.

(continued >>>)

2) What an interest-rate amendment means (practical and fairly common)

You and your family sign a written modification, or amendment, to the existing Promissory Note that lowers the rate (still \geq current AFR).

Expect: in most cases, no new lien recording is required for a rate-only change — the **Mortgage / Security Instrument** remains in place securing the amended Note.

Pros:

- Many tax practitioners consider one or two well-documented amendments that meet or exceed the then-current AFR to be reasonable and permissible.
- Appropriate when this is your 1st or 2nd change, purely to align with a meaningfully lower AFR.
- All other terms remain the same (loan structure and payment schedule remain fixed).
- You document the change formally (signed by all parties), meet or exceed the current AFR, and update the amortization and servicing records.

Cons:

- A repeated habit of “chasing” AFR drops can invite IRS scrutiny about whether the loan is truly fixed-term or has a floating rate — potentially triggering application of a **blended AFR** (which could be higher than intended).
- If a Lender voluntarily accepts less interest with nothing in return, an auditor could argue there’s an element of **gift**, equal to the Borrower’s future savings.

Example **Interest Rate Modification Templates** are available for download in the “Knowledge Center” column within the footer of every page of our website.

If you’re participating in the optional **Loan Servicing** with FCI Lender Services, FCI charges **\$65.00** to implement the signed amendment and update your Loan Servicing account.

Please consult your **attorney, financial advisor, or trusted tax professional** for guidance on potential risks or concerns with reducing the interest rate, by any means, on your loan.

Q: Who are your competitors?

A: Estate attorneys generally have both the tax code and real estate background to help families generate promissory notes and state / county specific real estate liens. Naturally, estate planners usually charge a premium for their expertise. Of course, estate planners simply cannot, and frankly don't want to, manage family mortgage loans. For this reason, most attorneys appreciate our streamlined solutions.

Alternatively, several other online companies claim to facilitate "loans" between relatives. Please remember, an unsecured promissory note does not equal a registered, tax deductible mortgage loan. The legal and tax ramifications of a poorly documented intrafamily mortgage loan can be a nightmare for both Lenders and Borrowers alike.

Likewise, many money transfer companies also claim to "manage" loans between relatives. Please remember, the business of mortgage loan servicing is tightly regulated by federal and state laws — even when servicing mortgage loans between relatives.

Why Families Choose National Family Mortgage ®

	National Family Mortgage ®	LoanBack	Namma	Venmo	Zelle	Zirtue	ZimpleMoney	AI or "Free" Legal Doc Websites
State & county specific Mortgage lien, Deed of Trust, Security Deed documentation	✓	✗	✗	✗	✗	✗	✗	?
Coordination of details with Borrower's settlement agent. Lien recording at RE closing	✓	✗	✗	✗	✗	✗	✗	✗
Tax-deductible home mortgage loan products	✓	✗	✗	✗	✗	✗	✗	?
Licensed, third-party, federal/state Dodd-Frank Act compliant national mortgage loan servicing solution*	✓	✗	✗	✗	✗	✗	✗	✗
Year-end 1098 & INT-1099 IRS tax forms & IRS reporting solutions*	✓	✗	✗	✗	✗	✗	✗	✗
Payoff statements & national lien release solution*	✓	✗	✗	✗	✗	✗	✗	✗

(* Except in Colorado, where local title agents or real estate attorneys usually handle lien releases.)

The Smart way to Manage Mortgage Loans Between Family Members

If this guide feels detailed, that's because protecting family wealth deserves care. We believe families considering an intrafamily mortgage loan deserve access to thorough information so they can select the solution that best fits their needs.

Since 2010, National Family Mortgage ® has successfully helped thousands of families across the US lend billions in home loans between relatives. We work with you and your trusted advisors to ensure a smooth and rewarding National Family Mortgage ® experience.

Every National Family Mortgage ® begins with trust and ends with opportunity.

We help Lenders make loans they feel good about — loans that prevent tax problems, protect family relationships, and get repaid. We help Borrowers fund their dreams, build wealth, and stay on track with their mortgage payments.

When families lend with clarity, fairness, and respect, everyone wins — today and for generations to come.

If your family's ready to take the next step, we're ready to help make it official!

Always invest in family®