



# Foundations On-Demand

Liquid Assets Workbook

## Introduction

The accumulation of a borrower's assets is a strong indication of a person's creditworthiness.

If a borrower's net worth is generated solely from savings and earnings, this demonstrates a definitive ability to manage their financial affairs. Evidence the savings are liquid also strengthens the mortgage transaction since these funds are then immediately available to repay debt obligations, account for unexpected expenses, and provide protection against any short term changes to income.

Let's begin with our objectives for this topic:

- Discuss the purpose of assets in the mortgage transaction.
- What is an earnest money deposit and how it is connected to our discussion of assets today?
- Identify the types of liquid assets that a borrower can use to close their mortgage loan
  - These are called “acceptable” assets.
- Describe those assets that cannot be used by borrowers in a mortgage transaction.
  - These are called “unacceptable” assets.

The key, as always, is to know your own company guidelines as it pertains to these situations.



**Read Me!**

*Notes:*

## Types Of Liquid Assets & Why They Are Important

*Please record your answers in the space provided.*

The following items are three of the largest expenditures a borrower will make when purchasing a home and obtaining a mortgage. Define each and capture notes after you watch the video.

? Down Payment

? Closing Costs

? Reserves

Four Types of Liquid Assets:



### Watch Me!

Types of Liquid Assets & Why They Are Important



### Answer Me!

*Notes:*

## Earnest Money Deposit

An earnest money deposit is a good faith offer to purchase the home.

Earnest money is paid by the buyer and accompanies the sales contract when an offer is made on a home. Earnest money funds are held by an intermediary (such as an attorney or closing agent) until closing. At the time of closing, the earnest money deposit is applied towards the borrower's down payment and closing costs.

For the mortgage file, the earnest money deposit must be documented with one of the following items:

- A copy of the cancelled check: A copy of the front and back of the earnest money check, indicating the funds have cleared the borrower's account.
- A copy of the borrower's bank statement showing the earnest money check has already cleared -OR-
- A letter from the escrow agent or attorney acknowledging the date and amount of funds received.

Documenting where the funds come from is critical. The source of funds may be verified by reviewing either a bank statement or a verification of deposit form, sometimes referred to as a VOD, to validate that the average balance for the past two months are sufficient to support the amount of the earnest money deposit. This is a basic mortgage banking guideline.



Read Me!

*Notes:*

# Checking & Savings Accounts As Assets

*Please record your answers in the space provided.*

## Checking and Savings Accounts

? How do you document checking and savings?

? What RED FLAGS do you need to be aware of?



## Answer Me!

*Notes:*

# Sample Requests of Verification of Deposit

The primary purpose of this document is to validate the following information:

- How long the account has been open, that it is still open, and the current balance.
- For purchase transactions, it is important to compare the average balance to the current balance. If there is an increase greater than 50%, there is likely a large deposit that will need to be sourced. Check your company guidelines for details! (Line 10)
- Who the legal owners of the account are, which may differ from or be in addition to the applicant. (Line 1)



## Answer Me!

In this lesson, you've learned about a few different ways that you can source and verify assets, what other methods does your company allow that have not been mentioned?

Notes:

Fannie Mae

### Request for Verification of Deposit

**Privacy Act Notice:** This information is to be used by the agency collecting it or its assignees in determining whether you qualify as a prospective mortgagor under its program. It will not be disclosed outside the agency except as required and permitted by law. You do not have to provide this information, but if you do not your application for approval as a prospective mortgagor or borrower may be delayed or rejected. The information requested in this form is authorized by Title 38, USC, Chapter 37 (if VA); by 12 USC, Section 1701 et seq. (if HUD/FHA); by 42 USC, Section 1462b (if HUD/CPD); and Title 42 USC, 1471 et seq. or 7 USC, 1921 et seq. (if USDA/FmHA).

**Instructions:** Lender - Complete items 1 through 6. Have applicant(s) complete item 9. Forward directly to depository named in item 1.  
 Depository - Please complete items 10 through 18 and return DIRECTLY to lender named in item 2.  
 The form is to be transmitted directly to the lender and is not to be transmitted through the applicant(s) or any other party.

#### Part I - Request

1. To (Name and address of depository)	2. From (Name and address of lender)
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I certify that this verification has been sent directly to the bank or depository and has not passed through the hands of the applicant or any other party.

3. Signature of lender	4. Title	5. Date	6. Lender's No. (Optional)
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7. Information To Be Verified			
Type of Account	Account in Name of	Account Number	Balance
			\$
			\$
			\$

To Depository: I/We have applied for a mortgage loan and stated in my financial statement that the balance on deposit with you is as shown above. You are authorized to verify this information and to supply the lender identified above with the information requested in items 10 through 13. Your response is solely a matter of courtesy for which no responsibility is attached to your institution or any of your officers.

8. Name and Address of Applicant(s)	9. Signature of Applicant(s)
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#### To Be Completed by Depository

##### Part II - Verification of Depository

10. Deposit Accounts of Applicant(s)

Type of Account	Account Number	Current Balance	Average Balance For Previous Two Months	Date Opened
		\$	\$	
		\$	\$	
		\$	\$	

11. Loans Outstanding To Applicant(s)

Loan Number	Date of Loan	Original Amount	Current Balance	Installments (Monthly/Quarterly)	Secured By	Number of Late Payments
		\$	\$	\$ per		
		\$	\$	\$ per		
		\$	\$	\$ per		

12. Please include any additional information which may be of assistance in determination of credit worthiness. (Please include information on loans paid-in-full in item 11 above.)

13. If the name(s) on the account(s) differ from those listed in item 7, please supply the name(s) on the account(s) as reflected by your records.

**Part III - Authorized Signature** - Federal statutes provide severe penalties for any fraud, intentional misrepresentation, or criminal conspiracy or conspiracy purposed to influence the issuance of any guaranty or insurance by the VA Secretary, the U.S.D.A., FmHA/FHA Commissioner, or the HUD/CPD Assistant Secretary.

14. Signature of Depository Representative	15. Title (Please print or type)	16. Date
17. Please print or type name signed in item 14	18. Phone No.	

## Certificates of Deposit As a Liquid Asset

CD's are short or medium term (monthly to 10 years), interest bearing, FDIC-insured accounts. CD's are different from savings accounts because they are for a specific time period and have a set interest rate, providing guaranteed income at the end of the term or "maturity".

Money withdrawn before maturity on a CD may be subject to a penalty. Typically, the penalty involves loss of interest. The penalty amount must be verified and subtracted from the balance before considering this asset as funds to close this transaction.

Funds held in a CD may be used toward the down payment, closing costs, and reserves.

Just as with a checking or savings account, the most recent two months of bank statements or a Verification of Deposit (VOD) can be used to validate this asset. Since there is limited to no activity on a CD, the borrower may not receive statements and a VOD will be necessary.



**Read Me!**

*Notes:*

## Ownership

When two or more people own an asset account and only one of the owners of the account is on the mortgage application, then the questions below must be resolved to validate that our borrower owns and does have access to all of the funds.

*Please record your answers in the space provided.*

? What if there are two domestic partners who have a joint account, but only one is making application for a mortgage?

? What if those same domestic partners have a joint account and both are making application for a mortgage?

? What if it is a married couple who have a joint account, but only one is applying for the mortgage?



### Watch Me!

Ownership



### Answer Me!




*Notes:*



# Ownership

Defining Ownership of Accounts	
Relationship	Documentation
Joint account with a Domestic Partner – Only one is applying for the mortgage	Relationship needs to be properly documented to use funds – leases, utilities or driver's license
Joint account with a Domestic Partner – Both are applying for the mortgage	All funds in the account can be used – Traditional documentation
Married couple – joint account - Only one is applying for the mortgage	All funds in the account can be used – Traditional documentation
Shared account with someone other than a spouse or domestic partner	Determine % of fund legally owned by the borrower <ul style="list-style-type: none"> <li>▪ Access letter from co-owner stating borrower's right to funds</li> <li>▪ Tax Returns Schedule B will report institutions</li> <li>▪ Financial institutions will identify primary own on letters or 1099</li> </ul>

## Important Tips:

-  Most accounts are “or” accounts where either party can withdraw funds without the approval or permission from the other owner(s). (Joint accounts)
-  “And” accounts are accounts that typically require all owners on the account to sign or give permission for withdrawal.
-  In most instances neither of these designations are included in the title, so the presumption may be that the account is joint.



**Read Me!**



**Answer Me!**

What are your company's guidelines related to Ownership?

*Notes:*

## Gift Funds For Family Members

Another common source of liquid assets is Gift Funds from Family Members. There are specific guidelines that govern the acceptance of gifts.

As long as a borrower is purchasing an owner-occupied or second home, gift funds may be provided for assistance towards the down payment, closing costs or to supplement reserves. Gift Funds cannot be used for the purchase of an investment property.

In some transactions, there is a limitation for using gift funds towards the down payment. If the property being purchased is a 2-4 unit primary residence or a second home, the borrower must meet minimum down payment requirements. Be sure to check your company or investor guidelines for any restrictions when gift funds will be applied towards the down payment.

Financial gifts may be submitted by a relative, domestic partner, fiancé, fiancée, a former relative, godparent, or relative of a domestic partner. Fannie Mae defines a relative as the borrower's spouse, child, other dependent or any other individual who is related to the borrower by blood, marriage, adoption or legal guardianship.

There are two documentation requirements when gift funds are given to the borrower.

- Gift letter
- Verification the funds were transferred



**Read Me!**

*Notes:*

## Gift Funds For Family Members (cont.)

Here is a sample gift letter to show what it needs to include:

**GIFT LETTER**

Applicant(s): \_\_\_\_\_ Loan Number: \_\_\_\_\_

I, \_\_\_\_\_, do hereby certify the following:  
(Donor)

(1) I have made a gift of \$ \_\_\_\_\_ to \_\_\_\_\_  
(Amount) (Recipient)  
Whose relationship is: \_\_\_\_\_  
(Relationship)

(2) This gift is to be applied toward the purchase of the property located at:  
\_\_\_\_\_  
(Property Address)

(3) No repayment of the gift is expected or implied in the form of cash or by future services of the recipient.

(4) The funds given to the homebuyer were not made available to the donor from any person or entity with an interest in the sale of the property including the seller, real estate agent or broker, builder, loan officer, or any entity associated with them.

(5) The source of this gift is: \_\_\_\_\_  
(Source)

Donor Signature \_\_\_\_\_ Date \_\_\_\_\_ Borrower Signature \_\_\_\_\_  
Donor Name (Print or Type) \_\_\_\_\_ Borrower Signature \_\_\_\_\_  
Donor Address \_\_\_\_\_  
( ) \_\_\_\_\_  
Donor Phone Number \_\_\_\_\_

WARNING: Our signatures above indicate that we fully understand that it is a Federal Crime punishable by fine, imprisonment, or both to knowingly make any false statement concerning any of the above facts as applicable under the provision of Title 18, United States Code, Section 1012 and 1014.

Attachments:  
1. Evidence of Donor's Ability to Provide Funds.  
2. Evidence of Receipt of Transfer of Funds.

Calyx Form - gfttr.fm (05/02)

For verification of transfer of the gift funds, any one of the following options is acceptable:

- Copy of the donor's check and the borrower's deposit slip
- Copy of the donor's withdrawal slip and the borrower's deposit slip
- Copy of the donor's check to the closing agent\*
- Copy of the settlement statement showing receipt of the donor's check\*

\*If the funds are transferred at settlement, the funds typically must be in the form of a certified/cashier's check or other certified funds.



**Read Me!**

*Notes:*

## Stocks, Mutual Funds & Bonds

Take notes below.

Stocks:



Take Notes  
As You Go!

Example of a stockholding statement:

Holdings (Date)	Performance (Date)	Quantity (Date)	Price per Unit (Date)	Cost (Date)	Total Value (Date)	Total Value (Date)
<b>Stocks 96% of holdings</b>						
Automatic Data Processing INC (ADP)		75.000	\$44.470	#3,182.70	\$3,120.75	\$3,335.25
MCDONALDS CORP (MCD)		50.000	66.720	2,624.45	3,192.50	3,336.00
RESEARCH IN MOTION LTD		50.000	73.970	3,735.45	3,544.00	3,698.50
SIRIUS XM RADIO INC COM (SIRI)		4,000.00	0.871	3,473.45	4,080.00	3,484.00
WAL-MART STORES INC (WMT)		150.000	55.600	8,650.18	8,110.50	8,340.00

Bonds:

Sample of trade confirmation:

Holdings (Date)	Performance (Date)	Quantity (Date)	Price per Unit (Date)	Cost (Date)	Total Value (Date)	Total Value (Date)
BANK OF AMERICA CORP SUB INTERNOTES 5.875%		500.000	23.950	10,909.40	11,775.00	11,975.00

## Stock Options

Stock options are only eligible for closing costs and down payment but not reserves. However, be sure to review lender's requirements before using stocks, bonds, and other securities for any program reserve requirements.

Please list your company's guidelines on stock options here:



### Answer Me!

*Notes:*

## Business Accounts

Borrowers who are self-employed may use funds from a business account for down payment, closing costs and reserves, as long as the underwriter can assess there is no negative impact on the viability of the business.

What that means is that the borrower must be able to demonstrate that they are the owner and can access funds from their business account without impacting the cash flow of the business.

The lender must perform a business cash flow analysis to confirm that the withdrawal of funds will not have a negative impact on the business.

The borrower must supply signed federal income tax returns (both individual and business returns with all schedules attached) for the most recent two years to validate the stability of the income for the business.

NOTE: The amount you may be allowed to use may be restricted depending on your company or investor guidelines.

List your company's guidelines here:



**Read Me!**



**Answer Me!**

*Notes:*

## Unacceptable Source of Funds

*Please record your notes here:*

- Gift funds as a loan:
- Cash advances from credit cards:
- Cash on hand:
- UTMA (Uniform Transfers to Minors Act)/  
UGMA (Uniform Gifts to Minors Act):



### Watch Me!

Unacceptable Source of Funds



### Take Notes As You Go!

*Notes:*