

Understanding Loan Product Advisor's Determination of Total Funds to be Verified



This document has been updated to reflect changes that will be effective for Loan Product AdvisorSM submissions on and after October 8, 2016.

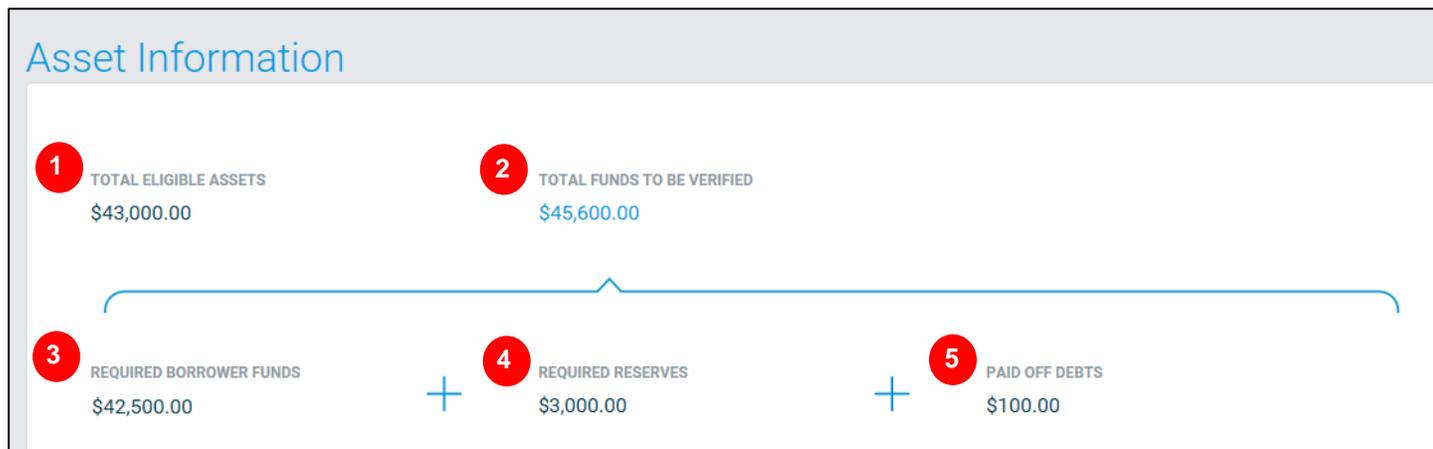
Loan Product Advisor uses the information submitted to determine the amount of funds required from the borrower(s) to close a loan. In Loan Product Advisor, this is known as the *Required Borrower Funds*. Loan Product Advisor returns this information in the Asset Information Section of the Loan Product Advisor Feedback Certificate (Feedback Certificate), along with other information that will help you determine if the borrower has sufficient eligible assets to close the loan. This reference explains how Loan Product Advisor determines the results displayed in this section, associated feedback messages and data entry tips for obtaining the most reliable results.

Note: The Asset Information section is available in Loan Product Advisor Version 4.3 and higher.

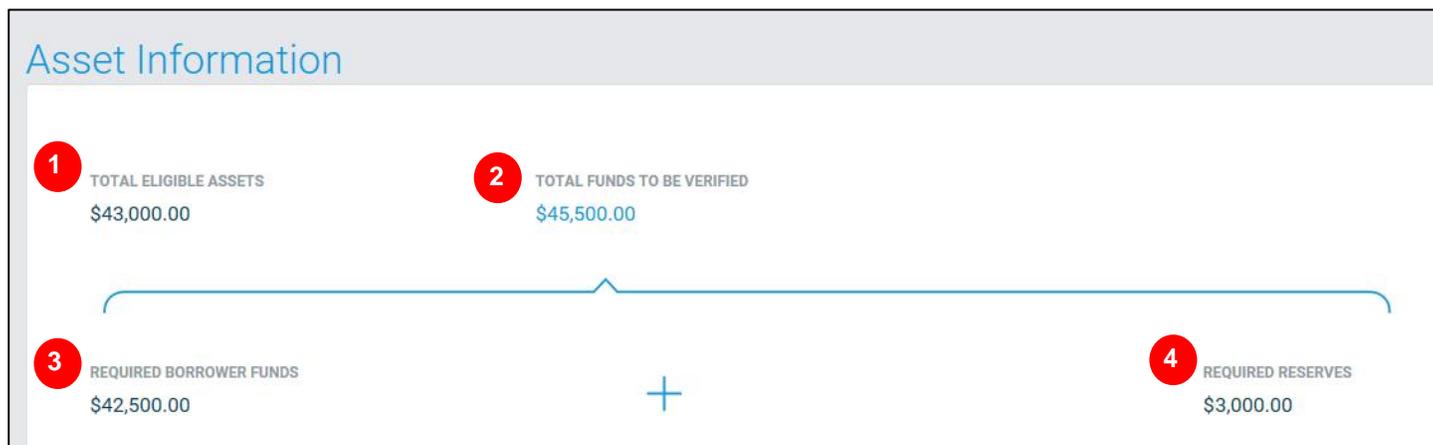
Results Returned in the Asset Information Section

The Feedback Certificate returns the following results in the Asset Information section*:

Purchase Transaction Example:



Refinance Transaction Example:



* Loan Product Advisor does not determine Required Borrower Funds for FHA or VA Mortgages and, as a result, suppresses the Asset Information section.

Vertical revision bars " | " are used in the margin to highlight new requirements or significant changes.

| Asset Information Section Results | | |
|-----------------------------------|---|--|
| # | Field | Brief Description |
| 1 | <u>Total Eligible Assets</u> | The total amount of assets that are eligible sources of borrower funds and Reserves. |
| 2 | <u>Total Funds to be Verified</u> | The minimum amount of eligible assets that must be verified. |
| 3 | <u>Required Borrower Funds</u> (Cash-to-Close) | The amount of funds that are paid by the borrower in connection with the transaction. (<i>Note:</i> If this value is negative, \$0.00 displays. This occurs, for example, when the borrower is receiving cash out from the transaction.) |
| 4 | <u>Required Reserves</u> | The minimum amount of remaining eligible assets required after closing. (<i>Note:</i> The Assets and Reserves section in the feedback messages will reflect any additional required reserves.) |
| 5 | <u>Paid Off Debts</u> | This field displays only on purchase transactions and includes liabilities with a <i>Paid Off</i> indicator of "Yes". It does not include mortgages on properties indicated as pending sale or sold on the Schedule of Real Estate Owned. |

How Loan Product Advisor Determines Results and Associated Feedback Messages

This section explains how Loan Product Advisor determines each result in the Assets Information section, and which associated feedback messages are returned in the Assets and Reserves section of the Feedback Certificate.

Total Eligible Assets

Calculation

Total Eligible Assets is equal to the sum of the following asset types*:

- Checking Account
- Savings Account
- Certificate of Deposit / Time Deposit
- Money Market Fund
- Stock
- Bond
- Mutual Fund
- Retirement Fund
- Trust Account
- Life Insurance (*cash value*)
- Net Equity Sale of Real Estate (*for pending sales*)
- Secured Borrowed Funds Not Deposited
- Other Liquid Assets
- Cash Deposit Toward Purchase (*Earnest Money*)
- Bridge Loan Not Deposited
- Cash On Hand (*eligible for Home PossibleSM only*)
- Gift (*eligible for Primary or Second Homes only*)

Ineligible asset types include the following:

- Automobile
- Net Worth of Business Owned
- Other Non-Liquid Assets

***To receive complete results, you need to enter asset details on the Asset Breakdown pages in Loan Product Advisor. Feedback Messages for Total Eligible Assets**

Loan Product Advisor returns the following messages in the Assets and Reserves section when applicable:

| Code | Message |
|--------|---|
| DOC IT | Example: The following asset(s) total \$43,000.00 and are eligible sources of Borrower Funds and reserves: Retirement: \$28,000; Checking: \$10,000; Stock: \$5,000. |
| DOC K1 | Example: The following asset(s) total \$4,000.00 and are ineligible sources of Borrower Funds and reserves: Automobile: \$3,000; Cash On Hand: \$1,000. |

Note: The feedback messages list assets in order of value with the highest value displayed first.

Total Funds to be Verified

Calculation

For purchase transactions, *Total Funds to be Verified* is the sum of the *Required Borrower Funds*, *Required Reserves* and *Paid Off Debts*. For refinance transactions, *Total Funds to be Verified* is the sum of the *Required Borrower Funds* and *Required Reserves* (mortgages and other debts to be paid off are included in the *Required Borrower Funds* value).

Loan Product Advisor compares the *Total Funds to be Verified* value to the *Total Eligible Assets* value to determine if the assets are sufficient to close the loan. If the *Total Eligible Assets* value is insufficient, Loan Product Advisor returns a message indicating eligible assets are less than the funds required to be verified.

Feedback Messages for Total Funds to be Verified

Loan Product Advisor returns the following messages when applicable:

| Code | Message |
|--------|--|
| DOC XO | Purchase transaction example: The total funds to be verified are no less than \$45,600.00. This amount includes required Borrower Funds (\$42,500.00), required reserves (\$3,000.00), and any debts to be paid off at or before closing (\$100.00). The total funds to be verified do not include funds needed to pay down debt and any additional reserves. In addition, the amount of discount points paid by someone other than the Borrower must be added to the amount that must be verified. |
| DOC BO | Refinance transaction example: The total funds to be verified are no less than \$45,500.00. This amount includes required Borrower Funds (\$42,500.00) and required reserves (\$3,000.00). The total funds to be verified do not include funds needed to pay down debt and any additional reserves. In addition, the amount of discount points paid by someone other than the Borrower must be added to the amount that must be verified. |
| DOC HO | The Seller must verify sufficient assets from eligible sources of funds required to close the Mortgage transaction. |
| DOC DO | The Borrower's total eligible assets are less than the calculated total funds required to be verified by Loan Product Advisor. The Seller must verify sufficient assets from eligible sources of funds to close the Mortgage transaction. |

| Code | Message |
|--------|---|
| DOC FO | If a property on the Schedule of Real Estate Owned is pending sale or sold and sale of the property requires additional funds from the Borrower, the Seller must document that the Borrower has sufficient funds to complete the sale of the property on the Schedule of Real Estate Owned in addition to the amount of total funds to be verified. |

Note: In certain instances, Loan Product Advisor is not able to identify all of the necessary information to determine the amount of *Total Funds to be Verified*. For the scenarios below, you must add the additional funds indicated to the *Total Funds to be Verified* amount on the Feedback Certificate. All additional funds must be verified.

- When the Borrower is paying down a debt, add the amount of funds needed to pay down the debt to the *Total Funds to be Verified* amount.
- When the mortgage is secured by a second home or investment property and the borrower owns or is obligated on other financed second homes and/or 1- to 4-unit investment properties, add two months' reserves for each additional second home and/or 1- to 4-unit investment property to the *Total Funds to be Verified* amount.
- When discount points are paid by someone other than the borrower, add the amount of non-borrower paid discount points to the *Total Funds to be Verified* amount. (*Reminder:* Discount points paid by the borrower are entered in the *Discount* field in the Details of Transaction section.)
- When a property on the Schedule of Real Estate Owned is pending sale or sold and sale of the property requires additional funds from the Borrower, the Seller must document that the Borrower has sufficient funds to complete the sale of the property on the Schedule of Real Estate Owned in addition to the *Total Funds to be Verified* amount.

Required Borrower Funds (Cash-to-Close)

Calculation

Loan Product Advisor uses information from a number of fields to determine *Required Borrower Funds*. *Transaction costs* and *Loan Proceeds from Subordinate Financing* are components of the *Required Borrower Funds* calculation.

| Required Borrower Funds Calculation | |
|---|---|
| Purchase Price (purchase transactions only) (line a) | Note: Line item references correspond to the Details of Transaction section of the Uniform Residential Loan Application. |
| + Alterations, Improvements, Repairs (line b) | |
| + Refinance (include debt(s) to be paid off) (line d) | |
| - Loan Amount (base) (line m)* | |
| + Transaction Costs (see calculation below) | |
| - Loan Proceeds from Subordinate Financing (line j) (see calculation below) | |
| = Required Borrower Funds | |

* Base loan amount excludes PMI, MIP Funding Fee.

| Transaction Costs | |
|---|--|
| Estimated Prepaid Items (line e) | |
| + Estimated Closing Costs (line f) | |
| + Discount (line h) | |
| + (PMI, MIP Funding Fee Total (line g) – PMI, MIP Funding Fee Financed (n)) | |
| - Borrower's Closing Costs Paid by Seller (line k) | |
| - Other Credits (line l)* | |
| = Transaction Costs | |

*Other Credits (Purchase Credits) include: Earnest Money (Cash Deposit on Sales Contract), Relocation Funds, Employer Assisted Housing, Lease Purchase Fund, Borrower Paid Fee (outside closing), Property Seller Credit, Lender Credit, and Other (such as sweat equity on Home Possible® Mortgages when there is at least a 5% down payment from borrower personal funds as indicated in Guide Section 4501.10(c)(ii)).

| Loan Proceeds from Subordinate Financing | |
|---|--|
| Purchase: | Amount entered in the <i>Subordinate Amount</i> field. |
| Refinance: | Amount entered in the <i>Subordinate Amount</i> field less balances of subordinate mortgages and HELOCs secured by the subject property when the Subject Loan Resubordination Indicator* is "Yes". |

*Indicator is the answer to the following question in Loan Product Advisor: *Resubordinating debt related to the subject property?*

Feedback Messages for Required Borrower Funds

Loan Product Advisor returns the following messages when applicable:

| Code | Message |
|--------|---|
| DOC BI | Purchase transaction example: Required Borrower Funds are calculated as \$42,500.00 based on the information submitted: purchase price (\$660,000.00) + alterations, improvements and repairs (\$0.00) - loan amount (\$600,000.00) + transaction costs (\$2,500.00) - proceeds from subordinate financing (\$20,000.00). The amount of discount points paid by someone other than the Borrower must be added to the Loan Product Advisor calculated amount of required Borrower Funds. |
| DOC VO | Refinance transaction example: Required Borrower Funds are calculated as \$42,500.00 based on the information submitted: alterations, improvements and repairs (\$0.00) + refinance amount (\$660,000.00) - loan amount (\$600,000.00) + transaction costs (\$2,500.00) - proceeds from subordinate financing (\$20,000.00). The amount of discount points paid by someone other than the Borrower must be added to the Loan Product Advisor calculated amount of required Borrower Funds. |
| LPN DI | The loan purpose entered in Loan Product Advisor is purchase and a value has been entered in the refinance field. Please review the accuracy of the data submitted for this transaction. |
| LPN CO | The loan purpose entered in Loan Product Advisor is refinance and a value has been entered in the purchase price field. Please review the accuracy of the data submitted for this transaction. |

Note: For **Construction Conversion Mortgages and Manufactured Homes**, Loan Product Advisor can calculate the *Required Borrower Funds* amount when the purchase price of the land and the value of the land are equal. However, for transactions where the purchase price of the land and value of the land are not equal, Loan Product Advisor cannot calculate the *Required Borrower Funds* amount. Consequently, you must calculate and verify the *Required Borrower Funds* for these transactions.

Reserves

Loan Product Advisor determines the amount of reserves required for the transaction (*Required Reserves*).

Required Reserves

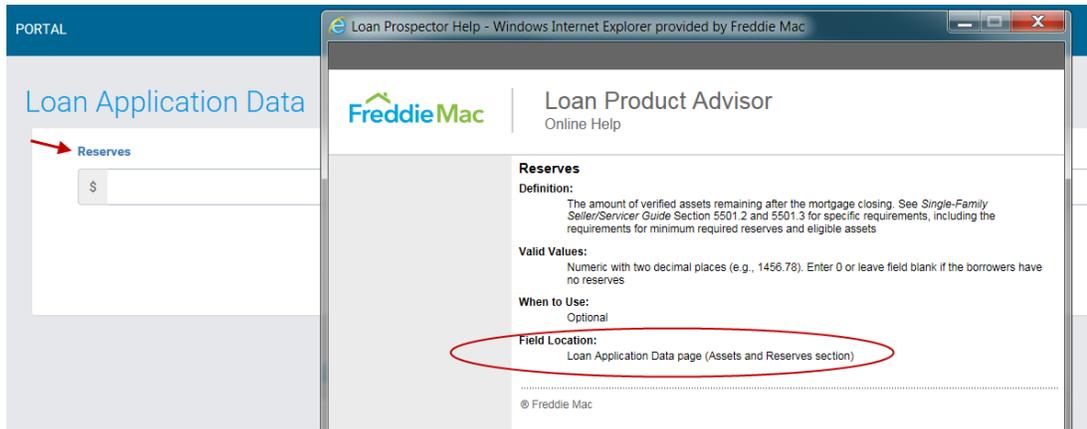
Required Reserves is the minimum amount of reserves calculated and required by Loan Product Advisor. It is displayed in the Asset Information section of the Feedback Certificate.

Note: Per Guide Section 5501.3(d), in connection with cash-out refinance Mortgages, the cash proceeds from a refinance transaction are not eligible to meet any required reserves.

Reminder: Refer to [Total Funds to be Verified](#) for additional information on additional reserve requirements.

Reported Reserves

Reported reserves is the amount entered in the Loan Product Advisor Reserves field.



Feedback Messages for Reserves

Based on the loan scenario, Loan Product Advisor will return a purchase restriction message if the *Required Reserves* is greater than the reported reserves. The following purchase restriction message is one example that may be returned.

| Code | Message |
|--------|---|
| PUR MA | Example: The reported reserves of \$10,000.00 are insufficient to cover 6 months of reserves (\$12,000.00) required when the subject property is a 2- to 4-unit Primary Residence. |

Paid Off Debts

Calculation

For purchase transactions*, *Paid Off Debts* is the sum of the balances for following liabilities that have a Paid Off indicator of "Yes" in Loan Product Advisor:

- Revolving
- Collections, Judgments and Liens
- Installment
- Open 30 Day Charge Account
- Other Liability
- Lease Payments
- Taxes
- Mortgage
- HELOC

*For refinance transactions, mortgages and other debts to be paid off are included in the Refinance field and, therefore, included in the *Required Borrower Funds* total.

Feedback Messages for Paid Off Debts

For Purchase transactions, Loan Product Advisor returns the *Paid Off Debts* total in the following *Total Funds to be Verified* message:

| Code | Message |
|--------|---|
| DOC XO | Example: The total funds to be verified are no less than \$45,600.00. This amount includes required Borrower Funds (\$42,500.00), required reserves (\$3,000.00), and any debts to be paid off at or before closing (\$100.00). The total funds to be verified do not include funds needed to pay down debt and any additional reserves. In addition, the amount of discount points paid by someone other than the Borrower must be added to the amount that must be verified. |

Data Entry Tips

Refer to the following tips to help obtain the most reliable results from Loan Product Advisor:

- **Subject Property:** Designate only one property on the Schedule of Real Estate Owned as the subject property.
- **Subordinate Financing:**
 - For all subordinate financing (existing and new), enter the total subordinate financing for the subject property in the *Subordinate Amount* field.
 - If the mortgage is a **refinance with an existing HELOC that is being resubordinated and those funds will be drawn upon for the mortgage transaction**, then:

| Step | Action |
|------|--|
| 1 | Include the new amount drawn on the HELOC in <i>Unpaid Balance</i> field on the HELOC page |
| 2 | Enter \$0 in the <i>Monthly Payment</i> field on the HELOC page |
| 3 | Enter “No” for the following fields: <i>Paid Off at or Before Closing?</i> , <i>Excluded?</i> and <i>Resubordinating debt related to the subject property?</i> on the HELOC page |
| 4 | Ensure the HELOC is linked to the subject property on the HELOC page |
| 5 | Exclude the existing HELOC monthly payment from the liabilities |
| 6 | Include the new HELOC monthly payment (based on the new outstanding balance) in the <i>Other Financing P&I</i> field in the Proposed Monthly Housing Expense section of the Monthly Housing Expense Breakdown page |

- **Construction Conversion Mortgages and Manufactured Homes** – For Loan Product Advisor to accurately calculate the loan-to-value (LTV) ratio for Construction Conversion Mortgages and Manufactured Homes, enter the value in accordance with the requirements in Guide Section 4602.10 in the *Purchase Price* field.
- **Alterations, Improvements & Repairs** – For purchase transactions, include the cost of any alterations, improvements and repairs in the *Purchase Price* field for Loan Product Advisor to accurately calculate the LTV ratio. For refinance transactions, the renovation costs should be entered in the *Alterations, Improvements & Repairs* field.
- **Data Omissions** – Loan Product Advisor relies on the data provided to determine the *Required Borrower Funds* and the *Total Funds to be Verified*. Omitting the following conditionally required fields, when they apply, would either overstate or understate the *Required Borrower Funds* indicated by Loan Product Advisor:

| If Omitted, <i>Required Borrower Funds</i> Is... | |
|--|----------------------------------|
| Understated* | Overstated* |
| Alterations, Improvements, Repairs | Purchase Credit Amount |
| Estimated Closing Costs | Purchase Credit Type |
| Prepaid Items Estimated Amount | Sales Concession Amount |
| MI and Funding Fee Total Amount | Seller Paid Closing Costs Amount |
| Refinance Amount | Subordinate Financing |
| Borrower Paid Discount Points Amount | |

*Impacted if the data is applicable to the loan transaction and was omitted from the data entry field.