Understanding Loan Product Advisor's Determination of Reserve Requirements

This reference provides an overview on reserves, including how Loan Product Advisor® determines reserve requirements and tips for entering asset and reserve information in Loan Product Advisor. Loan Product Advisor determines the minimum amount of reserves requiring verification and returns this information on the Loan Product Advisor Feedback Certificate. For complete information on reserve requirements, refer to Freddie Mac’s Single-Family Seller/Servicer Guide (Guide) Section 5501.2.

What Are Reserves?
Reserves are the eligible assets remaining after the Mortgage closing. The reserves amount is equal to a number of monthly payments (for example, Loan Product Advisor may return feedback that two months of reserves are required for an applicable property). The monthly payment amount includes the sum of the following:

- Principal and interest payments on the Mortgage
- Property hazard insurance premiums
- Real estate taxes
- When applicable:
  - Mortgage insurance premiums
  - Leasehold payments
  - Homeowners association dues (excluding unit utility charges)
  - Payments on secondary financing

How Does Loan Product Advisor Determine the Minimum Amount of Required Reserves?
For each transaction, Loan Product Advisor determines the amount of reserves that must be verified based on the risk of the loan and Guide requirements. Loan Product Advisor may not require any verified reserves for certain transactions, while other transactions may require reserves to be verified. The amount of reserves Loan Product Advisor requires for verification may exceed the amount of reserves required by the Guide, and is the minimum amount of reserves that must be verified.

Loan Product Advisor communicates the reserve requirements in the Asset Information section and through messages on the Loan Product Advisor Feedback Certificate. If the reserves entered in Loan Product Advisor are less than the reserves required by Loan Product Advisor, a purchase restriction message is returned on the Loan Product Advisor Feedback Certificate.

ADDITIONAL Required Reserves for Second Home or Investment Property
When the property is a Second Home or Investment Property, Loan Product Advisor is not able to identify all of the necessary information to determine additional reserves required. In this case, the Loan Product Advisor Feedback Certificate will indicate that you must calculate and verify additional reserves. The following chart provides a summary of the required reserves, feedback messages and an example of additional reserves that must be determined and verified in addition to the amount of reserves included on the Loan Product Advisor Feedback Certificate:

Note: Effective for mortgages with settlement dates on or after March 15, 2017: When determining the total number of financed properties, you no longer need to consider financed properties that the borrower owns, but is not obligated on, when the subject property is a second home or investment property.
## Second Home / Investment Property ADDITIONAL Required Reserves and Examples

<table>
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<tr>
<th>Reserves</th>
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<tbody>
<tr>
<td>If Borrower owns and is obligated on other financed second homes or Investment Properties, the following apply:</td>
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<tr>
<td>- <strong>Required Reserves</strong> - Verify amount stated on Loan Product Advisor Feedback Certificate, plus</td>
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<tr>
<td>- <strong>ADDITIONAL Required Reserves</strong> (amount not calculated by Loan Product Advisor) When the Borrower(s) has an ownership interest in and is financially obligated on other financed second homes and/or 1-to 4-unit Investment Properties, verify an additional <strong>two months</strong> of reserves for each of those properties in addition to the amount stated on the Loan Product Advisor Feedback Certificate.</td>
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### Example Feedback Messages Received:

- **Second Home**
  Verify $~X~ in reserves for the subject property that is a second home. **ADDITIONALLY**, verify reserves of 2 months of the monthly payment amount on each other second home and 1- to 4-unit **Investment Property** that is financed and on which the borrower is obligated.

- **Investment Property**
  Verify $~X~ in reserves for the subject property that is an investment property. **ADDITIONALLY**, verify reserves of 2 months of the monthly payment amount on each other second home and 1- to 4-unit **Investment Property** that is financed and on which the borrower is obligated.

### Example Scenario:
Subject property second home and financially obligated on two other financed 1- to 4-unit investment properties

If the reserve requirement stated on the Loan Product Advisor Feedback Certificate is $2,000, the monthly payment on investment property #1 is $750, and the monthly payment on investment property #2 is $1,500, you would need to verify the following:

- $2,000 per Loan Product Advisor’s assessment
- $1,500 additional reserves for the investment property #1 ($750 monthly payment x two months)
- $3,000 additional reserves for the investment property #2 ($1,500 monthly payment x two months)

Total amount of reserves to be verified: $6,500
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Tips for Entering Asset and Reserve Information in Loan Product Advisor

Data accuracy is critical to Loan Product Advisor’s assessment. Use the following tips to help enter assets and reserves in Loan Product Advisor:

- Enter eligible assets included in the loan file. If using the Loan Product Advisor browser as your access method, enter assets on the Asset Breakdown page. Refer to Guide Section 5501.3 (b) and (c) for information on eligible sources of Borrower Funds.

- Review the asset messages on the Loan Product Advisor Feedback Certificate to confirm the type of assets entered. For each asset type entered, Loan Product Advisor provides messages regarding how to document the asset.

- Enter eligible reserves as a total across all borrowers in the **Reserves** field. Loan Product Advisor will determine the amount of reserves requiring verification and return this information in a message on the Loan Product Advisor Feedback Certificate. Refer to Guide Section 5501.3 (b) and (c) for information about assets that may be used to calculate reserves.

- Gift funds reported in the **Total Gift Fund** field represent the total for all borrowers. For conventional/conforming mortgages, the **Total Gift Fund** field must include all gift funds – those already received and those expected. For FHA/VA mortgages, comply with the gift fund requirements per *FHA Single Family Housing Policy Handbook 4000.1* (HUD Handbook 4000.1) and *VA Lender’s Handbook*, as applicable.

This document is not a replacement or substitute for the information found in the Single-Family Seller/Servicer Guide and/or terms of your Master Agreement and/or other Pricing Identifier Terms.

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