

This reference provides an overview on reserves, including how Loan Product AdvisorSM 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/Service 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?

Loan Product Advisor identifies funds available for reserves as the total amount entered in the **Reserves** field. 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 some reserves or all 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 through messages on the Loan Product Advisor Feedback Certificate. The following are examples of some of the reserve messages Loan Product Advisor provides:

- **Accept Messages**
 - *No reserves are required.*
 - *Verify no less than \$<required reserves> in reserves.*
 - *Verify no less than \$<required reserves> in reserves. This amount includes 6 months of reserves required when the subject property is a 2- to 4-unit Primary Residence.*
- **Caution Messages**
 - *No reserves required; however, reserves may strengthen loan quality.*
 - *Verify no less than \$<required reserves> in reserves. This amount represents 6 months of reserves required when the subject property is a 2- to 4-unit Primary Residence. Additional reserves may strengthen loan quality.*
- **Purchase Restriction Messages**

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. The following is an example of a purchase restriction message Loan Product Advisor provides:

 - *The reported reserves of \$<Lender reported reserves> are insufficient to cover 6 months of reserves (\$<required reserves>) required when the subject property is a 2- to 4-unit Primary Residence.*

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 charts provide 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:

Second Home / Investment Property ADDITIONAL Required Reserves and Examples																
Reserves																
<p>If Borrower owns other financed second homes or Investment Properties, the following apply:</p> <ul style="list-style-type: none"> ▪ Required Reserves - Verify amount stated on Loan Product Advisor Feedback Certificate, plus ▪ ADDITIONAL Required Reserves (<i>amount <u>not</u> calculated by Loan Product Advisor</i>) When the Borrower(s) has an ownership interest in or is financially obligated on other financed second homes and/or 1-to 4-unit Investment Properties, verify an additional two months of reserves for each of those properties in addition to the amount stated on the Loan Product Advisor Feedback Certificate. 																
Example																
<p>Example Feedback Messages Received:</p> <ul style="list-style-type: none"> ▪ Second Home <i>Verify no less than \$<required reserves>. This amount includes 2 months of reserves required when the subject property is a second home. Verify ADDITIONAL 2 months of reserves for each other second home and 1- to 4-unit Investment Property: (i) that is financed, and (ii) in which the Borrower has an ownership interest or on which the Borrower is obligated.</i> ▪ Investment Property <i>Verify no less than \$<required reserves>. This amount includes 6 months of reserves required when the subject property is an Investment Property. Verify ADDITIONAL 2 months of reserves for each other second home and 1- to 4-unit Investment Property: (i) that is financed, and (ii) in which the Borrower has an ownership interest or on which the Borrower is obligated.</i> <p>Example Scenario: Subject property second home with ownership interest in two other financed 1- to 4-unit investment properties</p> <p>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:</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 15%; text-align: right;">\$2,000</td> <td style="width: 70%;">per Loan Product Advisor's assessment</td> </tr> <tr> <td style="text-align: right;">+</td> <td style="text-align: right;">\$1,500</td> <td>additional reserves for the investment property #1 (\$750 monthly payment x two months)</td> </tr> <tr> <td style="text-align: right;">+</td> <td style="text-align: right;">\$3,000</td> <td>additional reserves for the investment property #2 (\$1,500 monthly payment x two months)</td> </tr> <tr> <td colspan="3"><hr/></td> </tr> <tr> <td></td> <td style="text-align: right;">\$6,500</td> <td>Total amount of reserves to be verified</td> </tr> </table>			\$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)	<hr/>				\$6,500	Total amount of reserves to be verified
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<hr/>																
	\$6,500	Total amount of reserves to be verified														

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.