



Foundations On-Demand

Not Your Ordinary Assets
Workbook

Introduction

Today we will introduce you to some of the common and not so common asset types that may support a borrower in closing the mortgage.

Let's begin with our objectives for this topic:

- Explain that a borrower's existing assets can be converted to cash to close a mortgage transaction
- Discuss the types of assets that are acceptable for a borrower to take a loan on
- Identify documentation needed to satisfy mortgage industry requirements. The key, as always, is to know your own company guidelines as it pertains to these situations

Assets covered in this include:

- Sale of assets or loans against fixed assets. This includes Retirement Funds, Life Insurance, and Personal Property such as artwork, collectibles and automobiles.
- Tax Refunds
- Relocation Credits
- 1031 Exchanges
- Lease to Purchase Option Transaction Credits

This list shows options a borrower may sell or take out a loan against. You may not come across all these in your work, as this list is broad. You will have some basic knowledge about them if you do and can refer back to this guide at any time.



Read Me!

Notes:

Selling vs. Taking a Loan Against an Asset

Selling an Asset:

All of the following items must be present in the file in order for these funds to be acceptable for use in a mortgage transaction:

- Proof that the borrower actually owned the asset, such as the title of the vehicle
- Certification as to the value of the asset from a reliable third party, such as an appraisal or the blue book value
- Verification that there is a buyer, who is not a party to the mortgage transaction, and who has agreed to pay a certain price for the asset, so in other words, there must be a contract to purchase or a letter of intent
- The final bill of sale *
- Proof of receipt of the funds from the sale by the borrower, such as a bank statement verifying the funds have been deposited *

*FreddieMac only requires the last two bullets (April, 2015)

Taking a Loan against an Asset:

Common assets to borrow against:

- Automobiles
- Artwork and/or Collections
- Retirement Funds or Life Insurance

Borrowed funds that are secured by an asset are allowable sources of funds for use in a mortgage transaction for the down payment, closing costs, and reserve requirements.



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Sales vs. Loan of an Asset

Notes:

Documentation & Loan on Asset Examples

- The terms of the secured loan - i.e. copy of the Note (to include payments in debt ratio calculation)

One thing to remember is the party providing the secured loan cannot be an interested party to the transaction (i.e. the loan officer, realtor, or builder who happens to be the borrower's employer, etc.)

- Confirmation that the funds were transferred to the borrower

Review copies of the borrower's current bank statements or a VOD (Verification of Deposit) to verify the receipt and deposit of the funds from the loan



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Loan on Asset Examples

Notes:

Retirement Funds as an Asset

? Which types of accounts can be used as assets from retirement?

? What does the fund need to be to be used as an asset?

? How can funds be used?

? What documentation is required when using retirement funds?

Remember: Be sure to review the your company's guidelines or investor requirements for using retirement funds for the reserve requirements for any loan program.



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Using Retirement Funds
as an Asset



Answer Me!

Notes:

Life Insurance as an Asset

-  Which type of life insurance policy can a borrower take a loan against?
-  What documentation is required when using life insurance?
-  If a borrower pursues this approach, does the loan payment have to be added to the borrower's debt?
-  True or False? The cash value of the policy is reduced by the loan amount?



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Life Insurance as an Asset



Answer Me!

Notes:

Bridge Loan

Great job so far! Let's look at one more type of loan that you may come across.

A bridge (or swing) loan is designed to assist borrowers in situations where they are purchasing a new home, but their existing home has not yet been sold. The bridge loan is secured against the borrower's current home and the funds from this loan are then used to close the transaction to purchase the new home.

By utilizing the funds from the bridge loan, the borrower is able to close on a new house before selling the present home. As always, the following criteria must be met:

- The agreement outlining the terms of the repayment of the bridge loan must be present in the file.
- The bridge loan cannot be cross-collateralized against the property your borrower is purchasing.
 - This means that the security for one loan is not used as security for another loan. In this case, the bridge loan cannot be secured against both the new property and the old property at the same time.



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Notes:

Bridge Loan (cont.)

- The borrower must qualify with the payment on the new home, payments on their other debts, the payment on the present home, and the payment on the bridge loan.
- The bridge loan will be paid off when that property is sold and closed.

NOTE: Check your company or investor guidelines for reserve requirements (if any) when this type of asset is being used for funds to close. Many lenders will require at least six months PITI of reserves for the property securing the bridge loan along with any other product specific reserve requirements.

This can be a very risky product. Most people are banking on the property secured by the bridge loan selling prior to the closing of the property being purchased. If that does not happen, the borrower may be saddled with more debt than they want to handle and could run into financial difficulty.



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Notes:

Less Common Assets

Tax Refund

Income tax refund checks from either the Internal Revenue Service (IRS) or State Revenue Service are acceptable sources of funds for use toward down payment, closing costs and reserves. As always, there is documentation you will need to gather for the file as follows:

- A copy of the refund check(s) or a copy of the borrower's income tax returns clearly identifying the amount of the refund
- There must be proof of the deposit of the funds into the borrower's account (i.e. the copy of the wire or a copy of the borrower's bank statement). These must meet the regular asset requirements if these are joint assets being used by one borrower.



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Notes:

Less Common Assets (cont.)

Lease To Purchase

A borrower may enter into an agreement with the seller to have a portion of his/her rent payments held in an “escrow” account until he/she accumulates sufficient funds for the down payment. Not all of the rent funds are held towards down payment only the difference between market rent and the actual rent paid.

Example:

The rent is \$1,200.00 per month.

The average market rent in this area is \$1,000.00.

The difference between these two amounts is \$200.00 per month.

The \$200.00 is the amount placed into an escrow account toward the down payment on the property.

Of course, documentation is required for this type of transaction, such as:

- Copy of the rental/purchase agreement reflecting a minimum term of at least 12 months and specifying the monthly rental amount and terms of the lease.
- Copies of the borrower's cancelled checks or evidence of payment for the last 12 months validating the rental payments.
- Market rent which is determined by the appraisal on the subject property. Be sure when ordering the appraisal to instruct the appraiser to provide a market rent figure on this property.

These types of transactions are not common and borrowers who enter into a lease to purchase option with a seller should have the contract reviewed by an attorney.



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Notes:

Less Common Assets (cont.)

Relocation Credits

Some borrowers may receive relocation credits from their employer as an incentive to move to a new location for their job. Let's explore how this assistance from an employer can be an asset.

Typically the borrower must use his or her own funds for any required minimum down payment. However, in a relocation circumstance an exception may be made to use the funds from their employer as part of their down payment and/or closing costs. Please note that there is a stipulation that any assistance from the borrower's employer for relocation must come directly from the employer.

The employer's award package may include funds to the borrower for any of the following items:

- Down payment assistance
- Closing cost assistance
- Payment of origination points and fees
- Assistance toward buying down the interest rate
- Lump sum that could be used as needed by the borrower in the purchase of the new home

See next page for more information on how to document this asset.



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Notes:

Less Common Assets (cont.)

Relocation Credits

Documentation from the employer to support this benefit must be obtained and placed in the file.

These items would be:

- The terms of the relocation agreement
- This is generally in the form of a relocation contract.
- This relocation agreement must be an existing company program, not just a one-time exception for this individual employee
- The agreement must specify the dollar amount of the benefit
- Proof that the funds came directly from the employer

Note: *If the relocation assistance is granted as a secured second mortgage and there are repayment terms, this monthly figure must be added to the borrower's debt calculations for qualifying. The eligibility requirements for subordinate financing must still be met.*



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Notes: