SECTION 4006 – DOCUMENTATION OF REQUIRED FUNDS

The documentation must clearly establish the borrower has sufficient liquid funds without resorting to unsecured borrowed funds for the required down payment and all additional costs incidental to closing. The source of any funds needed to close the transaction, or funds considered as an offsetting factor, should be clearly established. If the required funds are held in a recently opened (within 180 days) account, the source of funds in the new account is to be documented.

.01 MINIMUM DOWN PAYMENT

For conventional loans, the borrower must invest a minimum down payment of 5% from their own cash assets. This must be established and verified prior to and in addition to the receipt of any gift funds used in the transaction. However, gift funds that meet the requirements outlined in Section .06 below may be used for the minimum required down payment, closing costs and prepaid items on some conventional loans:

1. For a single-family primary residence, gift funds may be used to satisfy the minimum 5% contribution.

2. For a duplex primary residence, of the total 10% down payment requirement, the borrower must make a minimum 5% contribution from their own funds. However, a gift from a relative or domestic partner who has lived with the borrower for the last 12 months, or from a fiancé or fiancée, may be used to satisfy the minimum 5% contribution as long as the borrower and donor will use the home as their as their primary residence.

Gift funds may not be used for the minimum contribution on a triplex or fourplex.

When gift funds are used for the minimum contribution, homebuyer education is required.

Note: The minimum required down payment and homebuyer education requirements are waived when gift funds and/or any down payment is equal to or greater than 20% of value (the lesser of the sales price or appraised value).

For FHA, HUD, VA and RD loans, follow the applicable insurer/guarantor requirements. See the AHELP section for additional information regarding minimum down payment requirements in connection with Down Payment Assistance loans.

.02 RESERVES

For conventional, VA and RD loans, the borrower must have a minimum of 2 months payments in reserves on a single-family residence (not required on Type II manufactured home loans). This requirement is waived when the down payment is 20% or more.

For duplex, triplex or fourplex loans and Rural Non-Owner Occupied loans, the borrower must have remaining reserves after closing (typically 6 months PITI) that could be used to supplement payments during vacancies and to make regular and emergency repairs to the property as necessary. With the exception of Rural Non-Owner occupied loans, gift funds are acceptable for these reserves. Certain retirement accounts, adjusted for any early withdrawal penalties, are also acceptable for these reserves.

On FHA and HUD loans, follow the applicable agency criteria.

However, regardless of loan type, if the borrower currently owns other financed property that will not be sold as a condition of loan closing, additional reserves are required as follows.

For a new AHFC mortgage on a primary residence:

1. If the borrower has 30% equity or more in the current primary residence, additional reserves equal to 2 months PITI on that property are required.

2. If the borrower has less than 30% equity in the current primary residence, additional reserves equal to 6 months of PITI on that property are required.

For a new AHFC mortgage on a Rural Non-Owner Occupied property:

1. For 1 to 4 other financed properties, additional reserves equal to 2 months PITI are required for each property.

2. For 5 to 10 other financed properties, additional reserves equal to 6 months PITI are required for each property.

.03 DEFINITION OF CASH

A. Acceptable

The following sources of cash are acceptable for use as down payment and closing costs:

1. Verified funds on deposit in the borrower's checking, savings or investment accounts;

2. A gift as outlined in Section 4006.06;

3. Proceeds of a loan fully secured by the borrower's owned assets; or

4. A cash deposit toward the purchase, the source of which is verifiable.

B. Not Acceptable

The following sources of cash are NOT acceptable:

1. Proceeds of a personal or unsecured loan;

2. A gift that must be repaid in full or in part;

3. A cash advance on a revolving charge account or unsecured line of credit; or

4. Cash for which the source cannot be verified.

.04 FUNDS ON DEPOSIT

If the required funds are being held in a deposit account, the verification of deposit must indicate the average balance. In lieu of the standard verification of deposit, bank statements showing the previous 3 months balances may be provided. The statements must be computer generated or typed, identify the issuing institution, identify the account owner(s), identify the account number, show all transactions on the account, show the period covered and ending balance or cash value. Documentation of excess liquid assets is not required, with the following exceptions:

- The funds are being considered as an offsetting factor; or
- The source of funds is suspect and could represent a corresponding debt.

.05 SALE OF ASSETS

If the required funds are proceeds from the sale of personal property, the value may be established with a blue book listing, an appraisal or a letter of opinion by an individual in the business of determining value of the item. Settlement statements or evidence of sale must identify the asset, identify the borrower as the seller of the asset, show the net proceeds to the seller, show the disposition of all liens against the asset and be signed by the buyer and seller or their authorized agents.

.06 GIFT FUNDS

Gifts are acceptable from a relative, domestic partner, fiancé or fiancée, and in some cases gifts (or grants) are acceptable from a church, municipality, state or federal agency, non-profit organization or Alaska Regional Native Association (see individual program and/or programs options for specifics). There may not be any conditions placed upon the gift and no repayment must be expected. (Refer to Minimum Down Payment section above).

Note: A relative is defined as the borrower's spouse, child, other dependent or other individual related to the borrower by blood, marriage, adoption or legal guardianship.

Contributions from the seller of the subject property, either directly or indirectly, are prohibited.

A. Gift Letter Information

A letter, called a gift letter, must be signed by the donor and contain the following information:

1. The dollar amount of the gift and the date the funds are being transferred;

2. The donor's name, address, telephone number and relationship to the borrower; and

3. A statement that no repayment is expected.

When gift funds are used for the down payment on a duplex, the following must also be included:

1. A certification from the donor stating that he or she has lived with the borrower for the past 12 months and will continue to do so in the new residence.

2. Documentation to demonstrate a history that the borrower and donor shared residency. Examples of documentation may include a driver's license, bill, bank statement, etc. Please note that the donor's address must match the borrower's address.

B. Verification of Availability of Gift Funds and Verification of Transfer of Gift Funds

Written evidence of the transfer of the gift funds from the donor to the borrower must be provided. The lender must verify that sufficient funds to cover the gift are either in the donor's account or have been transferred to the borrower's account. Acceptable documentation includes the following:

1. A copy of the donor's personal check and the borrower's deposit slip; or

2. A copy of the donor's personal check to the closing agent.

If funds are transferred with a cashier's or certified check, either prior to or at closing, a copy of the check (which must be drawn on the donor's bank account) must be provided along with a copy of the borrower's deposit slip or

a copy of the HUD settlement statement specifically showing receipt of the donor's cashier's or certified check.

A gift (or grant) from a church, municipality, non-profit organization, etc. must be evidenced by either a copy of the letter awarding the gift or grant to the borrower or a copy of the legal agreement that specifies the terms and conditions of the gift or grant. This supporting document must include language indicating that no repayment of the gift or grant is expected, and an indication of how the funds will be transferred (to the borrower, the lender or the closing agent). The lender must include in the individual mortgage file evidence of the transfer of the funds, such as a copy of the donor's canceled check or a settlement statement showing receipt of the check.

Refer to the Manufactured Home Program Section 5007.05.D for gift fund guidelines on Type II manufactured home loans.