



# 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
- Requirement to provide proof of the borrower's ownership of the asset to only those assets that have a title, for example an automobile title, and;
- Requirement to obtain an independent valuation of the asset to only those cases where the proceeds from the sale exceed 50% of the total monthly income used in qualifying
- 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.



Read Me!



Watch Me!

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



**Read Me!**



**Watch Me!**

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.



### Watch Me!

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?



### Watch Me!

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.



**Read Me!**

*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:*

## Less Common Assets (cont.)

### 1031 Exchange

An IRS 1031 Exchange allows a borrower to place proceeds from the sale of a property into a separate escrow account until they are prepared to purchase another similar property with those proceeds. These proceeds are permitted solely for investment property, purchase transactions, not owner-occupied or second home transactions.

What's needed for this type of transaction?

- A copy of the Closing Disclosure from the property being sold reflecting QI as the seller
- A statement from a qualified intermediary (QI) verifying the funds are available.

**Note:** *The QI is the person who will be holding the funds in escrow. The QI should be an established company who is experienced in facilitating 1031 Exchanges. The QI cannot be the borrower, their real estate agent or broker, their investment banker or broker, accountant, attorney, employee or anyone who has worked for the borrower in those capacities within the previous 2 years.*

- A copy of the exchange agreement

Once the closing takes place, the QI receives the proceeds due to the seller and holds them in escrow until they are used to purchase a new property. If the borrower takes possession of these funds instead of the QI, the exchange is voided and the funds are then considered immediately taxable.

Think of when someone rolls over their 401K from one employer or account to the next. The borrower will not pay taxes on these funds as long as they stay within the exchange. If proceeds are used, they then become taxable.

As always, be sure to check your company and investor guidelines when it comes to this type of scenario.



Read Me!

Notes:



## Sale vs. Loan of an Asset

You would have captured these notes while watching the Sale vs. Loan of an Asset video.

## Documentation & Loan On Asset Examples

There are no questions for this section, but check the workbook for more information on Documentation & Loan On Asset Examples.

## Retirement Funds as an Asset

You would have captured these notes while watching the Retirement Funds as an Asset video.

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

**A:** Funds that are “vested” in accounts such as an IRA or individual retirement account, Keoghs, Roth IRAs, and 401k accounts can be used.

**Q:** What does the fund need to be, to be used as an asset?

**A:** The funds need to be vested in the account.

**Q:** How can the funds be used?

**A:** They are acceptable sources of funds (minus any penalties for withdrawing the funds) for down payment, closing costs, or reserves.

**Q:** What documentation is required when using retirement funds?

**A:** The most recent two months statements from the retirement account to verify the balance and the trail of funds, which simply means that you have obtained documentation beginning with evidence of liquidation of the retirement funds through the deposit of the money into the borrower’s account.



## Life Insurance as an Asset

You would have captured these notes while watching the Life Insurance as an Asset video. The answers are below.

- Q:** Which type of life insurance policy can a borrower take a loan against?
- A:** Whole life policies can be used for funds for down payment, closing costs, or even reserves. However, not all life insurance policies have a cash surrender value. Be sure to check the policy before considering this as an asset.
- Q:** What documentation is required when using life insurance?
- A:** Documentation must be obtained from the insurance company to verify the terms of the loan and any penalties involved. Proof of receipt of proceeds can be validated with a copy of the check from the insurance company or a copy of the payout statement issued by the insurance company.

- Q:** If a borrower pursues this approach, does the loan payment have to be added to the borrower's debt?
- A:** If the borrower takes a loan against the cash value of their life insurance policy, the payments on that loan typically do not have to be added to the borrower's monthly debts for qualifications.
- Q:** True or False? The cash value of the policy is reduced by the loan amount?
- A:** True. For example, if the cash value of the policy is \$25,000 and the amount borrowed is \$12,000, then the remaining value is \$13,000.

## Bridge Loan

There are no questions for this section, but check the workbook for more information on Bridge Loans.

## Less Common Assets

There are no questions for this section, but check the workbook for more information on Less Common Assets.