Foundations On-Demand

Liquid Assets Answer Key

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Liquid Assets and Why They Are Important

Answer Key!

You would have captured these notes while watching the Liquid Assets and Why They Are Important video.

Q: Four Types of Liquid Assets:

A: 1. Checking accounts, savings accounts, and CD's; 2. Gifts that are not required to be repaid; 3. Stocks, mutual funds, bonds, and stock options; 4. Business funds

Q: Down Payment:

A: Sometimes called "Earnest Money" deposit. This is the investment the borrower makes when purchasing a home. The theory is that the more a person has invested in their home purchase the harder they will try to make their mortgage payments in times of financial difficulty.

Q: Closing Costs:

A: These are the costs associated with closing the mortgage transaction. These consist of items such as funds to set up an escrow account, payment to the closing agent for services rendered, appraisal, survey, title insurance and perhaps the balance of the down payment.

Q: Reserves:

A: Fannie Mae defines reserves as liquid or near liquid assets that are available to a borrower after the mortgage closes. Most lenders require 2-6 months of the full PITIA payment in cash

Earnest Money Deposit

There are no questions for this section, but check the workbook for more information on the Earnest Money Deposit.

Checking & Savings Accounts As Assets

You would have captured these notes while watching the Checking and Savings as Assets video.

Q: Checking Accounts:

A: This type of account is held in the name of the deposit holder and typically have the privilege of unlimited deposits and withdrawals along with the ability to write checks, make ATM cash withdrawals and use of a debit card. Considered the most liquid of accounts, it may also be referred to as a "demand account".

Q: Savings Accounts:

A: Also very liquid, but are generally not used for everyday expenses. Savings accounts traditionally allow for very few withdrawals before imposing fees on the account holder. Money market accounts are very similar to savings accounts but have additional investment options while still being FDIC insured.

Q: How do you document checking and savings?

A: Supporting documentation includes a verification of deposit (also known as a "VOD") or the most recent two months' bank statements from the borrower to validate the asset account.

Q: What RED FLAGS do you need to be aware of?

Checking & Savings as Assets (Cont.)

Answer Key!

A: Items such as large deposits, an account balance that is significantly greater than the average balance over the previous few months, recently opened accounts, or additional account owners. Most of these items may be an indication of borrowed funds which may create a new loan the borrower will have to repay. Borrowed funds are typically not allowed and should be considered a red flag.

Sample Requests of Verification of Deposit

Q: Which key information on the VOD do you need to validate?

A: You will need to validate that the account still exists and has not been closed, how long the account has been open, the current balance available, and that there have been no recent large deposits (compare the average balance to the current balance). If the current balance is larger than the average, there was likely a recent large deposit. Typically, large deposits are defined as any single deposit exceeding 50% of the monthly qualifying income. NOTE: This applies to a purchase transaction. Check guidelines for additional criteria on this issue; who the legal owners of the account are (may differ from or be in addition to the applicant).

Certificates of Deposit As a Liquid Asset

There are no questions for this section, but check the workbook for more information on Certificates of Deposit as a liquid asset.

Sample Certificates of Deposit

Answer Key!

There are no questions for this section, but check the workbook for more information on the Sample Certificate of Deposit.

Ownership

You would have captured these notes while watching the Ownership video. The answers are on below.

Q: What if there are two domestic partners who have a joint account, but only one is making application for a mortgage?

A: The funds from the joint account can be used for the transaction if a relationship can be properly documented. We are looking to establish the relationship between these two people. Documents that can be used to establish this relationship are: utility bills with both names, the driver's licenses which display the same address for each partner, or lease agreements executed by both parties to establish a shared residence.

Q: What if those same domestic partners have a joint account and both are making application for a mortgage?

A: That's an easy one! The total funds in the account can be used for the mortgage transaction. Traditional documentation is required such as verifying both names are on the account via bank statements or VOD.

Q: What if it is a married couple who have a joint account, but only one is applying for the mortgage.

A: Funds held jointly with a non-borrowing spouse can be considered as the other's funds and the total funds in the account can be used for this transaction. Typically we look for the name of the spouse on the bank statement or it is verified by the bank on the VOD.

Gift Funds For Family Members

There are no questions for this section, but check the workbook for more information on Gift Funds for Family Members.

Stocks, Mutual Funds, and Bonds

You would have captured these notes while watching the Stocks, Mutual Funds, and Bonds video.

Stock Options

Answer Key!

Please list your company's guidelines on stock options here:

Answers will vary

Business Accounts

List your company's guidelines here:

Answers will vary.

Unacceptable Source of Funds

You would have captured these notes while watching the Unacceptable Sources of Funds video.

Q: Gift funds that are a loan.

A: Gift funds where repayment is required in full or in part: If gift funds are required to be repaid, they are not considered a gift, but a personal loan.

Q: Cash advances from credit cards:

A: This would increase the balance on the credit card and increase the monthly payment, which could negatively impact the credit decision on the loan. It may also point to the possibility of the borrower relying heavily on credit rather than having the ability to save. However, some closing costs such as the lock-in fee, credit report, and application and/or appraisal fees are paid using the borrower's credit card. The charged fees cannot exceed 2% of the loan amount. Those costs must still be counted against the funds verified for closing costs or the credit card payment must be re-calculated with the added charges and added to the borrower's monthly debt ratio.

Q: Cash on hand:

A: AKA "Mattress Money". This is money where the source cannot be verified. Often it is proceeds from a personal loan which, as discussed, cannot be used.

Q: Sweat Equity:

A: This is the value attributed to real estate owners who make improvements themselves or by their own "sweat". This is a very difficult item to place a value on.

Q: UTMA (Uniform Transfers to Minors Act)/UGMA (Uniform Gifts to Minors Act):

A: Here is an example of this type of account: A grandparent opens a Certificate of Deposit account for their grandchild under one of these acts. The funds in this type of account are considered a custodial account and now belong to the minor, not to the grandparent. It is a gift from the grandparent and they have relinquished any right of ownership.