Loan Product Advisor® (LPA^SM) uses the information submitted to help determine the amount of funds required from the borrower(s) to close a loan. In LPA, this is known as the *Required Borrower Funds.* LPA returns this information in the Asset Information section of the Loan Product Advisor Feedback Certificate (Feedback Certificate), along with other information that will help you determine if the borrower has sufficient eligible assets to close the loan pursuant to our Guide. This reference explains how LPA determines the results displayed in this section, associated feedback messages and data entry tips for obtaining the most reliable results.

Results Returned in the Asset Details Section

The Feedback Certificate returns the following results in the Asset Details section:

Purchase Transaction Example:
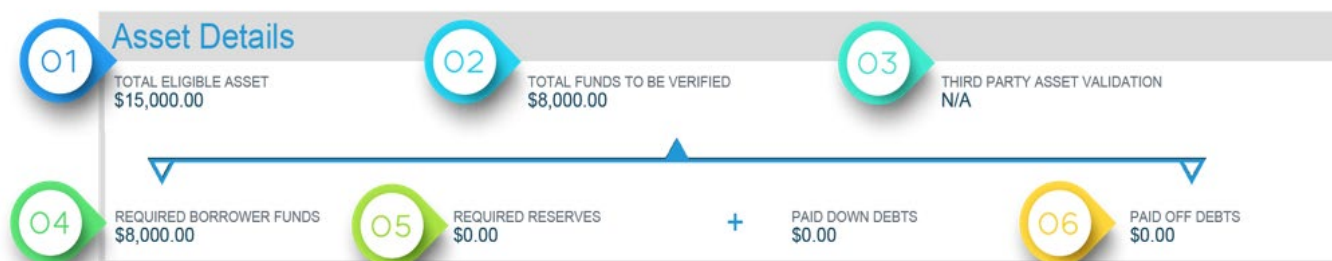
> **Note:** Loan Product Advisor does not determine Required Borrower Funds for FHA or VA Mortgages and, as a result, suppresses the Asset Information section for those loans.

> *Note:* Vertical revision bars " | " are also used in the margin of this reference to highlight these new requirements and significant changes.

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Asset Details Section Results		
#	Field	Brief Description
01	*Total Eligible Asset*	The total amount of assets that are eligible sources of borrower funds and reserves.
02	*Total Funds to be Verified*	The minimum amount of eligible assets that must be verified.
03	Third Party Asset Validation	If applicable, AIM for Assets. The total funds verified with an asset verification report. The specific account information from the asset verification report will display below the asset details. Refer to the AIM for Assets job aid for more information.
04	*Required Borrower Funds* (Cash-to-Close)	The amount of funds to be paid by the borrower in connection with the transaction. (*Note:* If this value is negative, $0.00 displays. This occurs, for example, when the borrower is receiving cash out from the transaction.)
05	*Required Reserves*	The minimum amount of reserves that must be verified based on the risk of the loan and Guide requirements. (*Note:* Loan Product Advisor may not require any verified reserves for certain transactions, while other transactions may require reserves to be verified.)
06	*Paid Off Debts*	This field **displays only on purchase transactions** and includes liabilities with a *Paid Off* indicator of "Yes". It does not include mortgages on properties indicated as pending sale or sold on the Schedule of Real Estate Owned.

Note: **Paid down debt** is not an active data field, therefore, refer to How to Enter Data for Paid Down Debt job aid for steps to enter Paid Down Debt.

How Loan Product Advisor Determines Results and Associated Feedback Messages

This section explains how LPA determines each result in the Asset Details section, and which associated feedback messages are returned in the Assets and Reserves section of the Feedback Certificate.

Total Eligible Assets

Calculation

Total Eligible Assets is equal to the sum of the following asset types:

- Checking Account
- Savings Account
- Certificate of Deposit / Time Deposit
- Money Market Fund
- Stock
- Bond
- Mutual Fund
- Retirement Fund
- Trust Account
- Individual Development Account

- Life Insurance *(cash value)*
- Proceeds from Real Estate Property to be sold on or before Closing
- Proceeds from sale of Non-Real Estate Asset
- Secured Borrowed Funds
- Unsecured Borrower Funds
- Cash Deposit Toward Purchase *(Earnest Money)*
- Bridge Loan Proceeds
- Cash on Hand *(eligible for Home Possible® only)*
- Gift *(eligible for Primary Residence or Second Homes only)*

- Other Liquid Assets (*System-to-System users*: For Asset Type "Other", manually enter a description of the type of liquid asset in the "Asset Type Other Description" data point)

> **Note:** If the gift or grant has been deposited into an identified asset account you must select the **Deposited** indicator "**Yes**".

Feedback Messages for Total Eligible Assets

Loan Product Advisor returns the following messages in the Assets and Reserves section when applicable:

Code	Message
FAR0013	*Example:* The following asset(s) total *$43,000.00* and are eligible sources of funds: Retirement: *$28,000*; Checking: *$10,000*; Stock: *$5,000*.
FAR0045	*Example:* The following asset(s) total $0.00 and are ineligible sources of funds.

Note: The feedback messages list assets in order of value with the highest value displayed first.

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TTotal Funds to be Verified

Calculation

- For **purchase transactions**, *Total Funds to be Verified* is the sum of the *Required Borrower Funds*, *Required Reserves, Paid Down Debts* and *Paid Off Debts*.
- For **refinance transactions**, *Total Funds to be Verified* is the sum of the *Required Borrower Funds and Required Reserves* (mortgages and other debts to be paid off are included in the *Required Borrower Funds* value).
    - o **Note**: Documentation of funds to close on a refinance transaction is not required if the required borrower funds are $500 or less, and no reserves are required in accordance with the LPA Feedback Certificate, and the loan is an LPA loan with a Risk Class of Accept. Refer to Message FAR 0179 below.

LPA compares the *Total Funds to be Verified* value to the *Total Eligible Assets* value to determine if the assets are sufficient to close the loan. If the *Total Eligible Assets* value is insufficient, LPA returns a message indicating eligible assets are less than the funds required to be verified.

Feedback Messages for Total Funds to be Verified

LPA returns the following messages when applicable:

Code	Message
FAR0121	***Purchase transaction example:*** The total funds to be verified are no less than $45,600.00. This amount includes required Borrower Funds ($42,500.00), required reserves ($3,000.00), any debts to be paid off at or before closing ($100.00) and any debts to be paid down at or before closing ($0.00).
FAR0125	***Refinance transaction example:*** The total funds to be verified are no less than $470.00. This amount includes required Borrower Funds ($470.00) and required reserves ($0.00).
FAR0011	The Seller must verify sufficient assets from eligible sources of funds required to close the Mortgage transaction.
FAR0179	Required borrower funds are less than or equal to $500, therefore such funds do not need to be verified, as required under Guide Section 5501.1.
Total Eligible Assets are Insufficient Message	
FAR0008	The Borrower's total eligible assets are less than the calculated total funds required to be verified by Loan Product Advisor. The Seller must verify sufficient assets from eligible sources of funds to close the Mortgage transaction.

Not included in the Required Funds Calculation	
Code	**Message**
FAR0009	If a property on the Schedule of Real Estate Owned is pending sale or sold and sale of the property requires additional funds from the Borrower, the Seller must document that the Borrower has sufficient funds to complete the sale of the property on the Schedule of Real Estate Owned in addition to the amount of total funds to be verified.

Note: In certain instances, LPA is not able to identify all the necessary information to determine the amount of *Total Funds to be Verified.*

- **Pending Sale or Sold Property Requiring Additional Funds** - When a property on the Property You Own section of the application is pending sale or sold <u>and</u> the sale of the property requires additional funds from the Borrower, the Seller must document that the borrower has sufficient funds to complete the sale of this property in addition to the *Total Funds to be Verified* amount.

Required Borrower Funds (Cash-to-Close)

Calculation

LPA uses information from several fields to determine *Required Borrower Funds*. Within the Feedback Certificate, the *Required Borrower Funds* message displays the following:

- For **purchase transactions**, *Required Borrower Funds* includes the components of the *Sales Contract Price, Improvements/Renovations/Repairs (if applicable), Loan Amount, Transaction Costs, and Other Mortgages on the Property.*
- For **refinance transactions**, *Required Borrower Funds*, includes the components of the *Improvements/Renovations/Repairs (if applicable), Balance of Mortgage Loans on the Property to be paid off in the Transaction*, *Loan Amount, Transaction Costs, and Other Mortgages on the Property.*
  - For refinance transactions, mortgages and other debts to be paid off are included in the *Refinance field* and, therefore, are also included in the *Required Borrower Funds* total.

Refer to the chart below for the LPA calculation of Required Borrower Funds.

Line item references correspond to the Qualifying the Borrower – Minimum Required Funds or Cash Back section of the Uniform Residential Loan Application – Lender Loan Information.

Loan Product Advisor's Required Borrower Funds Calculation
Sales Contract Price (purchase transactions only) (line A)
+   Improvements, Renovations, and Repairs (line B)
+   Refinance Balance of Mortgage Loans on the Property to be paid off in the Transaction   (line D), includes, Credit Cards and Other Debts Paid Off (Line E)
-    Loan Amount (base) (line I)*
+   **Transaction Costs** *(see calculation below)*
-    Loan Proceeds from Other Mortgage(s) on the Property (line J) *(see calculation below)*
=   ***Required Borrower Funds***

* Base loan amount excludes PMI, MIP Funding Fee.

Loan Product Advisor's Calculation of Transaction Costs
Prepaid Items (line F)
+   Borrower Closing Costs (line F)
+   Total Discount Points (line G)
+   (PMI, MIP Funding Fee Total – PMI, MIP Funding Fee Financed (line I)
-    Seller Credit (Borrower's costs paid by the property seller) (line L)
-    Other Credits (line M)**
=   *Transaction Costs*

** Other Credits include: Lender Credit, Earnest Money that has cleared (Cash Deposit on Sales Contract), Relocation Funds, Employer Assisted Housing, Lease Purchase Fund, Borrower Paid Fees (outside closing), and Other (such as sweat equity on Home Possible Mortgages).

Loan Proceeds from Other Mortgage(s) on the Property	
Purchase:	Amount entered in Other Mortgages on the Property field.
Refinance:	Amount entered in Other Mortgages on the Property field less balances of other mortgages on the property and HELOCs secured by the subject property when the Subject Loan Resubordination Indicator* is "Yes".

* Indicator is the answer to the following question, *Resubordination Indicator, select Yes or No.*

Note: If the earnest money deposit (EMD) is gift funds, you must enter the EMD amount as gift funds in LPA, and not as EMD in the Purchase Credit field, in order for LPA to accurately determine Borrower Required Funds.

- **Data Omissions** – LPA relies on the data provided to determine the *Required Borrower Funds* and the *Total Funds to be Verified*. Omitting the following conditionally required fields, when they apply, would either overstate or understate the *Required Borrower Funds* indicated by LPA:

If Omitted, *Required Borrower Funds* Are…	
Understated*	**Overstated***
- Improvements, Renovations & Repairs - Closing Costs - Prepaid Items - PMI, MIP and Funding Fee - Refinance (include debts to be paid off) - Total Discount Points (total paid on the transaction to the lender)	- Other Credit Type and Other Credit Amount - Sales Concession - Subordinate Financing

*Impacted if the data is applicable to the loan transaction and was omitted from the data entry field.

Feedback Messages for Required Borrower Funds

Loan Product Advisor returns the following messages when applicable:

Code	Message
FAR0124	***Purchase transaction example:*** Required Borrower Funds are calculated as $18,470.00 based on information submitted: purchase price ($260,000.00) + alterations, improvements and repairs ($0.00) – loan amount ($247,000.00) + transaction costs ($5,470.00) – proceeds from subordinate financing ($0.00).
FAR0123	***Refinance transaction example:*** Required Borrower Funds are calculated as $0.00 based on information submitted: alterations, improvements and repairs ($0.00) + refinance amount ($190,000.00) – loan amount ($200,000.00) + transaction costs ($10,000.00) – proceeds from subordinate financing ($0.00).
FGM0099	Loan Product Advisor has determined that this loan purpose is a purchase; however, a value has been entered in the refinance (include debts to be paid off) field. Please verify that this data should be submitted for this transaction.
FGM0001	Loan Product Advisor has determined that this loan purpose is a refinance, however, a value has been entered in the purchase price field. Please verify that this data should be submitted for this transaction.

Note: For **Construction Conversion Mortgages and Manufactured Homes**, LPA can calculate the *Required Borrower Funds* amount when the purchase price of the land and the value of the land are equal. However, for transactions where the purchase price of the land and value of the land are not equal, LPAr <u>cannot</u> calculate the *Required Borrower Funds* amount. Consequently, you must calculate and verify the *Required Borrower Funds* for these transactions.

Reserves

LPA determines the amount of reserves required for the transaction (*Required Reserves).*

Required Reserves

The minimum amount of reserves that must be verified is based on the risk of the loan and Guide requirements. LPA may not require any verified reserves for certain transactions, while other transactions may require reserves to be verified. The required amount is displayed in the Asset Information section of the Feedback Certificate.

The *Required Reserves* amount includes additional required reserves when the subject property is a second home or an investment property. This means that you are no longer required to *manually* calculate the additional required reserves when your borrower has additional financed second homes and/or 1- to 4-unit investment properties for which the borrower is obligated.

Note: Per Guide Section 5501.3(b), for refinance mortgages, the cash-out proceeds from the subject cash-out refinance transaction and any cash back received on the subject "no cash-out" refinance transaction are not eligible sources of funds for reserves.

Reported Reserves

Reported reserves is the amount entered in the Loan Product Advisor Projected Reserves Amount field under the Lender Loan Info metro stop.

Paid Off Debts

Calculation

For purchase transactions, *Paid Off Debts* is the sum of the unpaid balances for the following liabilities that have a *Paid off* indicator of "Yes" in LPA:

- Revolving
- Collections, Judgments and Liens
- Installment
- Open 30-Day Charge Account
- Other Liability
- Lease Payments
- Paid down debt amount
- Taxes
- Mortgage
- HELOC

Reminder: For refinance transactions, mortgages and other debts to be paid off are included in the *Refinance field* and, therefore, are included in the **Required Borrower Funds** total.

Feedback Messages for Paid Off Debts

For Purchase transactions, LPA returns the *Paid Off Debts* total in the following **Total Funds to be Verified** messages:

Code	Message
FAR0121	***Example:*** The total funds to be verified are no less than $45,600.00. This amount includes required Borrower Funds ($42,500.00), required reserves ($3,000.00), any debts to be paid off at or before closing ($100.00) and any debts to be paid down at or before closing ($0.00).

For Refinance transactions, Loan Product Advisor returns the *Paid Off Debts* total in the following **Required Borrower Funds** message in the Refinance amount.

Example: Mortgage pay-off $200,000.00; Paid Off Debt: $2,000.00 = $202,000.00 refinance amount.

Code	Message
FAR0123	***Example:*** Required Borrower Funds are calculated as $470.00 based on information submitted: alterations, improvements and repairs ($0.00) + refinance amount ($202,000.00) – loan amount ($218,000.00) + transaction costs ($16,470.00) – proceeds from subordinate financing ($0.00).

> **Tip!** For additional information on paid down debt, refer to the How to Enter Data for Paid Down Debt job aid.

This information is not a replacement or substitute for the requirements in the Freddie Mac *Single-Family Seller/Servicer Guide* and your other Purchase Documents.

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