Conventional Lending Guide

Chapter 9 | Assets

Cardinal requires borrowers to document that they have sufficient funds to cover any applicable down payment, closing costs, and funds for reserves after the closing of their transaction. The amount of verified funds required for a down payment, closing costs, and reserves varies depending on the loan program and eligibility requirements; refer to the appropriate product snapshot for more information.

Assets used to qualify a borrower's income may not be used as assets for a down payment, closing costs, or reserves.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB.

Ineligible Asset Types

- Unsecured borrower funds
- Cash on hand
- Rental deposits
- Sweat Equity
- Funds that cannot be verified

Reserve Requirements

Reserves - Transactions Processed Submitted Via AUS

The AUS system will determine the reserve requirements based on the overall risk assessment of the loan, the minimum reserve requirement that may be required for the transaction, and whether the borrower has multiple financed properties.

If a borrower has multiple financed properties and is financing a second home or investment property, the AUS will base the reserve calculations for the other financed properties on the number of financed properties determined by the AUS. Refer to the Calculation of Reserves for Multiple Financed Properties in Chapter 4 Borrower Eligibility for additional information.

Reserves - Manually Underwritten Loans

When a borrower has multiple financed properties and the subject transaction is a second home or investment property, additional reserve requirements, per the Multiple Financed Properties section of Chapter 4 Borrower Eligibility, must be verified. Note: For conventional financing, manual underwriting is **only** allowed for U.S. borrowers living abroad purchasing a primary residence in the states; refer to Chapter 3 | Automated Underwriting for further details.

Liquid Financial Reserve Requirements

Liquid financial reserves are liquid or near-liquid assets that are available to a borrower after the mortgage closes. Liquid financial reserves include cash and other assets that are easily converted to cash by the borrower by:

- Drafting or withdrawing funds from an account
- Selling an asset
- Redeeming vested funds
- Obtaining a loan secured by assets from a fund administrator or an insurance company

Reserves are measured as the number of months of the qualifying payment for the subject property (and each additional property the borrower owns) that the borrower could pay using their financial assets. Funds to close are subtracted from the available assets when considering sufficient assets for reserves.

Reserves are based on all recurring housing expenses for the subject property and, in some cases, for other property owned by the borrower. Housing expenses, also known as principal, interest, taxes, insurance, and assessments (PITIA), include but are not limited to:

- Principal and Interest (as used in the qualifying payment amount)
- Insurances (hazard, flood, and/or mortgage)
- Real Estate Taxes
- Ground rent/leasehold
- Special Assessments
- Homeowners' association fees
- Monthly co-op fees
- Any home equity loan or HELOC payment, if applicable

Minimum reserve requirements vary depending on:

- Product
- Type of transaction
- Amortization type
- Loan amount
- Occupancy status
- Number of units in the subject property
- Multiple financed properties

- Conversion of a primary residence

When reserves are required for other properties owned in addition to the subject property, the calculation of reserves is based on the specific housing expense associated with each of the individual properties (as applicable).

Reserves required for each property must be calculated separately and verified.

Verification of Deposits and Assets

The following types of documentation may be used to verify that a borrower has sufficient funds for closing, down payment, and/or financial reserves.

- Copies of bank statements or investment portfolio statements; the statements must:
    - Clearly identify the borrower as the account holder,
    - Include at least the last four digits of the account number,
    - Include the time period covered by the statement,
    - Include all deposits and withdrawal transactions (for depository accounts),
    - Include all purchase and sale transactions (for financial portfolio accounts), and
    - Include the ending account balance
- Direct verification by a third-party asset verification vendor. These verifications are acceptable provided that:
    - The borrower has provided authorization for Cardinal to obtain the information through a third party vendor,
    - The verified information provided must conform with the information that would be provided on a Verification of Deposit or on bank statements,
    - The date of the completed verification is not older than 120 days

- Copies of retirement account statements are the most recent statements and must identify the borrower's vested amount and terms.

- Computer-generated transaction histories are downloaded by the borrower from the Internet, or by a financial institution representative from the institution's system. Documentation must:
  - Clearly identify the name of the depository or investment institution and the source of information—for example, by including that information in the Internet banner at the top of the document
  - Identify the account owner(s)
  - Identify the account number, which at a minimum must include the last four digits
  - Show all transactions including an ending balance
  - Show the period covered by the printout
  - Show any outstanding loans secured by the asset

Documentation Requirements

For AUS Approve or Accept recommendations, the following documentation requirements may be followed.

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Purchase Transactions	The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter)
Refinance Transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter)

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Purchase or Refinance Transactions	The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter)

Conventional Transactions Through AUS

Loans that are processed through an AUS system may follow the findings recommendations for asset verification, including reserve requirements. The underwriter, at their discretion, may ask for additional information and asset documentation above the level indicated in the AUS findings.

Manual Underwriting

A minimum of the most recent, consecutive two-month statements for all accounts used in qualifying assets are required for all manually underwritten loans. If the statements are quarterly, the most recent quarterly statement, supplemented as described above are required. A Verification of Deposit is not acceptable.

Age of Documents

Refer to Chapter 2 Documentation Standards.

Joint Accounts

Funds held in a joint account are acceptable as long as the documentation clearly identifies the borrower as an account holder; a joint access letter is not required. Accounts where borrowers were added as joint account holders in the last 60 days are not considered the borrower's own funds and cannot be used for qualifying purposes.

Verification of Funds for Refinance Transaction

Fannie Mae

When DU requires assets to be verified, DU will indicate the minimum verification documentation requirements necessary to process the loan application. DU will not require documentation of assets for refinance transactions when the total funds to be verified are $500 or less.

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Documentation of funds to close on refinance transactions are not required under the following circumstances:

- Required borrower funds are $500 or less, and
- No reserves are required in accordance with the Loan Product Advisor Feedback Certificate, and
- The Mortgage is a Loan Product Advisor Mortgage with a Risk Class of Accept

Large Deposits

Large deposits can be an indicator of recently opened (undisclosed) debt or potentially suspicious activity. Underwriters are responsible for carefully reviewing asset statements for unusual activity.

A large deposit is defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. Requirements for evaluating large deposits vary based on the transaction type, as noted below.

Refinance Transactions

Documentation or explanation for large deposits is not required on refinance transactions. However, if any deposit is determined to be from borrowed funds, including any related liabilities, it must be considered in the loan's qualifying ratios.

Deposits should be evaluated for potential borrowed sources by:

- Reviewing account activity patterns for unusual or inconsistent deposits,
- Scrutinizing the source of each deposit (e.g., transfers from known lending institutions), and
- Cross-checking deposits against recently opened credit accounts on the credit report.

These steps may help identify deposits that are likely tied to newly incurred debt, which must be appropriately factored into the underwriting decision.

Purchase Transactions

If funds from a large deposit are needed to complete the purchase transaction (i.e., down payment, closing costs, or financial reserves), documentation must be provided showing they are from an acceptable source.

When one line item on an account statement is representative of deposits from multiple sources, documentation should be obtained to clearly reflect the breakdown of the funds; each individual source must be measured against the 50% threshold.

If the underwriter suspects the funds may be borrowed (even if the source is identified) then the underwriter must request further information to fully document and source the funds. When bank statements (typically covering the most recent two months) are used, the underwriter must evaluate the statements for any large deposits. If the source of the deposit is readily identifiable on the account statement, then no verification is needed. For example:

- A direct deposit from an employer (payroll), Social Security Administration, IRS, or state income tax refund and the source is printed on the statement
- If the deposit readily identifiable as a rollover from an IRA or qualified retirement plan per IRS guidelines into another IRA or qualified plan

Underwriters have authority to require at their discretion the source of deposit for any amount (including those less than or equal to 50% of total qualifying income) as needed if there is any indication funds may be from a borrowed or ineligible source.

Verification of Deposit

Fannie Mae

When a Verification of Deposit (Form 1006) (VOD) is used and depository activity is not included, verification of the source of funds is required for:

- Accounts opened within the last 90 days of the TRID application date, and
- Account balances that are considerably greater than the average balance reflected on the VOD.

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When using direct account verification, documentation must be included for the following:

- The source of funds when an account is opened within 90 days of verification, and/or
- When the current balance in an account exceeds the average balance by more than 50% of the sum of:
  - The total monthly qualifying income for the mortgage, and
  - The amount derived from the asset calculation for establishing the debt payment-to-income ratio in accordance with utilizing Assets as a Basis for Repayment of Obligations.

Acceptable Sources of Deposit

Fannie Mae

Fannie Mae does not provide a prescriptive source of large deposits, however, funds must be from an acceptable source.

Occasionally, a borrower may not have all of the documentation required to confirm the source of a deposit. In those instances, the underwriter must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The underwriter must place in the loan file written documentation of the rationale for using the funds.

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When a deposit requires verification, the underwriter must determine:

- Whether the source of the deposit is acceptable, as described below,
- That the funds belong to the Borrower, and
- That the funds are eligible for the transaction

The only acceptable sources of deposit are the following:

- The Borrower's income,

- Funds awarded to the Borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlement) provided the source is not an interested party to the real estate or Mortgage transaction,
- Funds derived from eligible asset types stated in Asset Types and Uses of Funds

Documentation Required to Document and Source Funds

To be considered fully documented and sourced, the following must be obtained:

- A written explanation from the borrower (such as a letter of explanation or email), or verbal sourcing and documenting the file with a processor certification
  and
- Documentation verifying the source of the funds

Purchase or Cash Needed to Close Evaluation Requirements

If funds from a large deposit are needed for the down payment, closing costs, financial reserves or to pay off debt, the underwriter must document and source the funds.

If the funds in question are not needed to complete the transaction, the verified funds attributable to the account must be reduced by the portion of funds that cannot be documented. The underwriter must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves.

Gift Funds Received as a Wedding Gift

(Freddie Mac only)

Gift funds received as a wedding gift from unrelated persons and/or Related Persons are an eligible source of funds for a Mortgage secured by Primary Residence.

The gift funds must be on deposit in the Borrower's depository account within 90 days of the date of the marriage license or certificate. The following documentation must be provided:

- A copy of the marriage license or certificate
- Verification of the gift funds in the Borrower's depository account

Gift Funds Received as a Graduation Gift

(Freddie Mac only)

Gift funds received as a graduation gift from unrelated persons and/or Related Persons are an eligible source of funds for a Mortgage secured by a Primary Residence.

The gift funds must be on deposit in the Borrower's depository account within 90 days of the date of graduation.

Provide the following:

- Evidence of graduation from an educational institution (e.g., diploma or transcripts) that supports the date of graduation, and
- A verification of the gift funds in the Borrower's depository account

Asset Types and Uses of Funds

Various asset types may be used for either down payment, closing costs, and/or reserves. In general, liquid assets or those financial assets that are readily available are acceptable. Assets that are not liquid or have restrictions on availability are generally not acceptable. The following is a list of common asset types, their available uses, and any associated requirements. If an asset type is not listed, the underwriter must review the asset carefully to determine if it is sufficiently liquid and whether a market value can be easily obtained to determine if the asset may be used in the transaction.

Annuities - Non-Retirement

Annuity contracts that are not part of retirement accounts may be used as a source of down payment, closing costs, and reserves.

- 70% of the cash value of a non-retirement annuity net of any loans may be used as liquid funds
- If the funds are needed for down payment or closing costs, evidence of liquidation is required.
- The impact on the borrower's qualifying income (if any) must be taken into account.

For information and requirements on retirement-based annuity accounts, see Retirement Accounts in this topic.

Bonuses

Funds received by a borrower as a sign-on bonus or other one-time payouts may be used as funds to close and down payment. Proof of source of the payment and the dollar amount from the borrower's employer, along with proof of receipt, is required.

Borrowed Funds - Secured

Borrowed funds secured by an asset are an acceptable source of funds for a down payment and closing costs. Assets that may be used to secure funds include automobiles, art, collectibles, real estate, financial assets such as stocks, bonds, certificates of deposits, and 401(k)'s.

The monthly payment must be included in the borrower's qualifying debt-to-income ratio. The payment, a copy of the Note or line agreement to verify the terms of repayment and secured nature of the loan, must be obtained. Evidence must be provided to:

- Verify that the party providing the secured loan is not a party to the transaction
- Verify that the funds have been transferred to the borrower
- Verify the value and ownership of the asset and verify that the loan is secured by that same asset

If the loan is on a fixed-term, use the monthly payment to qualify the debt-to-income. If the loan is a line of credit, the payment must be calculated based on the entire line of credit, not just the amount outstanding.

Payments on installment debts secured by financial assets in which repayment may be obtained by liquidating the asset may be excluded from the monthly debt payment-to-income ratio when qualifying the Borrower, regardless of the payment amount or number of payments remaining. The loan secured by the financial asset must have been made by a financial institution.

If the borrower uses the same financial asset as part of their financial reserves, the asset must be reduced by the number of proceeds and related fees for the secured loan.

Borrowed Funds - Unsecured

Unsecured funds such as personal lines, credit cards, overdraft protection, and unsecured loans are not eligible sources of funds for a down payment, closing costs, or reserves.

Credit cards can be used to pay upfront fees such as lock-in fees, origination fees, commitment fees, credit report fees, and appraisal fees.

Conforming Loans Only

Cardinal allows credit card financing for the payment of common and customary fees paid outside of closing up to a maximum of 2% of the loan amount or $1,500, whichever is less, if:

- The borrower has sufficient liquid funds (financial reserves) to cover these charges (in addition to funds needed for other closing costs and the down payment that they will be paying)
- If the borrower does not have sufficient liquid funds, then the underwriter must recalculate the credit card payment to account for the new charges and include the updated payment in the qualifying ratio calculation.

Bridge Loan Proceeds

A bridge (or swing) loan is an acceptable source of funds provided the following requirements are met:

- The bridge loan cannot be cross-collateralized against the new property.
- The lender must document the borrower's ability to successfully carry the payments for the new home, the current home, the bridge loan, and other obligations.
- Receipt of funds must be documented.

The following documentation is required:

- A Copy of the bridge loan Note or a commitment letter from the bridge loan lender that reflects the following:

  - Amount of bridge loan (amount cannot exceed the equity in the bridge loan property)
  - The term, maturity date, and renewal provisions
  - Required payments on the bridge loan
  - Description of the bridge loan security (property address)
- The bridge loan must be recorded on the bridge-loan security, and the security instrument must be provided whether it is recorded or not. If not recorded, at a minimum, the bridge loan must be in recordable form.

Business Assets

To use the business assets, even if the funds have already been withdrawn from the business account, the borrower must:

- Meet all standard requirements for self-employed income
- Be an owner on the account and have the authority to withdraw funds from the account, as reflected on the business account statement or on documentation provided by the financial institution at which the funds are held
- The transfer of funds to the borrower's personal account, or the payment using business funds at closing must be documented
- If the funds are brought to closing, a copy of the cashier's check or wire transfer must be obtained for the loan file.

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When a borrower is using self-employment income to qualify for the loan and also intends to use assets from their business as funds for the down payment, closing costs, and/or financial reserves, all requirements for Self-Employment income must be met and the underwriter must perform a business cash flow analysis to confirm that the withdrawal of funds for the transaction will not have a negative impact on the business.

In addition to the review of personal and business tax returns, three months of recent business asset statements are required in order to see cash flow needs and trends over time.

- The ***Business Assets Cash Flow Analysis Worksheet*** must be completed utilizing the business bank statements provided
    - If multiple business bank accounts are provided, list each separately on the Worksheet
- Refer to Business Assets Cash Flow Analysis Worksheet for details on completion of the Worksheet

Fannie Mae has clarified that there is no requirement that the borrower be 100% owner of the business to use business assets, or a requirement to lower the percentage of the assets to match the borrower's percentage of ownership in the business.

- Documentation must be provided to show the borrower is an owner of the business account.
- If the borrower is an owner of the asset account, they have access to the entire account.

Large deposits are not required to be evaluated when using business assets to qualify.

Self-Employment Income Not Used to Qualify

When self-employment income is not being used to qualify for the loan, but the borrower is using assets from their business towards down payment, closing costs, and/or financial reserves, the underwriter is not required to perform a business cash flow analysis, provided the borrower is listed as an owner of the account and the account is verified in accordance with B3-4.2-01, Verification of Deposits and Assets.

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Withdrawals of assets from the business may have a negative impact on the ability of the business to continue operating. When business assets are being used for the Down Payment, Closing Costs and/or reserves, it must be determined that the withdrawal of the funds will not have a detrimental effect on the business.

In addition to a review and analysis of the personal and business tax returns, the last three months of the business bank statements must be reviewed to confirm the deposits, withdrawals and balances are supportive of a viable business and are aligned with the level and type of income and expenses reported on the business tax returns.

- The ***Business Assets Cash Flow Analysis Worksheet*** must be completed utilizing the business bank statements provided.

    - If multiple business bank accounts are provided, list each separately on the Worksheet.
- Refer to Business Assets Cash Flow Analysis Worksheet for details on completion of the Worksheet.

Freddie Mac has clarified that there is no requirement that the borrower be 100% owner of the business to use business assets, or a requirement to lower the percentage of the assets to match the borrower's percentage of ownership in the business.

- Documentation must be provided to show the borrower is an owner of the business account.
- If the borrower is an owner of the asset account, they have access to the entire account.

The factors contributing to the determination that the withdrawal will not negatively impact the business must be included in the underwriter's written analysis of the income source and amount.

Documentation of large deposits shown on the business bank statement is not required provided that the underwriter:

- Reviews the required most recent three months of business account statements, and
- Determines the deposits are typical for the Borrower's business

Self-Employment Income Not Used to Qualify

When self-employment income is not being used to qualify for the loan, but the borrower is using assets from their business towards down payment, closing costs, and/or financial reserves, the underwriter is not required to perform a business cash flow analysis, provided the borrower is listed as an owner of the account and the account is verified in accordance with 5501.3 Asset Eligibility and Documentation Requirements. In addition, the Freddie Mac guidelines related to a Self-employment income not used for qualification must be adhered to as noted in Section 5304.1(k).

Business Assets Cash Flow Analysis Worksheet

The Business Assets Cash Flow Analysis Worksheet is designed for underwriter evaluation, though it may be previewed by sales and operations team members. The worksheet calculates the total available cash based on embedded formulas, determining the amount of funds that may be withdrawn after assessing the borrower's personal accounts being used in the transaction.

Documentation Requirements

- A minimum of the most recent three (3) months of business account statements is required.
- If the business has multiple depository accounts, documenting all accounts is recommended in order to pass liquidity, even if not all will be used for asset withdrawals for the transaction.
- Review and analysis of the personal and business tax returns for the most recent year operating expenses is required.
    - Amortization, Depletion, Nonrecurring Expenses, Depreciation and the Borrower's Officer Salary can be added back to the calculation, thus reducing the total expenses being analyzed.

Liquidity Requirements & Approval Process

- Acceptable Liquidity
    - A business must maintain at least two (2) months of operating expenses in liquidity before the business assets may be used in the loan transaction.
- Exception Required
    - If business liquidity falls below two (2) months of operating expenses, an exception must be approved through the Requesting a Loan Exception Review process.

Cash on Hand

Cash on hand is not an acceptable source of funds unless noted below.

Fannie Mae HomeReady

Cash on Hand may be considered an acceptable source of funds for the borrower's down payment, funds for closing, and prepaid items with the Fannie Mae HomeReady Mortgage program if the following requirements are met:

- The property is a 1-unit property

- It has been documented that the borrower customarily uses cash for expenses, and the amount of funds saved is consistent with the borrower's previous payment practices.

- It has been verified that the funds for the down payment and closing costs exist in a financial institution account or an acceptable escrow account.
    - Funds must be deposited at the time of application or no less than 30 days prior to closing.
- A written statement from the borrower disclosing the source of funds and stating that the funds have not been borrowed must be obtained.
- The credit report and other verifications should indicate limited or no use of credit and limited or no depository relationship between the borrower and a financial institution.

Freddie Mac Home Possible Mortgages

Cash on hand may be considered an acceptable source of funds for the Home Possible Mortgages program if the following requirements are met:

- It has been reasonably concluded and supported that the borrower is a cash-basis individual and that cash on hand is not borrowed and could be saved by the borrower, with the following documentation:
    - Documentation confirming that the total monthly residual income available for savings is a positive number. The use of Exhibit 23, Monthly Budget and Residual Analysis Form, is optional; however, it reflects information that may be necessary to confirm that the total monthly residual income available for savings is a positive number.
    - Six (6) months of cash receipts (such as rent or utility receipts) or other alternative documentation (such as direct verifications or wire transfers) meeting the requirements in Section 5202.2(b) to verify that recurring obligations, including the payment of revolving and installment debt, are customarily paid in cash.
    - The original credit report obtained at the time of loan application; the credit report must not show more than three (3) tradelines.
    - Copies of three (3) months statements for any open revolving account that reveals cash advance are not the source of the borrower's funds.

        - Any cash advances must be explained and documented (such as a cash advance used in an emergency situation).
    - An updated credit report obtained approximately one week before closing that does not show any new accounts or substantial increase to an existing account that approximates or exceeds the amount of cash on hand provided by the borrower.
- There must be no indication that the borrower typically uses checking, savings, or similar accounts.
- Evidence that all funds used to qualify the borrower for the mortgage transaction are deposited into a financial institution or held in an institution escrow account before closing.

Cash-Out Proceeds from a Refinance

Cash-out proceeds from a cash-out refinance are an eligible source for funds needed to close, provided the funds are verified with a settlement statement or CD. Cash-out proceeds from the subject transaction are not an eligible source of funds for reserves.

Cash Surrender Value of Life Insurance

Net proceeds from a loan against the cash value or from the surrender of a life insurance policy are an acceptable source of funds for the down payment, closing costs, and reserves. Verification must be obtained that:

- Is a computer-generated or typed statement from the insurance company
- Identifies the life insurance company
- Identifies the borrower as the policy owner(s) and not the beneficiary
- Shows the period covered and an ending cash value
- Shows any outstanding loans

If penalties for failure to repay the loan are limited to the surrender of the policy, payments on a loan secured by the cash value of a borrower's life insurance policy does not have to be considered in the total debt-to-income ratio.

If additional obligations are indicated, the obligation amount must be factored into the total debt-to-income ratio or subtracted from the borrower's financial reserves.

If the funds are needed for a down payment and/or closing costs, proof of receipt is required with one of the following:

- A copy of the check from the insurer
- A statement from the insurer verifying the payout

Certificate of Deposit

Certificates of Deposit are acceptable for a down payment, closing costs, and reserves. 100% of the value is eligible. The statements must be in U.S. currency and held in an institution located in the U.S. The statements must:

- Clearly identify the financial institution
- Clearly identify the borrower as the account holder
- Include at least the last four digits of the account number
- Include the time period covered by the statement
- Include all deposits and withdrawals transactions
- Include all purchase and sale transactions
- Include the ending balance

When funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds.

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Purchase Transactions

The statements must cover the most recent full two-month period of account activity (60 days, or, if account information is reported on a quarterly basis, the most recent quarter).

The number of required bank or investment portfolio statements varies per transaction type.

Refinance Transactions

The statements must cover the most recent full one-month period of account activity (30 days, or, if account information is reported on a quarterly basis, the most recent quarter).

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Provide account statement(s) covering either a one-month or two-month period, or a direct account verification (i.e. VOD).

Checking, Savings, or Share Accounts

Funds held in a checking, savings, share, or money market account may be used for a down payment, closing costs, or reserves.

Copies of the most recent statements covering at least a full two-month period are required. The statements must be in U.S. currency and held in an institution located in the U.S. The statements must:

- Clearly identify the borrower as the account holder
- Include at least the last four digits of the account number
- Include the time period covered by the statement
- Include all deposits and withdrawals transactions
- Include all purchase and sale transactions
- Include the ending balance

College Accounts - 529C

Fannie Mae

A 529 College Savings Plan is an eligible source of funds provided that the borrower is the owner of the account and the account is revocable. The underwriter must evaluate the plan's terms and calculate the effective net balance (after any potential fees, taxes, or penalties that would reduce the balance are considered).

To determine if liquidation is required, the underwriter must understand where the money is invested (stocks, bonds, mutual funds, etc.) and, based on the effective net balance, follow the standard policies as required by Fannie Mae.

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Funds from 529 College Savings Plans are an ineligible asset type.

Community Savings Funds

Funds from a Community Savings Fund, sometimes called a Community Savings System or Private Savings Club, refers to a non-traditional method of saving by making deposits into a member-managed resource pool. Funds distributed to and received by the borrower are an acceptable source of funds, subject to the below requirements.

The borrower's obligation to continue making contributions to the fund must be considered as part of the borrower's debt when calculating the total debt-to-income ratio.

The underwriter should carefully review all documentation related to the account(s) for items such as the level of access the borrower has to the funds, the conditions upon which the funds may be used or if the participants in the program may be an interested party to the transaction.

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- Funds from the account may be used for the down payment if the borrower can document regular contributions to the fund.
- Acceptable documentation includes written confirmation from the party managing the pooled savings fund and documentation of regular borrower contributions.

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- Funds from the account may be considered acceptable funds if the borrower can document regular contributions to the fund.
- A non-profit community organization must administer the savings system.
- Acceptable documentation includes account statements or a direct account verification identifying the non-profit community organization as the administrator and showing all borrower contributions.

Conversion of Primary Residence - Rental Deposits

When a borrower is converting their residence to an investment property, the tenant's security deposit may not be used as an eligible source of funds for a down payment, closing costs, or reserves.

Cryptocurrency

Cryptocurrency, digital currencies, or altcoins must be converted into U.S. currency, be held within a U.S. Financial Institution and be verified prior to underwriting final approval to be used as a source of funds for a down payment, closing costs, or reserves.

Documentation must be provided to support the borrower as the owner of the liquidated digital account(s).

The purchase price of the property and any earnest money deposit may not be designated in virtual currency.

Credit Card Reward Points

Credit card reward points are an eligible asset to be used for a down payment, closing costs, and financial reserves, provided they are converted to cash prior to the closing of the loan.

If the funds are deposited into the borrower's depository account and the deposit is considered a Large Deposit, documentation must be provided to show the source of the asset was from the conversion of credit card reward points.

Obtain the following when the funds have not yet been deposited into the Borrower's account:

- Evidence of the Borrower's ownership of the reward points and their cash value (for example, credit card reward statement prior to conversion), and
- Evidence the reward points are redeemed for cash prior to closing

Custodial Accounts for Children or Others

A custodial account is a financial account (such as a bank account, a trust fund, or a brokerage account) set up for the benefit of a beneficiary and administered by a responsible person, known as a legal guardian or custodian, who has a fiduciary obligation to the beneficiary.

Fannie Mae

Custodial accounts established for children or others may not be used as an eligible source of funds for a down payment, closing costs, or reserves.

Additionally, custodial accounts that are irrevocable trusts like Uniform Transfer to Minors Act (UTMA) accounts are not considered eligible borrower assets and cannot be used in connection with the mortgage transaction, (e.g., for down payment, closing costs, or reserves) even if the borrower/parent established the account.

"In Trust For" or ITF accounts are generally revocable, where the funds are still owned by the trustee, but are payable on death to the beneficiary of the account. As a result, these funds are considered an acceptable source of funds provided there is documentation that the borrower owns and is able to withdraw the funds, regardless of any benefit the beneficiary receives from the mortgage transaction.

Freddie Mac

Custodial accounts established for children or others may be used as an eligible source of funds for a down payment, closing costs, or reserves. Documentation must be provided to support that the borrower is an account owner and has 100% access to the funds.

Disaster Relief Funds

Borrowers may use lump-sum disaster relief grants or loans on conventional transactions only to meet minimum borrower contribution requirements. No borrower contribution is required.

Earnest Money Deposit (EMD)

The earnest money deposit on a sales contract may be used for the down payment and closing costs if the deposit is verified by a copy of the borrower's canceled checks, asset account statement, or written verification from the holder of the deposit.

Fannie Mae

When the EMD is being used as part of the borrower's minimum contribution requirement, the lender must verify that the funds are from an acceptable source.

Bank statements must evidence that the average balance for the past two months was large enough to support the amount of the deposit. If a copy of the canceled deposit check is used to document the source of funds, the bank statements must cover the period up to (and including) the date the check cleared the bank account.

If it cannot be determined that these funds were withdrawn from the borrower's account, additional verification of the source and evidence that the funds have actually changed hands from the borrower to the seller, the realtor, the escrow agent, or the settlement attorney should be provided. Large earnest money deposits and deposits that exceed the amount customary for the area should be closely evaluated.

If the Earnest Money Deposit is made directly from a gift donor to the builder or real estate agent, refer to the Gift Funds from Donor Towards Earnest Money Deposit section.

Earnest Money Deposit not Required for Minimum Borrower Contribution

If the Earnest Money Deposit is not needed to fund down payment, closing costs, prepaids or reserves (where applicable) and the borrower is not required to make a minimum contribution from their own funds, the source of the EMD is not required to be evidenced. However, if the deposit is reflected as a credit in DU, any feedback message related to the funds must be followed.

Freddie Mac

When an EMD for a purchase transaction is used to qualify the Borrower for the mortgage transaction, obtain evidence that the EMD check cleared the Borrower's account (e.g., copy of the canceled check, asset account statement, or written statement from the EMD holder verifying receipt of the funds).

The following is required when the EMD is needed to meet the minimum contribution from Borrower personal funds:

- Verify that the source of the EMD is an eligible asset type
- Provide account statement(s) (based on Streamlined Accept or Standard documentation requirements, as applicable) or a direct account verification (i.e., VOD) that covers the period up to and including the date the EMD funds cleared the account

If the Earnest Money Deposit is made directly from a gift donor to the builder or real estate agent, refer to the Gift Funds from Donor Towards Earnest Money Deposit section.

Earnest Money Deposit not Required for Minimum Borrower Contribution

If the Earnest Money Deposit is not needed to fund the down payment, closing costs, prepaids or reserves (where applicable), and the borrower is not required to make a minimum contribution from their own funds, a copy of the canceled check, asset account statement, or written statement from the EMD holder verifying receipt of the funds must be provided.

Employer Gifts and Grants

Employer assistance in the form of a grant, fully repayable loan, forgivable loan, or deferred payment loan may be an eligible source of down payment funds or closing costs on a primary residence transaction, subject to the borrower's minimum contribution requirements and other program eligibility for the specific product.

When employer assistance is in the form of a secured second mortgage, the transaction must satisfy the eligibility criteria for subordinate financing.

If the secured second mortgage or unsecured loan does not require regular payments of either principal and interest or interest only, no payment needs to be considered as part of the borrower's qualifying debt-to-income ratio. If regular payments are required, they must be included in the calculation of the borrower's qualifying debt-to-income ratio.

Documentation Requirements

The type of employer assistance and the terms of that assistance must be obtained and reviewed. The following documentation is required:

- Verification that the program is an established company program, not just an accommodation developed for an individual employee.
- Documentation of the dollar amount of the employer's assistance.
- If the loan is unsecured, a copy of the award letter or legal agreement from the note holder must be obtained and must disclose the terms and conditions of the loan.
- Verify the terms of any other employee assistance being offered to the borrower (e.g., relocation benefits or gifts). Provide proof that the borrower has received the employer assistance funds directly from the employer (or through the employer-affiliated credit union).

Employer assistance can also be used as reserves with the exception of unsecured loans. Unsecured loans may only be used for downpayment and closing costs.

LTV,CLTV, or HCLTV	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	1-4 unit primary residence	A minimum borrower contribution is not required; all funds needed for the transaction may come from employer assistance.
Greater than 80%	1-unit primary residence	A minimum borrower contribution is not required; all funds needed for the transaction may come from employer assistance.
	2-4 unit primary residence	The borrower must make a 5% minimum contribution from his/her own funds. After the minimum contribution has been met, employer

		assistance can be used to supplement the down payment, closing costs, and reserves (except in the case of an unsecured loan). See the HomeReady Underwriting requirements for minimum contribution and down payment requirements for that specific product.

Foreign Deposits

Funds may be used as an eligible source of funds for a down payment, closing costs, and reserves. Borrower funds that are deposited with a financial institution located either inside or outside of the U.S, but denominated in non-U.S. currencies, must be transferred into U.S. institutions prior to closing.

The use of foreign deposits for closing funds and reserves require all of the following:

- Evidence of wire transfer of foreign assets into the borrower's U.S. bank/deposit account
- Documentation that transferred funds belonged to the borrower prior to transfer
- The source of all funds used for closing can be verified following the same requirements for U.S. based depository institution
- Evidence that the country of origin is not on the list of OFAC sanctioned countries
- Transfer of funds to the appropriate U.S. institution must be verified prior to closing

All documents must be filled out in English or must be translated into English by the document originator or a disinterested third-party translation service. The translation must be attached to each document and warrant that the translation is complete and accurate. Examples of acceptable third-party translation services:

- Google Translate or similar site
- Professional translation service

- An individual who considers themselves competent in both English and the document's original language

Funds from Non-Applicant Title Holder

When the funds for the subject property down payment, closing costs, or earnest money are being remitted by a non-applicant titleholder, the agencies look at this differently.

Freddie Mac will only consider the funds as gift funds, and all applicable gift documentation and guidelines apply.

Fannie Mae will consider these funds as borrower funds and not considered to be a gift. As such, the standard for documentation and non-applicant attestation regarding funds differs from gift procedures.

- Funds remitted from non-applicant titleholders must be accompanied by the following documentation:
    - Documentation that the funds were transferred to our borrower by the non-applicant titleholder, such as a copy of the certified check, wire receipt, account transfer, or other documentation evidencing funds transferred to the borrower originated from the non-applicant titleholder. The identity of the remitter and the amount of the remittance are the only items being validated through this documentation.
    - Documentation that funds were remitted by the non-applicant titleholder, such as a copy of the certified check, wire receipt, or closing agent's acknowledgment of titleholder's fund remittance if funds were remitted to the settlement agent. The identity of the remitter and the amount of the remittance are the only items being validated through this documentation.
- The non-applicant titleholder must provide an executed fund attestation that confirms:
    - State the dollar amount of the funds to close remittance
    - Reference the property being financed
    - Date the funds were (will be) transferred

- Include a statement from the non-applicant titleholder that no repayment is expected or implied in the form of cash or future services
- Include non-applicant title holder name, address, telephone number

Smart Document Reference: 109.017 Attestation | Non-Applicant Titleholder Assets

Gambling

Assets derived from federally legalized gambling sources are acceptable if properly sourced and documented. The borrower's W-2G and evidence of deposit into a depository institution are required.

Assets derived from internet gambling are typically not an eligible source of funds. Winnings derived from participation in online 'fantasy' sports, however, can be considered an eligible asset as federal law classifies fantasy sports as games of skill rather than actual gambling such as when placing money as bets on the outcomes of games.

Gift Funds

Gift funds may be used as all or part of a down payment and closing costs. Gift funds may also be used to satisfy reserve requirements. Gifts are allowable on a primary residence and second home transactions. For other transactions and additional restrictions, refer to product and program eligibility.

Gift Donors

Acceptable Donors

Fannie Mae

A gift can be provided by:

- A relative, defined as:
  - The borrower's spouse, child, or other dependent, or
  - Any other individual who is related to the borrower by blood, marriage, adoption, or legal guardianship; or
- A non-relative that shares a familial relationship with the borrower defined as:
  - A domestic partner (or relative of the domestic partner),

    - Individual engaged to marry the borrower,
    - Former relative, or
    - Godparent
- A trust established by an acceptable donor or an estate of an acceptable donor
- Note: LLCs do not meet Fannie Mae gift donor requirements

The donor may not be, or have any affiliation with, the builder, the developer, the real estate agent, or any other interested party to the transaction.

Note: Gift funds from the seller who is also an Acceptable Donor and not affiliated with any other interested party to the transaction are allowed. The donor of a gift of equity is not considered an interested party to the transaction and the gift of equity is not subject to Fannie Mae's interested party contribution requirements; refer to the Gift of Equity section for guidance.

Refer to the Pooled Funds section for guidance when funds are from an acceptable donor who has resided with the borrower for the last 12 months.

Freddie Mac

A gift can be provided by:

- A Related Person*, or
- A trust established by a Related Person*, or
- The estate of a Related Person*
- Refer to Gift Letter Requirements for additional guidance when the donor is a trust or estate of a Related Person

*Related Person is defined as:

- The Borrower's spouse, child or dependent;
- An individual related to the Borrower by blood, marriage or adoption
- A guardian of the Borrower
- A person for whom the Borrower is a guardian
- The Borrower's fiancée or fiancé
- The Borrower's domestic partner;

- An unrelated individual with close, family-like ties to the Borrower

The donor may not be or have any affiliation with the builder, the developer, the real estate agent, or any other interested party to the transaction.

Note: Gifts from the seller are permitted as long as the seller has no affiliation with the builder, real estate agent or any other interested party to the transaction. The donor of a gift of equity is not considered an interested party to the transaction; refer to the Gift of Equity section for guidance.

Refer to the Pooled Funds section for guidance when funds are from an acceptable donor who has resided with the borrower for the last 12 months.

Gift from Trust Asset Account

Gifted funds from a donor's Trust Account are permitted with evidence that the donor is the creator/settlor of the trust. The donor must be an eligible donor, as noted above.

Grant Donors

- Organizations
    - Government (federal, state, or local) agencies
    - Instrumentalities of governments that have programs providing homeownership assistance to low/moderate-income families or first-time homebuyers may provide gift funds to the borrower
    - Charitable organizations
    - Union of which the borrower is a member
    - Employers
    - Non-Profit Entities

Documentation of the gift must be reviewed to ensure that it is a gift, with no repayment expected and no lien (silent second) being placed on title restricting property transfer or Cardinal's ability to foreclose. For grants or second mortgages, see the applicable section of this guide.

Gift Letter Requirements

The borrower must provide an executed gift letter from the donor, the gift letter must:

- State the actual or maximum dollar amount of the gift
- Reference the property being financed
- Include a statement from the donor that no repayment is expected
- Give the donor's name, address, telephone number, and relationship to the borrower of the donor
- Include the institution and account number of the donor from which the funds were (or will be) transferred
- When the gift is provided by a trust or an estate, information provided in the gift letter must state the donor's name and that the funds are given by the estate or trust established by an acceptable donor. The gift letter must be signed by the trustee or the authorized representative of the estate, as applicable.

Note: If gift funds are transferred to title, and the amount of gift funds reflected on the CD differ from the amount reflected on the Gift Letter, an updated letter must be provided reflecting an amount equal to that shown on the CD *only* when the amount on the letter is less than what is utilized at settlement.

Gift Funds from Donor Towards Earnest Money Deposit

Fannie Mae

Standard Gift Fund requirements apply along with Gift Documentation Requirements below.

Freddie Mac

Freddie Mac will permit a gift donor to pay the Borrower's earnest money deposit (EMD) directly to the builder or real estate agent with evidence of the transfer of funds from the donor's account in a financial institution to the earnest money deposit holder.

All other Gift Fund requirements continue to apply. Follow Gift Documentation Requirements below.

For any Mortgage where the source of the Borrower's EMD is gift funds, the Seller must enter the EMD amount as gift funds in Loan Product Advisor and not as EMD.

Gift Documentation Requirements

The requirements to validate the donor's ability include verification of the following:

- Gift funds are not cash on hand
- Gift funds are not the proceeds from an unsecured loan

If the donor's bank statement(s) reveal any large or unusual deposits, the following items are required:

- Written evidence that the funds were received or borrowed from an acceptable source, not an interested party to the transaction.

The below documentation outlines the items required depending on the timing and type of gift remittance or transfer.

The underwriter may request additional supporting documentation to verify the stated relationship between the borrower and the donor if any inconsistencies are identified.

Note: In all instances, Freddie Mac requires evidence the donor's funds were transferred from a financial institution.

If the gift funds:	Then document gift transfer by:
Are already deposited in the Borrower's account	• Obtaining withdrawal documentation or other evidence to support the following: ○ Account holder's identity ○ Account number where gift/grant originated from ○ Withdrawal amount ○ Withdrawal date • Borrower's bank statement, a record of account, account history, or receipt notification showing gift funds available to include the following: ○ Confirmation of gift deposit ○ Gift amount(s) ○ Date(s) of gift deposits/receipt

Will be provided at closing via certified check, cashier's check, money order, wire, or other type of official check	• Obtain withdrawal documentation or other evidence to support the following: ○ Account holder's identity ○ Account number where gift/grant is originated from • Copy of certified check, wire receipt, or closing agent's acknowledgment of gift receipt if the check was payable to the Escrow Agent.
Earnest Money deposited with the settlement agent	• Obtaining bank statement, a record of account, account history, withdrawal notification, or other evidence to support the following: ○ Account holder's identity ○ Account number where gift/grant originated from ○ Withdrawal amount ○ Withdrawal date • Copy of certified check, wire receipt, or closing agent's acknowledgment of gift receipt if the check was payable to the Escrow Agent.
Earnest Money deposited with builder or real estate agent	• Obtaining bank statement, a record of account, account history, withdrawal notification, or other evidence to support the following: ○ Account holder's identity ○ Account number where gift/grant originated from ○ Withdrawal amount ○ Withdrawal date • Copy of certified check or wire receipt if the check was payable to the Real Estate Agent or Builder.

Minimum Borrower Contributions

LTV, CLTV, or HCLTV Ratio	Minimum Borrower Contribution Requirement from Borrower's Own Funds	
80% or less	1-4 unit primary residence or second home	A minimum borrower contribution is not required; all funds needed for the transaction may come from a gift or grant.
Greater than 80%	1-unit primary residence	A minimum borrower contribution is not required; all funds needed for the transaction may come from a gift or grant.

	2-4 unit primary residence or second home	The borrower must make a 5% minimum borrower contribution from his or her own funds After the minimum borrower contribution has been met, gifts can be used to supplement the down payment, closing costs, and reserves.
Down payment and minimum contribution requirements differ according to the program chosen; refer to the applicable product snapshot for guidance		

Gift of Equity

A "gift of equity" refers to a gift provided by the seller of a property to the buyer. The gift represents a portion of the seller's equity in the property and is transferred to the buyer as a credit in the transaction.

- A gift of equity is permitted for principal residence and second home purchase transactions;
- Acceptable donor and minimum borrower contribution requirements for gifts also apply to gifts of equity, refer to the Gift Funds section for requirements;
- The executed loan application must reflect the gift of equity in the source of downpayment and asset sections;
- A gift of equity may be used to fund all or part of the down payment, closing costs and prepaid items;
- A gift of equity may not be used for financial reserves

Gift of Equity and Cash Gifts on Same Transaction

In some circumstances, a gift of equity and a personal (cash) gift will be used on the same transaction. Following are requirements specific to the two agencies.

Fannie Mae

Fannie Mae will permit a gift of equity and personal (cash) gift on the same transaction; however, a personal gift may not come from the seller of the property (donor of the gift of equity); two separate donors are required.

When a gift of equity is provided by an acceptable donor, the donor is not considered to be an interested party and the gift of equity is not subject to Fannie Mae's interested party contribution requirements.

The seller (even if an acceptable donor), however, cannot provide a personal gift; when providing a personal gift, the seller is then considered an interested party to the contribution.

Freddie Mac

Freddie Mac will permit a gift of equity and a personal (cash) gift to come from the same donor (the seller of the property / donor of the gift of equity) as long as the requirements for an Acceptable Donor are met.

When gift funds and a gift of equity are given from a related person who is also the seller of the subject property, the source of the gift is not subject to Freddie Mac's Interested Party Contribution requirements.

Documentation Requirements

The following are required:

- A signed gift letter that meets the requirements of a gift letter in the Gift Funds section
- The settlement statement must list the gift of equity

Individual Development Account (IDA)

Some nonprofit agencies will match the funds a borrower regularly deposits into a savings account that has been designated as an account that is used solely for the accumulation of funds to purchase a home. Such accounts are referred to as individual development accounts or IDAs.

Funds from an IDA are not allowable on non-conforming transactions.

Nonprofit agencies that offer IDA programs have options with respect to accumulating and holding the matching funds, which include:

- The use of a parallel "savings" account that is separate from the home buyer's savings account;
- Separately designated matching funds within a single agency account via accounting processes to allocate matching funds to a particular home buyer; and

- The use of a trustee account that contains both the home buyer's funds and the agency's matching funds

When a home buyer reaches the target amount and is ready to complete the home purchase, the funds are disbursed from the nonprofit agency account to the closing agent via a single check or multiple checks.

If the agency's matching funds are held in an account that is separate from the home buyer's account, the matching funds do not need to be commingled with the home buyer's funds prior to disbursement to the closing agent. It is acceptable to allow the separate disbursement of funds from the agency and from the home buyer, as long as the terms of the IDA program are met.

Funds that the borrower deposited into an IDA may be used for either closing costs or the down payment.

Use of Funds to Meet Borrower's Minimum Contribution Requirements

IDA Repayment Terms	Allowable Use of Matching Funds
The nonprofit agency: • Requires repayment of the matching funds • Agrees to defer or forgive repayment provided that certain conditions are met • Files a lien against the property	The borrower may use the matching funds to supplement the down payment provided he or she has met the minimum borrower contribution requirements. The minimum borrower contribution must come from the borrower's own funds unless: • The LTV or CLTV ratio is less than or equal to 80%; • The borrower is purchasing a 1-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contributions.
The nonprofit agency: • Does not require repayment of the matching funds and • Does not file a lien against the property	The borrower may use the matching funds for some or all of the down payment without first being required to meet the minimum borrower contribution requirement from his or her own funds.

Required Documentation

The following items must be obtained and reviewed by the underwriter to determine the eligibility of the program and the use of the borrower's funds:

- Documentation is required on how the nonprofit agency's IDA program works.
- The rate at which the agency matches the borrower deposits must be verified.
- Verification that the borrower has satisfied the program vesting requirements is required.
- Transaction history reflecting the borrower's regular payments into the account and the agency's regular deposits of matching funds is required.

Interested Third-Party Contributions

Interested party contributions (IPCs) are contributions made by third parties with a vested interest in the transaction. These funds are used to cover costs that are typically the buyer's responsibility. IPCs may include financing or sales concessions, as described below.

IPCs may not be used to make the borrower's down payment, meet financial reserve requirements, or meet minimum borrower contribution requirements.

The following are considered IPCs:

- Funds paid directly by an interested party to the borrower;
- Funds that flow through a third-party organization, including nonprofit entities, from the interested party to the borrower;
- Funds provided to the transaction on the borrower's behalf by an interested party, including a third-party organization or nonprofit agency; and
- Funds donated by an interested party to a third party, which then pays some or all of the closing costs for a specific transaction

Note: Contributions from commission earned by a real estate agent who is a relative of the borrower are considered an Interested Party Contribution and are subject to the Maximum IPC limits as stated below.

Interested Parties

Interested parties to a transaction include, but are not limited to:

- The property seller,
- The builder or developer,
- The real estate agent or broker,
- Any affiliate of the above, or
- Any party that can benefit from the sale of the property at the highest price and influence the sales price or real estate transaction
- Note: an affiliation exists when there is direct common ownership or control by the lender over the interested party, by the interested party over the lender or by a third party over both.

A lender or employer is not considered an interested party to a sales transaction unless it is the property seller or is affiliated with the property seller or another interested party to the transaction.

Maximum IPC Limits

The table below provides maximum financing concessions, which are calculated using the lower of the sales price or appraised value (not the loan amount) of the subject transaction. Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to maximum financing concessions.

Financing concessions that exceed the below limits are considered sales concessions and must be deducted from the property's sales price. As a result, the maximum LTV/CLTV ratios must be recalculated using the reduced sales price or appraised value. Additionally, financing concessions must be equal to or less than the sum of the borrower's closing costs. Any amount exceeding the borrower's closing costs must be treated as a sales concession.

Occupancy Type	LTV/CLTV Ratio	Maximum IPC
Primary Residence or Second Home	Greater than 90%	3%
	75.01% - 90%	6%
	75% or less	9%

Investment	All CLTV ratios	2%
Freddie Mac: the above limits do not apply to the concessions contributed by Freddie Mac as the property seller for Mortgages originated for the purchase of Freddie Mac REO properties		

Sales Concessions

Sales concessions are IPCs that take the form of non-realty items and may be paid prior to, at or after closing of the transaction. They include, but are not limited to:

- Contributions such as cash/cash-like gifts;
- Rebates, such as realtor rebates, which are not credited towards the transaction;
- Furniture, automobiles, decorator allowances, moving costs, and other giveaways;
- Lender incentives from a lender who is, or is affiliated with, an interested party;
- Financing concessions that exceed the maximum financing concessions; and
- Reimbursement to the Borrower for payment of fees charged to process or negotiate a short sale (commonly referred to as short sale processing fees, short sale negotiation fees, buyer discount fees or short sale buyer fees)

Sales concessions must be deducted from the property's sales price and the lower of the reduced sales price or appraised value must be used to calculate LTV/CLTV ratios for underwriting and eligibility purposes.

Cardinal will not permit borrower refunds post-closing for any sales concessions or interested party contributions.

Prorated Real Estate Tax Credits

Prorated real estate tax credits contributed by the property seller in areas where real estate taxes are paid in arrears are not considered interested party contributions and, therefore, are not subject to financing concession limits.

Prorated tax credits cannot be considered when determining if the Borrower has sufficient funds for the required minimum down payment; the borrower must have sufficient assets from an eligible source.

IPC Exclusions

The following are not considered to be IPCs and are not subject to the requirements described in this topic:

- A lender credit derived from premium pricing, even if the lender is an interested party to the transaction;
- Gift funds or gift of equity from a seller who is also an acceptable donor provided that:
    - The donor is not a builder, or another interested party, and has no affiliation with any other interested party to the transaction, and
    - All requirements pertaining to gift funds and gift of equity from an acceptable donor are met;
- A legitimate pro-rated real estate tax credit in places where real estate taxes are paid in arrears; and
- Fees for standby commitments
- The costs associated with a forward commitment obtained by a builder from a lender in order to offer future buyers a specific Mortgage interest rate, provided the forward commitment was obtained prior to entering into a contract with the Borrower and it was not obtained specifically for the subject transaction

Undisclosed IPCs

Transactions with undisclosed IPCs are not eligible for financing by Cardinal. This includes moving expenses, payment of various fees on the borrower's behalf, silent second mortgages held by the seller, or any other contributions given to the borrower outside of closing and not disclosed on the settlement statement.

Down Payment Assistance Programs

Funds that are donated to third parties which are then applied towards some or all of the borrower's closing costs for a specific transaction are sometimes referred to as Down Payment Assistance Programs (DAPs). DPA's must be approved by Cardinal.

IPC funds that flow through a DPA may be used for allowable closing costs and prepaids.

Financing Concessions

Financing concessions that are paid on the borrower's behalf are subject to IPC limits. Financing concessions are:

- Financial contributions from interested parties that provide a benefit to the borrower in the financing transaction
- Payments or credits related to acquiring the property
- Payments or credits for financing terms, including prepaids

Typical fees and/or closing costs paid by a seller in accordance with local custom, known as common and customary fees or costs, are not subject to IPC limits.

Financing concessions that exceed the limits listed below are considered sales concessions and are subject to IPC limits.

Financing concessions typically include:

- Origination fees
- Discount points
- Commitment fees, Appraisal costs
- Transfer taxes and stamps
- Attorneys' fees
- Survey charges
- Title insurance premiums or charges
- Real estate tax service fees
- Funds to subsidize a temporary or permanent interest rate buydown

Financing concessions can also include prepaid items, such as:

- Interest charges for up to 30 days of interest
- Real estate taxes cover any period after the settlement date if the taxes are being impounded by the servicer
- Property insurance premiums for up to 14 months
- Homeowners' association (HOA) assessments covering up to 12 months assessments after the settlement date
- Initial and/or renewal mortgage insurance premiums
- Escrow accruals required for renewal of borrower-purchased mortgage insurance coverage

Any amount the property seller or lender pays toward Prepaid items must be included in the total contribution limits.

Any amount that the borrower's employer pays towards the Prepaids is not included in total contribution limits.

Builder Standby Commitment Fees

For applications dated on or after 9.4.24, Builder Standby Commitment fees, also known as Forward Commitments, are not subject to interested party contribution limits as they are not attributable to the specific loan transaction.

Fannie Mae

Loans with a reduced interest rate due to a standby commitment must be delivered using Special Feature Code (SFC 887).

Freddie Mac

ULDD Data Point Investor Feature Identifier (Sort ID 368) valid value "J70" will be required for Mortgages originated under builder forward commitments.

Interest Rate Buydowns

If a temporary or permanent interest rate buydown is being offered to the borrower, the cost of the subsidy to fund that buydown must be included in the IPC calculation, if it is received from an interested party or a lender affiliated with an interested party.

The lender must determine if the cost of the subsidy meets allowable IPC limits. The difference in the rate that is offered without the payment of any discount points—and the discount points being charged to obtain the interest rate being offered with the buydown is the dollar amount of the IPC that is used in calculating the maximum percentage allowable.

Payment Abatements

Payment abatements of any type are not eligible regardless of whether they are disclosed on the settlement statement. This prohibition applies to transactions in which an interested party is directly funding the abatement and/or if the funding for the abatement is flowing through another entity, such as a nonprofit down payment assistance program.

The payment of HOA fees is not considered an abatement unless the payment of the fee extends for more than 12 months. The payment of HOA fees for 12 months or less is considered an interested party contribution.

Lot Equity

The value of the lot/land equity may be credited towards a borrower's minimum down payment when:

- The borrower holds title to the lot on which the subject property is being constructed and financed with a construction to permanent mortgage.
- The borrower's equity contribution will be the difference between the market value of the land and any outstanding liens.

The value of the land is determined when the borrower acquired the land:

- If the borrower acquired the land more than 12 months before the loan application or as a gift, inheritance, or other non-purchase transaction, then the value of the land is its current appraised value.

- If the borrower acquired the land less than 12 months before the date of the loan application, then the value of the land is the lesser of the sales price or the appraised value.

The borrower's investment must be documented with a certified copy of the settlement statement (or CD) and a copy of the deed showing there are no liens or a copy of the release of any liens. If the borrower acquired the land as a gift, inheritance, or other non-purchase transaction in the last 12 months, proof of acquisition and transfer of the land is required.

Smart Document Reference 126.001 - Inheritance Documentation

Non-Sufficient Funds

Non-Sufficient Funds (NSFs) showing on a borrower's bank statement(s) are generally an indication of the borrower's financial mismanagement and are considered a negative layer of risk. Consideration of NSF's should be made when assessing the overall risk of the loan.

If the account statements demonstrate overdraft activity, that information suggests a weakness in the borrower's ability to meet financial obligations; however, Overdraft Protection Withdrawals are generally considered a neutral factor and are not considered negatively.

Pooled Funds

Fannie Mae

If the borrower receives a gift from an acceptable donor who has lived with the borrower for the last 12 months, the gift is considered the borrower's own funds (not a gift) and may be used to satisfy any required minimum borrower contribution as long as both individuals will use the home being purchased as their principal residence.

When a gift from an acceptable donor is being pooled with the borrower's funds to make up the required minimum cash down payment, in addition to a gift letter, the following items must also be included:

- A certification from the donor stating that they have lived with the borrower for the past 12 months and will continue to do so in the new residence.
- Documents that demonstrate a history of borrower and donor shared residency. The donor's address must be the same as the borrower's address. Examples include but are not limited to a copy of a driver's license, a bill, or a bank statement.

Freddie Mac

Pooled funds are funds on deposit provided by the borrower and a Related Person who:

- Have resided together for at least one year, and
- Will continue residing together in the new residence, and
- Are "pooling" their funds to buy a home

Funds provided by Related Persons who do not reside with the borrower are subject to the requirements for Gift Funds.

Pooled funds are an ineligible asset type for Investment Property transactions.

Documentation

The following must be provided:

- Evidence that the Borrower and the Related Person have resided together for at least one year,
- Documentation verifying the pooled funds are permissible for the applicable asset type, and
- A written statement, in the form of a signed letter or an e-mail directly from the borrower, executed at Application attesting to all of the following:
  - The source of the pooled funds
  - The fact that the pooled funds were not borrowed by the contributing Related Person
  - The relationship between the contributing Related Person and the Borrower. (For example, the affidavit might state that the Related Person is the Borrower's uncle or that the Related Person is the cousin of the Borrower's spouse.)
  - That the Related Person has resided with the Borrower for the past year and intends to continue residing with the Borrower in the new residence for the foreseeable future
  - Note: the written statement need not be notarized or acknowledged but must be kept in the mortgage file.

Proceeds from Sale of Personal Assets

Proceeds from the sale of personal assets are an acceptable source of funds for the down payment, closing costs, and reserves when the individual purchasing the asset is not a party to the transaction.

The following documentation must be provided:

- The value of the asset(s) is determined by an independent and reputable source if the proceeds represent more than 50% of the total monthly income used in qualifying. Use the lesser of the estimated value (as determined by the independent source) or actual sales price when determining the number of funds for the transaction.
- Evidence of the borrower's ownership of the asset for all asset types that are titled assets, for example, automobile title
- Transfer of ownership of the asset, as documented by a bill of sale
- Borrower's receipt of the sale proceeds from documents such as deposit slips, bank statements, or copies of the purchaser's canceled check

Proceeds from Sale of Real Estate

Proceeds from the sale of real estate are an eligible source of funds. If the home is listed for sale but not yet sold, the underwriter may qualify the borrower based on the anticipated sales proceeds.

Documentation Requirements

When the property is pending sale and information related to estimated funds to close and/or payoff of a mortgage liability needs to be documented, one of the following items must be provided prior to approval (PTA):

- Estimated Settlement Statement
- Title Fee Sheet
- Loan Estimate
- Closing Disclosure (CD)
- HUD-1
- Net Proceeds Calculation Worksheet (provided by the Real Estate Agent)

To use proceeds from the concurrent sale of owned real-estate for a down payment, minimum contribution requirements, and/or cash reserves:

- The closing of the other real estate transaction must take place before or simultaneously with the subject closing, and
- A fully-executed Closing Disclosure (CD), Final Closing Disclosure (CD) or Final Settlement Statement must be provided to verify net proceeds to the borrower.

Profit-Sharing Plan

Employer profit-sharing plans are not eligible as reserves due to potentially severe and complex access restrictions. When used as a compensating factor, these funds must be readily accessible.

Real Estate Commission Earnings

Earned real estate commission refers to the borrower's portion of a real estate commission earned from the sale of the subject property being purchased when the borrower is acting as their own real estate agent. The borrower's earned real estate commission may be used as an eligible source of funds for down payment and closing costs provided the borrower is a licensed real estate agent and will receive a sales commission from the purchase of the subject property.

The earned commission is not considered in the Interested Third-Party Contribution limit for the transaction.

Documentation Requirements

The following documentation is required:

- The settlement statement must reflect the commission earned by the borrower; and
- The earned commission amount must be credited towards the mortgage loan; and
- Verification from the Broker is required to determine the amount of authorized commission for use toward the subject transaction

Summary

Agency	Down Payment	Closing Costs	Considered Part of Interested Party Contribution (IPC)	Eligible Occupancy Types

Fannie Mae	Yes	Yes	No	All
Freddie Mac	Yes	Yes	No	All

Octane

When using earnings towards Closing Costs:

- Ensure there is a charge for 'Other' Credit Paid to Borrower in Section H of the Charges & Credits Screen.
- Place the verification from the Broker addressing the amount of authorized commission in the Purchase Contract folder.

When using earnings towards Down Payment:

- Add the amount of commission to be used as an Earnest Money Deposit to ensure the amount is reflected on the CD.
- The requirement 'Evidence of EMD Clearance' can be waived.
- Place the verification from the Broker addressing the amount of authorized commission in the Purchase Contract folder.

Relocation Benefits

Borrowers who are relocating on behalf of an employer and are being offered relocation funds as part of their employment may use documented relocation funds for closing costs subject to the below requirements. The mortgage principal, interest, taxes, insurance, and association dues for their former residence may be excluded if the relocation company has bought the residence and the following requirements are met.

All of the following are required to use employer-paid relocation benefits for closing funds:

- A copy of the executed buy-out agreement to purchase the existing residence must be provided.

- Any closing costs and points that may be included in the relocation package can be used; the borrower must provide funds for prepaid items unless specifically stated in the relocation package.
- A copy of the fully-executed settlement statement must be provided at closing as evidence of sale and release from liability on the borrower's former residence.

Rental or Lease Credit

Rent credit with an option to purchase is the portion of rental payments (also referred to as lease payments) paid by the borrower that can be credited towards the down payment or minimum borrower contribution under a documented rental or purchase agreement. Funds may not be used as reserves and the rent credit is not considered an interested party contribution.

The rent credit from the seller for the down payment is determined by calculating the difference between the market rent and the actual rent paid by the borrower. The market rent is determined by the appraiser and the credit may be no more than the difference between the market rent and the actual rent paid.

Documentation Requirements

The following documentation is required:

- A copy of the rental/lease with an option to purchase agreement that evidences the following:
  - An original term of at least 12 months,
  - The total number of months of the option to purchase agreement,
  - The monthly rental amount, and
  - The amount of the monthly rent credit
- Copies of the borrower's canceled checks, bank statements, money order receipts or other reasonable methods evidencing the rental payments over the term of the agreement. The documentation must clearly indicate the payee and the amount being paid
- The appraisal of the subject property reflecting the market rent amount

History of Rental Payments

- Although the lease must have an original term of 12 months, FNMA does not require a minimum history of documented monthly rental payments as long as the documentation provided (canceled checks, bank statements, etc.) supports the terms of the agreement indicated within the lease
- Freddie Mac requires rent be based on a minimum of 12 months rental payments and confirmation that the borrower has made timely payments in accordance with the terms of the lease for the most recent twelve months

Rent-back Credit

A rent-back credit is an amount paid by the property seller to the borrower in exchange for allowing the seller to stay in the home for a specified period of time after closing. While rent-back credit to the borrower paid by the seller is permissible as part of the sale, it cannot be used as an eligible source of funds for closing costs, down payment, or reserves.

Additionally, there may not be any consideration of the rent-back credit and it must be documented that the borrower has sufficient funds for the transaction from eligible sources.

Note: For loans secured by the borrower's principal residence, the borrower must continue to meet any occupancy requirements.

Repayment of a Loan

Proceeds from the repayment of a loan are eligible funds for a down payment, closing costs, and reserves if the repayment is a lump sum and can be evidenced with:

- A paper trail that the borrower provided funds to a party repaying the loan, e.g., a copy of the loan agreement or other documentation along with proof the funds were given to the individual by a canceled check or bank statements
- Proof of recent lump-sum repayment via a copy of the check or withdrawal slip and proof of deposit into the borrower's account

Retirement Accounts

Vested funds from individual retirement accounts and tax-favored retirement savings accounts are acceptable sources of funds for the down payment, closing costs, and reserves.

The ownership of the account must be verified and it must be confirmed that the account is vested and allows for withdrawals regardless of current employment status.

Common types of retirement accounts include:

- 401(k)
- 403(b)
- Individual Retirement Accounts (IRAs) (traditional and Roth)
- Simplified Employee Pension (SEP)-IRA
- Savings Incentive Match PLan for Employees (SIMPLE) IRA
- Keogh
- State retirement savings plans
- Other independent and IRS-qualified employer retirement plan accounts

FNMA

If the retirement assets are in the form of stocks, bonds, or mutual funds, the account must meet the requirements per the Securities section for determining value and whether documentation of the borrower's actual receipt of funds is required when used for the down payment and closing costs.

When funds from retirement accounts are used for reserves, Fannie Mae does not require the funds to be withdrawn from the account(s).

Documentation

Refer to Verification of Deposits and Assets for documentation requirements.

Freddie Mac

When retirement accounts are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing.

When evidence of liquidation is not required, in order to use the vested amount of an IRS-qualified employer retirement account, the Mortgage file must include documentation confirming:

- The Borrower is permitted to make withdrawals, and
- Severance from the Borrower's current employment is not required

Documentation

Account statement covering a one-month period, or a direct account verification (i.e., VOD).

Securities

Securities that are traded on an exchange or marketplace and are generally available to the public.

Fannie Mae

Vested assets in the form of stocks, government bonds, and mutual funds are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Stocks and Mutual Funds	The value of the asset (net of any margin accounts) must be determined by obtaining either: • The most recent monthly or quarterly statement from the depository or investment firm; or

<table>
<tr><td></td><td>A copy of the stock certificate, accompanied by a newspaper stock list that is dated as of or near the date of the loan application.</td></tr>
<tr><td>Stock Options</td><td>The value of vested stock options can be documented by:
A statement that lists the number of options and the option price, and
Using the current stock price to determine the gain that would be realized from exercise of an option and the sale of the optioned stock.
Note: Non-vested stock options are not an acceptable source of funds for the down payment, closing costs, or reserves and should not be entered on the loan application.</td></tr>
<tr><td>Government Bonds</td><td>The value of government bonds must be based on their purchase price unless the redemption value can be documented.</td></tr>
<tr><td colspan="2">When used for the down payment or closing costs, if the value of the asset (as determined above) is at least 20% more than the amount of funds needed for the down payment and closing costs, no documentation of the borrower’s actual receipt of funds realized from the sale or liquidation is required. Otherwise, evidence of the borrower’s actual receipt of funds realized from the sale or liquidation must be documented.
When used for reserves, 100% of the value of the assets (as determined above) may be considered, and liquidation is not required.</td></tr>
</table>

Freddie Mac

Vested assets in the form of stocks, stock options, bonds, mutual funds, U.S. Government securities and other securities are acceptable sources of funds for the down payment, closing costs, and reserves provided their value can be verified. The borrower's ownership of the account or asset must be verified.

The value of the asset and any related documentation must meet the requirements outlined in the table below.

Asset Type	Determining the Value of the Asset
Freddie Mac classifies the following as Securities: • Stocks • Vested stock options • Bonds • Mutual funds • U.S. government securities • Other securities	Value must not include margin accounts. Stock with limitations on its accessibility (e.g., restricted stock that has not vested and been distributed to the recipient) is not eligible. If the Borrower does not receive a stock/security account statement: • Provide evidence the security is owned by the Borrower, and • Document value using current stock prices from a financial publication or website When securities are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing. Document with an account statement covering a one-month period, or a direct account verification (i.e., VOD).
Government Bonds (Federal, State or Municipal)	The value used must be based on the lower of the purchase price or current redeemable value. Documentation is required verifying the ownership and the value.

	When government bonds are needed for closing, evidence of liquidation is required unless the combined value of the assets is at least 20% greater than the amount from these assets needed for closing.
Restricted Securities	Restricted securities are not an eligible source of funds due to the fact that they cannot be readily traced. Refer to Rule 144 of the Securities and Exchange Commission (SEC) regulations for additional details.

Sweat Equity

Sweat equity, where the borrower performs work on the property in lieu of paying a contractor or other individual (seller), is not allowed as an acceptable source of funds. If a particular program allows sweat equity, the guidelines will be contained in the associated product snapshot.

Tax-Deferred/1031 Exchange

A 1031 exchange is a tax deferred transaction that allows a borrower to exchange like properties through the use of a qualified intermediary and defer any tax from gains in the transaction. Borrowers can use funds from this type of transaction towards the purchase of their new property.

Tax-Deferred Exchanges are an eligible source of funds for the purchase of an investment property if they are properly documented in compliance with the Internal Revenue Code Section 1031. Exchange funds are eligible for the purchase of a second home on a case by case basis and must be submitted for a loan review through Credit Committee; exchange funds must meet IRS Code Section 1031 and the exchanged property must qualify as like-kind.

Note: Second homes qualify as assets held for investment purposes only if the property has been rented out at fair market value for at least 14 or more days in at least two 12-month periods of ownership.

A 1031 exchange is acceptable when the following requirements are met:

- The exchange company will typically not enter into the transaction unless they are certain that the property type is eligible.
- The following entities are not permitted to act as the exchange company:
    - Relatives and controlled business entities or the applicant's realtor
    - CPA
    - Attorney
- All proceeds from the first property sales do not need to be reinvested. Escrow may be instructed to disburse a portion of the funds to the applicant and the balance to the new title company as cash to close on the new purchase. Disbursement to the applicant at the close of the sale or unused funds at the close of the exchange will not disqualify the exchange. However, any cash received by the applicant can be recognized by the IRS as a gain and taxed accordingly.
- A copy of the exchange documents, showing the borrower(s) as the owner of the funds and showing adequate funds in the exchange escrow required to close.
- A qualified intermediary who has entered into a written agreement with the borrower must facilitate the transaction. The qualified intermediary cannot be a relative or agent of the exchanging party.
- A copy of the executed Exchange Agreement must be included in the loan file; the replacement property can be identified in the agreement or in the Replacement Property Identification Notice.
- Preliminary Title Commitment or Escrow Instructions are identifying the transaction as a 1031 exchange.
- A copy of the Closing Disclosure from the sale of the relinquished property must be furnished by the borrower.
- The transaction must be fully compliant with all other requirements of the Agencies and the IRS Tax Code.

Reverse 1031 exchanges (when the replacement property is already purchased before the relinquished property is sold) are not permitted.

Smart Document Reference 127.055 - Evidence of 1031 Exchange

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The relinquished property must be identified within the schedule of real estate owned and marked as Sold. Once identified, the real estate-owned tag, uw_need_1031_exchange_agreement, will be used to prescribe the related 1031 exchange documentation.

Trade Equity

Trade equity is an acceptable source of funds to supplement the borrower's minimum borrower contribution on conventional transactions provided the following requirements are met:

- The seller's equity contribution for the traded property must be a true-value consideration supported by a current appraisal.
- The borrower must make the minimum required contribution from his or her own funds unless the LTV or CLTV ratio is less than or equal to 80%, or the borrower is purchasing a 1-unit primary residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution.

These requirements apply to all transactions that involve property trades, including those that are evidenced by two separate contracts that have the buyer and the seller on one contract reversing roles on the second contract.

Trade equity is not allowed on non-conforming loan transactions.

To determine the equity contribution, the underwriter must subtract the outstanding mortgage balance of the property being traded, plus any transfer costs, from the lesser of either the property's appraised value or the trade-in value, agreed to by both parties.

For real property, the transfer deed must be recorded.

The following must also be obtained:

- A search of the land records to verify the ownership of the property and to determine whether there are any existing liens on the property.
- Proof of title transfer and satisfaction of any existing mortgage liens for which the borrower was liable.

Trust Account Funds

Trust account funds are an eligible source of funds for a down payment, closing costs, and reserves if:

- The trust manager or trustee provides written documentation confirming the value of the trust account
- If trust funds are also being used as qualifying income, the effect on future income must be taken into account
- The borrower has immediate access to trust account funds as documented by any one of the following:
  - Written confirmation from the trust manager or trustee
  - Evidence of transfer of the funds and receipt by the borrower
  - Trust is structured where the borrower is the Grantor, Trustee, and Beneficiary of the trust

U.S. Savings Bonds

U.S. Savings bonds may be used as an eligible source of funds for a down payment, closing costs, and reserves.

- The borrower must provide a list of the amounts, serial numbers, and maturity dates of the bonds.
- The value of the bonds is based on their purchase price unless the borrower can document a higher redemption value.
- Do not copy the bonds for the loan file.

References

Reference List
Chapter 3 | Automated Underwriting

Revision History

Date	Version	Description	Approver	Octane Alignment
8.13.25	V44	• Added guidance under Pooled Funds for Freddie Mac stating Pooled funds are an ineligible asset type for Investment Property transactions *This update aligns with current Freddie Mac guidance and is effective as of 8.13.25 and includes all loans in process*	Kristen Bellon	*Pending*
8.6.25	V43	• Updated Retirement Accounts section breaking out Fannie Mae and Freddie Mac guidance. • Added Securities section which provides guidance for Socks, Bonds and Mutual Funds while breaking out Fannie Mae and Freddie Mac guidance *Updates align with current agency guidelines as are effective immediately for all loans in process*	Kristen Bellon	*Pending*
6.18.25	V42	• Updated Certificate of Deposit section breaking out Fannie Mae and Freddie Mac guidance; this revision aligns with guidance from the respective agencies without any change to current policy • Added Cardinal Overlay stating when funds from a Certificate of Deposit (CD) are required for the down payment or closing costs, and the Note date precedes the CD's maturity date, proof of liquidation is required to reflect any potential early withdrawal penalties and confirm the net available funds	Kristen Bellon	*Pending*

		This update is effective immediately for all loans in process		
5.30.25	V41	• Expanded Interested Party Contribution Limits to provide more clear definitions of IPCs • Added additional items not subject to maximum financing concessions • Expanded Sales Concession section to provide more clear guidance and additional examples • Clarified a realtor rebate, not applied to the transaction (for example, not used towards closing costs), must be treated as a sales concession, regardless of when the rebate is provided *This update is effective immediately for all loans in process*	Kristen Bellon	-
4.1.25	V40	The Large Deposit section has been revised and refactored for clarity and consistency. *No change to existing policy with this update.* Large Deposit > Refinance Transactions section has been revised to provide steps to identify if a large deposit is related to borrowed funds, including any related liabilities. *This update is a clarification only and is effective immediately.*	Ellen Clayson Ellen Clayson	- *Pending*
2.28.25	V39	Updated Business Assets section to provide guidance on completing a cash flow analysis to confirm that the withdrawal of funds for the transaction will not have a negative impact on the business. *This is a clarification and is effective immediately.*	Ellen Clayson	Complete
9.18.24	V38	Added guidance to the Gift Letter Requirements section to indicate the letter must reflect the institution and account number of the donor from which the funds were (or will be) transferred. *This is a Cardinal Overlay and is effective immediately*	Kristen Bellon	Complete

9.10.24	V37	Aligned guidance for Fannie Mae and Freddie Mac clarifying that the borrower's portion of real estate commission earned from the sale of the subject property and used towards our transaction is not considered in the IPC limits. This update is effective immediately	Kristen Bellon	*Pending*
8.20.24	V36	Updated Rental or Lease Credit section to include additional documentation types for evidencing rental payments remitted to the seller. Added additional clarification related to the number of months documented rental payment history for FNMA and Freddie Mac. Added Rent-back Credit section which provides guidance for a rent-back credit from the seller to the borrower. Guidance is effective for TRID Application date on or after 8.7.24	Kristen Bellon	*Complete*
7.29.24	V35	Added guidance related to Large Deposits for Freddie Mac specifying the only acceptable sources of deposit are the borrower's income, funds awarded to the borrower (e.g., disaster relief funds, lottery winnings, court-awarded settlement), and funds derived from eligible asset types stated in Asset Types and Uses of Funds Guidance is effective for Note date on or after 7.30.24	Kristen Bellon	*Complete*
6.10.24	V34	Added clarification under Financing Concession for stating Builder Standby Commitment fees, also known as Forward Commitments, are not subject to interested party contribution limits. Update is effective with applications dated on or after 9.4.24	Kristen Bellon	*Pending*
4.11.24	V33	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon	N/A
3.13.24	V32	Added Pooled Funds section splitting out guidance for both Fannie Mae and Freddie Mac. Information was previously listed within the Gift	Kristen Bellon	*Complete*

		Funds section, update was made to add clarification only, no changes to policy		
11.20.23	V31	Added guidance for funds from a Community Savings Fund	Kristen Bellon	
9.18.23	V30	Updated guidance for personal gifts and gifts of equity to allow an acceptable donor who is also the seller of the subject property to be eligible if they are not affiliated with another interested party to the transaction	Kristen Bellon	
9.18.23	-	Update guidance for Fannie Mae transactions to allow gift funds to be sourced from an estate of an acceptable donor or a trust established by an acceptable donor	Kristen Bellon	
8.14.23	V29	Added clarification under Interested Party Contributions that contributions from commission earned by a real estate agent who is a relative of the borrower are considered an Interested Party Contribution and are subject to IPC limits	Kristen Bellon	
4.12.23	V28	Provided clarification for acceptable gift donors for Fannie Mae and Freddie Mac along with gift letter requirements	Ellen Clayson	
4.12.23		Updated Real Estate Commission Earnings section aligning Fannie Mae and Freddie Mac guidance to allow commission earned by the borrower to be used for closing costs and down payment. Prior guidance for Fannie Mae permitted commission towards closing costs only	Kristen Bellon	
4.5.23	V27	Added Documentation Requirements under Proceeds from Sale of Real Estate section outlining allowable documentation when utilizing estimated proceeds or evidencing the exclusion of a mortgage liability	Kristen Bellon	
3.2.23	V26	Added additional acceptable Donor types under Fannie Mae guidance for Gift Funds	Kristen Bellon	
3.2.23	-	Added documentation requirements for Gift Funds Received as a Graduation Gift	Kristen Bellon	

1.31.23	V25	Updated guidance related to earned commission used towards the borrower's funds to close and down payment	Kristen Bellon	
1.16.23	V24	Expanded guidance for evidence of Earnest Money Deposit receipt when funds are not required to meet the borrower's minimum contribution. Outlined differences between Fannie Mae and Freddie Mac for evidencing the deposit	Kristen Bellon	
1.3.23	V23	Broke out Fannie Mae and Freddie Mac requirements for use of Business Assets and removed the requirement for verification of the percent ownership of the business from which the assets are derived	Kristen Bellon	
12.21.22	V22	Broke out Acceptable Gift Donors by Agency and added respective guidelines for each	Kristen Bellon	
11.10.22	V21	Added clarification under the Gift of Equity section when there are multiple gifts applied to the subject transaction	Kristen Bellon	
11.8.22	V20	Added additional guidance for the use of credit card reward points converted to cash and not yet deposited to the borrower's account	Kristen Bellon	
9.28.22	V19	Added guidance for Freddie Mac transactions that the gift letter may state either the actual or the maximum amount of gift funds	Kristen Bellon	
9.21.22	V18	Added additional gift donor eligibility for FNMA transactions	Kristen Bellon	
6.27.22	V17	Added clarification to require foreign assets be deposited to a US financial institution prior to closing	Kristen Bellon	
6.27.22	-	Updated FNMA guidance for asset verification on refinance transactions	Kristen Bellon	
5.11.22	V16	Added additional guidance for Cryptocurrency that the purchase price of the property and any earnest money deposit may not be designated in virtual currency	Kristen Bellon	
4.29.22	V15	Aligned Fannie Mae and Freddie Mac guidance for use of real estate commission earned by the borrower in the transaction adding that earnings may be used towards the borrower's down	Kristen Bellon	

		payment on FNMA transactions		
4.12.22	V14	Clarified that financing concession limits do not apply to the concessions contributed by Freddie Mac as the property seller for Mortgages originated for the purchase of Freddie Mac REO properties	Kristen Bellon	
2.14.22	V13	Added guidance for use of 1031 Exchange Funds towards a second home purchase	Kristen Bellon	
12.20.21	V12	Added guidance under Large Deposits when asset documentation is in the form of a Verification of Deposit (VOD)	Kristen Bellon	
12.20.21	V11	Immaterial changes. Corrected grammar and formatting to align with company standards		
11.8.21	V10	Revised Gift Funds section	Kristen Bellon	
8.24.21	V9	Added Verification of Funds for Refinance Transaction section outlining guidance for Freddie Mac when required borrower funds are $500 or less	Kristen Bellon	
8.13.21	V8	Added Credit Card Reward points as an eligible asset type	Kristen Bellon	
8.6.21	V7	Added guidance for Prorated Real Estate Tax Credits	Kristen Bellon	
8.4.21	V6	Added guidance for Gift Funds from Donor Towards Earnest Money Deposit	Kristen Bellon	
7.14.21	V5	Revised Documentation Requirements for Verification of Assets to permit both 30 and 60 day account activity dependent upon transaction type	Kristen Bellon	
5.17.21	V4	Added additional guidance when using Pooled Funds	Kristen Bellon	
2.19.21	V3	Provided additional guidance for assets from a foreign source used in our transaction	Kristen Bellon	
2.18.21	V2	Updated Proceeds for Sale of Personal Assets section	Kristen Bellon	
2.05.21	V1	Clarified that when using business assets, if self-employment income is not being used to qualify, a cash flow analysis on that business does not need to be completed	Kristen Bellon	

11.04.20	-	Clarified that a gift of equity and a personal gift may be used in the same transaction with differences outlined between Fannie Mae and Freddie Mac	Kristen Bellon	
10.7.20	-	Clarified that a Gift of Equity may not be used towards financial reserves	Kristen Bellon	
9.10.20	-	Provided guidance for gift funds received as a wedding gift on Freddie Mac transactions	Kristen Bellon	
5.29.20	-	Clarified that a gift of equity and a personal gift may not be used in the same transaction	Kristen Bellon	
4.16.20	-	Clarified that funds from commission earnings may come from the occupying borrower only	Kristen Bellon	
3.11.20	-	Provided guidance for Overdraft Protection Withdrawals	Erica Price	
2.19/.20	-	Added cryptocurrency, digital currencies and altcoins as an eligible asset type	Ellen Clayson	
10.29.19	-	Updated Foreign Deposit section to provide clarification for translated documentation	Ellen Clayson	
10.21.19	-	Added 529C College Savings Plan as an eligible asset type	Ellen Clayson	
10.8.19	-	Added section for Real Estate Commission earned by the borrower and used towards the subject transaction	Ellen Clayson	
10.2019	-	Updated Custodial Account Type as Eligible Source of Funds	Ellen Clayson	
9.2019	-	Formatting Changes Made and Removed Government Entries	Ellen Clayson	
4..2019	-	Cash on Hand Clarification	Kristen Bellon	
3/2019	-	Clarification of Earnest Money Deposit	Ellen Clayson	
12.2018	-	Clarification of Earnest Money Deposit		
11.2018	-	Additional requirements for 1031 Exchange	Erica Price	
3.2018	-	Clarification of Gift of Equity	Erica Price	
1.2018		Ineligible Funds - Bitcoin, Clarification joint accounts and Earnest Money Deposit	Erica Price	
9.2017	-	Initial Approval	Erica Price	