

Section B. Acceptable Sources of Borrower Funds

Overview

In This Section This section contains the topics listed in the table below.

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1. General Information on Acceptable Sources of Borrower Funds

Introduction This topic contains general information on acceptable sources of borrower funds, including

- closing cost and minimum cash investment requirements, and
 - types of acceptable sources of borrower funds.
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Change Date March 24, 2011

4155.1 5.B.1.a Closing Cost and Minimum Cash Under most FHA programs, the borrower is required to make a minimum downpayment into the transaction of at least 3.5% of the *lesser* of the appraised value of the property or the sales price.

Investment Requirements Additionally, the borrower must have sufficient funds to cover borrower-paid closing costs and fees at the time of settlement. Funds used to cover the required minimum downpayment, as well as closing costs and fees, must come from acceptable sources and must be verified and properly documented.

References: For more information on

- settlement requirements, see HUD 4155.1 5.A, and
 - acceptable sources of borrower funds, see HUD 4155.1 5.B.1.b.
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1. General Information on Acceptable Sources of Borrower Funds, Continued

4155.1 5.B.1.b The table below lists the acceptable sources of borrower funds and a reference for locating additional information on each source.

Acceptable Sources of Borrower Funds

Acceptable Source of Funds	Reference
<ul style="list-style-type: none"> • Earnest money deposit • Savings and checking accounts • Cash saved at home • Cash accumulated with private savings club 	See HUD 4155.1 5.B.2
<ul style="list-style-type: none"> • Savings bonds • IRAs • 401(k) and Keogh accounts • Stocks and Bonds • Thrift Savings Plans 	See HUD 4155.1 5.B.3
Gift Funds	See HUD 4155.1 5.B.4 and HUD 4155.1 5.B.5
<ul style="list-style-type: none"> • Sales proceeds • Sale of personal property • Commissions from sale • Trade Equity • Rent Credit • Sweat Equity 	See HUD 4155.1 5.B.6
<ul style="list-style-type: none"> • Collateralized loans • Grants and loans 	See HUD 4155.1 5.B.7
<ul style="list-style-type: none"> • Employer’s Guarantee Plans • Employer Assistance Plans 	See HUD 4155.1 5.B.8

2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds

Introduction This topic contains information on cash and savings/checking account funds as acceptable sources of borrower funds, including

- earnest money deposits
 - savings and checking accounts
 - cash saved at home
 - verifying cash saved at home
 - cash accumulated with private savings clubs, and
 - requirements for private savings clubs.
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Change Date January 31, 2011

4155.1 5.B.2.a Earnest Money Deposit The lender must verify and document the deposit amount and source of funds, if the amount of the earnest money deposit

- exceeds 2% of the sales price, or
- appears excessive based on the borrower's history of accumulating savings.

Satisfactory documentation includes

- a copy of the borrower's cancelled check
- certification from the deposit-holder acknowledging receipt of funds, or
- separate evidence of the source of funds.

Separate evidence includes a verification of deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of the earnest money deposit at the time of the deposit.

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2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.b Savings and Checking Accounts

A VOD, along with the most recent bank statement, may be used to verify savings and checking accounts.

If there is a large increase in an account, or the account was recently opened, the lender must obtain from the borrower a credible explanation and documentation of the source of the funds.

TOTAL Scorecard Accept/Approve or Refer Recommendation

If the loan receives an Accept/Approve or Refer recommendation from the Technology Open To Approved Lenders (TOTAL) Scorecard, the lender must

- obtain an explanation and documentation for recent large deposits in excess of 2% of the property sales price, and
- verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.

Reference: For additional information on the TOTAL Scorecard, see HUD 4155.1 6.A.1 and the [TOTAL Mortgage Scorecard User Guide](#).

4155.1 5.B.2.c Cash Saved at Home

Borrowers who have saved cash at home, and are able to adequately demonstrate the ability to do so, are permitted to have this money included as an acceptable source of funds to close the mortgage.

To include cash saved at home when assessing the borrower's cash assets, the

- money must be verified, whether deposited in a financial institution, or held by the escrow/title company, and
- borrower must provide satisfactory evidence of the ability to accumulate such savings.

Reference: For information on verifying cash saved at home, see HUD 4155.1 5.B.2.d.

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2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.d Verifying Cash Saved at Home

To verify cash saved at home, the borrower must explain in writing

- how the funds were accumulated, and
- the amount of time it took to accumulate the funds.

The lender must determine the reasonableness of the accumulation, based on the

- time period during which the funds were saved, and
- borrower's
 - income stream
 - spending habits
 - documented expenses, and
 - history of using financial institutions.

Note: Borrowers with checking and/or savings accounts are less likely to save money at home than individuals with no history of such accounts.

4155.1 5.B.2.e Cash Accumulated With Private Savings Clubs

Some borrowers may choose to use non-traditional methods to save money by making deposits into private/community savings clubs. Often, these clubs pool resources for use among the membership.

If a borrower claims that the cash to close an FHA-insured mortgage is from savings held with a private/community savings club, he/she *must* be able to adequately document the accumulation of the funds with the club.

Reference: For information on the requirements for private savings clubs, see HUD 4155.1 5.B.2.f.

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2. Cash and Savings/Checking Accounts as Acceptable Sources of Funds, Continued

4155.1 5.B.2.f Requirements for Private Savings Clubs

While private savings clubs are not supervised banking institutions, the clubs must, at a minimum

- have account ledgers
- provide
 - receipts from the club
 - verification from the club treasurer, and
 - identification of the club.

The lender must re-verify the information, and the underwriter must be able to determine that

- it was reasonable for the borrower to have saved the money claimed, and
- there is no evidence that the funds were borrowed with an expectation of repayment.

Note: If the borrower is obligated to continue making ongoing contributions under the pooled savings agreement, this obligation should be counted in the borrowers' total debt when calculating the qualifying ratios.

3. Investments as an Acceptable Source of Funds

Introduction This topic includes information on investments as an acceptable source of funds, including

- IRAs, thrift savings plans, 401(k) and Keogh accounts
 - stocks and bonds, and
 - savings bonds.
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Change Date January 31, 2011

4155.1 5.B.3.a IRAs, Thrift Savings Plans, 401(k) and Keogh Accounts Up to 60% of the value of assets such as Individual Retirement Accounts (IRA), thrift savings plans, 401(k) and Keogh accounts may be included in the underwriting analysis, unless the borrower provides conclusive evidence that a higher percentage may be withdrawn, after subtracting any

- Federal income tax, and
- withdrawal penalties.

Notes:

- Redemption evidence is required.
- Evidence of liquidation is not required, *unless* more than 60% of the amount in the account is used.
- The portion of the assets not used to meet closing requirements, after adjusting for taxes and penalties, may be counted as reserves.

TOTAL Scorecard Accept/Approve or Refer Recommendation

If the loan receives an Accept/Approve or Refer recommendation the lender must document the terms and conditions for withdrawal and/or borrowing, and that the borrower is eligible for these withdrawals.

Reference: For more information on the TOTAL Scorecard recommendations, see the [*TOTAL Mortgage Scorecard User Guide*](#).

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3. Investments as an Acceptable Source of Funds, Continued

**4155.1 5.B.3.b
Stocks and
Bonds**

The lender may use the most recent monthly or quarterly statement provided by the stockbroker or financial institution managing the portfolio to verify the value of stocks and bonds. The borrower's actual receipt of funds must be verified and documented.

TOTAL Scorecard Accept/Approve Recommendation

If the loan receives an Accept/Approve recommendation, the lender is not required to provide evidence of liquidation.

Reference: For more information on the TOTAL Scorecard recommendations, see the [*TOTAL Mortgage Scorecard User Guide*](#).

**4155.1 5.B.3.c
Savings Bonds**

Government-issued bonds are counted at the original purchase price, unless eligibility for redemption and the redemption value are confirmed.

Note: The actual receipt of funds at redemption must be verified.

4. Gifts as an Acceptable Source of Funds

Introduction	<p>This topic contains information on using gift funds as acceptable sources of borrower funds, including</p> <ul style="list-style-type: none"> • a description of gift funds • who may provide a gift • who may not provide a gift • lender responsibility for verifying the acceptability of gift fund sources • gift donor's source of funds • equity credit • paying off borrower's consumer debt • downpayment assistance programs • gifts from charitable organizations when the organization loses or gives up its Federal tax-exempt status, and • lender responsibility for ensuring that downpayment assistance provider is a charitable organization.
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Change Date	January 31, 2011
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4155.1 5.B.4.a Description of Gift Funds	<p>In order for funds to be considered a gift, there must be no expected or implied repayment of the funds to the donor by the borrower.</p> <p><i>Note:</i> The portion of the gift not used to meet closing requirements may be counted as reserves.</p>
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4155.1 5.B.4.b Who May Provide a Gift	<p>An outright gift of the cash investment is acceptable if the donor is</p> <ul style="list-style-type: none"> • the borrower's relative • the borrower's employer or labor union • a close friend with a clearly defined and documented interest in the borrower • a charitable organization • a governmental agency or public entity that has a program providing home ownership assistance to <ul style="list-style-type: none"> – low- and moderate-income families, or – first-time homebuyers.
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4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.c Who May Not Provide a Gift

The gift donor may *not* be a person or entity with an interest in the sale of the property, such as

- the seller
- the real estate agent or broker
- the builder, or
- an associated entity.

Gifts from these sources are considered inducements to purchase, and *must* be subtracted from the sales price.

Note: This applies to properties where the seller is a government agency selling foreclosed properties, such as the U.S. Department of Veterans Affairs (VA) or Rural Housing Services.

Reference: For more information on inducements to purchase, see HUD 4155.1 2.A.4.

4155.1 5.B.4.d Lender Responsibility for Verifying the Acceptability of Gift Fund Sources

Regardless of when gift funds are made available to a borrower, the lender *must* be able to determine that the gift funds were *not* provided by an unacceptable source, and were the donor's own funds.

When the transfer occurs at closing, the lender is responsible for verifying that the closing agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

Reference: For information on documenting the transfer of gift funds at closing, see HUD 4155.1 5.B.5.b.

4155.1 5.B.4.e Gift Donor's Source of Funds

As a general rule, FHA is not concerned with how a donor obtains gift funds, provided that the funds are not derived in any manner from a party to the sales transaction.

Donors may borrow gift funds from any other acceptable source, provided the mortgage borrowers are not obligors to any note to secure money borrowed to give the gift.

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4. Gifts as an Acceptable Source of Funds, Continued

**4155.1 5.B.4.f
Equity Credit** Only family members may provide equity credit as a gift on property being sold to other family members.

The restrictions on gifts previously discussed in this topic and the restriction on equity credit may be waived by the jurisdictional Homeownership Center (HOC), provided that the seller is contributing to or operating an acceptable affordable housing program.

**4155.1 5.B.4.g
Paying Off
Borrower's
Consumer Debt** FHA regards the payment of consumer debt by third parties as an inducement to purchase.

When someone other than a family member has paid off debts or other expenses on behalf of the borrower

- the funds must be treated as an inducement to purchase, and
- there *must* be a dollar for dollar reduction to the sales price when calculating the maximum insurable mortgage.

Note: The dollar for dollar reduction to the sales price also applies to gift funds not meeting the requirements that the gift be

- for downpayment assistance, and
- provided by an acceptable source.

Reference: For more information on inducements to purchase, see HUD 4155.1 2.A.4.

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4. Gifts as an Acceptable Source of Funds, Continued

4155.1 5.B.4.h Downpayment Assistance Programs

FHA does not “approve” downpayment assistance programs administered by charitable organizations, such as nonprofits. FHA also does *not* allow nonprofit entities to provide gifts to pay off

- installment loans
- credit cards
- collections
- judgments
- liens, and
- similar debts.

Lenders *must* ensure that a gift provided by a charitable organization meets the appropriate FHA requirements, and that the transfer of funds is properly documented.

4155.1 5.B.4.i Gifts from Charitable Organizations That Lose or Give Up Their Federal Tax- Exempt Status

If a charitable organization makes a gift that is to be used for all, or part, of a borrower’s downpayment, and the organization providing the gift loses or gives up its Federal tax-exempt status, FHA will recognize the gift as an acceptable source of the downpayment provided that the

- gift is made to the borrower
 - gift is properly documented, and
 - borrower has entered into a contract of sale (including any amendments to purchase price) *on or before* the date the Internal Revenue Service (IRS) officially announces that the charitable organization’s tax-exempt status is terminated.
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4. Gifts as an Acceptable Source of Funds, Continued

**4155.1 5.B.4.j
Lender
Responsibility
for Ensuring
That
Downpayment
Assistance
Provider Is a
Charitable
Organization**

The lender is responsible for ensuring that an entity providing downpayment assistance is a charitable organization as defined by Section 501(a) of the Internal Revenue Code (IRC) of 1986 pursuant to Section 501(c) (3) of the IRC.

One resource for this information is IRS Publication 78, *Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986*, which contains a list of organizations eligible to receive tax-deductible charitable contributions.

The IRS has an online version of this list which can be found at <http://apps.irs.gov/app/pub78>. Use the following instructions to obtain the latest update:

- enter search data and click “Search”
- click “Charities & Non-Profits” button in the header row
- click “Search for Charities” under “Charities & Non-Profits Topics” on the left-hand side of the page
- click “Recent Revocations and Deletions from Cumulative List” under the “Additional Information” heading in the middle of the page, and
- click the name of the organization if the name appears on the list displayed.

In addition, FHA has developed a webpage that provides a listing of downpayment assistance providers whose [nonprofit status has been revoked](#).

5. Gift Fund Required Documentation

Introduction This topic contains information on the required documentation for gift funds, including

- gift letter requirement, and
 - the transfer of gift funds.
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Change Date January 31, 2011

4155.1 5.B.5.a Gift Letter Requirement The lender must document any gift funds through a gift letter, signed by the donor and borrower. The gift letter must

- show the donor's name, address, telephone number
- specify the dollar amount of the gift, and
- state
 - the nature of the donor's relationship to the borrower, and
 - that no repayment is required.

TOTAL Scorecard Accept/Approve or Refer Recommendation

If the loan receives an Accept/Approve or Refer recommendation, the borrower must list on the loan application or in a gift letter, for each cash gift received, the

- donor's name, address, telephone number
- donor's relationship to the borrower, and
- dollar amount of the gift.

If sufficient funds required for closing are not already verified in the borrower's account(s), the lender must document the transfer of the gift funds to the borrower's account(s), in accordance with the instructions provided in HUD 4155.1 5.B.5.b.

Reference: For additional information on the TOTAL Scorecard, see HUD 4155.1 6.A.1 and the [TOTAL Mortgage Scorecard User Guide](#).

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5. Gift Fund Required Documentation, Continued

4155.1 5.B.5.b Documenting the Transfer of Gift Funds

The lender must document the transfer of gift funds from the donor to the borrower.

The table below describes the requirements for the transfer of gift funds.

If the gift funds ...	Then the lender must ...
are in the borrower's account	obtain <ul style="list-style-type: none"> • a copy of the withdrawal document showing that the withdrawal was from the donor's account, and • the borrower's deposit slip and bank statement showing the deposit.
<ul style="list-style-type: none"> • are to be provided at closing, and • are in the form of a certified check from the donor's account 	obtain a <ul style="list-style-type: none"> • bank statement showing the withdrawal from the donor's account, and • copy of the certified check.
<ul style="list-style-type: none"> • are to be provided at closing, and • are in the form of a cashier's check, money order, official check, or other type of bank check 	have the donor provide a withdrawal document or cancelled check for the amount of the gift, showing that the funds came from the donor's personal account.
<ul style="list-style-type: none"> • are to be provided at closing, and • are in the form of an electronic wire transfer to the closing agent 	have the donor provide documentation of the wire transfer. <i>Note:</i> The lender must obtain and keep the documentation of the wire transfer in its mortgage loan application binder. While the document does not need to be provided in the insurance binder, it must be available for inspection by FHA's Quality Assurance Division (QAD) when that office conducts its onsite review.

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5. Gift Fund Required Documentation, Continued

4155.1 5.B.5.b Documenting the Transfer of Gift Funds (continued)

If the gift funds ...	Then the lender must ...
<ul style="list-style-type: none"> • are being borrowed by the donor, and • documentation from the bank or other savings account is <i>not</i> available 	<p>have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction, including the lender.</p> <p><i>Important:</i> <i>Cash on hand</i> is not an acceptable source of donor gift funds.</p>

6. Property-Related Acceptable Sources of Funds

Introduction This topic contains information on personal property or real property as acceptable sources of borrower funds, including

- sale of personal property
 - documenting sales of personal property
 - net sales proceeds from real property
 - real estate commission from sale of the subject property
 - trade equity
 - rent credit
 - sweat equity
 - additional sweat equity requirements, and
 - trade-ins of manufactured homes.
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Change Date January 31, 2011

**4155.1 5.B.6.a
Sale of Personal
Property** In order to obtain cash for closing, a borrower may sell various items of personal property, such as

- cars
- recreational vehicles
- stamps
- coins, or
- baseball card collections.

Reference: For information on the documentation required on sales of personal property, see HUD 4155.1 5.B.6.b.

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6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.b Documenting Sales of Personal Property

If a borrower plans to sell personal property items to obtain funds for closing, he/she must provide

- a satisfactory estimate of the value of those items, and
- evidence that the items were sold.

The estimated value of the items being sold may be in the form of

- published value estimates issued by organizations, such as
 - automobile dealers, or
 - philatelic or numismatic associations, or
- a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction.

Only the *lesser* of the estimated value or actual sales price will be considered as assets to close.

4155.1 5.B.6.c Net Sales Proceeds From Real Property

The net proceeds from an arms-length sale of a currently owned property may be used for the cash investment on a new house. The borrower must provide a fully executed [HUD-1 Settlement Statement](#) as satisfactory evidence of the accrued cash sales proceeds.

If the property has not sold by the time of underwriting, the underwriter must condition the loan approval on verification of the actual proceeds received by the borrower. The lender must document the

- actual sale, and
- sufficiency of the net proceeds required for settlement.

Note: If the property has not sold by the time of the subject settlement, the existing mortgage must be included as a liability for qualifying purposes.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.d
Real Estate
Commission
From Sale of
the Subject
Property

If the borrower is a licensed real estate agent entitled to a real estate commission from the sale of the property being purchased, then he/she may use that amount for the cash investment, with no adjustment to the maximum mortgage required.

A family member entitled to the commission may also provide it as gift funds to the borrower.

Reference: For information on gift fund requirements, see HUD 4155.1 5.B.4.

4155.1 5.B.6.e
Trade Equity

The borrower may agree to trade his/her real property to the seller as part of the cash investment. The amount of the borrower's equity contribution is determined by

- using the *lesser* of the property's appraised value or sales price, and
- subtracting all liens against the property being traded, along with any real estate commission.

In order to establish the property value, the borrower must provide

- a residential appraisal no more than six months old to determine the property's value, and
- evidence of ownership.

Note: If the property being traded has an FHA-insured mortgage, assumption processing requirements and restrictions apply.

Reference: For more information on assumptions, see HUD 4155.1 7.

Continued on next page

6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.f Rent Credit

The cumulative amount of rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment.

The endorsement package *must* include the

- rent with option to purchase agreement, and
- appraiser's estimate of market rent.

Conversely, the underwriter must treat the rent as an inducement to purchase, with an appropriate reduction to the mortgage, *if* the sales agreement reveals that the borrower

- has been living in the property rent-free, or
- has an agreement to occupy the property at a rental amount considerably below fair market value, in anticipation of eventual purchase.

Exception: An exception may be granted when a builder

- fails to deliver a property at an agreed-to time, and
 - permits the borrower to occupy an existing or other unit for less than market rent until construction is complete.
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4155.1 5.B.6.g Sweat Equity

Labor performed, or materials furnished by the borrower before closing on the property being purchased (known as "sweat equity"), may be considered the equivalent of a cash investment, to the amount of the estimated cost of the work or materials.

Note: Sweat equity may also be "gifted," subject to the

- additional requirements in HUD 4155.1 5.B.6.h, and
 - gift fund requirements described in HUD 4155.1 5.B.4.
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6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.h Additional Sweat Equity Requirements

The table below describes additional requirements for applying sweat equity as a cash equivalent and an acceptable source of borrower funds.

Sweat Equity Category	Requirement
Existing Construction	<p>Only repairs or improvements listed on the appraisal are eligible for sweat equity.</p> <p>Any work completed or materials provided before the appraisal are <i>not</i> eligible.</p>
Proposed Construction	The sales contract must indicate the tasks to be performed by the borrower during construction.
Borrower's Labor	<p>The borrower must demonstrate his/her ability to complete the work in a satisfactory manner.</p> <p>The lender must document the contributory value of the labor either through</p> <ul style="list-style-type: none"> • the appraiser's estimate, or • a cost-estimating service.
Delayed Work	<p>The following <i>cannot</i> be included as sweat equity:</p> <ul style="list-style-type: none"> • delayed work (on-site escrow) • clean up • debris removal, and • other general maintenance.

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6. Property-Related Acceptable Sources of Funds, Continued

4155.1 5.B.6.h Additional Sweat Equity Requirements (continued)

Sweat Equity Category	Requirement
Cash Back	Cash back to the borrower is <i>not</i> permitted in sweat equity transactions.
Sweat Equity on Other Properties	<p>Sweat equity is <i>not</i> acceptable on properties other than the subject property being purchased.</p> <p>Compensation for work performed on other properties must be</p> <ul style="list-style-type: none"> • in cash, and • properly documented.
Source of Funds Evidence	<p>If the borrower furnishes funds and materials, he/she must provide evidence of the</p> <ul style="list-style-type: none"> • source of the funds, and • market value of the materials.

4155.1 5.B.6.i Trade-In of Manufactured Home

An acceptable source of borrower cash investment commonly associated with manufactured homes is the sale or trade-in of another manufactured home that is not considered real estate. Trade-ins for cash funds are considered a seller inducement and are not permitted.

7. Loans and Grants as Acceptable Sources of Funds

Introduction This topic contains information on loans and grants as acceptable sources of funds, including

- collateralized loans
 - who may provide collateralized loans
 - disaster relief grants and loans, and
 - FHLB – Homeownership Set-Aside Grant Program.
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4155.1 5.B.7.a Collateralized Loans The borrower may obtain a loan for the total required investment, as long as satisfactory evidence is provided that the loan is fully secured by assets such as investment accounts or real property. These assets may include stocks, bonds, and real estate other than the property being purchased.

Certain types of loans secured against deposited funds, where repayment may be obtained through extinguishing the asset, do not require consideration of repayment for qualifying purposes. The asset securing the loan may *not* be included as assets to close, or otherwise considered available to the borrower. The deposited funds can be used for

- signature loans on certificates of deposit
- loans on the cash value of life insurance policies, or
- loans secured by 401(k) accounts.

Reference: For more information on collateralized loans, see HUD 4155.1 5.B.7.b.

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7. Loans and Grants as Acceptable Sources of Funds,

Continued

**4155.1 5.B.7.b
Who May
Provide
Collateralized
Loans**

An independent third party must provide the borrowed funds for collateralized loans.

The seller, real estate agent or broker, lender, or other interested party *may not* provide such funds.

Unacceptable borrowed funds include

- unsecured signature loans
 - cash advances on credit cards
 - borrowing against household goods and furniture, and
 - other similar unsecured financing.
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**4155.1 5.B.7.c
Disaster Relief
Grants and
Loans**

Grants or loans from state or Federal agencies, such as the Federal Emergency Management Agency (FEMA), that provide immediate housing assistance to individuals displaced due to a natural disaster, may be used for the borrower's cash investment.

Secured or unsecured disaster relief loans administered by the Small Business Association (SBA) may also be used. If the SBA loan will be secured by the property being purchased, it must be clearly subordinate to the FHA-insured mortgage.

Note: Any monthly payment arising from this type of loan *must* be included in the qualifying ratios.

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7. Loans and Grants as Acceptable Sources of Funds,

Continued

4155.1 5.B.7.d FHLB – Home- ownership Set- Aside Grant Program

The Federal Home Loan Bank's (FHLB) Affordable Housing Program (AHP) Homeownership Set-Aside Grant Program is an acceptable source of downpayment assistance, and may be used in conjunction with FHA-insured financing. AHP Set-Aside funds can be used to satisfy the borrower's 3.5% minimum cash investment requirement.

The Retention Agreement required by the FHLB must be recorded against the property and results in a deed restriction, not a second lien. The Set-Aside Grant Program should *not* be considered secondary financing.

The Agreement must

- provide that the FHLB will have ultimate control over the AHP grant funds if the funds are repaid by the borrower
- include language terminating the legal restrictions on conveyance if title to the property is transferred by foreclosure or deed-in-lieu, or assigned to the Secretary of HUD, and
- comply with all other FHA regulations.

Reference: For more information on the FHLB AHP, see http://www.fhlob.com/ofweb_userWeb/pageBuilder/affordable-housing-programs-33.

8. Employer Programs as Acceptable Sources of Funds

Introduction This topic contains information on employer programs as acceptable sources of borrower funds, including

- relocation guaranteed purchase, and
 - employer assistance plans.
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Change Date January 31, 2011

4155.1 5.B.8.a Relocation Guaranteed Purchase If the borrower's employer guarantees to purchase the borrower's previous residence as a result of relocation, he/she must submit evidence of the agreement.

The net proceeds must also be guaranteed.

4155.1 5.B.8.b Employer Assistance Plans If the employer pays the following to attract or retain valuable employees, the payment is considered employee compensation:

- employee's closing costs
- mortgage insurance premiums, or
- any portion of the cash investment.

An adjustment to the maximum mortgage amount is *not* required.

If the employer provides this benefit after loan settlement, the borrower must provide evidence of sufficient cash for closing.

Note: A salary advance *cannot* be considered as assets to close, since it represents an unsecured loan.
