

RD AN No. 4451 (1980-D)  
June 22, 2009

TO: State Directors  
Rural Development

ATTENTION: Rural Housing Program Directors,  
Guaranteed Loan Coordinators,  
Area Directors and Area Specialists

FROM: Tammye H. Trevino (*Signed by Tammye H. Trevino*)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Single Family Housing Guaranteed Loan Program  
Liquid Asset Types and Documentation

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide guidance on the Agency's expectations for the Single Family Housing Guaranteed Loan Program (SFHGLP) regarding asset types entered on the loan application and corresponding documentation retained in the lender's permanent case file. This guidance applies to manually underwritten loans and all loans entered in the Guaranteed Underwriting System (GUS).

**COMPARISON WITH PREVIOUS AN:**

No previous AN has been published on this subject.

**EXPIRATION DATE:**  
June 30, 2010

**FILING INSTRUCTIONS:**  
Preceding RD Instruction 1980-D

## **BACKGROUND:**

The presence of accumulated liquid assets considered in the credit and risk evaluation can strengthen and influence a manual or automated underwriting recommendation due to remaining cash reserves post closing. The SFHGLP does not require cash reserves; however the presence of cash reserves formulated from liquid assets can affect the strength of the loan application. This influence has prompted the following documentation verification expectations for liquid assets in clarification of 7 C.F.R. §1980.353(e).

## **IMPLEMENTATION RESPONSIBILITIES:**

When liquid assets are entered on the loan application or considered in the underwriting analysis, the asset must be verified and documented in the lender's permanent case file.

The following provides examples of liquid assets often utilized in the underwriting evaluation and the expected documentation when these assets are present on the loan application. Documentation standards support the mortgage industry's anticipated level of quality when processing mortgage loan applications. The examples do not represent all types of possible liquid assets and, therefore, is not an all-inclusive list.

<b>Liquid Asset Type</b>	<b>Minimum Documentation Guidelines</b>
Depository Types: <ul style="list-style-type: none"><li>▪ Savings Accounts</li><li>▪ Checking Accounts</li><li>▪ Certificate of Deposit</li><li>▪ Money Market Fund</li></ul>	<ul style="list-style-type: none"><li>▪ Verification of Deposit with the average 2 month balance; or</li><li>▪ Two consecutive monthly bank statements dated within 45 days of the initial loan application date.</li></ul>
Earnest Money Deposit (Sales Contract)	<ul style="list-style-type: none"><li>▪ Earnest Money Deposit on sales contracts can be considered an asset, if the deposit is not already reflected in a liquid asset account (such as a checking or savings account).</li><li>▪ If the funds have cleared the borrower's account, place the amount as an "Other Credit," in Section VII of the application, where it is assumed to have been verified.</li><li>▪ For GUS transactions, do not enter earnest money in a depository account on the "Asset and Liabilities" page AND in the "Other Credit" section on the "Transaction Details" page.</li></ul>
Gift Funds	<ul style="list-style-type: none"><li>▪ Gift funds should be identified separately, as a gift, even if the funds have already been deposited in a liquid asset account owned by the borrower (such as a checking or savings account).</li><li>▪ Gift funds should not be reflected in the depository accounts verified. If gift funds are in the borrower's bank account, the account balance should reflect the balance less the gift funds deposited.</li><li>▪ Gift funds will not be considered as cash reserves in GUS transactions or as a compensating factor for manually underwritten loans.</li></ul>

	<ul style="list-style-type: none"> <li>▪ Gift funds may assist with available funds for closing costs, voluntary down payments or guarantee fees, but will not be considered as cash reserves for the purpose of compensating factors when waiving credit or requesting repayment ratio waivers under 7 CFR § 1980.345(c)(5).</li> <li>▪ Gift funds may be documented by obtaining a gift letter signed by the donor and borrower.</li> </ul>
Sale Proceeds From Currently Owned Property	<ul style="list-style-type: none"> <li>▪ Final HUD-1 Settlement Statement indicating cash sales proceeds actually realized by the borrower.</li> <li>▪ Proceeds from the sale of the property should be included in the borrower’s liquid assets (such as a checking or savings account).</li> <li>▪ For GUS transactions, the “Net Equity” portion will be populated once the “Real Estate Owned Property” section is properly completed.</li> </ul>
Individual Retirement Accounts, Thrift Savings Plans, 401Ks and Keogh Accounts	<ul style="list-style-type: none"> <li>▪ Up to 60% of the vested amount may be considered in the underwriting analysis– to account for federal income tax and any withdrawal penalties, as recognized in standard mortgage industry standards.</li> <li>▪ Obtain the most recent statement.</li> </ul>
Stocks and Bonds	<ul style="list-style-type: none"> <li>▪ The monthly or quarterly statement provided by stockbroker or financial institution managing the portfolio.</li> </ul>
Cash on Hand (accumulated cash savings outside of a depository account, such as a checking or savings account)	<ul style="list-style-type: none"> <li>▪ The borrower should be able to explain in writing how funds were accumulated and the amount of time taken to do so.</li> <li>▪ The lender must determine the reasonableness based on the borrower’s income stream and the time frame in which they were saved.</li> <li>▪ Typically individuals that accumulate and keep cash savings on hand are less likely to save money through a savings or check account as would an individual with a history of such accounts.</li> </ul>

Satisfactory explanation and documentation should be provided for large deposits or increases in liquid assets, as applicable, as recognized in standard mortgage industry standards.

The lender may choose to exclude cash reserves from liquid assets from the underwriting analysis if the borrower qualifies without it.

The presence of income-producing assets may influence the annual income calculation as noted at 7 C.F.R. §1980.347(d)(3).

Questions regarding this AN should be directed to:

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