

MIRALEX MORTGAGE INC.

One Cross Island Plaza, Suite LL8A

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Documenting Your Assets – Verifying Your Down Payment

When buying a home, it is not enough to just "come up" with the money. With the exception of "no asset verification" loans, lenders want to verify where the money comes from. This is partially a quality control feature to protect against fraud, and partially an underwriting tool to determine your qualifications as a borrower.

If you can document the funds come from your personal savings, the lender is more confident of your strength as a borrower. A savings history indicates a level of stability.

In addition, if you can verify you have additional assets that are not needed for the down payment, it is important to document those, too. Additional assets are "reserves" you can draw upon during times of trouble, such as unemployment, medical emergencies, and similar occurrences. Additional assets can also help to document that you have a history of saving money, which makes you a more dependable borrower.

It is extremely important to completely document the paper trail of any funds you use for down payment and closing costs. The sections that follow offer guidance on both verifying assets and documenting them as a source of your down payment.

Checking, Savings, & Money Market Accounts

The quickest and easiest way to document funds in your bank account is to provide your lender with copies of your most recent bank statements. Most lenders request two months bank statements, but some still ask for three.

Some lenders still send a "Verification of Deposit" to your bank in order to determine your current bank balances and average balance for the last two months. However, that is the old way of doing business and most lenders nowadays prefer to have bank statements.

If the money you are using for the down payment and closing costs has been in the bank for the entire period covered by the bank statements, you're fine. These are known as "seasoned funds." However, if your statements show any large or unusual deposits the lender will ask you to explain them and document their source.

Stocks, Bonds, Mutual Funds, etc.

Most of those who own stocks get a monthly or quarterly statement from their brokerage. You will need to supply statements for the most recent sixty or ninety days in order to document these assets.

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Though it is rare nowadays, some people actually have stock certificates instead of having a brokerage account. When this is the situation, make copies of the certificates and provide those copies to your lender. You might also want to supply tax records to indicate you have owned these stocks for some time.

If part of your down payment will come from the sale of stocks and investments, you will need to keep all documentation that applies to the sale. Keep a copy of the check or wire used to deliver the funds to you, and a deposit receipt for wherever you deposit the funds.

Provide these copies to your lender.

Gifts

Especially when buying a first home, some borrowers need help coming up with the down payment. Family members are often a good source of assistance. Mom, pop, grandparents, brothers, sister, aunts and uncles -- all are acceptable. Gifts from non-family members are generally not acceptable unless you can document a close past relationship. In other words, your friend or coworker is not generally acceptable.

If you do get help from family member, lenders require this to come in the form of a "gift." If you're really borrowing the money from your family member, intending to pay it back later -- your lender doesn't want to know about it. With rare exceptions, you are not allowed to borrow money to come up with your down payment.

Your lender will supply you with a form called a "gift letter." The gift letter states the relationship between the parties, the address of the purchased property, the amount of the gift, and sometimes the source of the funds used to make the gift. The gift letter also clearly states that the funds are a gift and not required to be repaid. You and the person providing the gift will have to sign the letter.

With most lenders, the donor will have to also provide evidence that they have the ability to make the gift. This can be in the form of a bank or stock statement to show they have the funds available. You should also make a copy of the check used to make the gift and keep a copy of the deposit receipt when you deposit the gift funds into your bank account or escrow.

401K or Retirement Accounts

It is important to provide documentation about your retirement accounts or 401K programs because this is another asset you could draw upon as reserves in case of a problem. It is also another way to show you have a savings history. Just provide a copy of your most recent statement to your lender.

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Many people use these accounts as a source of funds for their down payment, too. Some employers allow you to "cash out" a portion of the 401K and some allow you to borrow against it. Be sure to keep copies of all paperwork involving the transaction. If they cut you a check, be sure to make a photocopy of that, too, including any receipt for deposit into your personal bank account.

If you are borrowing against your 401K, some lenders will count this as an additional debt to go along with car payments, credit cards and other obligations. This may seem kind of silly because you are borrowing your own money, but from the lender's viewpoint it is still a monthly obligation that you must come up with and should be taken into account. If you are "tight" on your debt-to-income ratios in qualifying for a home loan, this could be an important consideration. It may affect whether you choose to cash out the account and pay any tax penalty, or simply borrow against it.

Personal Property - Cars, Antiques, etc.

Personal property includes automobiles, vehicles, boats, furniture, collections, heirlooms, antiques, art, clothing, and practically everything you own except for real estate. The mortgage application asks you to estimate the value for these items.

The larger the loan amount, the more important it is for you to provide details on your personal property. This is because larger loans usually indicate larger incomes, and lenders check to see if your personal property matches your income. If it does not, this sends a "red flag" to the underwriter and they take a closer look at your application.

You are not required to document the value of personal property unless you intend to sell them to come up with your down payment.

Selling Personal Property

For those homebuyers who do sell personal property in order to come up with their down payment, the verification process can be arduous. Lenders are much stricter about documenting this method of coming up with your source of funds.

Selling a car is perhaps the easiest to document. First, you need to photocopy the registration that shows you actually own the vehicle. You will have to provide a copy of the page in the "Blue Book" that shows your model and its value. Then you need to photocopy the bill of sale showing the transfer to another individual and a copy of the check used to purchase the vehicle. Do not get paid in cash because that makes it impossible to show you actually received the funds. Make a copy of the receipt when you deposit the funds into the bank.

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Other types of personal property are more difficult because you have to show that you actually own the property and that it actually has the value that you sold it for. This is a little harder to do for most assets than it is for automobiles.

If you have records to show you purchased the property, that would be helpful. You could also provide an old inventory that documents ownership. To determine value, you may have to contract with an independent appraiser or a specialist who has the knowledge for that particular type of property.

If you cannot document the item's value, the lender will not view the sale as an acceptable source of funds. Just like selling a car, you have to prove you own the item, make a copy of the bill of sale, copy the check used to purchase the item, and make a copy of your receipt when you deposit the funds into your bank.

Employers

Some companies provide down payment assistance for their employees. They may feel that homeowner reliable employees, or that providing down payment assistance fosters an environment of higher mor. firm. Just make copies of all the paperwork, including a copy of the check and the receipt when you (your personal bank account. It is important that these funds do not require repayment.

Savings Bonds

If you have Savings Bonds, they are a financial asset, too. Since you hold the actual bonds in your possession, the easiest and best way to verify them for your mortgage lender is to make photocopies of them. If you choose to cash them in for down payment or closing costs, you should do this at your local bank. Be sure to keep copies of the paperwork the bank provides because that will establish the current value of the bonds and show that you received their cash value.