

**Documentation Required for Gift Funds****Gifts**

- Eligible to use toward all down payment, closing costs and prepaids
- FSB approved Down Payment Assistance programs are eligible

**Gifts (Personal and Equity)**

Gifts refer to the contributions of cash or equity with no expectation of repayment.

**Acceptable Sources of Gift Funds**

- The borrower's Family Member (see *Identity of Interest Transactions* for Family Member definition)
- 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 homeownership assistance to:
  - Low or moderate income families; or
  - First-time homebuyers

Any gift of the borrower's MRI may not come from the seller, or any other person or entity who financially benefits from the transaction (directly or indirectly), or anyone who is or will be reimbursed, directly or indirectly, by any of the foregoing parties. (only exception to this is gift of equity that must be from a related person)

- **Cash on Hand is not an acceptable source of donor gift funds**
- Acceptable Sources of Gifts of Equity
  - Only Family Members may provide equity credit as a gift on property being sold to other Family Members. (Relationship must meet FHA's definition of Related Person)

- Gift of Equity can be used for down payment, pre-paids and closing costs
- Documentation for a Gift of Equity will be the Gift Letter signed by both parties
- Documentation – The mortgagee must obtain a gift letter signed and dated by the donor and borrower that includes the following:
  - The donor's name, address, and telephone number;
  - The donor's relationship to the borrower
  - The dollar amount of the gift; and
  - A statement that no repayment is required
- The donor must provide a bank statement that shows the gift being withdrawn from their account. A 30-day statement will be required. All large deposits must be sourced according to FHA guidelines.

### Documenting the Transfer of Gifts

The mortgagee must verify and document the transfer of gift funds from the donor to the borrower in accordance with the requirements below

- If the gift funds have been verified in the borrower's account, obtain the donor's bank statement showing the withdrawal and evidence of the deposit into the borrower's account.
- If the gift funds are not verified in the borrower's account, obtain the certified check or money order or cashier's check or wire transfer or other official check, and a bank statement showing the withdrawal from the donor's account.

If the gift funds are paid directly to the settlement agent, the mortgagee must verify that the settlement agent received the funds from the donor for the amount of the gift, and that the funds were from an acceptable source.

If the gift funds are being borrowed by the donor and documentation from the bank or other savings account is not available, the mortgagee must have the donor provide written evidence that the funds were borrowed from an acceptable source, not from a party to the transaction.

The mortgagee and its affiliates are prohibited from providing the loan of gift funds to the donor unless the terms of the loan are equivalent to those available to the general public.

Regardless of when gift funds are made available to a borrower, the mortgagee must be able to make a reasonable determination that the gift funds were not provided by an unacceptable source.

### Down Payment Assistant Programs

- Single Family, One unit Only
- Second Trust Deed provided by Government Entity
- Non-Profit Organizations – Not Allowed
- Must provide the "complete" documents outlining the terms for the DPA 2<sup>nd</sup> to include, but not limited to:
  - ◆ Note of second mortgage
  - ◆ Mortgage
  - ◆ Terms of approval

- ◆ Confirmation of approval for the DPA funds
- ◆ Proof of HUD approval of DPA organization – provide HUD approval letter
- If not a silent second, terms have to be provided to FSB to calculate into housing and debt to income ratios

**When using Gift funds or DPA/Grant funds, any debt ratios that are over 45% must meet manual guidelines for ratios and compensating factors. If compensating factors cannot be met, ratios will be capped at 45%.**

### Reserves

- 1-2 units (TOTAL)– none
- 1-2 Units (manual) – 2 months
- 3-4 units (manual & Total) – 3 months PITI
- If using “significant reserves” as a compensating factor, a minimum 3 months PITI must be documented. Only retirement accounts accessible for liquidation may be counted as reserves
- Accounts not accessed for liquidation by the borrower until retirement age may not be counted as part of the borrower reserves
- Manual underwrite will require 2 months PITI
- Reserves DO NOT include:
  - ◆ The amount of cash taken at settlement in cash-out transactions
  - ◆ Incidental cash received at settlement in other loan transactions
  - ◆ Gift Funds (not allow for reserves, Manual only)
    - Note: Excess gift funds may be counted as reserves when using Total Approval only
  - ◆ Equity in another property, or
  - ◆ Borrower funds from any source

Family Member is defined as follows, regardless of actual or perceived sexual orientation, gender identity, or legal marital status:

- Child, Parent or Grandparent
  - A child is defined as a son, stepson, daughter or stepdaughter
  - A parent or grandparent includes a step-parent/grandparent or foster parent/grandparent
- Spouse or domestic partner
- Legally adopted son or daughter, including a child who is placed with the borrower by an authorized agency for legal adoption
- Foster child
- Brother, Step-brother
- Sister, Step-sister
- Uncle or Aunt
- Son-in-law, daughter-in-law, father-in-law, brother-in-law or sister-in-law or the borrower
- Note – “Cousins” are not considered family members for this definition

