

# Understanding Loan Product Advisor's Determination of Reserve Requirements



This reference provides an overview on borrower reserves, including how Loan Product Advisor® determines reserve requirements and data entry tips for the determination of reserve requirements. Loan Product Advisor determines the minimum amount of reserves requiring verification and returns this information on the Loan Product Advisor Feedback Certificate (Feedback Certificate). For complete information on reserve requirements, refer to Freddie Mac's *Single-Family Seller/Service Guide* (Guide) Section 5501.2.

## What Are Reserves?

Reserves are the borrower's eligible assets remaining after the Mortgage closing. Reserves are measured by the number of months of the monthly payment amount for the property. The monthly payment amount includes the sum of the following:

- Principal and interest payments on the Mortgage
- Property hazard insurance premiums
- Real estate taxes
- When applicable:
  - Mortgage insurance premiums
  - Leasehold payments
  - Homeowners association dues (excluding unit utility charges)
  - Payments on secondary financing

## How Does Loan Product Advisor Determine the Minimum Amount of Required Reserves?

For each transaction, Loan Product Advisor determines the amount of reserves that must be verified based on the risk of the loan and Guide requirements. Loan Product Advisor may not require any verified reserves for certain transactions, while other transactions may require reserves to be verified. Loan Product Advisor communicates the reserve requirements in the Asset Information section and through messages on the Feedback Certificate.

**Note:** Mortgages secured by second homes and investment properties require additional reserves based on the number of financed properties. The following additional reserves are included in the amount of reserves required to be verified on the Feedback Certificate:

Number of Financed Properties	Additional Required Reserves for Second Home or Investment Property Mortgages
When each borrower individually, and all borrower collectively, are obligated on <b>one to six</b> financed properties, including the subject property and the borrower's primary residence.	Two months of the monthly payment amount (as described in Guide Section 5501.2(a)) on each additional second home and/or 1- to 4-unit Investment Property that is financed and on which the borrower is obligated.
When each borrower individually, and all borrowers collectively, are obligated on <b>seven to 10</b> financed properties, including the subject property and the borrower's primary residence.	Eight months of the monthly payment amount (as described in Guide Section 5501.2(a)) on each additional second home and/or 1- to 4-unit investment property that is financed and on which the borrower is obligated.

## Data Entry Tips for Determining Reserve Requirements When Accessing Loan Product Advisor through the Loan Advisor Suite

Data accuracy is critical to Loan Product Advisor's assessment. Use the following tips to help enter assets, reserves and real estate owned details in Loan Product Advisor:

- Enter eligible assets included in the mortgage file on the Asset Breakdown page. Refer to Guide Section 5501.3 (b) and (c) for information on eligible sources of borrower personal funds and other eligible sources of funds.
- Enter eligible reserves as a total across all borrowers in the **Reserves** field. Loan Product Advisor will determine the amount of reserves requiring verification and return this information in a message on the Loan Product Advisor Feedback Certificate. Refer to Guide Section 5501.3 (b) and (c) for information about assets that may be used to calculate reserves.
- Enter gift funds in the **Total Gift Fund** field as the total for all borrowers. For conventional mortgages, the **Total Gift Fund** field must include all gift funds – those already received and those expected. For FHA/VA mortgages, comply with the gift fund requirements set forth in the *FHA Single Family Housing Policy Handbook 4000.1* (HUD Handbook 4000.1) and *VA Lender's Handbook*, as applicable.
- Enter details for each additional 1- to 4-unit residential property in which the Borrower has an ownership interest and/or on which the Borrower is obligated. Specifically, ensure information entered in the following fields is accurately reflected:
  - In Real Estate Owned section:
    - **Property Disposition**
    - **Subject Property?**
    - **Current Residence?**
  - In Liabilities section for Mortgage associated with the property:
    - **Monthly Payment**
    - **Unpaid Balance**
- Review the asset messages on the Loan Product Advisor Feedback Certificate to confirm the type of assets entered. For each asset type entered, Loan Product Advisor provides messages regarding how to document the asset.

This document is not a replacement or substitute for the information found in the *Freddie Mac Single-Family Seller/Servicer Guide* or terms of your Master Agreement or other Pricing Identifier Terms.

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