

Closing Funds Requirements "Source and Seasoning" Proof

Borrowers who must bring funds to close a loan, are required by FHA to provide “source and seasoning” of the closing funds. This FHA requirement insures the closing funds were not borrowed, possibly creating an unrecorded lien against the property. Source and seasoning documentation essentially proves that the closing funds were available from the “source” for an uninterrupted period of 90 days prior to closing (seasoned). Borrowers may not obtain closing funds by borrowing the money or taking a cash advance on a credit card. To comply with source and seasoning requirements, the following FHA guidelines apply:

1. The borrower must provide 90 days of documented proof that the funds have been available without interruption. This would require bank, savings, or investment account statements covering at least 3 prior months, plus a withdrawal, surrender, or liquidation statement showing the date the funds are drawn into suitable payment form. If the borrower is going to transfer or deposit funds from an investment account to a checking account, then the transfer or deposit documentation in addition to the 90 day seasoning proof from the account of origin is required. If the borrower is going to deposit a check from the source, that deposit must not include any other funds, only the check that exactly matches the withdrawal, surrender, or liquidation documentation. There is also a form available for the depository institution to sign as well, the Verification of Funds / Verification of Deposits form. This form is a signed statement from the bank that the funds are there right before closing. If the borrower is using funds from a checking account, the daily balance over the last 90 days must not have dropped below the amount of closing funds needed.
2. In the event the borrower is going to obtain funds from another source (relative, friend, etc), they must use a gift letter (available by request) executed by the donor and the donor must attach to the gift letter the same documented proof as in number 1 above, showing that the donor had the funds available uninterrupted for the prior 90 days. The documentation of the transfer of those funds from the donor to the borrower is required.
3. Funds must be made out to the closing title company and must be in the form of a cashier’s or certified check. In instances of gift funds, the donor may have the cashier’s check made directly to the title company (easiest). If the donor gives the money to the borrower, then the borrower must provide the same proof of funds on hand as in number 1 above, except it only needs to be a statement showing the deposit of funds from the gift. Some lenders will waive source and seasoning requirements and some title companies will allow a personal check if the amount is less than \$500.00, but it varies by company.

The lender and the title company will advise if there are any variances to these policies.