

INSTRUCTIONS REGARDING
PROOF OF DOWN PAYMENT and CLOSING COSTS

Alpha House Mortgage Corporation

WITHOUT SATISFACTORY PROOF OF DOWN PAYMENT
LENDERS CAN NOT FUND YOUR MORTGAGE
THIS IS BANKING, FEDERAL, & PROVINCIAL LAW

All lenders are required by law to obtain proof of the source of the funds being used for the down payment. Lawyers too have obligations to report on this requirement.

The proof of down payment applies whether the mortgage is “conventional” or insured by CMHC/Genworth/CG, and/or whether it’s your own money, or a gift.

Why mortgage lenders care about the source of your Down Payment

Often, when clients are asked where their down payment is coming from, they don’t understand why a lender would care ? After all, isn’t a down payment just a down payment? Why would anyone care where it comes from? Actually, it matters a great deal !

- 1) All financial institutions, are required by Federal & Provincial law, as well as FISCO to monitor large transactions for the possibility of criminal activity, money laundering and /or terrorist activity. Down payments are usually large amounts and if not monitored, could be a means of laundering money.
- 2) The source of down payment says a lot about the strength of your mortgage application. All else being equal, a mortgage application with a down payment that comes from your savings is stronger than an application with a down payment that is a gift from a family member. Many mortgages require a minimum amount of your own funds
- 3) There are lending criteria that must be met in order to meet qualification ratios.

If part or all of the down payment is borrowed, the cost of carrying the extra debt will affect these ratios.

DOCUMENTATION REQUIRED FOR PROOF OF DOWN PAYMENT

Payments in advance

Payments in advance such as: Deposits with the offer, & advances to builders on “new construction” are considered to be part of the down payment. For example, if you require a total of \$40,000 as a down payment and you have paid \$10,000 in advance, you will only need another \$30,000 to complete the down payment requirement. Please note that if these advance payments are made less than 90 days prior to the closing date, the same proof is required as for the rest of the down payment (See below).

Allowable sources of down payment

Down payment and closing costs can come from the following sources:

- G *Checking & savings* accounts
- G *Investments* (such as) RRSP’s, GIC’s, Mutual Funds, Stocks, Bonds etc. or
- G A non repayable *gift* from a direct family member (if applicable...not all mortgages allow “gifted” down payment).

DOWN PAYMENT PROOF MUST BE PROVIDED BY WAY OF
A **90 DAY HISTORY** FOR ALL SOURCES OF FUNDS :

- G Bank statements/Bank books.
- G The bank statements/Books must show the **name and account number of the client**. Please note that computer generated statements usually show only the account number and not the name. If this is the case, a second document will be required (such as a statement or a void cheque) which ties the account holder to the account number.
- G Any unusual or large amounts (over \$2,000) which have been deposited in this 90 day period need to be explained.
- G If the down payment includes an allowable gift, a “gift letter” must be provided. Gift letter forms are available on request. The proceeds from gifts must be deposited into your account no later than 15 days before closing and must appear in your checking account.
- G If down payment is coming from more than one account, each account must meet the above requirements
- G Certificates or statements showing the value of all investments such as RRSP's, Stocks, Bonds, GIC's, Mutual Funds etc must be provided. The statements must show a 90 day history.
- G **The borrower's name must appear on these statements to verify the ownership.**
- G Proof of down payment must be provided NOT LATER than 10 days prior to closing

CLOSING COSTS.

Most lenders, in addition to proof of the down payment, require proof that there are sufficient funds, in addition to the down payment, to cover “closing costs”. Closing costs include items such as Land Transfer Tax, Legal Fees and Disbursements, Property Tax Adjustments and Interest Adjustments.

An amount of 1½% of the purchase price is commonly used to approximate the amount required to cover the closing costs. The same rules apply for the proof of closing costs, as do for the down payment requirements