What is Proof of Funds?

Two of the most commonly used terms in trade finance are [*Proof of Funds*](http://balboatrade.com/credit-enhancement/proof-of-funds) and Proof of Product, otherwise known as *POF* and POP. In order to engage either as a buyer or seller of commodity goods both *Proof of Funds* and Proof of Product is required respectively.

*Proof of Funds* is a financial document that shows that a party has the capability and funds to complete their side of the transaction. This financial document is most often provided by the account holder’s bank in the form of a bank letter specific to the transaction in question. The *Proof of Funds*Letter assists the selling or lending party with confidence there is cash funds available, that they are obtainable and legitimate.

What Type of Proof of Funds Are Available?

The Proof of Funds Letter aids not only in buy/sell transactions common to trade finance, but Proof of Funds may also be used in the preliminary stages of credit enhancement when applying for financing or attempting to engage a party for several purposes including, but not limited to*acquisitions*of businesses, materials, equipment, automobiles, real estate, REOs, as well as banking instruments and financial instruments.

Most Proof of Funds are based on a Cash Account, or the funds in a cash-backed bank account requiring account verification. When a borrower or purchasing party lacks the credit worthiness on their own a debt-based Cash Account can be acquired through a joint venture with an asset holder on a fee basis. In this case the Cash Account is opened for the purpose of credit enhancement giving the borrower access to superior purchasing or lending terms otherwise not available.

With an increased credit rating due to the credit enhancement the third-party requesting the Proof of Funds feels more secure a borrower will be able to make timely payments; and in the case of selling or buying assets the third party will feels more at ease they are dealing with a party who have obtained a higher credit rating and capability to follow through on the transaction.

A [*Proof of Funds Letter*](http://balboatrade.com/credit-enhancement/proof-of-funds) is not commonly used in consumer products for purchases and financing. When purchasing a home a seller or underwriter (if a mortgage is required) will ask for evidence of down payment, usually evidenced by a simple bank statement or escrow account statement or escrow letter. The same would apply for applications for financing or purchases and leases of automobiles. A verification of deposit or other simple confirmation letters would be used for bank account verification and balance confirmation in mortgage loan underwriting.

Another use of *Proof of Funds* in commercial financing is meeting underwriting reserve requirements. Having a reserve fund or cash reserve can easily be satisfied through a bank, trust, or escrow issued Proof of Funds Letter. Like trade finance, a Proof of Funds Letter with language specific to the transaction can declare to an underwriter that the account holder’s cash is available as a reserve fund.