

**Lender's Handbook
VA Pamphlet 26-7, Revised**

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Chapter 1. The Lender

Overview

Change Date July 20, 2007, Change 5
The Topic table has been changed to reflect new topic names for sections 14, 15 and 16.

How To Use This Chapter This chapter describes the steps needed to obtain and maintain VA approved lender status. Specific documentation requirements exist when applying for lender status. These documents may be sent to the Regional Offices or Loan Centers via electronic media or by traditional mail, as long as all the documents are adequately completed with the appropriate required signatures when necessary.

In this Chapter This chapter contains the following topics.

Topic	Topic	See Page
1	Definitions and Authorities	1-3
2	Before a Lender Starts Making VA Loans	1-7
3	Lenders That are Considered Supervised	1-9
4	How a Nonsupervised Lender Applies for Automatic Authority	1-12
5	Certifications a Nonsupervised Automatic Lender Must Comply With	1-18
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Overview, Continued

In this Chapter (continued)

Topic	Topic	See Page
12	Lender ID Numbers	1-39
13	Lender Access to Training and Information	1-41
14	Calculation of Adjusted Net Worth	1-43
15	Elements of a Quality Control Plan	1-45
16	Application Checklist for Authority to Close Loans on an Automatic Basis	1-49

1. Definitions and Authorities

Change Date

July 20, 2007, Change 5
Subsection g has been added and the remaining subsections renumbered.

a. Lender

Any person or entity (private sector or government) that originates, holds, services, funds, buys, sells or otherwise transfers a loan guaranteed by VA.

b. Supervised Lender

A lender that is subject to mandatory periodic examination and supervision by an agency of the United States or of any State or territory, including the District of Columbia.

VA determines whether the level of examination and supervision to which a lender is subject satisfies the requirement.

Examples of supervised lenders include:

- Federal savings banks
- National banks
- Farm Credit System institutions
- State banks
- Insurance companies
- Credit unions, and
- Private banks.

A State acting as a lender is also considered supervised.

c. Nonsupervised Lender

Any lender that is **not** a supervised lender.

d. Non-supervised Automatic Lender

A nonsupervised lender who, after applying to VA for authority to close loans on an automatic basis, has been formally granted such authority by VA.

Continued on next page

1. Definitions and Authorities, Continued

e. Agent	A person or entity that performs any portion of the work involved in originating and closing a VA-guaranteed loan on behalf of, or in the name of, a sponsoring lender.
f. Sponsoring Lender	A lender that uses an agent to perform any portion of the work involved in originating and closing a VA-guaranteed loan is the “sponsoring lender” for that agent.
g. Mergers and Acquisitions	<p>Lender mergers and acquisitions are discussed in section 8 of this chapter.</p> <p>Note: Lenders with questions pertaining to mergers and acquisitions should send an e-mail to lgymerger@vba.va.gov.</p>
h. Prior Approval	<p>Submission of a loan to VA for underwriting and approval prior to closing the loan.</p> <p>All lenders, whether or not they have automatic authority, must submit the following types of loans to VA for prior approval:</p> <ul style="list-style-type: none">• Joint loans.• Loans to veterans in receipt of VA nonservice-connected pension.• Loans to veterans rated incompetent by VA.• Interest Rate Reduction Refinancing Loans (IRRRLs) made to refinance delinquent VA loans.• Manufactured home loans (except when the manufactured home is permanently affixed to the lot and considered real estate under state law) unless the lender has been separately approved for this purpose.• Cooperative loans.• Unsecured loans or loans secured by less than a first lien.• Supplemental loans.

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1. Definitions and Authorities, Continued

h. Prior Approval (continued)

Lenders with automatic authority may also elect to submit a loan (of a type not on the above list) for prior approval when issues or circumstances cannot be resolved by the lender's own underwriting staff (see section 5 of [Current Issues](#)).

- The submission must include the underwriter's analysis and explanation of why it is being submitted for prior approval.
- Do **not** use this provision to shift the burden of a loan rejection to VA.

Lenders without automatic authority must submit all loans to VA for prior approval except IRRRLs made to refinance VA loans that are **not** delinquent.

i. Automatic Authority (Authority to Close Loans on an Automatic Basis)

Automatic authority is authority for a lender to close VA-guaranteed loans without the prior approval of VA. The following lenders have automatic authority:

- all supervised lenders
- certain nonsupervised lenders who apply for and are granted automatic authority by VA, and
- any lender (even a lender who does not otherwise have automatic authority) for the limited purpose of closing an IRRRL, as long as the loan being refinanced is not delinquent.

Lenders with automatic authority should use it to the maximum extent possible.

Continued on next page

1. Definitions and Authorities, Continued

j. Supervised Versus Nonsupervised Automatic Lenders

A nonsupervised lender that wishes to close loans on an automatic basis must obtain both VA authorization for automatic authority and obtain VA approval of other elements of its automatic lending operations (that is, underwriter approval). This difference between supervised and nonsupervised lenders is outlined below.

Authority	Supervised Lender	Nonsupervised Automatic Lender
To close loans on the automatic basis	No VA approval needed.	Must submit application and be authorized by VA to close loans on an automatic basis.
To use certain underwriters	No VA approval needed. Any of the lender's underwriters may underwrite loans processed on the automatic basis.	Must submit application and obtain VA approval for each person to underwrite VA loans processed on the automatic basis.
To close loans in particular states	No VA approval needed. Lender may close loans in any State.	No VA approval needed. Lender may close loans in any State.
To use agents to process VA loans	Must submit request and obtain VA recognition of each agent with whom the lender has an ongoing relationship.	Must submit request and obtain VA recognition of each agent with whom the lender has an ongoing relationship.

k. Exception

IRRRLs, except those intended to refinance delinquent VA loans, can be closed automatically by any lender in any State without specific approval of automatic authority, underwriters, or the State in which the loan is made.

Note: Use of agents to process IRRRLs is subject to the same requirements as agents processing other types of loans (see section 7 of this chapter).

2. Before a Lender Starts Making VA Loans

Change Date	July 20, 2007, Change 5 <ul style="list-style-type: none">• Subsection a's heading has been changed.• Subsection b has been changed to update the URL for the VA Lender's Handbook.
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a. Sending the Initial Information Package to VA	<p>This section applies to ALL lenders (supervised, nonsupervised automatic, and nonsupervised prior approval).</p> <p>For first-time VA lenders, send the following information to the VA office with jurisdiction over the lender's home office (a complete list of VA Regional Offices and Regional Loan Centers may be found in Appendix A):</p> <ul style="list-style-type: none">• specimen signatures of all officers, underwriters, or other personnel authorized to sign documents related to VA-guaranteed loan activities• VA Form 26-8812, VA Equal Opportunity Lender Certification• a letter identifying:<ul style="list-style-type: none">- the lender's corporate address- the lender's owners- any lending personnel or officers that VA or HUD ever debarred or took other adverse action against, and- a list of all the lender's branch offices that are involved in VA mortgage lending. <p>In addition, VA may at its discretion:</p> <ul style="list-style-type: none">• order a credit report on a lender, and/or• interview principal officers.
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2. Before a Lender Starts Making VA Loans, Continued

b. What Happens Next?

The VA office of jurisdiction will provide information to the lender, including:

- VA Poster 26-77-2, Equal Opportunity Lender
- Training on VA loan processing, and
- VA ID number to use for all VA lending transactions and documents as an identifier of the lender.

Note: The lender should download a copy of this Lenders Handbook, VA Pamphlet 26-7, at http://www.warms.vba.va.gov/pam26_7.html.

The VA office of jurisdiction will place the lender on appropriate mailing lists to receive future VA publications.

The VA office of jurisdiction will serve as the lender's primary contact point with VA. Please direct all technical questions, requests for training, or requests for VA publications and materials to that office.

As soon as a lender becomes familiar with the laws, regulations, and procedures pertaining to VA-guaranteed loans, it may begin making VA loans.

A nonsupervised lender must submit all loans except certain IRRRLs to VA for prior approval unless the lender applies for and receives specific authority from VA to close loans on the automatic basis.

A lender supervised by one of the Federal entities described in section 3 of this chapter, can begin closing loans on the automatic basis immediately.

A lender that must submit a request to VA for recognition as supervised (see section 3 of this chapter), must submit all loans except certain IRRRLs to VA for prior approval until it receives recognition as supervised.

3. Lenders That are Considered Supervised

Change Date	July 20, 2007, Change 5 Subsection a has been changed to reference “initial information package” instead of “letter of introduction.”
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a. Supervision by Certain Federal Entities	VA considers any lender subject to mandatory periodic examination and supervision by any of the following Federal entities to be supervised:
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- The Board of Governors of the Federal Reserve System.
- The Federal Deposit Insurance Corporation.
- The Comptroller of the Currency.
- The Office of Thrift Supervision.
- The National Credit Union Administration.
- The Farm Credit Administration.

Lenders supervised by these Federal entities are not required to request recognition from VA.

Indicate which of the above Federal entities supervises the lender in the initial information package submitted to VA (see section 2 of this chapter).

If VA needs clarification of the lender’s status, VA will request appropriate documentation from the lender.

b. Supervision by the State of Illinois or New Jersey	VA recognizes supervision by the State of Illinois or New Jersey as conveying supervised status to a lender operating within the State. The lender’s supervised status does not extend to any lending activities it conducts outside the State of supervision.
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If the lender is supervised by either of these States, the lender must submit a copy of the appropriate state license, along with the information required under section 2 of this chapter, to the VA office with jurisdiction over the lender’s home office.

- For Illinois lenders, Office of Banks and Real Estate.
- For New Jersey lenders, New Jersey Department of Banking and Insurance.

Continued on next page

3. Lenders That are Considered Supervised, Continued

**c. Circumstances
under which VA
Recognition as
Supervised is
Needed**

These instructions apply to a lender that wishes to be recognized as a supervised lender by VA, but is not directly supervised by one of the Federal entities listed in section 3a of this chapter or the State of Illinois or New Jersey. In such cases, the lender must request that VA specifically recognize it as supervised. The lender should fit one of the following circumstances:

- the lender is a wholly-owned subsidiary or affiliate of a VA-recognized supervised lender, or
- the lender is examined and supervised by a State agency or a Federal agency **not** previously listed.

Submit the following to the VA office with jurisdiction over the lender's home office:

- Description of the nature and extent of the examinations performed by a Federal or State agency.
- Letter or statement from the Federal or State supervising agency that the specific applicant is subject to mandatory periodic examination and supervision by the agency.
 - A general statement of statutory or regulatory requirements for examination of supervised lenders and their affiliates is **not** sufficient.
 - A lender's voluntary submission to examination is **not** sufficient.
 - A lender's receipt of a license from a State is **not** necessarily sufficient.
- If the relationship between a wholly-owned subsidiary or affiliate of a VA-recognized supervised lender and that supervised lender is to be the basis for recognition as supervised, documentation of the structure, capitalization, and ownership of the subsidiary or affiliate and its legal/financial relationship to the supervised lender.

VA will inform the lender of its decision by letter.

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3. Lenders That are Considered Supervised, Continued

d. If a Lender is Supervised A supervised lender has the authority to close VA-guaranteed loans on an automatic basis (without the prior approval of VA) except for certain types of loans that must be submitted to VA for prior approval by all lenders.

Note: These loan types are listed in section 1 of this chapter under “Prior Approval.”

The supervised lender must obtain VA recognition of agents it uses to make VA loans (see section 7 of this chapter).

If the lender uses ongoing agency relationships (“ongoing” generally means use of an agent more than four times per year), it must submit the following to the VA office with jurisdiction over its home office by January 31 of each year:

- a list of the VA-recognized agency relationships it wishes to renew
- the annual renewal fee (see section 10 of this chapter) for each lender agent that acts for the lender on an ongoing basis and had been recognized by VA as the lender’s agent as of September 30 (120 days before payment is due), and
- any other information requested by VA.

Although VA offices may issue an annual reminder notice to lenders that the above information is due, lenders bear the ultimate responsibility for timely submission of the information and appropriate fees.

4. How a Nonsupervised Lender Applies for Automatic Authority

Change Date

July 20, 2007, Change 5

- Subsection a has been changed to remove “figure” from the reference to sections 14 and 15.
 - Subsection b has been changed to remove “figure” from the reference to section 16.
-

a. Procedures and Criteria for Qualification

Submit a completed [VA Form 26-8736](#), Application for Authority to Close Loans on an Automatic Basis-Nonsupervised Lenders, to the VA office with jurisdiction over the lender’s home office, along with:

- The documentation specified in the tables in section a of this chapter.
- The appropriate fee(s), and
(*Reference:* See section 10 of this chapter)
- The information specified in section 2 of this chapter, if not already submitted, or any updates to that information (including a current list of branch offices involved in VA mortgage lending).

The tables in this section describe the criteria that must be met to qualify for automatic authority, and the documentation the lender must submit with its application to meet each criterion.

Continued on next page

4. How a Nonsupervised Lender Applies for Automatic Authority, Continued

a. Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Lender Experience</p> <p>Either:</p> <ul style="list-style-type: none"> the lender must have at least two years active VA origination experience and have originated and closed at least 10 VA loans (properly documented and submitted) within the past two years, or the lender (with less than two years active VA origination experience) must have originated and closed at least 25 VA loans (properly documented and submitted), or each principal officer (president or vice president) who is actively involved in managing origination functions must have at least two recent years management experience in the origination of VA loans, or the lender, acting as an agent for an automatic lender(s), must have originated at least 10 VA loans over the past 2 years or 25 VA loans (if less than 2 years). 	<p>(Note: For purposes of determining whether the experience criteria are met, IRRRLs do not count as VA loans originated, since no underwriting is involved.)</p> <p>For all lenders: Completed VA Form 26-8736</p> <ul style="list-style-type: none"> VA ID number, and resume for each principal officer (president plus any officers involved in managing loan origination functions) showing mortgage lending experience. <p>Additional documentation for lenders qualifying based on experience as agent</p> <ul style="list-style-type: none"> copy of the VA letter(s) recognizing the lender as an agent for the sponsoring lender(s) copy of the corporate resolution sent to VA by the sponsoring lender describing the functions the agent was to perform, and a letter from a senior officer of the sponsoring lender(s) indicating <ul style="list-style-type: none"> the number of VA loans submitted by the agent each year, and that the loans have been documented and submitted in compliance with VA requirements and procedures.

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4. How a Nonsupervised Lender Applies for Automatic Authority, Continued

a. Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Qualified Underwriter(s)</p> <p>A senior officer of the lender must nominate at least one full-time qualified employee to act as an underwriter who has either:</p> <ul style="list-style-type: none"> • at least 3 years' experience in processing, pre-underwriting or underwriting mortgage loans, or • at least one year of the most recent three years must have included making underwriting decisions on VA loans, or • a current ARU (Accredited Residential Underwriter) designation from the Mortgage Bankers Association (MBA). <p>All VA-approved underwriters must be familiar with VA's credit underwriting standards and this Lender's Handbook.</p>	<p><i>For all underwriters</i></p> <p>VA Form 26-8736a, Nonsupervised Lender's Nomination and Recommendation of Credit Underwriter, completed by a senior officer if the underwriter is not located in the lender's corporate office, a senior officer's certification that the underwriter reports to and is supervised by an individual who is not a branch manager or other person with production responsibilities.</p> <p><i>Additional documentation for underwriters qualifying based on 3 years' experience</i> Underwriter's resume, outlining the underwriter's specific experience with VA loans.</p> <p>(Note: For purposes of determining whether the experience criteria are met, IRRRLs do not count as processing, pre-underwriting or underwriting.)</p> <p><i>Additional documentation for underwriters qualifying based on ARU designation</i> Evidence that he or she is a current ARU as designated by the MBA.</p> <p>See "Underwriter Approval" in section 6 of this chapter for mandatory training requirements for newly approved underwriters and underwriters who have not underwritten VA loans in the past 24 months.</p>

Continued on next page

4. How a Nonsupervised Lender Applies for Automatic Authority, Continued

a. Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Minimum Working Capital Or Net Worth</p> <p>The lender must maintain either:</p> <ul style="list-style-type: none"> a minimum of \$50,000 working capital working capital is the excess of current assets over current liabilities. (Current assets are defined as cash or other liquid assets convertible into cash within 1 year. Current liabilities are debts that must be paid within one year), or a minimum of \$250,000 in adjusted net worth. <p>Reference: See section 14 of this chapter for VA's calculation requirements.</p>	<p>For all lenders</p> <p>Lender's most recent annual financial statements audited and certified by a CPA if the date of the financial statements precedes the application date by more than six months, attach a copy of the latest internal financial statement.</p> <p>Additional requirement if qualifying based on working capital</p> <p>Either:</p> <ul style="list-style-type: none"> the balance sheet must be classified to distinguish between current and fixed assets and between current and long-term liabilities, or the information must be provided in a footnote to the statement. <p>Additional requirement if qualifying based on net worth. Adjusted net worth must be calculated by a CPA in accordance with the requirements in section 14 of this chapter.</p>
<p>Lines Of Credit</p> <p>The lender must have one or more unrestricted lines of credit totaling at least \$1 million.</p> <p>Unrestricted means funds are available upon demand to close loans and are not dependent on prior investor approval.</p>	<p>Letter(s) from the company(ies) verifying the amount(s) and unrestricted nature of the warehouse lines of credit.</p>

Continued on next page

4. How a Nonsupervised Lender Applies for Automatic Authority, Continued

a. Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Permanent Investors</p> <p>If the lender customarily sells loans it originates, it must have a minimum of two permanent investors .</p>	<p>Names, addresses and telephone numbers of two or more permanent investors.</p>
<p>Quality Control Plan</p> <p>The lender must implement a written quality control plan which ensures compliance with VA requirements and meets the criteria outlined in section 15 of this chapter.</p>	<p>Copy of quality control plan which meets the criteria outlined in section 15 of this chapter.</p>
<p>Liaison</p> <p>The lender must designate one qualified employee and an alternate to be the primary liaison with VA.</p> <p>The liaison officers should be thoroughly familiar with the lender's operation and be able to respond to any query from VA concerning a particular VA loan or the firm's automatic authority.</p>	<p>VA Form 26-8736 contains a space in which to indicate liaison selections.</p>
<p>Sanctions For Prior Acts</p> <p>There must be no factors indicating the lender would not exercise the necessary care and diligence.</p>	<p>A statement of facts is required in any case where:</p> <ul style="list-style-type: none">• the lender, or any director or principal officer was ever debarred or suspended or otherwise formally sanctioned by the Government, or• any director or officer was ever a director or officer of a debarred or suspended firm, or• the lender had a servicing contract with an investor terminated for cause.

Continued on next page

4. How a Nonsupervised Lender Applies for Automatic Authority, Continued

b. Application Checklist	Section 16 of this chapter, provides a quick-reference checklist of application materials and requirements.
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c. Nationwide Authority	All lenders who have been approved by VA for automatic authority may use this authority on a nationwide basis.
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d. Notification of VA Decision	The VA office of jurisdiction reviews the application materials submitted, writes comments and makes a determination regarding the lender's qualifications. The office then sends the lender written notice of its decision and, if approved, any conditions attached to its automatic authority.
---------------------------------------	---

Lenders are expected to use their automatic authority to the maximum extent possible.

Note: Loans submitted for prior approval that are **not** required to be submitted for prior approval **must** include a written explanation from the underwriter.

e. Probationary Period	The lender will be subject to a probationary period of one year, during which the VA offices to which it submits loans will carefully review the quality of the lender's underwriting, completeness of loan submissions, compliance with VA requirements and procedures, and delinquency and foreclosure rates.
-------------------------------	---

- VA may withdraw automatic authority at any time during the probationary period based on poor underwriting and/or consistently careless processing.
 - At the expiration of the probationary period, VA sends the lender written notice of its decision to terminate the probationary period, extend it, or revoke automatic authority.
-

5. Certifications a Nonsupervised Automatic Lender Must Comply With

Change Date

July 20, 2007, Change 5
Subsection d has been changed to remove “figure” from the reference to sections 14.

a. Don’t Close Loans for Others

The president or principal officer must certify on [VA Form 26-8736](#) that the lender will **not** close loans on an automatic basis.

- As a courtesy or accommodation for other mortgage lenders regardless of whether or not such lenders are approved themselves to close on an automatic basis. (This does not prevent the lender from closing loans based on documents prepared by an authorized agent.)
 - For any builder or other entity in which the lender has a financial interest or which it owns, is owned by, or with which it is affiliated, without the express approval of the VA.
 - See “Approval to Close Loans Involving an Affiliate” in section 6 of this chapter, for details.
 - If the only connection between the lender and the builder is a construction loan, the lender may close the permanent mortgage on an automatic basis without VA approval.
-

b. Notify VA of Significant Changes including Merger or Acquisition

The president or principal officer must certify on [VA Form 26-8736](#) that the lender will notify the VA office with jurisdiction over its home office of any changes in its corporate structure, operations, or financial condition which **may** have a bearing on the lender’s continued qualifications for authority to close loans automatically.

If the lender no longer meets the qualifications for automatic authority, but **no** change in ownership has occurred (that is, working capital becomes inadequate), submit a plan of correction to the VA office of jurisdiction.

Continue to close loans on the automatic basis until the lender receives a determination from VA, except if the lender no longer has a VA-approved underwriter, it may no longer close loans on the automatic basis.

Continued on next page

5. Certifications a Nonsupervised Automatic Lender Must Comply With, Continued

b. Notify VA of Significant Changes including Merger or Acquisition (continued)

A change in the ownership of a nonsupervised automatic lender always extinguishes the automatic authority of the lender unless the new entity is supervised.

Note: This includes **all** mergers and acquisitions. See section 8 of this chapter, for requirements in the case of a merger, acquisition, or change in ownership.

Reference: See section 8 of this chapter, for consequences to the lender.

c. All Loans Must be Reviewed by a VA-Approved Underwriter

The president or principal officer must certify that **all** prospective VA loans to be closed on an automatic basis will be reviewed and either approved or rejected by a VA-approved underwriter.

All VA-approved underwriters must be familiar with VA's Lender's Handbook specifically [Chapter 4: Credit Underwriting](#).

d. Submit Annual Financial Statements

The president or principal officer must certify that the lender will submit annual financial statements audited and certified by a CPA to VA within 120 days of the end of its fiscal year. The financial statements must be sent to the [Regional Loan Center](#) (RLC) where the lender's home office is located.

The statements must show either:

- a minimum of \$50,000 working capital
Either the balance sheet must be classified to distinguish between current and fixed assets and between current and long-term liabilities or the information must be provided in a footnote to the statement, or
 - a minimum of \$250,000 in adjusted net worth
Adjusted net worth must be calculated by a CPA in accordance with the requirements in section 14 of this chapter.
-

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5. Certifications a Nonsupervised Automatic Lender Must Comply With, Continued

**d. Submit
Annual
Financial
Statements
(continued)**

When submitting the financial statements to the [RLC](#), the lender **must** also submit the following:

- if the lender uses agents for making VA loans, a list of VA-recognized agent relationships the lender wants to renew, and
- the annual fees specified in section 10 of this chapter.

Any other information requested by VA. Although VA offices may issue an annual reminder notice to lenders that the above information is due, lenders bear the ultimate responsibility for timely submission of this information.

**e. Other
Certifications**

When the president or principal officer signs [VA Form 26-8736](#), he or she certifies that the lender will comply with a number of other requirements. These include:

- complying with VA regulations, directives, and law
 - submitting at any time to VA examination of its records and accounts
 - furnishing VA any requested information
 - maintaining \$50,000 working capital or \$250,000 adjusted net worth, and
 - using its automatic authority to the maximum extent possible; if not used, submitting an explanation as to why a loan was processed prior approval.
-

6. How a Nonsupervised Automatic Lender Requests Underwriter Approval or Approval to Close Loans involving an Affiliate

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - This section has been updated to reflect the nationwide authority of lenders. The title of this section no longer refers to “Extension of Authority,” and the subsection on extension of authority has been removed.
-

a. Underwriter Approval

All VA loans to be closed on an automatic basis must be reviewed and either approved or rejected by a VA-approved underwriter.

A VA-approved underwriter must sign a [VA Form 26-6393](#), Loan Analysis, on each loan to certify his or her review of such loan.

The lender may request approval of additional underwriters at any time after its initial approval for automatic authority by submitting a request to the VA office with jurisdiction over its home office, including

- the appropriate fee (see section 10 of this chapter), and
- the documentation for underwriter approval described under “Procedures and Criteria for Qualification” in section 4 of this chapter.

All VA-approved underwriters must be familiar with VA’s credit underwriting standards and this Lender’s Handbook.

All VA-approved underwriters must attend a one-day (eight hour) training course on underwriter responsibilities, VA underwriting requirements, and VA administrative requirements, including the usage of VA forms, within 90 days of approval. If the VA office of jurisdiction is unable to make such training available within 90 days, the underwriter must attend the first available training. Web based training is also available. Using any standard Internet browser, log onto <http://homeloans.va.gov/train.htm>. Successful completion of the Internet based training meets the one-day training requirement.

Continued on next page

6. How a Nonsupervised Automatic Lender Requests Underwriter Approval or Approval to Close Loans Involving an Affiliate, Continued

a. Underwriter Approval (continued)

VA underwriter training is required of **all** underwriters whether approved based on experience or based on an ARU designation. It is also required of underwriters who have not underwritten VA guaranteed loans in the past 24 months. Underwriters who consistently approve loans that do not meet VA credit standards may be required to retake this training.

VA approval of an underwriter is automatically terminated (without notice) if the underwriter is no longer employed by the same lender. The lender **must** report any such circumstances to VA.

The lender may **not** continue to close loans automatically without a VA-approved underwriter.

b. Approval to Close Loans Involving an Affiliate

The lender may request VA approval to close loans involving an affiliate on an automatic basis (“affiliate” as used here includes a real estate brokerage firm and/or residential builder or developer that the lender has a financial interest in, owns, is owned by, or is affiliated with). The lender may request such approval at the time it applies for automatic authority or any time thereafter. Submit the request to the VA office with jurisdiction over the lender’s home office along with a corporate resolution from the lender and each affiliate indicating they are separate entities operating independently of each other.

- The lender’s corporate resolution must indicate that it will not give more favorable underwriting consideration to its affiliate’s loans.
- The affiliate’s corporate resolution must indicate that it will not seek to influence the lender to give their loans more favorable underwriting consideration.

Letters from permanent investors indicating the percentage of all VA loans based on the affiliate’s production originated by the lender over a one year period that are past due 90 days or more. This delinquency ratio must be no higher than the national average for the same period for all mortgage loans.

7. How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsections a, c, and i have been updated to reflect nationwide authority for VA approved lenders.• Subsection b's frequency has been changed from two to "less than four."
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a. Limitations on Use of Agents A lender must request VA recognition of an ongoing relationship with an agent. "Ongoing" generally means use of an agent more than four times per year.

The lender may designate any individual or entity as an agent to perform loan-related functions on its behalf or in its name.

The extent of the relationship between the lender and the agent is at the lender's discretion.

- The lender must accept full responsibility for the acts, errors, or omissions of the agent in processing and/or closing loans.
- The lender accepts this responsibility by certification on [VA Form 26-1820](#), Report and Certification of Loan Disbursement, and the corporate resolution.
- The lender may **not** subsequently claim that it should not be held accountable for inaccurate or fraudulent credit information or other loan data because it relied on the agent.
- Irregularities resulting from acts or omissions of the agent are treated as acts or omissions of the lender.
- The lender's use of an agent will not prevent VA from taking actions in appropriate cases such as:
 - denial of liability,
 - claim adjustments,
 - collection of the amount of any loss incurred due to irregularities, and
 - imposition of sanctions against both the lender and the agent.

If the lender is a nonsupervised automatic lender, loans made by an agent on its behalf which are closed automatically must:

- be reviewed and approved by a VA-approved underwriter employed by the lender.

Continued on next page

7. How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

b. Use of an Agent on a Onetime Basis

If the lender uses an agent one time or very infrequently (less than four times per year), it may authorize the agency relationship on a loan-by-loan basis using the lender's certification on [VA Form 26-1820](#).

- The lender must identify the agent and its function on that form.
 - No VA recognition of the agency relationship is needed.
-

c. How to Request VA Recognition of an Agent

If the lender wishes to maintain an ongoing relationship with an agent, submit a request for recognition of the agency relationship to the VA office with jurisdiction over the lender's home office. Include a corporate resolution which contains:

- the agent's name, address, and the geographic area in which the agent will be originating and/or closing VA loans
- the agent's function(s) (such as, taking the loan application, ordering the credit report and verifications of employment and deposit, holding settlement)
- a statement that the lender takes full responsibility for all acts, errors, or omissions of the agent and its employees, and
- if the agent will enter into interest rate lock-in agreements on the lender's behalf, a statement that the lender will honor the lock-in.

Note: A conditional loan purchase agreement, wherein the lender agrees only to purchase the agent's production subject to the lender's review and approval, is unacceptable.

Also include appropriate fees with the request.

- Remit a \$100 fee for each agent.

The lender may begin to use an agent after VA sends recognition of the relationship to the lender in writing. Even with formal VA recognition, the lender **must** identify the agent and its function on [VA Form 26-1820](#) for each loan involving an agent.

Continued on next page

7. How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

d. Lenders That use a Multitude of Agents

Lenders that use a multitude of agents on an ongoing basis may submit a “blanket” corporate resolution that contains:

- the agents’ function(s) (such as, taking the loan application, ordering the credit report and verifications of employment and deposit, holding settlement)
- a statement that the lender takes full responsibility for all acts, errors, or omissions of its agents and agents’ employees
- if agents will enter into interest rate lock-in agreements on the lender’s behalf, a statement that the lender will honor the lock-in, and
- the identity of the officer(s) of the lender who is (are) delegated authority to request recognition of additional agents under the “blanket” corporate resolution and delete agents.

Even using a “blanket” corporate resolution, a request for VA recognition must be made for each new agent and appropriate fees paid. Include the agent’s name, address, and the geographic area in which the agent will be originating and/or closing VA loans and refer to the “blanket” corporate resolution, giving the date the board adopted it. The lender may begin to use an agent after VA sends recognition of the relationship to the lender in writing.

e. VA ID Number

Each agent must contact the VA office with jurisdiction over its home office to obtain a VA lender ID number if it does not already have one. This number is used as the agent’s identifier in all VA lending transactions, whether the agent is acting as an “agent,” or on its own behalf as a “lender.”

Continued on next page

7. How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

f. How to Complete [VA Form 26-1820](#)

If the loan is closed and funded by the lender (**not** the agent) or an agent conducts the closing but a sponsoring lender buys (funds) the loan at closing (commonly called table funding), enter the:

- lender's VA ID number in item 2B, and
- name and function of the agent in item 24J.

Note: The lender must complete items 25 and 26.

If the loan is closed and funded in the agent's name pursuant to an agency agreement, enter the following:

- agent's VA ID number in item 2B
- name and function of the agent in item 24J, and
- agent's name, followed by the words "agent for (lender's name)," and agent's address in 25A.

Note: The agent must complete items 25 and 26.

g. Enter Both ID Numbers on [VA Form 26-0286](#)

[VA Form 26-0286](#), VA Loan Summary Sheet, contains spaces marked "Lender VA ID Number" and "Agent VA ID Number (if applicable)." Always enter both ID numbers if an agent has performed any function(s) on behalf of the sponsoring lender in connection with the loan.

h. Who is the LGC Issued to?

VA will issue the Loan Guaranty Certificate (LGC) to the sponsoring lender at the address which corresponds to the lender VA ID number entered on [VA Form 26-0286](#), unless the lender requests that it be sent to the agent in the "Remarks" block of that form.

Continued on next page

7. How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

i. When Can an Agent Close Loans Automatically?

If the lender has automatic authority, its agent can close loans automatically on its behalf. This can be done to the extent the loans could be closed automatically if made by the lender, provided VA requirements for recognition of an agency relationship and reporting it on [VA Form 26-1820](#) have been complied with.

If the lender is a nonsupervised automatic lender, this means all loans must be reviewed and approved by a VA-approved underwriter employed by the lender.

Note: The underwriter's certification must appear on [VA Form 26-6393](#), Loan Analysis, as required for VA loans closed on the automatic basis that do not involve agents.

In other words, it does not matter whether the agent itself has automatic authority. When the agent is acting as the lender's agent pursuant to a VA-recognized agency relationship, the conditions of the lender's automatic authority must be complied with.

Loans closed by a lender's agent without a VA-recognized agency relationship in place are considered loans of that agent, and **not** of the lender.

- If the agent does not itself have automatic authority, the loans are not automatically guaranteed and cannot subsequently be assigned to the lender as automatically guaranteed.
- If the agent itself has automatic authority, the lender may purchase the loans from the agent and consider them automatically guaranteed.

j. Use of Agents by Prior Approval Lenders

If the lender does not have automatic authority and wishes to use the services of an agent, the lender does **not** need to request VA recognition of the agency relationship.

- Submit all loans to VA for prior approval, and
 - When reporting the loan after closing, follow the instructions in "How to Complete [VA Form 26-1820](#)" (in this section) to document use of the agent.
-

8. Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders

Change Date

July 20, 2007, Change 5

Subsection b has been changed to add reference including VA ID numbers and for contacting Central Office with questions pertaining to merger and acquisition transactions.

a. The Issue

Changes in the ownership or corporate structure of a lender may impact its continued qualifications for automatic authority. Lenders must notify VA whenever a merger, acquisition, or change in the ownership of the lender occurs, so that VA can evaluate any impact on the lender's participation in the VA-guaranteed loan program.

Although only the terms “merger” and “acquisition” and “selling,” “acquiring” or “surviving” entities are used in this paragraph, the concepts and procedures in this paragraph apply to every type of restructuring that has a significant impact on an organization's ownership, structure, or assets, and so on.

b. Required Submissions

Whenever a lender with automatic authority is involved in a merger or acquisition, it **must** submit a \$100 processing fee along with the following information to the VA office with jurisdiction over its home office:

- the names of the acquiring and selling entities, and the surviving entity.
- the information listed in the “Sending The Initial Information Package to VA” heading in section 2 of this chapter, as applied to the surviving entity.
- a general description of the assets being acquired.
- the addresses of all branch offices and their current VA ID numbers that are involved in VA mortgage lending, and whether they will continue to operate or be closed.
- a list of agents and their VA ID numbers that will be used by the surviving entity and have already been recognized by VA as agents of the selling or acquiring entities.
 - requests for recognition of **new agents** may accompany the submission along with appropriate fees and corporate resolutions. (See section 7 of this chapter.)

Note: Any of these items that remain unchanged do **not** have to be resubmitted; simply indicate that they are unchanged.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

b. Required Submissions (continued)

Questions about merger or acquisition transaction can be sent to VA central office by e-mail to lgymerger@vba.va.gov or can be directed to the RLC of jurisdiction.

Since each merger or acquisition is unique, VA may discover that it needs to request additional information from the lender during its review.

c. Additional Submissions for Nonsupervised Automatic Lenders

Nonsupervised automatic lenders must also provide:

- a resume for each new owner or principal officer (president plus any officers involved in managing loan origination functions) of the surviving entity showing mortgage lending experience, and
- a list of underwriters to be employed by the surviving entity who had already been approved by VA as underwriters for the selling or acquiring entities. Requests for approval of new underwriters may accompany the submission along with appropriate fees and application materials.

Reference: See section 7 of this chapter.

d. Additional Submissions for LAPP Lenders

LAPP lenders must also provide a list of LAPP SARs to be employed by the surviving entity who had already been approved by VA as SARs for the selling or acquiring entities. Include their SAR ID numbers and a copy of any VA letter(s) which state that these SARs have met the VA training and case review requirements.

Additional Submissions

An additional submission is required for any of these SARs **if** the entity that employed them when they were approved by VA bore a different company name than the surviving entity. For each such SAR, submit a newly executed SAR application and lender certifications by the surviving entity, in the prescribed order. (See [chapter 15](#) of this handbook.)

Exception: If the entity that previously employed the SAR was a wholly owned subsidiary of the surviving entity, this additional submission may not be required.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

d. Additional Submissions for LAPP Lenders (continued)

Also provide a list of the LAPP SARs (and their ID numbers) of the selling or acquiring entities that will no longer be employed by the surviving entity.

Requests for approval of new SARs may accompany the submission along with appropriate fees and application materials.

Reference: See [chapter 15](#) of this handbook.

e. Immediate Impact While VA Reviews Submission

A change in the ownership of a nonsupervised automatic lender always extinguishes the automatic authority (and therefore the LAPP authority) of the lender unless the new entity is supervised; such as, automatic authority is not for sale.

Whenever a supervised lender undergoes merger or acquisition, apply the standards detailed in section 4 of this chapter, to determine whether the surviving entity is supervised.

The following table lists some of the scenarios that can emerge from a merger or acquisition and provides:

- whether the surviving entity can exercise automatic authority while VA is reviewing its merger/acquisition submission, and
- any additional submissions the entity must send to VA.

Note: These are in addition to the required submissions detailed in the preceding material in this section.

Prior Status of Restructured Entity(ies)	Status of Surviving Entity Appears to be	Additional Submissions Needed	Authority of Surviving Entity while Awaiting VA Review
Supervised and/or Nonsupervised Automatic	Supervised by a Federal entity listed in section 3 of this chapter.	None	Automatic authority continues.
Supervised and/or Nonsupervised Automatic	Supervised by the State of Illinois or New Jersey.	Copy of State license specified in section 3 of this chapter.	Automatic authority continues.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

e. Immediate Impact While VA Reviews Submission (continued)

Prior Status of Restructured Entity(ies)	Status of Surviving Entity Appears to be	Additional Submissions Needed	Authority of Surviving Entity while Awaiting VA Review
At least one of the entities was supervised	Supervised, but status is not clear. VA recognition as supervised is required under section 3 of this chapter.	Request for recognition as supervised and information specified in section 3 of this chapter.	If the nature and source of supervision of the surviving entity is the same as for the prior supervised entity, automatic authority continues. If supervision has changed, submit all loans for prior approval until VA makes a determination.
Nonsupervised Automatic only	Supervised, but status is not clear. VA recognition as supervised is required under section 3 of this chapter.	Request for recognition as supervised and information specified in section 3 of this chapter.	Submit all loans for prior approval until VA makes a determination.
Nonsupervised Automatic with different ownership than surviving entity and/or a supervised lender	Nonsupervised lender	If the surviving entity wishes to have automatic authority, it must submit a complete new application for automatic authority with the appropriate fee (see section 5 of this chapter).	Automatic authority is extinguished. Submit all loans for prior approval until VA makes a determination on the application for automatic authority.
Nonsupervised Automatic with same ownership as surviving entity	Nonsupervised Lender	None	Automatic authority continues if lender retains its VA-approved underwriter(s).

9. Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. General

VA can withdraw a lender's automatic authority for proper cause, after giving the lender 30 days' notice.

- This applies to both supervised and nonsupervised lenders.
- VA regulations at [38 CFR 36.4349](#) provide the framework.
- The lender may continue processing loans on a prior approval basis after its automatic authority has been withdrawn.

The remainder of this paragraph gives the reasons a lender's automatic authority can be withdrawn, and the corresponding period for which the withdrawal will be effective.

b. Withdrawal for an Indefinite Period

Withdrawal for an indefinite period can be based on any of the following:

- Failure to continue meeting basic qualifying criteria.
 - For supervised lenders this includes loss of status as an entity subject to examination and supervision by a Federal or State regulatory agency.
 - For nonsupervised lenders this includes no approved underwriter, failure to maintain \$50,000 working capital or \$250,000 adjusted net worth, and/or failure to file the required financial statements.
 - Any of the causes for debarment set forth in 38 CFR 44.
 - During the probationary period for newly-approved nonsupervised automatic lenders, automatic authority may be withdrawn for poor underwriting or consistently careless processing.
-

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9. Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders, Continued

c. Withdrawal for 60 Days

Withdrawal for 60 days can be based on any of the following:

- Loan submissions show deficiencies in credit underwriting after repeatedly being called to the lender's attention.
 - Examples:
 - Use of unstable sources of income to qualify borrower.
 - Ignoring significant adverse credit items affecting applicant's creditworthiness.
 - Employment or deposit verifications are hand carried by applicants or otherwise improperly permitted to pass through the hands of a third party.
 - Consistently incomplete loan submissions after repeatedly being called to the lender's attention.
 - Continued instances of disregard of VA requirements after repeatedly being called to the lender's attention.
-

d. Withdrawal for 180 Days

Withdrawal for 180 days can be based on any of the following:

- Loans conflict with VA credit standards and would not have been made by a lender acting prudently.
- Failure to disclose to VA significant obligations or other information so material to the veteran's ability to repay the loan that undue risk to the Government results.
- Employment or deposit verifications are handcarried by the applicant or otherwise mishandled, resulting in submission of significant misinformation to VA.
- Substantiated complaints are received that the lender misrepresented VA requirements to veterans to the detriment of their interests.

Examples:

- The veteran was dissuaded from seeking a lower interest rate based on lender's incorrect advice that such options were excluded by VA requirements.
 - Closing documents show instances of improper charges to veteran after the impropriety of such charges are called to lender's attention by VA, or the lender refuses to refund such charges after notification by VA.
 - Other instances of lender actions prejudicial to the interests of veterans such as deliberate delays in scheduling loan closings.
-

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9. Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders, Continued

**e. Withdrawal
for One to
Three Years**

Withdrawal for one to three years can be based on any of the following:

- Failure to properly disburse loans.
Example: Loan disbursement checks are returned due to insufficient funds.
 - Involvement by the lender in the improper use of a veteran's entitlement.
Example: Knowingly permitting the veteran to violate occupancy requirements.
 - Lender involvement in the veteran's sale of entitlement to a third party.
Example: A lender makes the loan with the knowledge that the veteran is not purchasing the property to be his or her home. Instead, the veteran intends to transfer title to a third party who assumes the loan shortly after closing.
-

10. Participation Fees for Supervised and Nonsupervised Automatic Lenders

Change Date	July 20, 2007, Change 5 <ul style="list-style-type: none">• Subsection a has been changed to add a link to the regulatory authority.• Subsection e has been changed to clarify fees charged with mergers and acquisitions.
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a. Introduction	<p>VA is authorized by 38CFR36.4348 to collect fees from lenders with automatic authority to help defray the costs of administering the Loan Guaranty Program. Always submit fees to the VA office with jurisdiction over the lender's home office. Fees consist of:</p> <ul style="list-style-type: none">• Annual participation fees, and• Administrative fees (for processing lender requests).<ul style="list-style-type: none">- If the lender submits a request for administrative action without the correct processing fee, VA will delay processing of the request until the fee is received.- Fees are nonrefundable, even if the request is denied (except in cases of accidental overpayment).
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Pay all fees by lender's check to the Department of Veterans Affairs.

If an agent, underwriter, or SAR recognized or approved by VA for a role with one lender begins work for another lender, the new lender must request and pay the fee for a new VA recognition or approval of that individual.

b. Annual Fees for Nonsupervised Automatic Lenders	Remit fees within 120 days of the end of the lender's fiscal year to the VA office with jurisdiction of the lender's home office. If the lender has ongoing VA-recognized agency relationships, a list of agency relationships the lender wants to renew.
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Continued on next page

10. Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

b. Annual Fees for Nonsupervised Automatic Lenders
(continued)

The fees are:

- \$200 annual recertification fee.
- \$100 for annual renewal of each agent that acts for the lender on an ongoing basis and had been recognized by VA as the lender's agent as of the end of its fiscal year. **Exception:** No annual fee is due for an agent if VA's letter of recognition is dated within the last quarter of the lender's most recent fiscal year.
- \$500 for processing an application for automatic authority.

The fee:

- includes any requests submitted simultaneously for the review of underwriter nominees, and
 - does not include simultaneous requests for recognition of agents (This requires an additional \$100 fee per agent.)
-

c. Other Administrative Fees for Nonsupervised Automatic Lenders

Remit fees along with requests for approval, recognition, or other VA action related to lender status.

The fees are:

- \$100 for processing requests for approval of each nominee for underwriter (Not required if submitted with the request for automatic authority).
- \$100 for processing requests for VA recognition of each lender agent
- \$200 for processing requests for reinstatement of lapsed or terminated automatic authority, and
- a minimum fee of \$100 per request for any other VA administrative actions pertaining to a lender's participation in the automatic lending program.

Examples:

- Submission from a lender that undergoes a merger.
 - If the fee to process a request is greater than \$100, VA will notify the lender.
-

Continued on next page

10. Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

d. Annual Fees for Supervised Lenders

Annual fees for supervised lenders are **only** required of lenders with ongoing agency relationships. Remit fees by January 31 of each year based on the lender's agency relationships in the previous calendar year, along with a list of agency relationships the lender wants to renew.

The fees are:

- \$100 for annual renewal of each lender agent that acts for the lender on an ongoing basis and has been recognized by VA as the lender's agent, and
 - annual fee is due for an agent if VA's letter of recognition is dated within the last quarter of the most recent calendar year.
-

e. Administrative Fees for Supervised Lenders

The fees are:

\$100 for processing requests for VA recognition of each lender agent.

f. LAPP Fees

Lenders must pay a one-time \$100 fee for each staff appraisal reviewer (SAR) applicant. Remit the fee with the SAR application to the appropriate VA office. The fee is nonrefundable, even if the applicant is found not to be acceptable.

If a SAR is approved and subsequently moves to another lender, a \$100 application fee must be paid by the new employer.

For detailed information on the Lender Appraisal Processing Program (LAPP), see [chapter 15](#) of this handbook.

11. Maintenance of Loan Records

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Requirement	Lenders must maintain copies of all loan origination records on VA guaranteed home loans for at least two years from the date of loan closing. Even if the loan is sold, the original lender must maintain these records (or legible copies) for the required period.
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b. Examples of Loan Records	<p>Loan origination records include:</p> <ul style="list-style-type: none">• the loan application (including any preliminary application)• verifications of employment and deposit• all credit reports (including preliminary credit reports)• copies of each sales contract and addendum• letters of explanation for adverse credit items, discrepancies and the like• direct references from creditors• correspondence with employers• appraisal and compliance inspection reports• reports on termite and other inspections of the property• builder change orders, and• all closing papers and documents.
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c. Accessibility	Lenders must make these records accessible to VA personnel conducting audit reviews.
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12. Lender ID Numbers

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Purpose

Each lender is assigned an ID number by VA to use as an identifier in all VA loan transactions. The ID number is linked to the mailing address provided by the lender to VA. It enables the lender to receive documents through VA's automated systems. These documents include:

- information mailings to all lenders, or lenders within a certain geographic area
 - VA-generated documents pertaining to individual loans, such as the Loan Guaranty Certificate, and
 - receipts for payment of the VA funding fee.
-

b. Agents

Agents also must have a lender ID number. Agents should use this ID number for all VA lending transactions, whether acting as an "agent" or a "lender."

c. The 11 Digits of the ID Number

The first six digits are unique to each lender and always stay the same.

The next four digits indicate the home or branch office of the lender.

- The home office is always four zeros.
- Anything other than four zeros indicates a branch office. A unique four-digit number is assigned to each branch office for which the lender requests an ID number.

The eleventh digit is a check digit assigned by VA.

Continued on next page

12. Lender ID Numbers, Continued

d. How to Obtain a Lender ID Number

Most lenders obtain their lender ID numbers after sending an initial information package to VA, as described in section 2 of this chapter. VA will automatically assign an ID number to the lender at that time for the home office, and may assign separate ID numbers to branch offices. (If the lender knows that it wants ID numbers for its branch offices at that time, the lender should specifically request this.)

A lender must specifically request assignment of an ID number in the following circumstances:

- The lender has not previously obtained an ID number from VA and will be acting as an agent for another lender.

Note: Request the ID number from the VA office with jurisdiction over the agent's home office location.

- The lender already has a VA ID number for its home office, but wants correspondence and loan documents related to loan transactions in a certain geographic area sent to the address of a branch office for which no separate lender ID number has previously been assigned.

Note: Request the ID number from the VA office with jurisdiction over the branch office location.

13. Lender Access to Training and Information

Change Date July 20, 2007, Change 5

- Subsection b has been updated to reflect currently offered televised trainings.
- Subsections e and g have been changed to update the Lenders/Servicers home page to its new name, “Lenders, Servicers, Real Estate Professionals.”

a. VA Training Sessions Each VA office of jurisdiction conducts regular training sessions on VA requirements, credit standards, procedures, and so on, for lenders and other program participants in its jurisdiction.

- At a minimum, have a representative attend one VA training session per year.
- Increase participation if lender management or VA identifies a greater need.

Discuss any special training needs with the VA office of jurisdiction.

b. Nationally Televised Training VA offers interactive televised training sessions to lenders and holders/servicers on a nationwide basis. Current and future training broadcasts are announced through the VA Training home page at <http://www.homeloans.va.gov/train.htm>.

Videotapes of previous broadcasts may be purchased from Multi Video Services at 1-800-800-3827.

c. Training Software Free VA training software which addresses VA loan processing and appraisal issues is available through [VA's Training](#) home page.

d. Internet Training Free VA web based training is available at [VA's Training](#) home page using any standard Internet browser. This courseware, when successfully completed, will meet the 8 hour underwriter training course requirement.

Continued on next page

13. Lender Access to Training and Information, Continued

e. Electronic Documents and Files

The Lender's Handbook, Servicing Guide, selected VA circulars, and other information are all available through VA's Lenders, Servicers, Real Estate Professionals Internet page at <http://www.homeloans.va.gov/lr.htm>.

f. Receipt of VA Mailings

It is essential that lenders inform the appropriate VA office whenever they have an address change. Informational mailings are sent to the address associated with a lender's VA ID number.

g. VA Offices of Jurisdiction

Contact the VA office with jurisdiction over the lender's home office to request any information not found in this Lender's Handbook. Some VA offices have their own Internet sites with information of interest to lenders. These sites can be accessed through VA's Lenders, Servicers, Real Estate Professionals Internet page.

To discuss issues on a particular loan, contact the [VA office with jurisdiction](#) over the geographic area in which the property is located.

14. Calculation of Adjusted Net Worth

Change Date	July 20, 2007, Change 5 This section's topic name has been changed to remove the reference to Figure.
a. Same as HUD	The method for calculating adjusted net worth for VA purposes is the same as the method for calculating adjusted net worth required by the Department of Housing and Urban Development (HUD).
b. CPA Requirement	Adjusted net worth must be calculated by a CPA using an audited and certified balance sheet from the lender's latest financial statements.
c. Calculation	<p>Adjusted net worth is total assets minus total liabilities minus the following unacceptable assets:</p> <ul style="list-style-type: none">• Any assets of the lender pledged to secure obligations of another person or entity.• Any asset due from either officers or stockholders of the lender or related entities, in which the lender's officers or stockholders have a personal interest, unrelated to their position as an officer or stockholder. Personal interest indicates a relationship between the lender and a person or entity in which that specified person (such as, spouse, parent, grandparent, child, brother, sister, aunt, uncle or in-law) has a financial interest in or is employed in a management position by the lender. <p><i>Note:</i> In other words, amounts due from officers or stockholders of the lender, their family members, or related entities in which these officers, stockholders or family members have a financial or managerial interest.</p> <ul style="list-style-type: none">• Any investment in related entities in which the lender's officers or stockholders (or their family members) have a personal interest unrelated to their position as an officer or stockholder.

Continued on next page

14. Calculation of Adjusted Net Worth, Continued

c. Calculation
(continued)

- That portion of an investment in joint ventures, subsidiaries, affiliates and/or other related entities, which is carried at a value greater than equity, as adjusted (“equity, as adjusted” means the book value of the related entity reduced by the amount of unacceptable assets carried by the related entity).
 - All intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, and so on, except unamortized servicing costs carried at a value established by an arm’s-length transaction and presented in accordance with generally accepted accounting principles.
 - That portion of an asset not readily marketable and for which appraised values are very subjective, carried at a value in excess of a substantially discounted appraised value. Assets such as antiques, art work and gemstones are subject to this provision and should be carried at the lower of cost or market.
 - Any asset that is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes.
-

15. Elements of a Quality Control Plan

Change Date	July 20, 2007, Change 5 Section's topic name has been changed to remove the reference to Figure.
a. Purpose	A quality control plan must be submitted with every nonsupervised lender's application for automatic authority. This exhibit outlines the criteria which the quality control plan (QC plan) must satisfy.
b. Audit Program	<p>The QC plan must provide for:</p> <ul style="list-style-type: none">• a program of internal or external audit of the lender's compliance with VA loan processing and underwriting requirements, or• independent review by management personnel knowledgeable of such requirements who have no direct loan processing or underwriting responsibilities.
c. Adequate Scope	<p>The QC plan must provide:</p> <ul style="list-style-type: none">• that the scope of audits or reviews be not less than 10 percent of all VA-guaranteed mortgages originated by the lender monthly, including its branches and authorized agents except that lenders making more than 140 VA mortgages monthly may use statistical sampling methods in lieu of the 10 percent.• that the loan sample include loans processed by all loan officers and underwriters and a random selection which includes loans from all branch offices and authorized agents.• procedures for expanding scope when fraudulent activity or patterns of deficiencies are identified.• for lenders participating in LAPP, that reviews include the quality control procedures.• that for each branch office that originates VA loans, an on-site branch office review should be conducted at least once annually.
d. Management Notification	The QC plan must provide for written notification of deficiencies cited as a result of audits or reviews at least quarterly to the lender's senior management.

Continued on next page

15. Elements of a Quality Control Plan, Continued

e. Corrective Action by Management

The QC plan must require that:

- Prompt and effective corrective action by senior management on all deficiencies identified by either the lender or VA
 - Maintenance of documentation of deficiencies and corrective actions taken
 - Employees be held accountable for performance failures or errors, and
 - Where patterns of deficiencies have been identified, corrective instructions be provided to all relevant employees.
-

f. Deficiencies Reported to VA

The QC plan must:

- Require prompt reporting of any violation of law or regulation, false statements or program abuses by the lender, its employees or any other party to the transaction to the VA office of jurisdiction, and
 - Provide for furnishing audit or review findings to VA on demand.
-

g. Current VA Underwriting Policies and Procedures Maintained

The QC plan must ensure that:

- The lender's procedures are revised in a timely manner to accurately reflect changes in VA requirements. Personnel are informed of the changes.
 - Each of the lender's offices, including its approved agent(s) and branches, maintains copies of all VA publications, including regulations, handbooks, and releases, which are relevant to the lender's VA loan origination activities. They must be accessible to all employees, periodically reviewed with appropriate staff, and kept current.
-

h. Only Authorized Persons Process Loans

The QC plan must ensure that all loans submitted by the lender to VA for guaranty are processed by employees of the lender or its authorized agent(s).

i. Funding Fees Paid

The QC plan must ensure that VA funding fees are remitted within 15 days from the date of loan closing and late charges and interest penalties are promptly submitted.

Continued on next page

15. Elements of a Quality Control Plan, Continued

j. Escrow Fund Management	The QC plan must ensure that escrow funds received from borrowers are not excessive and are not used for any purposes other than that for which they are received.
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k. Debarred Persons Not Employed	The QC plan must ensure that the lender does not employ for VA loan origination's or underwriting any individual who is debarred or suspended.
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l. Review of Loans	<p>The QC plan must provide for the following on loans selected for review:</p> <ul style="list-style-type: none">• Review of loans within 90 days of loan closing.• Written re-verification of borrower's employment, deposits, and all sources of funds.• Reordering of a new credit report from another credit source.
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Note: Report may be a RMCR (Residential Mortgage Credit Report) or an in-file report which merges the records of the three national repositories of credit files, commonly known as a 3-file merge.

- The reviewer, on each loan, to determine whether underwriting conclusions and lender documentation are overall complete and accurate. Specifically, the reviewer must make a determination on each item in the table below:

Step	Action
1	Does each loan file contain all required loan processing, underwriting and legal documents?
2	Were all relevant loan documents not signed in blank by the borrower or employee(s) of lender, and were all corrections initialed by the borrower or employee(s) of lender?
3	Were verifications of employment, verifications of deposit, and the credit report not handled by the borrower or any interested third party?
4	Do credit reports conform to Residential Mortgage Credit Report standards (if RMCR used), and if more than one credit report was ordered, were all credit reports submitted with the loan package to VA?

Continued on next page

15. Elements of a Quality Control Plan, Continued

I. Review of Loans (continued)

Step	Action
5	<p>Is there a correlation of each outstanding liability and each asset of the borrower and coborrower used to qualify for the loan to those listed on the initial loan application?</p> <p><i>Note:</i> If discrepancies exist, the loan file must show they have been explained or otherwise resolved.</p>
6	<p>Were any outstanding judgments appearing on the credit report listed on the application with an accompanying explanation and documentation?</p> <p><i>Note:</i> When there is a delinquency or judgment involving debt to the Federal Government, evidence must be provided showing the delinquent account was brought current or satisfactory arrangements were made between the borrower and the Federal agency owed, or the judgment was paid or otherwise satisfied.</p>
7	<p>Does the loan file contain required tax returns?</p> <p><i>Note:</i> If the borrower is self-employed, the loan file must include two years' tax returns and a profit and loss statement for year-to-date since the end of the last fiscal year (or whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities.</p>
8	<p>Was the HUD-1 settlement statement accurately prepared and properly certified?</p>
9	<p>Were fees charged to the veteran appropriate and accurate?</p>
10	<p>Was the loan properly documented and submitted in accordance with VA standardized loan file set-up procedure?</p>
11	<p>Was the loan current at the time it was submitted to VA for guaranty?</p>
12	<p>Did the borrower transfer the property at the time of closing or soon after, indicating possible misuse of the veteran's loan entitlement?</p>
13	<p>Was all conflicting information or discrepancies resolved and properly documented in writing prior to submission of the loan to VA for guaranty?</p>

16. Application Checklist for Authority to Close Loans on an Automatic Basis

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|--------------------|--|
| Change Date | July 20, 2007, Change 5 <ul style="list-style-type: none">• This section's topic name has been changed to remove the reference to "Figure."• Subsection a has been changed to update the block heading and section references to reflect changes in sections topic names. |
|--------------------|--|
-

- | | |
|---------------------|--|
| a. Checklist | <div><input type="checkbox"/> 1) Experience
Your firm must meet one of the following experience requirements:</div> <div><input type="checkbox"/> <i>Company Experience</i>
Firm actively engaged in originating VA loans for at least two years, and firm has originated and closed a minimum of ten VA loans (excluding IRRRLs);
or,
Firm actively originating and closing VA loans for less than two years, and firm has originated and closed at least 25 VA loans (excluding IRRRLs).</div> <div><input type="checkbox"/> <i>Principal Officer Experience</i>
-Documentation
Resumes for each principal officer (president plus any officers involved in managing loan origination functions) showing mortgage lending experience.</div> <div>-Experience Requirement
All principal officers engaged in origination have two recent years management experience in the origination of VA loans.</div> |
|---------------------|--|
-

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16. Application Checklist for Authority to Close Loans on an Automatic Basis, Continued

a. Checklist
(continued)

☐ *Agent Experience*

-Documentation

A copy of the VA letter approving the firm as an agent for the sponsoring lender; a letter from a senior officer of the lender indicating the number of VA loans submitted and compliance with VA requirements and procedures; and a copy of the corporate resolution.

-Experience requirement

Firm actively operating as an agent for an automatic lender for two years, and originated a minimum of ten VA loans; **or**,

Firm actively operating as an agent for an automatic lender for less than two years, and originated a minimum of 25 VA loans.

☐ **2) Underwriter(s)**

-Documentation

[VA Form 26-8736a](#) completed by a senior officer outlining the underwriter's specific experience with VA loans. If the underwriter is not located in the home office, provide certification from a senior officer that the underwriter is supervised by an individual other than a branch manager or other person with production responsibilities must be provided.

-Experience Requirement

Minimum three years experience in processing, pre-underwriting or underwriting mortgage loans, and at least one recent year of this experience making underwriting decisions on VA loans (recent = within the past three years); **or**,

Accredited Residential Underwriter (ARU) by the Mortgage Bankers Association.

Continued on next page

16. Application Checklist for Authority to Close Loans on an Automatic Basis, Continued

a. Checklist
(continued)

-
- ☐ **3) Working Capital or Net Worth**
 - A minimum of \$50,000 in working capital must be demonstrated; **or**
 - Lender has \$250,000 net worth as defined by HUD and reported by CPA in annual financial statements (see section 14).
 - ☐ **4) Financial Statements**
 - Audited and certified by a CPA; **and**
 - Current to within six months of the application date.
 - ☐ **5) Line Of Credit Of At Least \$1 Million Dollars**
 - ☐ **6) Two Permanent Investors**
 - With addresses, telephone numbers and name(s) of contact person(s)
 - ☐ **7) Quality Control Plan That Meets VA Requirements**
 - (see section 15)
 - ☐ **8) Designated Liaison Officer**
 - ☐ **9) Corporate Resolutions And Delinquency Data For Affiliates**
 - ☐ **10) List Of Branch Offices Or Corporate Resolutions For Agents**
 - ☐ **11) Application Fee Submitted**
-

Chapter 2. Veterans' Eligibility and Entitlement

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	How to Establish the Applicant's Eligibility for a VA Loan	2-2
2	What the Certificate of Eligibility Tells the Lender	2-4
3	How to Apply for a Certificate of Eligibility	2-8
4	Proof of Service Requirements	2-13
5	Basic Eligibility Requirements	2-16
6	Restoration of Previously Used Entitlement	2-19
7	Misuse of Veteran's Entitlement	2-21
8	Certificate of Veteran Status—FHA Loans	2-22
9	Exhibit 2-A Quick Reference Table for VA Eligibility	2-24

1. How to Establish the Applicant's Eligibility for a VA Loan

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection b has been changed to add a hyperlink to ACE.
-

a. What is Eligibility?

Eligibility is the veteran's entitlement to VA home loan benefits under the law, based on military service. An eligible veteran must still meet credit and income standards in order to qualify for a VA-guaranteed loan. A lender **cannot** make a VA-guaranteed loan to an ineligible applicant under any circumstances.

b. The Lender's Role

Before processing a loan for an applicant, the lender must ensure VA has determined the applicant is an eligible veteran. Each application must be evaluated by VA to see if the applicant meets criteria established by law.

It is critical that a potential borrower's eligibility be established early in the loan process. This assures that a lender is working with an eligible party. Delaying the application for eligibility can create the following problems:

- Time and money may have been expended needlessly, if VA determines the veteran is not eligible.
- The loan closing may be delayed pending a final determination, if the veteran's eligibility determination is more complex than normal.

Once VA finds an applicant eligible, VA issues the veteran either

- VA Form 26-8320, Certificate of Eligibility for Loan Guaranty Benefits, or
- VA Form 26-8320a, Certificate of Eligibility for Loan Guaranty Benefits (Reserves/National Guard).

A Certificate of Eligibility is the *only* reliable Proof of Eligibility for the Lender.

Once a Certificate of Eligibility (COE) is received

- there is generally no need to have it updated before loan closing, and
 - contact VA if there is some question as to the accuracy of data on the COE.
-

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1. How to Establish the Applicant's Eligibility for a VA Loan, Continued

b. The Lender's Role (continued)

Although this chapter discusses some of the basic eligibility criteria, it is **not** intended to provide a lender with all the knowledge necessary to make an eligibility determination; consequently, all the various exceptions and nuances of eligibility are not included. Exhibit 2-A at the end of this chapter provides a quick reference and overview of basic eligibility criteria.

The final eligibility decision is always made by VA.

In all cases in which the applicant does not already have a COE, the applicant, the lender, or an authorized representative acting on the applicant's behalf, should submit a properly completed [VA Form 26-1880, Request for a Certificate of Eligibility](#) to VA, even if it appears the applicant is **not** eligible. Additionally, lenders should utilize the Automated Certificate of Eligibility (ACE) system (See [section 3 of this chapter](#)) whenever possible.

It is important to allow VA to make a formal determination and, if the applicant is ineligible, to notify the applicant of his or her appeal rights.

c. Certificate of Eligibility for IRRRLs

VA has developed an alternate procedure for lenders to use when closing an Interest Rate Reduction Refinancing Loan (IRRRL). Lenders can access the automated system at: <http://www.vba-roanoke.com/rlc/GILoans.asp>

This system provides an automated e-mail response to lenders. Lenders **MUST** print this response and provide it with the guarantee package for issuance of the Loan Guaranty Certificate.

Note: The printed response can **ONLY** be used in lieu of a COE for IRRRLs.

2. What the Certificate of Eligibility Tells the Lender

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Eligibility

The lender may rely on a Certificate of Eligibility (COE) as proof that a veteran is eligible for a VA home loan.

b. Amount of Entitlement

The amount of available entitlement can be found at the center of the COE in the entitlement section. The maximum available entitlement that can be shown on the COE is \$36,000.

Even though the veteran may use up to \$60,000 of entitlement for certain loans greater than \$144,000, the COE will never reflect the additional \$24,000 in the available entitlement amount shown. Instead, an asterisk by the word "available" refers to a note which explains the additional entitlement.

Amount of available entitlement is the most important item on a COE to a Lender, because VA's guaranty on the loan generally cannot exceed this amount.

An exception is the additional \$24,000 entitlement available on certain loans greater than \$144,000.

If available entitlement shown is less than \$36,000, it is for one of two reasons

- the maximum entitlement has been changed by law since VA issued the COE, or
- the veteran previously used entitlement that has not been restored.

The last four changes in the law which impacted the maximum available entitlement were as follows:

Maximum Entitlement on COE	Beginning Date
\$36,000	February 1, 1988
\$27,500	October 1, 1980
\$25,000	October 1, 1978
\$17,500	December 31, 1974

Continued on next page

2. What the Certificate of Eligibility Tells the Lender, Continued

**b. Amount of
Entitlement
(continued)**

If the COE shows available entitlement equal to the maximum in effect on the date the COE was issued or last updated, there is no need to have the COE updated to reflect the current maximum.

The lender can assume the veteran now has \$36,000 available.

If, however, the veteran previously used entitlement which has **not** been restored, available entitlement is reduced by the amount used on the prior loan(s). The lender has two options in this situation:

- Make the loan knowing that VA's guaranty is limited to the amount of available entitlement, or
- Have the veteran apply for restoration of previously used entitlement.

Reference: [Section 6 of this chapter](#) for an explanation of how to apply for restoration and under what circumstances it may be granted.

Note: The additional entitlement of up to \$24,000 may be used for certain loans above \$144,000 even if the veteran has no entitlement or partial entitlement. However, in such cases the lack of full entitlement will likely result in lenders receiving less than a 25 percent guaranty from VA. It is the lender's responsibility to ensure they are able to sell their loan on the secondary market.

Continued on next page

2. What the Certificate of Eligibility Tells the Lender, Continued

c. Conditions Listed On Some COE Forms

Conditions that the lender and veteran must comply with are listed on the COE. Some COE forms list 5 conditions with a checkmark box ☐ in front of each condition. VA places a checkmark by any that are applicable.

The following table provides the actions a lender should take for each condition, if applicable:

Condition	What to Do
Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of the date of note is required.	Ensure the veteran is still on active duty before closing the loan. If the veteran is discharged or released prior to loan closing, request a new eligibility determination from VA.
Excluded entitlement previously used for VA LIN [number] as shown herein is available only for use in connection with the property which secured that loan.	If the entitlement used for the prior loan identified in this condition is needed for the proposed loan, ensure the proposed loan will be secured by the same property as the prior loan.
Entitlement has been used for manufactured home purposes. Remaining entitlement for additional manufactured home use is: \$ [amount].	If the proposed loan involves a manufactured home, adhere to the entitlement limit indicated.
Not eligible for any loan to purchase a manufactured home unit until veteran disposes of unit purchased with manufactured home loan number VA LIN [number].	If the proposed loan involves a manufactured home, ensure that the veteran has disposed of the unit indicated.
Entitlement previously used for VA LIN [number] has been restored without disposal of the property, under provision of 38 U.S.C. 3702b(4) . Any future restoration requires disposal of all property obtained with a VA loan.	This is information for the veteran. The lender need not be concerned if this condition is applicable, as long as the available entitlement shown on the COE is sufficient for the lender's purposes.

Continued on next page

2. What the Certificate of Eligibility Tells the Lender, Continued

**d. Other COE
Forms**

Other system generated COE forms only display the conditions which apply to the particular veteran.

**e. ACE
(Automated
Certificate of
Eligibility)**

Note: For COEs processed through [ACE](#) please see **section 3 of this chapter**, How to Apply for a Certificate of Eligibility.

3. How to Apply for a Certificate of Eligibility

- Change Date** September 15, 2004, Change 4
- This section has been changed to create subsection lettering.
 - Subsection a has been changed to add a reference to ACE, correct the omission of Missouri from the state listing and a comma after Rhode Island for Eligibility Centers.
-

- a. Procedures** If the applicant does not already have a Certificate of Eligibility, and the lender was unable to obtain an ACE generated COE, lenders may assist the veteran in following these procedures:

Step	Action
1	<p>VA Form 26-1880, Request for a Certificate of Eligibility, from the nearest VA Home Loan Eligibility Center, other VA office, or at http://www.vba.va.gov/pubs/homeloanforms.htm.</p> <p>Reference: See Appendix A for a listing of VA offices.</p>
2	<p>Complete the form as thoroughly as possible.</p> <p>Failure to complete necessary items may cause delays.</p>
3	<p>Attach all required documentation to the form.</p> <p>References:</p> <ul style="list-style-type: none">• Part "D" of the instructions on the back of the form describes the proof of military service needed.• See section 4 of this chapter for further details on the required proof of military service including circumstances when it may not be necessary.

Continued on next page

3. How to Apply for a Certificate of Eligibility, Continued

a. Procedures (continued)

Step	Action
4	<p>Submit the form and attachments to the appropriate VA Eligibility Center:</p> <ul style="list-style-type: none">• Los Angeles Eligibility Center, if you live in: Alaska, Arizona, Arkansas, California, Colorado, Hawaii, Idaho, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wisconsin or Wyoming.• Winston-Salem Eligibility Center, if you live in Alabama, Connecticut, District of Columbia, Delaware, Florida, Georgia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Puerto Rico, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, or West Virginia. <p>Reference: See Appendix A for the addresses of the Eligibility Centers.</p>

b. Application for Unmarried Surviving Spouses

Certain unmarried spouses of veterans are eligible for the VA home loan benefit (see **section 5 of this chapter**). If they are applying for the first time, they must complete [VA Form 26-1817](#), Request for Determination of Loan Guaranty Eligibility-Unmarried Surviving Spouses, instead of [VA Form 26-1880](#).

They must complete [VA Form 26-1817](#) and forward it to the appropriate VA [Eligibility Center](#).

Note: Eligibility determinations for unmarried surviving spouses may take considerably longer to process than others.

c. Previously Issued COE is Missing

If the veteran's COE has been lost, stolen or destroyed, the veteran must follow the "Procedures" described in this section to obtain a duplicate (that is, submit a completed request form with required proof of military service).

Continued on next page

3. How to Apply for a Certificate of Eligibility, Continued

d. Processing Time

Again, it is very important that the request for a COE be the first step in the loan process for a veteran who does **not** already have a COE.

VA will make every effort to process requests for a COE in a timely manner.

- Most can be processed within 7 days of receipt.
- Cases for which the applicant does not clearly meet the basic eligibility criteria will usually require additional development and longer processing time.

Example: A case involving an applicant who received an “other than honorable” discharge may require VA to request discharge records from the appropriate service department.

e. ACE (Automated Certificate of Eligibility)

[ACE](#) allows lenders to input data about a specific veteran-borrower and obtain an eligibility determination on most cases in a matter of seconds from the Internet.

ACE eliminates completing [VA Form 26-1880, Request for a Certificate of Eligibility](#), mailing it to an [Eligibility Center](#) and waiting for a reply by mail.

f. Security Monitoring

The ACE application is intended for use by lenders who have the veteran's permission to obtain an eligibility determination for them. The use of the system will be monitored for security and administrative purposes and accessing the system constitutes consent to such monitoring.

Continued on next page

3. How to Apply for a Certificate of Eligibility, Continued

g. Establishing Eligibility

If eligibility is established, the lender prints out the certificate to submit with their guaranty package. If eligibility cannot be established, a refer message will instruct the lender to submit a completed [VA Form 26-1880](#) to VA for processing.

If...	...Then...
Eligibility is established,	The lender prints out the COE to be submitted with the guaranty package.
Eligibility is not established,	The lender has the veteran complete VA Form 26-1880 . Once completed, the lender should send it and the veteran's proof of service to the Eligibility Center of jurisdiction.
Eligibility is established but the veteran has partial or no available entitlement,	The lender has the veteran complete VA Form 26-1880 . Once completed, the lender should send it, the veteran's proof of service and evidence of a paid in full status for the previous loan to the Eligibility Center of jurisdiction.
Eligibility is established but the print out shows no entitlement on a loan that shows paid-in-full status,	The lender has the veteran complete VA Form 26-1880 . Once completed, the lender should send it and the veteran's proof of service to the Eligibility Center of jurisdiction for restoration of entitlement processing.

h. Access Limits for ACE

At this time access to ACE is limited to VA recognized lenders with a valid VA assigned lender identification number [through the VA loan guaranty web portal](#).

i. Accessing ACE

Lenders can access [ACE](#) by using <http://tas.vba.va.gov/TAS/index.html> and clicking on the ACE link.

Once the ACE link is accessed, lenders will see a brief paragraph about ACE. There will be a link from that paragraph to the actual ACE log-in page. Lenders may choose to bookmark that site. Once logged-in, click on **Requestors** and select which function of ACE to use.

ACE will generally be available 24 hours a day.

Continued on next page

3. How to Apply for a Certificate of Eligibility, Continued

**j. Limitations
of ACE**

ACE cannot make all determinations. Some types of cases that cannot be processed through ACE include:

- Persons whose service was or is in the Reserves/National Guard
 - Persons who may have had prior VA loan(s) that went to foreclosure
 - Persons who did not serve the minimum required length of service and were not discharged for an authorized exception
 - Persons who were discharged under conditions other than honorable
 - Persons for which VA has insufficient data to make the determination
 - Persons seeking restoration of previously used entitlement
 - Unmarried surviving spouses
-

**k. Transfer of
ACE Generated
Certificates of
Eligibility**

ACE generated COEs cannot be transferred to another lender.

Loan guaranty requests containing an ACE generated COE issued to someone other than the lender or **their authorized** agent will be returned.

It's important that lenders submitting the loan for guaranty properly complete agent information on [VA Form 26-1820](#), Report and Certification of Loan Disbursement, and [VA Form 26-0286](#), VA Loan Summary Sheet. These documents will be reviewed prior to the return of the loan package.

Lenders who intend to submit a package for guaranty with an ACE generated COE obtained by a third party who is not an agent, the lender, or an affiliate, will then need to obtain an eligibility determination through ACE or conventional means before submitting the package for guaranty.

4. Proof of Service Requirements

- Change Date** September 15, 2004, Change 4
- This section has been changed to create subsection lettering.
 - Subsection a has been changed to correct the page number of the DD Form 214 that is needed for processing of a Certificate of Eligibility.
-

a. Discharged Veterans (Regular Military) DD Form 214, Certificate of Release or Discharge From Active Duty, will generally contain all the information needed for VA to make an eligibility determination for persons who served in a regular component of the Armed Forces.

VA will accept originals or legible copies of the DD Form 214.

Persons separated from military service after January 1, 1950 should have received DD Form 214. Persons separated after October 1, 1979 should furnish **Member** 4 of DD Form 214 which includes character of service and separation reason. Persons separated from active duty before January 1, 1950 received documentation other than DD Form 214. To be acceptable it should indicate:

- length of service, and
 - character of service.
-

b. Veterans Still on Active Duty Veterans still on active duty must provide a current statement of service signed by, or by the direction of, the adjutant, personnel office, or commander of the unit or higher headquarters they are attached to. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer generated.

The statement of service must clearly show

- veteran's full name
 - Social Security Number (SSN)
 - date of birth
 - the entry date on active duty
 - the duration of lost time, if any, and
 - the name of the command providing the information.
-

Continued on next page

4. Proof of Service Requirements, Continued

c. Discharged Reserve/Guard Members

There is no one form used by the Reserves or National Guard which is similar to DD Form 214.

Discharged members of the Army or Air National Guard may submit NGB Form 22, Report of Separation and Record of Service, or a points statement.

Typically, all members of the Reserves and/or Guard receive an annual retirement points summary which indicates the level and length of participation. The applicant should submit the latest such statement received along with evidence of honorable service.

VA will accept originals or legible copies.

d. Current Reserve/Guard Members

Individuals who are still members of the Reserves/Guard must provide a statement of service signed by, or by the direction of, the adjutant, personnel office, or commander of the unit or higher headquarters they are attached to. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer-generated.

The statement of service must clearly show

- veteran's full name
- Social Security Number (SSN)
- entry date of applicant's Reserve/Guard duty, and
- the name of the command providing the information.

Note: The statement must clearly indicate that the applicant is an "active" reservist and not just in a control group (inactive status).

Continued on next page

4. Proof of Service Requirements, Continued

**e. Assistance in
Obtaining
Required Proof
of Service**

There will be cases where an applicant discharged from service is unable to provide his or her proof of service. If the veteran has been discharged from regular active duty, submission of [VA Form 26-1880](#) to the appropriate [Eligibility Center](#) should not be delayed while the veteran attempts to obtain evidence of service since VA may be able to make a determination by referring to internal records. Otherwise, discharged reservists and other discharged vets for whom VA has no internal records should obtain an [SF 180](#), Request Pertaining to Military Records from the nearest [Eligibility Center](#), other VA Office, or at <http://www.archives.gov/>. An [SF 180](#) can be used by the veteran to request a copy of his or her DD Form 214 or equivalent.

5. Basic Eligibility Requirements

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection c has been changed to delete information pertaining to expiration of Reserve/Guard eligibility based on the Veterans Benefits Act of 2003. Additionally, "been honorably discharged" was changed to "received an Honorable discharge."
--------------------	--

a. General Rule for Eligibility	<p>A veteran is eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard after September 15, 1940, and was discharged under conditions other than dishonorable after either</p> <ul style="list-style-type: none">• 90 days or more, any part of which occurred during wartime, or• 181 continuous days or more (peacetime). <p>2 Year Requirement: A greater length of service is required for veterans who</p> <ul style="list-style-type: none">• enlisted (and service began) after September 7, 1980, or• entered service as an officer after October 16, 1981. <p>These veterans must have completed either</p> <ul style="list-style-type: none">• 24 continuous months of active duty, or• the full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime). <p>Note: Cases involving other than honorable discharges will usually require further development by VA. This is necessary to determine if the service was under other than dishonorable conditions.</p>
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5. Basic Eligibility Requirements, Continued

b. Wartime and Peacetime Wartime and peacetime refer to the following periods of service:

Wartime	Peacetime
World War II 9/16/40—7/25/47	Post World War II period 7/26/47—6/26/50
Korean conflict 6/27/50—1/31/55	Post Korean period 2/1/55—8/4/64
Vietnam Era 8/5/64—5/7/75 (The Vietnam Era begins 2/28/61 for those individuals who served in the Republic of Vietnam.)	Post Vietnam period 5/8/75—8/1/90
Persian Gulf War 8/2/90—date to be determined	

c. Eligibility for Reserves and/or Guard Members of the Reserves and National Guard who are not otherwise eligible for loan guaranty benefits are eligible upon completion of 6 years service in the Reserves or Guard. The applicant must have **received an Honorable discharge** from such service unless he or she is either

- in an inactive status awaiting final discharge, or
- still serving in the Reserves or Guard.



d. Eligibility of Spouses of Veterans Some spouses of veterans may have home loan eligibility. They are

- the unmarried surviving spouse of a veteran who died as a result of service or service-connected causes, and
 - the spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to one time use only.
-

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5. Basic Eligibility Requirements, Continued

**e. Other
Qualifying
Service**

Congress has periodically granted veteran status to groups other than members of the Army, Navy, Marine Corps, and Coast Guard, such as certain members of the Public Health Service, cadets at the service academies, certain merchant seaman, etc.

Lenders should contact the appropriate VA [Eligibility Center](#) for assistance when one of these unique cases is encountered.

**f. Exceptions to
Length of
Service
Requirements**

There are numerous exceptions to the length of service requirements outlined in this section. For example, one day of service is sufficient for an individual who is discharged or released from service (regular or Reserve/Guard) due to a service-connected disability.

Because of the complexity and number of exceptions, this chapter does **not** attempt to cover all of them. The exceptions provide another reason to submit a formal eligibility application to VA in all cases, even if it appears the applicant is not eligible.

6. Restoration of Previously Used Entitlement

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Basic
Restoration**

Entitlement previously used in connection with a VA home loan may be restored under certain circumstances. Once restored it can be used again for another VA loan. Restoration of previously used entitlement is possible if

- the property which secured the VA guaranteed loan has been sold, **and** the loan has been paid in full, or
 - an eligible veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming veteran must also meet occupancy, income and credit requirements of the law.
-

**b. Special
Restoration
Cases**

In addition to the basic restoration criteria outlined above, a veteran may obtain restoration of the entitlement used on a prior VA loan under any of the following circumstances:

- the prior VA loan has been paid in full and the veteran has made application for a loan to be secured by the same property which secured the prior VA loan, **Note:** This includes refinancing situations in which the prior loan will be paid off at closing from a VA refinancing loan on the same property, **OR**
 - the prior VA loan has been paid in full, but the veteran has not disposed of the property securing the loan. The veteran may obtain restoration of the entitlement used on the prior loan in order to purchase a different property, *one time only*. Once such restoration is effected, the veteran's Certificate of Eligibility will indicate the one time restoration. It will also advise that any future restoration will require disposal of all property obtained with a VA loan.
-

Continued on next page

6. Restoration of Previously Used Entitlement, Continued

**c. How to
Apply for
Restoration**

The veteran must complete and send [VA Form 26-1880](#), Request for a Certificate of Eligibility, to the appropriate [Eligibility Center](#). If the veteran has evidence of payment in full of any prior loans (HUD-1, settlement statement, etc), a copy should be included. Additionally, any previously issued COEs should be included.

If the veteran is applying for restoration in order to obtain another VA loan on the same property (as described above in “Special Restoration Cases”), the veteran should include a copy of the loan application submitted to the lender along with [VA Form 26-1880](#). Unmarried surviving spouses applying for restoration of entitlement also need to complete [VA Form 26-1880](#) supplying the deceased veterans military service data and VA claims file number.

7. Misuse of Veteran's Entitlement

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. What Constitutes Misuse? A basic requirement of the law governing the VA home loan program is that the veteran has a bona fide intention of occupying his or her property as a home. Home loan entitlement is **not** being used properly if the veteran arranges to sell or convey the property to a third party prior to closing the loan.

b. What to Do Contact the VA Regional Loan Center with jurisdiction over the loan for advice regarding any case in which there may be a question regarding the legality of entitlement use.

8. Certificate of Veteran Status - FHA Loans

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. General Section 203(b)(2) of the National Housing Act permits a veteran to obtain slightly better terms than a non-veteran when obtaining Federal Housing Administration (FHA) mortgage financing. Although this involves FHA loans, VA is charged with making the entitlement determination for benefits under this provision. VA will issue a Certificate of Veteran Status, [VA Form 26-8261](#), to any eligible veteran-applicant to use when obtaining an FHA loan.

b. How to Apply The lender may assist the veteran in following these procedures:

Step	Action
1	Obtain VA Form 26-8261a , Request for Certificate of Veteran Status, from the nearest VA Eligibility Center . <i>Reference:</i> See Appendix A for a listing of VA offices.
2	Complete the form as thoroughly as possible. Failure to complete necessary items may cause delays.
3	Attach proof of military service to the form. <i>Reference:</i> See section 4 of this chapter for further details on the required proof of military service.
4	Submit the form and attachments to the appropriate VA Eligibility Center .

c. Veteran Found Ineligible Additionally, veterans who apply for VA benefits on [VA Form 26-1880](#) and are found ineligible, may be found eligible for the FHA program. If so, they will be issued an FHA Certificate of Veteran Status concurrent with VA's notice of denial of eligibility for the VA program.

Continued on next page

8. Certificate of Veteran Status - FHA Loans, Continued

d. Qualifications

Generally, eligibility may be established through

- active duty in the Armed Forces
- active duty for training in a reserve component of the Armed Forces, or
- active duty or active duty for training in the National Guard or Air National Guard.

The length of service requirements are similar to the requirements for a VA Certificate of Eligibility.

e. Break in Service

One important distinction between VA and FHA eligibility requirements is

For an FHA Certificate of Veteran Status, a veteran must have been discharged or released under conditions other than dishonorable.

- A VA Certificate of Eligibility can be issued to a veteran still on active duty.
 - An FHA Certificate of Veteran Status cannot be issued to a person who is still serving on active duty and has had no break in service.
-

9. Exhibit 2-A: Quick Reference Table for VA Eligibility

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Quick Reference Table The table below provides a quick reference to some the most commonly eligible veterans. This table is NOT exhaustive. A Veteran's eligibility for home loan benefits may only be determined by VA.

ERA	Dates	Time Required
WW II	9/16/40—7/25/47	90 days
Post WW II	7/26/47—6/26/50	181 days
Korean	6/27/50—1/31/55	90 days
Post Korean	2/1/55—8/4/64	181 days
Vietnam	8/5/64—5/7/75 <i>Note:</i> The Vietnam Era began 2/28/61 for those individuals who served in the Republic of Vietnam.	90 days
Post Vietnam	5/8/75—9/7/80 5/8/75—10/16/81 9/8/80—8/1/90 10/17/81—8/1/90	enlisted—181 days officers—181 days enlisted—2 years** officers—2 years**
Persian Gulf	8/2/90—present	2 years **Note: The veteran must have served 2 years or the full period which called or ordered to active duty (at least 90 days during wartime and 181 during peacetime).

Other Eligible Persons	Time Required
Active Duty Member <i>Note:</i> Certificate valid only while veteran remains on active duty.	90 days (181 during peacetime)
Reserves/Guard	6 years in Selected Reserves.
Unmarried Surviving Spouses	No time requirement. Veteran must have died on active duty or from a service-connected disability.
POW/MIA Spouses	Veteran must have been POW or MIA 90 days.

Chapter 3. The VA Loan and Guaranty

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	Basic Elements of a VA-Guaranteed Loan	3-2
2	Eligible Loan Purposes	3-5
3	Maximum Loan	3-7
4	Maximum Guaranty on VA Loans	3-10
5	Occupancy	3-12
6	Interest Rates	3-16
7	Discount Points	3-17
8	Maturity	3-19
9	Amortization	3-20
10	Eligible Geographic Locations for the Secured Property	3-22
11	What Does a VA Guaranty Mean to the Lender?	3-23
12	Post-Guaranty Issues	3-26

1. Basic Elements of a VA-Guaranteed Loan

-
- Change Date** July 20, 2007, Change 5
- Subsection a has been changed to show the increase in available entitlement for loans in excess of \$144,000.
 - Also added is a link in the Security Instruments block that will display samples of required clauses.
-

- a. General rules** The following table provides general rules and information critical to understanding a VA loan guaranty. Exceptions and detailed explanations have been omitted. Instead, a reference to the section in this handbook which addresses each subject is provided.

Subject	Explanation	Section
Maximum Loan Amount	VA has no specified dollar amount(s) for the “maximum loan.” The maximum loan amount depends upon: <ul style="list-style-type: none"> • the reasonable value of the property indicated on the Notice of Value (NOV), and • the lenders needs in terms of secondary market requirements. 	3 of this chapter
Down payment	No down payment is required by VA unless the purchase price exceeds the reasonable value of the property, or the loan is a Graduated Payment Mortgage (GPM). The lender may require a down payment if necessary to meet secondary market requirements.	3 of this chapter
Amount of Guaranty	The lesser of: <ul style="list-style-type: none"> • the veteran’s available entitlement indicated on the Certificate of Eligibility (COE) (which can be increased up to an amount equal to 25% of the Freddie Mac single family conventional conforming loan limit for certain loans over \$144,000), or • the maximum potential guaranty from the maximum guaranty table (Highest possible guaranty is 25% of the Freddie Mac single family conventional conforming loan limit). 	4 of this chapter
Occupancy	The veteran must certify that he or she intends to personally occupy the property as his or her home.	5 of this chapter

Continued on next page

1. Basic Elements of a VA-Guaranteed Loan, Continued

a. General rules (continued)

Subject	Explanation	Section
Interest Rate and Points	<p>Interest rate and points are negotiated between the lender and veteran.</p> <ul style="list-style-type: none"> • The veteran and seller may negotiate for the seller to pay all or some of the points. • Points must be reasonable. • Points may not be financed in the loan except with Interest Rate Reduction Refinancing Loans (IRRRLs). 	6 and 7 of this chapter
Purpose of Guaranty	To encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure.	11 of this chapter
Underwriting	<p>Flexible standards. The veteran must have:</p> <ul style="list-style-type: none"> • satisfactory credit, and • satisfactory repayment ability <ul style="list-style-type: none"> – stable income – residual income (net effective income minus monthly shelter expense) in accordance with regional tables, and – acceptable ratio of total monthly debt payments to gross monthly income (A ratio in excess of 41% requires closer scrutiny and compensating factors.). 	chapter 4
IRRRLs (Streamline Refinancing Loans)	<p>Used to refinance an existing VA loan at a lower interest rate.</p> <ul style="list-style-type: none"> • No appraisal or underwriting is required. • Closing costs may be financed in the loan. • Any reasonable discount points can be charged, but only 2 discount points can be financed in the loan. • No cash to the borrower. <p>Note: A fixed rate loan to refinance a VA Adjustable Rate Mortgage (ARM) may be at a higher interest rate.</p>	1 and 2 of chapter 6

Continued on next page

1. Basic Elements of a VA-Guaranteed Loan, Continued

a. General rules (continued)

Subject	Explanation	Section
Funding Fee	<p>The veteran must pay a funding fee to help defray costs of the VA home loan program.</p> <ul style="list-style-type: none">• Find the percentage appropriate to the veteran's particular circumstances on the funding fee table.• Apply this percentage to the loan amount to arrive at the funding fee.• The funding fee may always be financed in the loan.	8 of chapter 8
Closing costs	<p>Those payable by the veteran are limited by regulation to a specific list of items plus a 1% flat charge by the lender.</p> <ul style="list-style-type: none">• Any other party, including the seller, can pay any costs on behalf of the veteran.• Closing costs cannot be financed in the loan except on certain refinancing loans. (See section 7 of chapter 8.)	2,4, and 7 of chapter 8
Security Instruments	<p>The lender may use any note or mortgage forms they wish as long as they contain certain VA-required clauses, samples of which may be found at: http://www.homeloans.va.gov/lenderssampdocs.htm.</p>	1 of chapter 9

2. Eligible Loan Purposes

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. List of
Eligible Loan
Purposes**

The law authorizes VA to guarantee loans made to eligible veterans only for the following purposes:

- To purchase or construct a residence to be owned and occupied by the veteran as a home
 - the loan may include simultaneous purchase of the land on which the residence is situated or will be situated
 - loans may also be guaranteed for the construction of a residence on land already owned by the veteran (A portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements.), and
 - the residential property may not consist of more than four family units and one business unit except in the case of certain joint loans. (See [section 1 of chapter 7](#) for this exception.)
- To refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home.
- To repair, alter, or improve a residence owned by the veteran and occupied as a home.
- To simultaneously purchase and improve a home.
- To improve a residence owned and occupied by the veteran as the veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure. These energy efficiency improvement loans can be made in conjunction with any type of VA purchase or refinancing loan.
- To purchase a one-family residential unit in a condominium housing development approved by VA.
- To purchase a farm residence to be owned and occupied by the veteran as a home. If the loan includes the purchase of farmland, the farmland is appraised at its residential value only. (See [section 12 of chapter 11](#)).

Continued on next page

2. Eligible Loan Purposes, Continued

b. Ineligible Loan Purposes

VA cannot guarantee loans made for ineligible loan purposes. Examples of ineligible loan purposes include:

- Purchase of unimproved land with the intent to improve it at some future date (that is, the land purchase is not in conjunction with a construction loan).
 - Purchase or construction of a dwelling for investment purposes.
 - Purchase or construction of a combined residential and business property, unless,
 - the property is primarily for residential purposes
 - there is not more than one business unit, and
 - the nonresidential area does not exceed 25 percent of the total floor area.
 - Purchase of more than one separate residential unit or lot unless the veteran will occupy one unit and there is evidence that
 - the residential units are unavailable separately
 - the residential units have a common owner
 - the residential units have been treated as one unit in the past, and
 - the residential units are assessed as one unit, or
 - partition is not practical, as when one unit serves the other(s) in some respect; for example, common approaches or driveways.
-

c. Cash to Veteran Generally Not an Eligible Loan Purpose

Cash to the veteran from loan proceeds is permissible only for certain types of refinancing loans and under very limited circumstances, as follows:

- For IRRRLs, see [section 1 of chapter 6](#).
- For cash-out refinancing loans, see [section 3 of chapter 6](#).

For other types of refinancing loans and all purchase/acquisition loans, the veteran generally cannot receive cash from loan proceeds. The only exception is the refund of items for which the veteran paid cash, which were subsequently included in the loan amount.

Example: Earnest money can be refunded to the veteran on a no down payment loan.

3. Maximum Loan

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Does VA have Maximum Loan Amounts Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans.

Limitations on VA loan size are primarily attributable to two factors:

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by Government National Mortgage Association (GNMA) or whatever conduit they use to sell the loans.
2. VA limits the amount of the loan to the reasonable value of the property shown on the Notice of Value (NOV) plus the cost of energy efficiency improvements up to \$6,000 plus the VA funding fee, with the following exceptions.

Exception	Maximum Loan
Interest Rate Reduction Refinancing Loan	<ul style="list-style-type: none">• Existing VA loan balance, plus• The cost of any energy efficiency improvements up to \$6,000, plus• Allowable fees and charges, plus• Up to 2 discount points, plus• VA funding fee. <p>(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)</p>

Continued on next page

3. Maximum Loan, Continued

a. Does VA have Maximum Loan Amounts (continued)

Exception	Maximum Loan
Regular refinancing loan (cash-out)	<ul style="list-style-type: none"> • 90% of the VA reasonable value, plus • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee.
Loan to refinance: <ul style="list-style-type: none"> • a construction loan • an installment land sales contract, or • a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan 	The lesser of: <ul style="list-style-type: none"> • the VA reasonable value, or • the sum of the outstanding balance of the loan plus allowable closing costs and discounts, plus (For construction loans, “balance of the loan” includes the balances of construction financing and lot liens, if any.) • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee.
Graduated Payment Mortgage loan on existing property	<ul style="list-style-type: none"> • The VA reasonable value, minus • the highest amount of negative amortization, plus • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee. <p>Reference: See section 7 of chapter 7.</p>
Graduated Payment Mortgage loan on new home	97.5% of the lesser of: <ul style="list-style-type: none"> • the VA reasonable value or • the purchase price, plus • the cost of any energy efficiency improvements up to \$6,000, plus • VA funding fee. <p>Reference: See section 7 of chapter 7.</p>

Continued on next page

3. Maximum Loan, Continued

**b. Down
payment**

Because VA loans can be for the full reasonable value of the property, no down payment is required by VA except in the following circumstances:

- If the purchase price exceeds the reasonable value of the property, a down payment in the amount of the difference must be made in cash from the borrower's own resources, and
- VA requires a down payment on all GPMs.

If a veteran has less than full entitlement available, a lender may require a down payment in order to make the veteran a loan that meets GNMA or other secondary market requirements. The "rule of thumb" for GNMA is that the VA guaranty, or a combination of VA guaranty plus down payment and/or equity, must cover at least 25 percent of the loan.

4. Maximum Guaranty on VA Loans

Change Date July 20, 2007, Change 5
Subsection a has been changed to reference the increase in VA entitlement.

a. Maximum Guaranty Table The maximum guaranty on a VA loan is the lesser of:

- the veteran's available entitlement (which can be increased up to an amount equal to 25 percent of the Freddie Mac single family conventional conforming loan limit for certain loans over \$144,000), or
- the maximum potential guaranty amount indicated below.

Loan Amount	Loan Type(s)	Maximum Potential Guaranty	Special Provisions
Up to \$45,000	All	50% of the loan amount.	Minimum guaranty of 25% on IRRRLs.
\$45,001 to \$56,250	All	\$22,500	Minimum guaranty of 25% on IRRRLs.
\$56,251 to \$144,000	All	40% of the loan amount, with a maximum of \$36,000.	Minimum guaranty of 25% on IRRRLs.
Greater than \$144,000	Must be for: <ul style="list-style-type: none"> • Purchase or construction of a home, or • Purchase of a condominium unit, or • Refinancing with an IRRRL. 	up to an amount equal to 25% of the Freddie Mac single family conventional conforming loan limit.	Cash-out refinances have a maximum guaranty of \$36,000. Minimum guaranty of 25% on IRRRLs.
Any	Joint Loans	→	See section 1 of chapter 7 .
	Energy Efficient Mortgages	→	See section 3 of chapter 7 .
	Construction loans on which construction is incomplete	→	See section 2 of chapter 7 .
	Supplemental loans	→	See section 5 of chapter 7 .

4. Maximum Guaranty on VA Loans, Continued

**a. Maximum
Guaranty Table**
(continued)

Note: The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds.

For the maximum guaranty on loans for manufactured homes that are not permanently affixed (i.e., not considered real estate) see [38 U.S.C. 3712](#) and/or contact VA.

5. Occupancy

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection c has been changed to remove the reference to a remote duty station.
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a. The Law on Occupancy	<p>The law requires a veteran obtaining a VA guaranteed loan to certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the veteran must either</p> <ul style="list-style-type: none">• personally live in the property as his or her home, or• intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time. <p>The above requirement applies to all types of VA guaranteed loans except Interest Rate Reduction Refinancing Loans (IRRRLs). For IRRRLs, the veteran need only certify that he or she previously occupied the property as his or her home.</p> <p>Example: A veteran living in a home purchased with a VA loan is transferred to a duty station overseas. The veteran rents out the home. He/she may refinance the VA loan with an IRRRL based on previous occupancy of the home.</p>
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b. What is a “reasonable time”?	<p>Occupancy within a “reasonable time” means within 60 days after the loan closing. More than 60 days may be considered reasonable if both of the following conditions are met:</p> <ul style="list-style-type: none">• the veteran certifies that he or she will personally occupy the property as his or her home at a specific date after loan closing, and• there is a particular future event that will make it possible for the veteran to personally occupy the property as his or her home on a specific future date. <p>Occupancy at a date beyond 12 months after loan closing generally cannot be considered reasonable by VA.</p>
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5. Occupancy, Continued

c. When Can a Spouse Satisfy the Occupancy Requirement?

Occupancy (or intention to occupy) by the spouse satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time.

Occupancy by the spouse may satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, consult your [RLC](#) to determine if this type of occupancy meets VA requirements.

Note: The cost of maintaining separate living arrangements should be considered in underwriting the loan.

For an IRRRL, a certification that the spouse previously occupied the dwelling as a home will satisfy the requirement.

No family member or person other than the veteran's spouse can satisfy the occupancy requirement for the veteran.

d. Occupancy Requirements for Deployed Active Duty Service Members

Single or married servicemembers, while deployed from their permanent duty station, are considered to be in a temporary duty status and able to provide a valid intent to occupy certification. This is true without regard to whether or not a spouse will be available to occupy the property prior to the veteran's return from deployment.

e. Occupancy After Retirement

If the veteran states that he or she will retire within 12 months and wants a loan to purchase a home in the retirement location

- verify the veteran's eligibility for retirement on the specified date, and
 - Include a copy of the veteran's application for retirement submitted to his or her employer.
- carefully consider the applicant's income after retirement.
 - If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

Note: Only retirement on a specific date within 12 months qualifies. Retirement "within the next few years" or "in the near future" is not sufficient.

Continued on next page

5. Occupancy, Continued

**f. Delayed
Occupancy Due
to Property
Repairs or
Improvements**

Home improvements or a refinancing loan for extensive changes to the property which will prevent the veteran from occupying the property while the work is being completed constitute exceptions to the “reasonable time” requirement.

The veteran must certify that he or she intends to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

**g. Intermittent
Occupancy**

The veteran need not maintain a physical presence at the property on a daily basis. However, occupancy “as the veteran’s home” implies that the home is located within reasonable proximity of the veteran’s place of employment. If the veteran’s employment requires the veteran’s absence from home a substantial amount of time, the following two conditions must be met:

- the veteran must have a history of continuous residence in the community, and
- there must be no indication that the veteran has established, intends to establish, or may be required to establish, a principal residence elsewhere.

Use of the property as a seasonal vacation home does not satisfy the occupancy requirement.

**h. Unusual
Circumstances**

Discuss unusual circumstances of occupancy with the appropriate [VA office](#) or submit a description of the circumstances to the [VA office](#) for prior approval.

Continued on next page

5. Occupancy, Continued

i. The Certification

The veteran certifies that the occupancy requirement is met by checking the appropriate occupancy block and signing:

- [VA Form 26-1802a](#), Addendum to the Uniform Residential Loan Application, at the time of loan application (prior approval loans only), and
- [VA Form 26-1820](#), Report and Certification of Loan Disbursement, at the time of loan closing (all loans).

This satisfies the lender's obligation to obtain the veteran's occupancy certification.

The lender may accept the occupancy certification at face value unless there is specific information indicating the veteran will not occupy the property as a home or does not intend to so-occupy within a reasonable time after loan closing.

Where doubt exists, the test is whether a reasonable basis exists for concluding that the veteran can and will occupy the property as certified. Contact the appropriate VA office if the lender cannot resolve issues involving the veteran's intent by applying this test.

6. Interest Rates

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Requirement	VA no longer prescribes interest rates for VA guaranteed loans. The interest rate is negotiated between the veteran-borrower and the lender to allow the veteran to obtain the best available rate.
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b. Changes to the Agreed Upon Interest Rate	The lender and borrower are expected to honor any lock-in or other agreements they have entered into which impact the interest rate on the loan. VA does not object to changes in the agreed upon rate, as long as no lender/borrower agreements are violated. The following procedures apply in such cases.
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Any increase in the interest rate of more than 1 percent requires

- re-underwriting to ascertain the veteran's continued ability to qualify for the loan
- documentation of the change, and
- a new or corrected Uniform Residential Loan Application, (URLA) with any corrections initialed and dated by the borrower.

Reference: For prior approval loans, see [section 4 of chapter 5](#).

7. Discount Points

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Requirement	Veterans may pay reasonable discount points on VA guaranteed loans. The amount of discount points is whatever the borrower and lender agree upon. Discount points can be based on the principal amount of the loan after adding the VA funding fee, if the funding fee will be paid from loan proceeds.
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b. When Can Points be Included in the Loan?	<p>Discount points may be rolled into the loan only in the case of refinancing loans, subject to the following limitations:</p> <p><i>Interest Rate Reduction Refinancing Loans</i> A maximum of two discount points can be rolled into the loan.</p> <p>If the borrower pays more than two points, the remainder must be paid in cash.</p> <p><i>Refinancing of Construction Loans, etc.</i> For loans to refinance:</p> <ul style="list-style-type: none">• A construction loan• An installment land sales contract, or• A loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan <p>Any reasonable amount of discount points may be rolled into the loan as long as the sum of the outstanding balance of the loan plus allowable closing costs and discount points does not exceed the VA reasonable value.</p> <p><i>Reference:</i> See the maximum loan limitations in section 3 of this chapter.</p> <p><i>Cash-out Refinancing Loans</i> While discount points cannot specifically be included in the loan amount, the borrower can receive cash from loan proceeds, subject to maximum loan limits (See section 3 of this chapter). The cash received by the borrower can be used for any purpose acceptable to the lender, including payment of reasonable discount points.</p>
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Continued on next page

7. Discount Points, Continued

**c. Changes to
the Agreed
Upon Discount
Points**

The lender and borrower are expected to honor any agreements they have entered into which impact the discount points paid on the loan. VA does not object to changes in the agreed upon points, as long as no lender/borrower agreements are violated. The following procedures apply in such cases.

Any increase in discount points requires

- verification that the borrower has sufficient assets to cover the increase
- documentation of the change, and
- a new or corrected URLA with any corrections initialed and dated by the borrower

Reference: For prior approval loans, see [section 4 of chapter 5](#).

8. Maturity

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Maximum
Maturity**

- Amortized loans: 30 years and 32 days,
- Nonamortized loans: five years.

In addition, every loan must be repayable within the estimated economic life of the property securing the loan.

The period for repayment of a loan is measured from the date of the note or other evidence of indebtedness.

**b. Maturity
Extending
Beyond the
Maximum**

VA regulations provide that any amounts which fall due beyond the maximum maturity automatically fall due on the maximum maturity date.

Thus, if a lender inadvertently makes a loan which exceeds the maximum maturity, it may still be subject to guaranty.

However, the regulations also limit the amount that can be collected as a final installment, such as, they prohibit excessive ballooning. The holder of a loan which violates this provision may desire to correct the situation through means which are legally proper in the jurisdiction.

9. Amortization

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Requirement	All VA loans must be amortized if the maturity date is beyond 5 years from the date of the loan. Loans with terms less than five years are considered term loans and need not be amortized.
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Generally, VA loans must be amortized as follows:

- Payments must be approximately equal
- Principal must be reduced at least once annually, and
- The final installment must not exceed two times the average of the preceding installments.

Exceptions to these requirements are made in the case of

- GPMs - See [section 7 of chapter 7](#)
- GEMs - See [section 8 of chapter 7](#)
- Alternative amortization plans prior approved by VA, and
- Construction loans.

b. Alternative Amortization Plans	Certain amortization plans which do not meet the requirements described in section a above may be used if approved in advance by VA. A lender may submit an amortization plan to VA for prior approval if the plan:
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- is generally recognized; that is, is used extensively by established lending institutions, but
- does not meet the requirements of approximately equal periodic payments and a reduction in principal not less often than annually.

Exception: Graduated payment mortgages and growing equity mortgages).

Continued on next page

9. Amortization, Continued

**c. Special
Provisions for
Construction
Loans**

See “Amortization” in [section 2 of chapter 7](#).

**d. Standard
and Springfield
Plans**

The Standard and Springfield plans satisfies VA amortization requirements.

- The Standard plan provides for equal payments over the life of the loan. The amount applied to interest decreases, with a corresponding increase in the amount applied to principal.
 - The Springfield plan provides for gradually decreasing payments over the life of the loan. The amount applied to interest decreases, while the amount applied to principal remains constant.
-

10. Eligible Geographic Locations for the Secured Property

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Where Can the Property be Located?	Real property securing a VA guaranteed loan must be located in the United States, its territories, or possessions (Puerto Rico, Guam, Virgin Islands, American Samoa and the Northern Mariana Islands).
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11. What Does a VA Guaranty Mean to the Lender?

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection e has been changed to spell out the acronym Electronic Data Interchange (EDI).
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a. Protection Against Loss	VA guarantees a portion of the loan, identified on the VA Loan Guaranty Certificate (LGC) by percentage and dollar amount. If a loss ultimately occurs on the loan, VA will reimburse the loan holder for all or part of such loss <ul style="list-style-type: none">• limited by the stated percentage and dollar amount of the guaranty• limited by any VA maximums for reasonable and customary foreclosure expenses, and• subject to the lender's compliance with applicable law and regulations.
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b. Lender Responsibility	It is the lender's responsibility to comply with all laws and regulations related to the VA loan guaranty program, and thereby prevent VA's denial or reduction of a payment on a future claim. A lender can accomplish this by ensuring that its employees who perform work related to VA lending <ul style="list-style-type: none">• understand and comply with VA policies, procedures and regulations, and applicable law, and• direct questions to VA when issues arise that are not addressed in this handbook or other materials provided by VA.
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c. When is a Loan that was Closed Automatically Guaranteed?	A loan is automatically guaranteed by VA upon closing (prior to issuance of the LGC) provided the loan was made by either <ul style="list-style-type: none">• a supervised or a nonsupervised lender with automatic authority, and• the lender complied with applicable law and regulations.
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d. When is a Prior Approval Loan Guaranteed?	A prior approval loan is also guaranteed by VA upon closing (prior to issuance of the LGC) provided <ul style="list-style-type: none">• the closed loan matches the proposed loan upon which the Certificate of Commitment was based, and• the lender complied with applicable law and regulations.
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11. What Does a VA Guaranty Mean to the Lender?, Continued

e. What is Evidence of Guaranty?

Evidence of guaranty is VA Form 26-1899, Loan Guaranty Certificate (LGC), or is available through Electronic Data Interchange (see [section 7 of Current Issues](#)). These LGCs represent tangible proof to the lender that VA's guaranty is given in good faith. It is contingent upon:

- the veteran, property and purpose of the loan being eligible
- no fraud or material misrepresentation on the part of the lender, and
- the lender's compliance with applicable law and regulations.

For example, VA may deny or reduce payment on a future claim based on the lender or holder's noncompliance whether or not VA has issued evidence of guaranty on the loan.

f. Total Loss of Guaranty

Willful fraud or material misrepresentation by the lender or holder, or by an agent of either, will relieve VA of liability for payment of any claim on the loan. VA also has no liability in the case of

- forgery on the note, mortgage, loan application, or other loan documents, or
- a Certificate of Eligibility or discharge papers that are counterfeited, falsified, or not issued by the Government.

A holder of a VA loan who acquired the loan without notice or knowledge of fraud or material misrepresentation in procuring the guaranty, will not be denied payment of any claim on the loan by reason of such fraud or material misrepresentation.

Continued on next page

11. What Does a VA Guaranty Mean to the Lender?, Continued

g. Partial Loss of Guaranty

A holder of a VA loan who fails to comply with applicable law and regulations may receive only partial payment of a claim if VA's liability increases due to the holder's noncompliance. Material misrepresentation which is not willful has the same consequence.

No claim will be paid on such loan until the amount of any increase in VA's liability is known. The burden of proof is on the holder to establish that VA's increased liability is not due to the holder's noncompliance or misrepresentation.

Examples of noncompliance with applicable law and regulations which may lead to an increase in VA's liability include

- failure to obtain and retain the required lien on property to secure the loan
 - failure to include the power to substitute trustees
 - failure to procure and maintain insurance coverage
 - failure to advise VA as to default
 - failure to provide notice of intention to begin foreclosure action
 - failure to provide notice to VA in any suit or action, or notice of sale
 - improper release, conveyance, substitution or exchange of security
 - lack of legal capacity of a party to the transaction
 - failure to assure that escrowed/earmarked funds are expended in accordance with the agreement, and
 - failure to take into consideration limitations upon the quantum or quality of the estate or property.
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12. Post-Guaranty Issues

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Corrections to LGCs	<p>An LGC with minor typographical errors that do not compromise accurate identification of the loan is valid.</p> <p>Lenders and holders may not correct or alter LGCs in any way.</p> <p>If a LGC contains an erroneous VA loan number, loan amount, guaranty percentage, loan date, lender name, and/or veteran's name, return it to the appropriate VA office for corrective action.</p> <p>Do not return LGCs with minor inaccuracies that do not affect accurate identification of the loan. Example of minor inaccuracy that does not require correction: Veteran's name appears as John Doe rather than John H. Doe (all other identifying information is correct).</p>
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b. Replacement of Missing LGC with Duplicate	<p>A holder may request, in writing, duplicate evidence of guaranty when the original Loan Guaranty Certificate has been lost, or destroyed, and if lost, a reasonable effort has been made to locate it. Requests for a duplicate should include</p> <ul style="list-style-type: none">• a written request indicating the original LGC has been lost or destroyed• clear identification of the VA loan identification number, veteran and property location• a copy of the original note, if available• a copy of the original LGC, if available, and• a copy of the letter of assignment if the requesting lender is different from the original lender. <p>Duplicate LGCs are marked "Duplicate" and contain the following language: "By using this Loan Guaranty Certificate, you agree to hold the Department of Veterans Affairs harmless from any loss by reason of the issuance of this duplicate Loan Guaranty Certificate."</p>
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12. Post-Guaranty Issues, Continued

c. Transfer of Loans

It is not necessary to notify VA of the assignment of a guaranteed loan.

d. Loan Assumptions

The assumption of VA-guaranteed loans for which commitments were made on or after March 1, 1988, requires the approval of VA (or certain lenders on VA's behalf).

Note: See sections 13 and 14 of chapter 1 of *VA Handbook H26-94-1, The VA Servicing Guide* (<http://www.homeloans.va.gov/docs/sg.pdf>) for details on authorities and procedures for processing assumptions.

e. Paid-in-full Loans

Lenders are required to report paid-in-full loans to VA upon full satisfaction of the loan by payment or otherwise.

Procedures

- Mark the Loan Guaranty Certificate (LGC) “**PAID IN FULL**”
- Have an authorized officer of the holder date and sign the LGC, then
- Return the LGC to VA.

If VA has endorsed the note as evidence of guaranty, cancel the endorsement and send notification to VA.

If the LGC has been lost or inadvertently destroyed, send notification to VA of full satisfaction of the loan and the disposition of the LGC.

Continued on next page

12. Post-Guaranty Issues, Continued

**f. Maintenance
of Loan
Records**

Lenders must maintain copies of all loan origination records on VA guaranteed home loans for at least two years from the date of loan closing. Even if the loan is sold, the original lender must maintain these records (or legible copies) for the required period.

Loan origination records include

- the loan application (including any preliminary application)
- verifications of employment and deposit
- all credit reports (including preliminary credit reports)
- copies of each sales contract and addendum
- letters of explanation for adverse credit items, discrepancies and the like
- direct references from creditors
- correspondence with employers
- appraisal and compliance inspection reports
- reports on termite and other inspections of the property
- builder change orders, and
- all closing papers and documents.

Lenders must make these records accessible to VA personnel conducting audit reviews.

Chapter 4. Credit Underwriting

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	How to Underwrite a VA Guaranteed Loan	4-2
2	Income	4-6
3	Income Taxes and Other Deductions from Income	4-25
4	Assets	4-27
5	Debts and Obligations	4-29
6	Required Search for and Treatment of Debts Owed to the Federal Government	4-34
7	Credit History	4-41
8	Documentation for Automated Underwriting Cases	4-47
9	How to Complete VA Form 26-6393 , Loan Analysis	4-55
10	How to Analyze the Information on VA Form 26-6393	4-60
11	Examples of Underwriting Deficiencies	4-64

1. How to Underwrite a VA-Guaranteed Loan

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection d step 6 has been changed to update “Loan Prospector” to “Automated Underwriting.”
-

a. VA Underwriting Standards

VA loans involve a veteran’s benefit. Therefore, lenders are encouraged to make VA loans to all qualified veterans who apply.

VA’s underwriting standards are intended to provide guidelines for lenders’ underwriters as well as VA’s underwriters. Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good judgment and flexibility in applying the guidelines set forth in the following pages.

b. Basic Requirements

By law, VA may only guarantee a loan when it is possible to determine that the veteran:

- is a satisfactory credit risk, and
- has present and anticipated income that bare a proper relation to the contemplated terms of repayment.

VA’s underwriting standards are incorporated into VA regulations at [38 CFR 36.4337](#) and explained in this chapter. This chapter addresses the verifications, procedures, and analysis involved in underwriting a VA-guaranteed loan. It provides guidance on how to treat income, debts and obligations, credit history, and so on, and how to present and analyze these items on VA’s loan analysis form. It does not deal with every possible circumstance that will arise; therefore, underwriters must apply reasonable judgment and flexibility in administering this important veteran’s benefit.

Continued on next page

1. How to Underwrite a VA-Guaranteed Loan, Continued

c. Lender Responsibility

Lenders are responsible for:

- developing all credit information
- properly obtaining all required verifications and the credit report
- ensuring the accuracy of all information on which the loan decision is based
- complying with the law and regulations governing VA's underwriting standards, and with VA's underwriting policies, procedures, and guidelines, and
- certifying as to compliance with all of the above.

d. Lender Procedures

[Section 2 of chapter 5](#) provides an overview of all procedures which must be completed when making a VA loan. The procedures below address only the credit underwriting of the loan.

Step	Action
1	Initiate the VA and CAIVRS inquiries described in section 6 of this chapter.
2	<p>Obtain all necessary verifications.</p> <ul style="list-style-type: none">• The applicant's authorization can be obtained for each verification needed, or on 1 blanket authorization form (attach a copy of the blanket authorization to each verification requested, including VA Form 26-8937, Verification of VA Benefits, if applicable).• The credit report and verifications can be ordered by the lender or its agent or a party designated by the lender to perform that function. However, these documents must always be delivered by the credit reporting agency or verifying party directly to the lender or its agent, and never to another party. That is, while a lender may delegate authority for a builder, realtor, or other person to order the report for the lender, the report may not be delivered to such builder, realtor, and so on, and may not pass through the hands of any such party or the applicant.
3	Compare similar information received from different sources and resolve any discrepancies. For example, the number of dependents provided on the URLA, tax returns, credit report, and so on, should be the same. In addition, the status of debts provided on the URLA and credit report should be the same.

Continued on next page

1. How to Underwrite a VA-Guaranteed Loan, Continued

d. Lender Procedures (continued)

Step	Action
4	<p>Complete VA Form 26-6393, Loan Analysis, in conjunction with a careful review of the loan application and supporting documentation.</p> <p>The form is not required for IRRRLs (except IRRRLs to refinance delinquent VA loans).</p>
5	<p>Indicate the loan decision in item 50 of the Loan Analysis after ensuring that the treatment of income, debts, and credit is in compliance with VA underwriting standards.</p>
6	<p><i>Loans closed by an automatic lender</i> The underwriter must certify review and approval of the loan by signing item 51 of the Loan Analysis (for Automated Underwriting cases , see section 8 of this chapter.</p> <p><i>Note:</i> For nonsupervised automatic lenders, line 51 signature must be a VA-approved underwriter.</p> <p><i>Prior approval loans</i> The individual with authority to determine that the loan meets VA credit standards and should be submitted to VA, must sign item 51 of the Loan Analysis.</p>
7	<p>An officer of the lender authorized to execute documents and act on behalf of the lender must complete the following certification: “The undersigned lender certifies that the loan application, all verifications of employment, deposit, and other income and credit verification documents have been processed in compliance with 38 CFR Part 36; that all credit reports obtained in connection with the processing of this borrower’s loan application have been provided to VA; that, to the best of the undersigned lender’s knowledge and belief, the loan meets the underwriting standards recited in chapter 37 of title 38 United States Code and 38 CFR Part 36; and that all information provided in support of this loan is true, complete and accurate to the best of the undersigned lender’s knowledge and belief.”</p>

Continued on next page

1. How to Underwrite a VA-Guaranteed Loan, Continued

e. Underwriting Special Types of Loans The underwriting standards and procedures explained in this chapter apply to these special types of loans generally. However, some special underwriting considerations also apply and can be found as follows:

Type of Loan	Chapter	Section
Joint Loans	7	1
Energy Efficient Mortgages (EEMs)	7	3
Graduated Payment Mortgages (GPMs)	7	7
Growing Equity Mortgages (GEMs)	7	8
Loans Involving Temporary Interest Rate Buydowns	7	9
Farm Residence Loans	7	10

f. Refinancing Loans While the underwriting standards detailed in this chapter apply to “cash-out” refinances, IRRRLs generally do not require any underwriting.

IRRRLs made to refinance VA loans 30 days or more past due must be submitted to VA for prior approval. It must be reasonable to conclude that:

- the circumstances that caused the delinquency have been corrected, and
- the veteran can successfully maintain the new loan.

Reference: See [chapter 6](#) for details on all types of refinancing loans.

2. Income

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection k has been changed to remove references to DD Form 1747 and obtaining active duty officer release dates.
-

a. Underwriter's Objectives

Identify and verify income available to meet:

- the mortgage payment
- other shelter expenses
- debts and obligations, and
- family living expenses.

Evaluate whether verified income is:

- stable and reliable
 - anticipated to continue during the foreseeable future, and
 - sufficient in amount.
-

b. Importance of Verification

Only verified income can be considered in total effective income.

c. Income of a Spouse

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as the veteran's income.

To ensure compliance with the Equal Credit Opportunity Act (ECOA), do **not** ask questions about the income of an applicant's spouse unless the:

- spouse will be contractually liable
- applicant is relying on the spouse's income to qualify
- applicant is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse, or
- applicant resides in a community property State or the security is in such a State.

Note: In community property States, information concerning a spouse may be requested and considered in the same manner as for the applicant, even if the spouse will not be contractually obligated on the loan.

Continued on next page

2. Income, Continued

d. ECOA Considerations

Restrict inquiries related to the applicant's spouse to the situations listed in the "Income of a Spouse" heading in this section.

Always inform the applicant (and spouse, if applicable) that they do not have to divulge information on the receipt of child support, alimony, or separate maintenance. However, in order for this income to be considered in the loan analysis, it must be divulged and verified.

Income cannot be discounted because of sex, marital status, age, race, or other prohibited bases under ECOA.

Treat income from all sources equally; that is, the fact that all or part of an applicant's income is derived from any public assistance program is not treated as a negative factor, provided the income is stable and reliable.

e. Income from Non-Military Employment

Verification: General Requirement

Verify a minimum of two years employment.

If the applicant has been employed by the present employer less than two years:

- verify prior employment plus present employment covering a total of two years
- provide an explanation of why two years employment could not be verified
- compare any different types of employment verifications obtained (such as, Verification of Employment, pay stubs, tax returns for consistency, and
- clarify any substantial differences in the data that would have a bearing on the qualification of the applicant.

Verification: Employment Verification Services

Lenders may use VOEs supplied by an employment verification service only if VA has approved the use of VOEs from that particular provider. VA has approved "FULL" verifications of employment through "The Work Number for Everyone," a service of the TALX Corporation. (No pay stub is needed with the TALX verification.)

Continued on next page

2. Income, Continued

**e. Income from
Non-Military
Employment**
(continued)

Verification: Standard Documentation

Acceptable verification consists of:

- [VA Form 26-8497](#), Request for Verification of Employment (VOE) or any format which furnishes the same information as [VA Form 26-8497](#), **plus**
- a pay stub if the employer normally provides one to the applicant.

If the employer does **not** indicate the probability of continued employment on the VOE, the lender is not required to request anything additional on that subject.

The VOE and pay stub must be no more than 120 days old (180 days for new construction).

- For loans closed automatically, the date of the VOE and pay stub must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the VOE and pay stub must be within 120 days of the date the application is received by VA (180 days for new construction).

The VOE must be an original. The pay stub may be an original or a copy certified by the lender to be a true copy of the original.

Note: It is acceptable for Department of Defense civilian employees to provide computer generated pay stubs accessed through myPay (formerly known as E/MSS - Employee Member Self Service).

Verification: Additional Documentation for Persons Employed in the Building Trades or Other Seasonal or Climate-Dependent Work

In addition to the standard documentation (VOE and pay stub), obtain:

- documentation evidencing the applicant's total earnings year to date
- signed and dated individual income tax returns for the previous two years, and
- if applicant works out of a union, evidence of the union's history with the applicant.

Continued on next page

2. Income, Continued

e. Income from Non-Military Employment (continued)

Verification: Alternative Documentation

Alternative documentation may be submitted in place of a VOE if the lender concludes that the applicant's income **is** stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

Two years employment is not required to reach this conclusion.

Alternative documentation consists of:

- Pay stubs covering at least the most recent 30-day period.

Note: It is acceptable for Department of Defense civilian employees to provide computer generated pay stubs accessed through myPay (formerly known as E/MSS - Employee Member Self Service).

- W-2 forms for the previous two years.
- Telephone verification of the applicant's current employment.

Note: Document the date of verification and the name, title, and telephone number of the person with whom employment was verified.

If the employer is **not** willing to give telephone verification of applicant's employment or the pay stubs or W-2 forms are in any way questionable as to authenticity, use standard documentation. Alternative documentation cannot be used.

Pay stubs and W-2 forms may be originals or copies certified by the lender to be true copies of the originals.

Continued on next page

2. Income, Continued

**e. Income from
Non-Military
Employment
(continued)**

Verification: Fax and Internet

Fax and Internet documentation may be submitted in place of a VOE if the lender concludes that the applicant's income **is** stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income.

Fax and Internet documentation consists of:

- the same information contained in a standard VOE.
- clear identification of the employer and source of information.
- name and telephone number of a person who can verify faxed information.

Lenders are responsible for ensuring the authenticity of the documents. For Faxed documents, review the "banner" information provided at the top of each page of the fax. For Internet documents, review the information contained on any headers/footers and the banner portion of the downloaded webpage(s). These pages must contain the uniform resource locator (URL) and the date and time printed. The documents should also be reviewed for errors such as incorrect area codes, unreadable names or income, etc.

Analysis: General Guidance

Income analysis is not an exact science. It requires the lender to underwrite each loan on a case-by-case basis, using:

- judgment
- common sense, and
- flexibility, when warranted.

Analyze the probability of continued employment (that is, whether income is stable and reliable) by examining the:

- applicant's past employment record
- applicant's training, education, and qualifications for his/her position
- type of employment, and
- employer's confirmation of continued employment, if provided.

Two years' employment in the applicant's current position is a positive indicator of continued employment. It is **not** a required minimum and **not** always sufficient by itself to reach a conclusion on the probability of continued employment.

Continued on next page

2. Income, Continued

**f. Analysis:
Applicant
Employed Less
Than 12
Months**

Generally, employment less than 12 months is **not** considered stable and reliable. However, it may be considered stable and reliable if the individual facts warrant such a conclusion. Carefully consider:

- the employer's evaluation of the probability of continued employment, if provided.
- assess whether the applicant's training and/or education equipped him or her with particular skills that relate directly to the duties of his/her current position. This generally applies to skilled positions. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.

If the probability of continued employment is high based on these factors, then the lender may give favorable consideration to including the income in total effective income. An explanation of why income of less than 12 months duration was used must accompany the loan submission.

If the probability of continued employment is good, but not as well supported, the lender may still consider the income if the applicant has been employed at least six months to partially offset debts of 10 to 24 months duration.

Determine the amount which can be used, based on such factors as:

- the employer's evaluation of the probability of continued employment, if provided.
- the length of employment (for example, ten months versus six months).
- include an explanation with the loan submission.

Continued on next page

2. Income, Continued

**g. Analysis:
Recent History
of Frequent
Changes of
Employment**

Short-term employment in a present position combined with frequent changes of employment in the recent past requires special consideration to determine stability of income. Analyze the reasons for the changes in employment.

Reference: See [section 4 of “Current Issues”](#) for a discussion of frequent job changes by individuals with low-to-moderate incomes.

Give favorable consideration to changes for the purpose of career advancement in the same or related field.

Favorable consideration may not be possible for changes:

- with no apparent betterment to the applicant, and
- from one line of work to another.

If the lender includes applicant’s income in effective income, an explanation must accompany the loan submission.

**h. Income from
Overtime
Work, Part-
time Jobs,
Second Jobs,
and Bonuses**

Generally, such income cannot be considered stable and reliable unless it has continued (and is verified) for two years.

To include income from these sources in effective income:

- the income must be regular and predictable, and
- there must be a reasonable likelihood that it will continue in the foreseeable future based on
 - its compatibility with the hours of duty and other work conditions of the applicant’s primary job, and
 - how long the applicant has been employed under such arrangement.

The lender may use this income, if it is not eligible for inclusion in effective income, but is verified for at least 12 months, to offset debts of 10 to 24 months duration. Include an explanation.

Continued on next page

2. Income, Continued

i. Income from Commissions

Verification

When all or a major portion of the applicant's income is derived from commissions, obtain the following documentation:

- verification of employment or other written verification which provides the following:
 - the actual amount of commissions paid year-to-date.
 - the basis for payment (that is, salary plus commission, straight commission, or draws against commission).
 - when commissions are paid (that is, monthly, quarterly, semiannually, or annually).
- individual income tax returns, signed and dated, plus all applicable
- schedules for the previous two years (or additional periods if needed to demonstrate a satisfactory earnings record).

Analysis

Generally, income from commissions is considered stable when the applicant has obtained such income for at least two years.

- Less than two years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than one year can rarely qualify. In-depth development is required for a conclusion of stable income on less than one year cases.

Continued on next page

2. Income, Continued

j. Self-Employment Income

Verification

Obtain the following documentation:

- current financial statements prepared in a generally recognized format, including:
 - year-to-date profit and loss statement
 - current balance sheet

Note: The financial statements must be sufficient for a loan underwriter to determine the necessary information for loan approval. The lender may require accountant-prepared financial statements or financial statements audited by a Certified Public Accountant if needed to make such a determination due to the nature of the business or the content of the financial statements.

- individual income tax returns, signed and dated, plus all applicable schedules for the previous two years (or additional periods if needed to demonstrate a satisfactory earnings record).
- if the most recent year's tax return has not yet been prepared, provide a profit and loss statement for that year, and
- if the business is a corporation or partnership
 - copies of the signed federal business income tax returns for the previous two years plus all applicable schedules, and
 - a list of all stockholders or partners showing the interest each holds in the business.

Note: Obtain a written credit report on the business as well as the applicant as needed.

Analysis

Generally, income from self-employment is considered stable when the applicant has been in business for at least two years.

- Less than two years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than one year can rarely qualify.
 - in-depth development is required for a conclusion of stable income on less than one year cases.

Continued on next page

2. Income, Continued

j. Self-Employment Income
(continued)

Analyze the general economic outlook for similar businesses to determine whether the business can be expected to generate sufficient income for the applicant's future needs.

If the business shows a steady or significant decline in earnings over the period analyzed, the reasons for such decline must be analyzed to determine whether the trend is likely to continue or be reversed.

If the business is unusual and it is difficult to determine the probability of continued operation, obtain an opinion on viability and future earnings, and an explanation of the function and financial operations of the business from a qualified party.

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

k. Active Military Applicant's Income

Verification

A military Leave and Earnings Statement (LES) is required instead of a VOE.

- The LES must furnish the same information as a VOE.
- The LES must be no more than 120 days old (180 days for new construction).
- For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction).

The LES must be an original or a copy certified by the lender to be a true copy of the original.

Note: The Department of Defense provides service members access to a computer generated LES through myPay (formerly known as E/MSS - Employee Member Self Service). This type of LES is acceptable.

In addition, identify service members who are within 12 months of release from active duty or end of contract term. Find the date of expiration of the applicant's current contract for active service on the LES (for an enlisted service member) . For a National Guard or Reserve member, find the expiration date of the applicant's current contract.

Continued on next page

2. Income, Continued

**k. Active
Military
Applicant's
Income
(continued)**

Verification (continued)

If the date is within 12 months of the anticipated date that the loan will close, the loan package must also include one of the following four items, or combinations of items, to be acceptable:

- documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan, or
- verification of a valid offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures (date employment will begin, earnings, and so on) must be included, or
- a statement from the service member that he/she intends to reenlist or extend his/her period of active duty to a date beyond the 12 month period, plus
- a statement from the service member's commanding officer confirming that:
 - the service member is eligible to reenlist or extend his/her active duty as indicated, and
 - the commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted, or
- documentation of other unusually strong positive underwriting factors, such as:
 - a down payment of at least 10 percent
 - significant cash reserves, and
 - clear evidence of strong ties to the community coupled with a nonmilitary spouse's income so high that only minimal income from the active duty service member is needed to qualify.

Analysis: Base Pay

Consider the applicant's base pay as stable and reliable except if the applicant is within 12 months of release from active duty:

- analyze the additional documentation submitted.
- if the applicant will not be reenlisting, determine whether
 - the applicant's anticipated source of income is stable and reliable, and/or
 - unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

Continued on next page

2. Income, Continued

k. Active Military Applicant's Income (continued)

Analysis: Military Quarters Allowance

The lender may include a military quarters allowance in effective income if properly verified. In most areas there will be an additional variable housing allowance, which can also be included.

- The military quarters and variable housing allowances are **not** taxable income.
- Ensure that the applicant meets the occupancy requirements set forth in [section 5 of chapter 3](#).

Verification: Subsistence and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES.

Analysis: Subsistence and Clothing Allowances

The lender may include verified allowances in effective income. These allowances are not taxable income.

Note: The clothing allowance generally appears on the LES as an annual amount. Convert it to a monthly amount for the loan analysis.

Verification: Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, and how long the applicant has received it.

Analysis: Other Military Allowances

Examples include propay, flight or hazard pay, overseas pay and combat pay.

- All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility.
- These types of allowances are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the recipient's assigned duties.

Example: Flight pay verified for a pilot. If duration of the military allowance cannot be determined, this source of income may still be used to offset obligations of 10 to 24 months duration.

Continued on next page

2. Income, Continued

l. Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be included in effective income if the length of the applicant's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue.

Otherwise, this income may be used to offset obligations of 10 to 24 months duration.

m. Recently Activated Reservists or Guard

Lenders must ask every applicant, whose income is being used to qualify for a loan, if their income is subject to change due to participation in a Reserves/National Guard unit due to activation.

To accomplish this, lenders must obtain a statement, which affirms that an applicant's status relative to membership in the Reserves or National Guard, has been ascertained and considered. The statement should be made part of the origination package and should be submitted to VA in the event the loan is selected for full review.

When the answer is yes, lenders must determine what the applicant's income may be if activated:

- **reduced**, carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan.
- **increased**, consider the likelihood the income will continue beyond a 12 month period.

Example: If an activated reserve/guard member applies for a loan, they may present orders indicating their tour of duty is not to exceed 12 months. Under these circumstances lenders need to carefully evaluate both the present income (current employment) and expected income (reservist income) in terms of income stability and reliability.

There are no clear-cut procedures that can be applied to all cases. Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, etc. and make the best decision for each loan regarding the use of income in qualifying for the loan.

Continued on next page

2. Income, Continued

**m. Recently
Activated
Reservists or
Guard
(continued)**

It is very important that loan files be carefully and thoroughly DOCUMENTED, including any reasons for using or not using reservist income in these situations.

Weigh the desire to provide a veteran their benefit with the responsibility to ensure the veteran will not be placed in a position of financial hardship.

Lenders should contact the appropriate VA office if any questions arise regarding unusual circumstances regarding a mobilized servicemember's income.

**n. Income of
Recently
Discharged
Veterans**

Verification

Obtain verification of any of the following which apply:

- employment income

Reference: See "Income from Non-Military Employment" in this section for verification requirements.

- retirement income, and
- military separation payments.

If the applicant has been employed in a position for only a short time, obtain a statement from the employer that the applicant is performing the duties of the job satisfactorily and the probability of continued employment is favorable.

Analysis: Prospects for Continued Employment

Cases involving recently discharged veterans often require the underwriter to exercise a great deal of flexibility and judgment in determining whether the employment income will continue in the foreseeable future. This is because some veterans may have little or no employment experience other than their military occupation. Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.

Continued on next page

2. Income, Continued

n. Income of Recently Discharged Veterans
(continued)

For recently discharged veterans who have been in their new jobs only a very short time, analyze prospects for continued employment as follows:

- if the duties the applicant performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.
- if the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability.

If the applicant's retirement income, compared to total estimated shelter expense, long-term debts and family living expense, is such that only minimal income from employment is necessary to qualify from the income standpoint, resolve doubt in favor of the applicant.

Examples:

- Qualifying short-term employment - An applicant who was an airplane mechanic in the military is now employed as an auto mechanic or machinist.
- Nonqualifying short-term employment - An applicant who was an Air Force pilot is now employed as an insurance salesperson on commission.

Most cases fall somewhere between these extremes. Fully develop the facts of each case in order to make a determination.

Apply the guidelines under "Self-Employment Income" in this section to a recently discharged veteran who is self-employed.

Analysis: Voluntary Separation Payments

Two types of voluntary separation payments are used to facilitate military downsizing:

(1) *Special Separation Benefit (SSB)*

- A one-time lump sum
- Taxable in the year received, and
- Treat the same as any substantial cash reserve.

Continued on next page

2. Income, Continued

n. Income of Recently Discharged Veterans
(continued)

(2) *Voluntary Separation Incentive (VSI)*

- Annual payments
- Taxable in the year received
- Include in effective income
- Calculated by multiplying the veteran's years of service times two
- Requires a minimum of six years service (equates to a minimum of 12 years annual payments).

If the veteran receives both VSI and VA disability compensation payments, the VSI is reduced by the amount of disability compensation. However, if the disability compensation is related to an earlier period of service and the VSI a later period of service, the VSI is **not** reduced by the amount of disability compensation.

VSI is reduced by the amount of any base pay or compensation a member receives for active or reserve service, including inactive duty training. The veteran can designate a beneficiary for VSI payments in the event of death.

o. Rental Income

Verification: Multi-Unit Property Securing the VA Loan

Verify:

- cash reserves totaling at least six months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental.

Analysis: Multi-Unit Property Securing the VA Loan

Include the prospective rental income in effective income only if:

- evidence indicates the applicant has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least six months mortgage payments are available.

The amount of rental income to include in effective income is based on 75 percent of:

- verified prior rent collected on the units (existing property), or
- the appraiser's opinion of the property's fair monthly rental (proposed construction).

Continued on next page

2. Income, Continued

**o. Rental
Income**
(continued)

Note: A percentage greater than 75 percent may be used if the basis for such percentage is adequately documented.

Verification: Rental of the Property Applicant Occupied Prior to the New Loan

Obtain a copy of the rental agreement on the property, if any.

Analysis: Rental of the Property Applicant Occupied Prior to the New Loan

Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rental income may **not** be included in effective income.

Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.

Verification: Rental of Other Property Not Securing the VA Loan

Obtain the following:

- documentation of cash reserves totaling at least three months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous two years, which show rental income generated by the property.

Analysis: Rental of Other Property Not Securing the VA Loan

Rental income verified as stable and reliable may be included in effective income. If there is little or no prior rental history on the property, make a determination based on review of:

- documentation of the applicant's prior experience managing rental units or other background involving both property maintenance and rental
- any leases on the property, and
- the strength of the local rental market.

Property depreciation claimed as a deduction on the tax returns may be included in effective income.

Continued on next page

2. Income, Continued

**p. Alimony,
Child Support,
and
Maintenance
Payments**

See “ECOA Considerations” in this section.

Verify the income if the applicant wants it to be considered. The payments must be likely to continue in order to include them in effective income.

Factors used to determine whether the payments will continue include, but are not limited to:

- whether the payments are received pursuant to a written agreement or court decree
 - the length of time the payments have been received
 - the regularity of receipt, and
 - the availability of procedures to compel payment.
-

**q. Automobile
or Similar
Allowances**

Generally, automobile allowances are paid to cover specific expenses related to an applicant’s employment, and it is appropriate to use such income to offset a corresponding car payment.

However, in some instances, such an allowance may exceed the car payment. With proper documentation, income from a car allowance which exceeds the car payment can be counted as effective income. Likewise, any other similar type of allowance which exceeds the specific expenses involved may be added to gross income to the extent it is documented to exceed the actual expense.

Continued on next page

2. Income, Continued

r. Other Types of Income

If it is reasonable to conclude that other types of income will continue in the foreseeable future, include it in effective income. Otherwise, consider whether it is reasonable to use the income to offset obligations of 10 to 24 months duration.

“Other” types of income which may be considered as effective income include, but are not limited to:

- pension or other retirement benefits
- disability income
- dividends from stocks
- interest from bonds, savings accounts, and so on, and
- royalties.

The lender may include verified income from public assistance programs in effective income if evidence indicates it will probably continue for three years or more.

The lender may include verified workers’ compensation income that will continue in the foreseeable future, if the veteran chooses to reveal it.

The lender may include verified income received specifically for the care of any foster child(ren). Generally, foster care income is to be used only to balance the expenses of caring for the foster child(ren) against any increased residual income requirements.

Do **not** include temporary income items such as VA educational allowances and unemployment compensation in effective income.

Exception:

If unemployment compensation is a regular part of the applicant’s income due to the nature of his or her employment (for example, seasonal work), it may be included.

3. Income Taxes and Other Deductions from Income

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Income Tax
and Social
Security
Deductions**

Determine the appropriate deductions for Federal income tax and Social Security using the “Employer’s Tax Guide,” Circular E, issued by the Internal Revenue Service.

Determine the appropriate deductions for state and local taxes using similar materials provided by the states.

The lender may consider the applicant’s potential tax benefits from obtaining the loan (for example, mortgage interest deduction) in the analysis. To do so:

- determine what the applicant’s withholding allowances will be, using the instructions and worksheet portion of IRS Form W-4, Employee’s Withholding Allowance Certificate, and
- apply that withholding number when calculating Federal and state income tax deductions.

Continued on next page

3. Income Taxes and Other Deductions from Income, Continued

**b. Income Tax
Credits from
Mortgage
Credit
Certificates**

Mortgage Credit Certificates (MCCs) issued by state and local governments may qualify a borrower for a Federal tax credit. The Federal tax credit is based on a certain percentage of the borrower's mortgage interest payment.

Lenders must provide a copy of the MCC to VA with the loan package which indicates:

- the percentage to be used to calculate the tax credit, and
- the amount of the certified indebtedness. The certified indebtedness can be comprised of a loan incurred by the veteran to acquire a principal residence or a qualified home improvement or rehabilitation loan.

If the percentage on the MCC is more than 20 percent, there is an annual limit on the tax credit equal to the lesser of \$2,000 or the borrower's maximum tax liability. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then apply the annual limit.

Example: The MCC shows a 30 percent rate and \$100,000 certified indebtedness. The borrower will pay approximately \$8,000 in annual mortgage interest. Borrower's estimated total Federal income tax liability is \$9,000. Calculate the tax credit as follows:

- 30 percent of \$8,000 = \$2,400
- Apply the annual \$2,000 limit
- The tax credit will be \$2,000
- Use \$167 (one-twelfth of \$2,000) in the monthly analysis.

Note: If the mortgage on which the borrower pays interest is greater than the amount of certified indebtedness, limit the interest used in the tax credit calculation to that portion attributable to the certified indebtedness.

4. Assets

Change date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Amount of Cash Required The applicant or spouse must have sufficient cash to cover:

- any closing costs or points which are the applicant's responsibility and are not financed in the loan
- the down payment, if a Graduated Payment Mortgage, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.

VA does **not** require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.

However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

b. Verification Requirement Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; that is, significant assets.

- Use [VA Form 26-8497a](#), Request for Verification of Deposit, as appropriate, **OR**
- original or certified true copies of the applicant's last two bank statements, **OR**
- the borrower's bank statements available to them by Internet or faxed from the depository directly to the lender. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.
- Verifications must be no more than 120 days old (180 days for new construction).
- For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).

Continued on next page

4. Assets, Continued

b. Verification Requirement
(continued)

For prior approval loans, this means the date of the deposit verification is within 120 days of the date the application is received by VA (180 days for new construction).

c. Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property.

- Sales proceeds may be necessary to make a down payment or pay closing costs on the VA loan.
- In addition, the lender may want to consider the amount of equity the applicant has accumulated in the property and the extent to which that equity is attributable to the applicant's investment rather than the housing market, in evaluating the applicant's ability to manage assets.

The lender may consider any down payment or costs on the VA loan as provided for by the sale of the property if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

References:

- See [section 4 of chapter 5](#) for prior approval loans which depend upon the sale of property for the borrower to qualify.
 - See [section 6 of chapter 5](#) for required loan closing documents.
-

5. Debts and Obligations

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Verification	Significant debts and obligations of the applicant must be verified and rated.
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Obtain a credit report.

Reference: See section 7 of this chapter for details on the type of credit report required.

For obligations not included on the credit report which are revealed on the application or through other means, the lender must obtain a verification of deposit showing the obligation or other written verification directly from the creditor. The lender must also separately verify accounts listed as “will rate by mail only” or “need written authorization.”

When a pay stub or leave-and-earnings statement indicates an allotment, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt.

For obligations that have not been rated on the credit report or elsewhere, obtain the verification and rating directly from the creditor. Include a written explanation for any obligation that is not rated.

Resolve all discrepancies. If the credit report or deposit verification reveals significant debts or obligations which were not divulged by the applicant:

- obtain clarification as to the status of such debts from the applicant, then
- verify any remaining discrepancies with the creditor.

Continued on next page

5. Debts and Obligations, Continued

a. Verification (continued)

Credit reports and verifications must be no more than 120 days old (180 days for new construction).

- For automatically closed loans, this means the date of the credit report or verification is within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, this means the date of the credit report or verification is within 120 days of the date the application is received by VA (180 days for new construction).

ECOA prohibits requests for, or consideration of, credit information on a spouse who will not be contractually obligated on the loan except:

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
 - in community property states.
 - -If the property is located in a community property state, VA requires consideration of the spouse's credit information (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse's income considered).
-

b. Verification of Alimony and Child Support Obligations

The payment amount on any alimony and/or child support obligation of the applicant **must** be verified.

Do **not** request documentation of an applicant's divorce unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant. If, however, in the routine course of processing the loan, the lender encounters direct evidence (such as, in the credit report) that a child support or alimony obligation exists, make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

Continued on next page

5. Debts and Obligations, Continued

c. Analysis of Debts and Obligations

Deduct significant debts and obligations from total effective income when determining ability to meet the mortgage payments. Significant debts and obligations include:

- debts and obligations with a remaining term of ten months or more; that is, long-term obligations, and
- accounts with a term less than ten months that require payments so large as to cause a severe impact on the family's resources for any period of time.

Example: Monthly payments of \$300 on an auto loan with a remaining balance of \$1,500, even though it should be paid out in five months, would be considered significant. The payment amount is so large as to cause a severe impact on the family's resources during the first, most critical, months of the home loan.

Determine whether debts and obligations which do **not** fit the description of "significant" should be given any weight in the analysis. They may have an impact on the applicant's ability to provide for family living expenses.

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's debts and obligations in a non-community property state. However, in community property states, the spouse's debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a veteran-borrower. This includes debts that are now delinquent.

Continued on next page

5. Debts and Obligations, Continued

d. Applicant as Co-obligor on Another's Loan

The applicant may have a contingent liability based on co-signing a loan. If:

- there is evidence that the loan payments are being made by someone else, and
 - there is no reason to believe that the applicant will have to participate in repayment of the loan, then
 - the lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis.
-

e. Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of a veteran are sufficient to qualify for the loan depends upon the consummation of the sale of presently owned real property. Sales proceeds may be necessary to

- clear the outstanding mortgage(s) against the property
- pay off outstanding consumer obligations, and/or
- make a down payment or pay closing costs on the VA loan.

Alternatively, the veteran may intend to sell the property with the buyer assuming the outstanding mortgage obligation.

The lender may disregard the payments on the outstanding mortgage(s) and any consumer obligations which the veteran intends to clear if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.

References:

- See [section 4 of chapter 5](#) for prior approval loans dependent upon the sale of property for the borrower to qualify.
 - See [section 6 of chapter 5](#) for required loan closing documents.
-

Continued on next page

5. Debts and Obligations, Continued

f. Secondary Borrowing

If the applicant plans to obtain a second mortgage simultaneously with the VA-guaranteed loan include the second mortgage payment as a significant debt.

Reference: See [section 4 of chapter 9](#) for VA limitations on secondary borrowing.

From an underwriting standpoint, the veteran must **not** be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

g. Deferred Student Loan Payments

If student loan repayments are scheduled to begin within 12 months of the date of VA loan closing, lenders should consider the anticipated monthly obligation in the loan analysis. If the borrower is able to provide evidence that the debt may be deferred for a period outside that timeframe, the debt need not be considered in the analysis.

h. Loans Secured By Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401K loans, etc...) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

Note: Assets securing these loans may not be included as an asset in the loan analysis.

6. Required Search for and Treatment of Debts Owed to the Federal Government

Change Date

July 20, 2007, Change 5

- Subsection c has been changed to add the Federal Deposit Insurance Corporation (FDIC).
 - Subsection e has been changed to remove step 4 from the CAIVRS screening process.
-

a. The Search Requirement

There are two separate procedures the lender must follow. Both should be initiated immediately upon receipt of a loan application to avoid delays in closing the loan.

(1) Ask the veteran and any veteran co-obligors (including spouse if a veteran) if he or she:

- is receiving VA disability benefits
- would be entitled to receive VA disability benefits but for the receipt of retired pay
- has received VA disability benefits in the past, or
- is an unmarried surviving spouse of a veteran who died on active duty or as a result of a service-connected disability.

If the veteran falls under one of the above categories, follow the procedures discussed under subsection b “Debt Related to VA Benefits” of this section.

(2) For all applicants and co-obligors (veteran or nonveteran) on all VA loans including Interest Rate Reduction Refinancing Loans (IRRRLs), perform a Credit Alert Interactive Voice Response System ([CAIVRS](#)) inquiry.

Reference: See “[CAIVRS](#) Procedures” in this section.

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

b. Debt Related to VA Benefits

Before processing a loan involving certain veterans, as described in section a (1) “The Search Requirement,” the lender must submit [VA Form 26-8937](#), Verification of VA Benefits, to the VA office where the loan application and/or closed loan package will be sent. VA will complete and return the form to the lender.

The loan cannot be submitted for prior approval or approved under the automatic procedure until the lender obtains the completed form from VA. The lender must maintain the completed form with the loan package.

If the form indicates that the applicant receives a nonservice-connected pension or has been rated incompetent by VA, the loan cannot be closed automatically. Submit the loan for prior approval.

If the form indicates that the applicant has any of the following:

- an outstanding indebtedness of overpaid education, compensation, or pension benefits
- an education or direct home loan in default
- an outstanding indebtedness resulting from payment of a claim on a prior guaranteed home loan
- a repayment plan for any of these debts that is not current, then one of the following must accompany the loan package:
 - evidence of payment in full of the debt, or
 - evidence of a current repayment plan acceptable to VA and evidence that the veteran executed a promissory note for the entire debt balance.

Note: No promissory note is required in cases referred to the Department of Justice, General Accounting Office, or VA Regional Counsel for judicial enforcement. In such cases, VA will obtain information on the applicant’s debt status from these parties and relay pertinent information to the lender.

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

b. Debt Related to VA Benefits
(continued)

VA may find a repayment plan acceptable if:

- the veteran has been satisfactorily making payments on a repayment plan in effect prior to the lender's inquiry
- the veteran's overall credit history and anticipated financial capacity after the proposed loan is made indicate a reasonable likelihood that the repayment plan will be honored and the outstanding amount of indebtedness is not so large that it would prevent payment in full within a reasonable period (approximately one year), or
- the case involves unusually meritorious circumstances.

Example:

- Consideration would be given to a veteran with an outstanding credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to two years.
 - VA will offer special consideration to a veteran's claim that he or she was not previously aware of an overpayment of benefits.
-

c. What is CAIVRS?

CAIVRS is a HUD-maintained computer information system which enables participating lenders to learn when an applicant has previously defaulted on a federally-assisted loan. The system's interactive voice response function provides instant credit information.

The database includes default information from the Department of Agriculture, Department of Education, Department of Justice, HUD, Small Business Administration, Federal Deposit Insurance Corporation, and VA.

The VA default information included in the database relates to:

- overpayments on education cases
 - overpayments on disability benefits income, and
 - claims paid due to home loan foreclosures.
-

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6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures

VA assigns an 11-digit VA lender ID number to each new lender (See [section 12 of chapter 1](#)), then automatically forwards the ID number to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS within several weeks of its VA ID number assignment.

Perform a CAIVRS screening on each applicant and any co-obligor immediately upon receipt of a loan application. This includes IRRRL applicants. Step-by-step instructions follow. HUD also offers on-line access to CAIVRS. For details, contact HUD or go to <http://www.hud.gov/offices/hsg/sfh/sys/caivrs/caivrs.cfm>.

Step	Action
1	Call CAIVRS using a touch-tone telephone. Dial (301) 344-4000 Monday through Saturday 8:00 a.m. to 8:00 p.m. Eastern Time.
2	<ul style="list-style-type: none">You will hear, "Welcome to the HUD Voice Response System. To access the Credit Alert System, press 1. To access the Line of Credit Control System, press 2. If you have completed your call, press Zero. Thank you."Enter 1.
3	<p>You will hear, "You have reached the HUD Credit Alert System. Please enter your credit alert access code and then press #."</p> <ul style="list-style-type: none">Enter the first 10 digits of your VA lender ID number, then the "#" sign. <p>CAIVRS will only allow 1 second attempt to enter an access code. The session is terminated if the second attempt fails.</p>
4	<p>If the lender is authorized to process more than one loan type, you will hear a menu. "If you are processing a HUD Title I loan, press 1, or if you are processing a FHA Single Family mortgage loan, press 2, or if you are processing a HUD 312 LPA, press 3, or if you are processing a Veterans Affairs loan, press 4, or if you are...(and so on),..then press #."</p> <ul style="list-style-type: none">Enter 4, then "#".
5	<p>You will hear, "Please now enter applicant's Social Security Number and then press * OR the Tax Identification Number and then press #."</p> <ul style="list-style-type: none">Enter the appropriate number and symbol.

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures (continued)

Step	Action
6	<p>You will hear, “You have entered Social Security Number ----- (repeat number entered) or Tax Identification Number ----- . Please enter ‘Y’ if this is correct, or ‘N’ if not correct.”</p> <ul style="list-style-type: none">• Enter “Y” if correct.• If incorrect, enter “N” and repeat Step 5.
7	<p>If there is no match, you will hear, “There are no claims, foreclosures, or defaults for this borrower.”</p> <p>If there is a match, you will hear a message reciting:</p> <ul style="list-style-type: none">• The type of match (For example, “There is a foreclosure on this borrower.”)• The case number (For example, “VA default ----- “)• The point of contact referral message (“For information, please call area code --- --- ---- “). <p>Copy down all pertinent information provided.</p>
8	<p>You will hear, “Credit Alert Confirmation Code is ----- .”</p> <p>Copy down the confirmation code for future identification of the particular inquiry.</p>
9	<p>You will hear, “If you would like the access information repeated, press 1, or if you would like to enter another applicant for the same type of loan, press 2, or for a different type of loan press 3.”</p> <ul style="list-style-type: none">• Enter 1 (to have the applicant’s information repeated) or• Enter 2 (then return to Step 5) or• Enter 3 (then return to Step 4) or• Hang up (if you are finished).

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

d. CAIVRS Procedures (continued)

Step	Action
10	If you remain on the line you will hear, “To return to the main menu press zero. If call completed, you may hang up now. Thank you for using the HUD Voice Response System.” <ul style="list-style-type: none">• Enter 0, or• Hang up.
11	<ul style="list-style-type: none">• Enter the CAIVRS confirmation code on VA Form 26-6393, Loan Analysis, as evidence the screening was performed.• Enter the code in the space to the right of the “NO” block in item 47.• For IRRRLs, enter the CAIVRS confirmation code on VA Form 26-8923, IRRRL Worksheet, beside the word “Note” which is located near the bottom of the form.

e. Applicant Presently Delinquent

Give full consideration to the CAIVRS information, and any subsequent clarifying information provided, in applying VA credit standards.

- Consider the terms of any repayment plan in analyzing monthly debt payments.
- Consider any delinquencies in determining creditworthiness.

CAIVRS information is only for the lender’s and applicant’s use in processing the loan application. Only those persons having responsibility for screening applicants and/or co-obligors may use CAIVRS. **Any other use is unauthorized.**

Continued on next page

6. Required Search for and Treatment of Debts Owed to the Federal Government, Continued

**e. Applicant
Presently
Delinquent
(continued)**

If the CAIVRS screening indicates an applicant (or co-obligor) is presently delinquent or has had a foreclosure or a claim paid on a loan made, guaranteed, or insured by a Federal agency, take the following actions:

Step	Action
1	Suspend processing of the loan application.
2	Contact the applicant or co-obligor for information regarding the loan default, foreclosure, or claim. If a previous VA loan is involved, the applicant may call 1-800-827-0648 to make arrangements to repay the debt.
3	<ul style="list-style-type: none">• Contact the Federal agency that reported the applicant to CAIVRS if further information is needed.• Use the phone number provided by CAIVRS (Step 7 in the previous table).

**f. Treatment of
Federal Debts**

An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangements have been made between the applicant and the Federal agency. The refinancing of a delinquent VA loan with an IRRRL satisfies this requirement.

An applicant cannot be considered a satisfactory credit risk if he or she has a judgment lien against his or her property for a debt owed to the Government until the judgment is paid or otherwise satisfied.

7. Credit History

Change Date	July 20, 2007, Change 5 Subsection c has been changed to better clarify how to analyze adverse credit.
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**a. Credit
Report
Standards**

Credit reports used in analyzing VA loans must be either:

- Three-file Merged Credit Reports (MCR), or
- Residential Mortgage Credit Reports (RMCR).

The credit report must be less than 120 days old (180 days for new construction).

- For automatically closed loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).
- For prior approval loans, the date of the credit report must be within 120 days of the date the application is received by VA (180 days for new construction).

If an RMCR is Used

The standards applicable to an RMCR include, but are not limited to, the following:

- the report must be prepared by a reputable credit reporting agency.
- each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.
- for each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history.
- the report must name at least two national repositories of credit records contacted for each location in which the borrower has resided during the most recent two years (separate repository inquiries are required for any coborrowers with individual credit records).
- the report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act; such as bankruptcies, judgments, law suits, foreclosures and tax liens.
- the RMCR must be an original report, with no erasures, whiteouts, or alterations.
- the report must contain a 24 month employment and residency history.
- all inquiries made within the last 90 days must be included on the report.

Continued on next page

7. Credit History, Continued

**a. Credit
Report
Standards
(continued)**

VA may decline to accept a credit report which does not meet these standards.

VA will notify the lender and the credit reporting agency of how quality standards are not being met. If the problem continues, VA will inform all participating lenders that credit reports from the particular credit reporting agency are unacceptable.

**b. Verification
and Rating of
Debts and
Obligations**

See section 5 of this chapter for requirements of verification.

**c. How to
Analyze Credit**

The applicant's past repayment practices on obligations are the best indicator of his or her willingness to repay future obligations. Emphasis should be on the applicant's overall payment patterns rather than isolated occurrences of unsatisfactory repayment. Determine whether the applicant (and spouse, if applicable) is a satisfactory credit risk based on a careful analysis of the credit report and other credit data.

Rent and Mortgage Payment History

The applicant's rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated.

Housing expense payment history is often the best indicator of how motivated the applicant is to make timely mortgage payments in the future.

Absence of Credit History

For applicants with no established credit history, base the determination on the applicant's payment record on utilities, rent, automobile insurance, or other expenses that applicant has paid.

Continued on next page

7. Credit History, Continued

c. How to Analyze Credit (continued)

Absence of a credit history is **not** generally considered an adverse factor. It may result when:

- recently discharged veterans have not yet developed a credit history
- applicants have routinely used cash rather than credit, and/or
- applicants have not used credit since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling. In these cases, develop evidence of timely payment of noninstallment obligations such as rent and utilities since the disruptive credit event.

Reference: For bankruptcy cases, see “Bankruptcy” in this section.

Accounts in the Spouse’s Name

Under ECOA - Upon the applicant’s request, the lender must consider any account reported in the name of the applicant’s spouse or former spouse that the applicant can demonstrate accurately reflects the applicant’s creditworthiness.

Consideration of the Spouse’s Credit History

ECOA prohibits requests for, or consideration of, the credit of a spouse who will not be contractually obligated on the loan except:

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.
 - If the property is located in a community property state, VA requires consideration of the spouse’s credit (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse’s income considered).
 - If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse’s credit only in a non-community property state.

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7. Credit History, Continued

c. How to Analyze Credit (continued)

Adverse Data

Reestablished Credit: In circumstances not involving bankruptcy, satisfactory credit is generally considered to be reestablished after the veteran, or veteran and spouse, have made satisfactory payments for 12 months after the date the last derogatory credit item was satisfied. For example, assume a credit report reveals several unpaid collections, including some which have been outstanding for many years. Once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is reestablished.

Collections: Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. For example, a credit report may show numerous satisfactory accounts and one or two unpaid medical (or other) collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval. However, collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit. Borrowers with a history of collection accounts should have reestablished satisfactory credit (see previous paragraph) in order to be considered a satisfactory credit risk.

Disputed Accounts: Lenders may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment. Account balances reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments. For unpaid debts or debts that have not been paid timely, pay-off of these debts after the acceptability of applicant's credit is questioned does not alter the unsatisfactory record of payment.

Summary: The above guidance is not meant to address every possible scenario. Lenders should carefully review the complete credit history and use their judgment. For example, if an applicant has numerous unpaid collections – no matter when they were established – it's not unreasonable to question the borrower's ability and willingness to honor obligations. If the applicant and/or spouse are determined satisfactory credit risks in spite of derogatory credit information, the loan file should include an explanation from the applicant(s) and the lender's underwriter of the basis for the determination. If lenders are unsure about a particular situation, they should contact the appropriate VA Regional Loan Center.

7. Credit History, Continued

d. Consumer Credit Counseling Plan

If a veteran, or veteran and spouse, have prior adverse credit and are participating in a Consumer Credit Counseling plan, they may be determined to be a satisfactory credit risk if they demonstrate 12 months' satisfactory payments and the counseling agency approves the new credit.

If a veteran, or veteran and spouse, have good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the veteran entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

e. Bankruptcy

The fact that a bankruptcy exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reasons for the bankruptcy and the type of bankruptcy filing.

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law

You may disregard a bankruptcy discharged more than two years ago.

If the bankruptcy was discharged within the last one to two years, it is probably **not** possible to determine that the applicant or spouse is a satisfactory credit risk unless both of the following requirements are met:

- the applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period, and
 - the bankruptcy was caused by circumstances beyond the control of the applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified. Divorce is **not** generally viewed as beyond the control of the borrower and/or spouse. If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if
 - the applicant obtained a permanent position after the business failed
 - there is no derogatory credit information prior to self-employment
 - there is no derogatory credit information subsequent to the bankruptcy, and
 - failure of the business was **not** due to the applicant's misconduct.
-

7. Credit History, Continued

e. Bankruptcy (continued)

If a borrower or spouse has been discharged in bankruptcy within the past 12 months, it will **not** generally be possible to determine that the borrower or spouse is a satisfactory credit risk.

Petition Under Chapter 13 of the Bankruptcy Code

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a two to three year period or, in some cases, up to five years, to pay off scaled down or entire debts.

If the applicant has finished making all payments satisfactorily, the lender may conclude that the applicant has reestablished satisfactory credit.

If the applicant has satisfactorily made at least 12 months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

f. Foreclosures

The fact that a home loan foreclosure (or deed-in-lieu of foreclosure) exists in an applicant's (or spouse's) credit history does **not** in itself disqualify the loan.

- Develop complete information on the facts and circumstances of the foreclosure.
- Apply the guidelines provided for bankruptcies filed under the straight liquidation and discharge provisions of the bankruptcy law. See the preceding heading entitled "Bankruptcy."

If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

8. Documentation for Automated Underwriting Cases

Change Date

July 20, 2007, Change 5
Subsection b has been changed to update the reference from “Loan Prospector” to “Automated Underwriting.”

a. General

VA has approved Freddie Mac’s Loan Prospector, Fannie Mae’s DU, pmiAura System for VA, CLUES (for loans originated by Countrywide), Zippy (for loans originated by Chase), Automated Underwriting Systems (AUS) for use in connection with VA guaranteed home loans. These systems incorporate VA’s credit standards and processing requirements.

Lenders may use certain reduced documentation requirements on cases processed with approved AUSs. The level of reduced documentation depends on the risk classification assigned. The systems use slightly different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these cases as for non-AUS cases, except for any differences cited in the tables.

Data Integrity

It is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the risk classification. Under certain circumstances it could also result in a finding of material misrepresentation, which could affect the validity of the guaranty.

b. Underwriter’s Certification

Because the Automated Underwriting system will be making the determination that the loan satisfies credit and income requirements, cases receiving an “Accept” or “Approve” rating will not require the underwriter’s certification on [VA Form 26-6393](#), Loan Analysis (items 50 through 54). Instead, lenders will need to complete the following certification on “Accept” or “Approve” loans:

“I, the undersigned lender, hereby certify that case number (insert VA loan number) was processed through _____ and received an ‘Accept/Approve’ rating. I further certify that all information entered into the system has been verified and that any credit discrepancies have been reconciled.”

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

b. Underwriter's Certification
(continued)

A representative of the lender must sign this certification. The certification and a copy of the AUS Feedback Certificate (which indicates the risk classification) must be maintained with the origination package.

c. Documentation Guidelines For Credit History

Refer to the following table for Documentation guidelines for credit history.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Types of credit reports used in reconciliation (section 7 of this chapter)	Use any of the following if ≤ 120 days old. <ul style="list-style-type: none"> • All in-file reports. • Selected in-file reports. • Merged credit report. • RMCR. 	Same as Refer.
Explanation of discrepancies in reported debt (section 5 of this chapter)	No explanation is required.	Same as Refer.
Rental payment history (section 7 of this chapter)	Provide a 12 month rental history directly from landlord, through information shown on credit report or by cancelled checks.	No verification of rent is required.
Verification of significant nonmortgage debt (section 5 of this chapter)	Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.	Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

c. Documentation Guidelines For Credit History (continued)

Subject and Reference	Documentation Classification	
Mortgage payment history (section 7 of this chapter)	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none">• Outstanding.• Assumed.• Recently retired. A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months.	Perform manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months.
Account balances (section 7 of this chapter)	If a mortgage or other significant debt is listed on the credit report as past due and was last updated ≥ 90 days, verify current status of <u>past due debt</u> .	Same as Refer, however if rating is currently ≥ 90 days past due, manually downgrade to REFER .
Derogatory credit information (section 7 of this chapter)	Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26-6393 , Loan Analysis.	No determination of ratios or credit worthiness is required.
Alimony and/or child support payments (section 2 of this chapter)	Provide the following: <ul style="list-style-type: none">• Proof of deposits on bank statements for 3 months.• Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance.	Same as Refer.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- d. **Documentation Guidelines for Borrowers-Not Self Employed**
- Refer to the following table for documentation guidelines for employment/income for borrowers who are not self-employed.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Employment gaps (section 2 of this chapter)	No explanation for employment gaps is required if the gaps are <30 days.	No explanation for employment gaps is required if gaps are <60 days.
Verifying current employment for borrowers who are not self-employed (section 2 of this chapter)	<p>Document telephone contact verifying borrower's current employer.</p> <p>Use pay stubs covering at least 1 full month of employment and contains the following:</p> <ul style="list-style-type: none"> • Year-to-date (YTD) information • Bonus information • Overtime information. 	Same as Refer.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

d. Documentation Guidelines for Borrowers-Not Self Employed (continued)

Subject and Reference	Documentation Classification	
Verifying previous employment (section 2 of this chapter)	<p>Use a Verification of Employment (VOE) or any of the following, covering the 2 year period prior to closing:</p> <ul style="list-style-type: none">• W-2 Forms.• Income information obtained from the IRS via one of the following forms:<ul style="list-style-type: none">- Form 8821 (or alternate form acceptable to the IRS that collects comparable information) or- Form 4506 (or alternate form acceptable to the IRS that collects comparable information).	<p>No VOE is required if the borrower has been with the same employer for 1 year and W-2 Forms for 1 previous year have been collected.</p> <ul style="list-style-type: none">• No W-2 Forms are required for a borrower on active duty.• No W-2 Forms are required if all of the following are met:<ul style="list-style-type: none">- Borrower with same employer ≥ 2 years- Employer phone contact verifies the length of employment and current status (still employed)- Borrower not self-employed or commissioned- Bonus, overtime, or secondary income not needed to qualify- Stable monthly income to be determined by using current base pay only (rather than total earnings)- Borrower signs one of the following for the previous 2 tax years:<ul style="list-style-type: none">- Form 8821, and- Form 4506.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- e. **Documentation Guidelines for Borrowers-Self Employed**
- Refer to the following table for documentation guidelines for employment/income for borrowers who are self-employed.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Individual tax returns for self-employed borrowers (section 2 of this chapter)	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none"> Signed copies of individual tax returns for the most recent 2 year period. Individual income information obtained from the IRS via one of the following forms: <ul style="list-style-type: none"> Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) or Form 4506 (or an alternate form acceptable to the IRS that collects comparable information). 	Same as Refer.
Balance sheets and profit and loss statements for self-employed borrowers (section 2 of this chapter)	<p>No balance sheet or YTD Profit and Loss (YTD P&L) is required if any of the following occur:</p> <ul style="list-style-type: none"> Origination date is \leq 7 months from the business' fiscal year end (for which tax returns or information from the IRS via Form 8821 or Form 4506 were provided). 	No balance sheet or YTD P&L is required.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

e. Documentation Guidelines for Borrowers-Self Employed (continued)

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Business tax returns for self-employed borrowers (section 2 of this chapter)	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none">• Signed copies of business tax returns for the most recent 2 year period.• Business income information obtained from the IRS via one of the following forms:<ul style="list-style-type: none">- Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) or- Form 4506 (or an alternate form acceptable to the IRS that collects comparable information.)	<p>No business tax returns are required if all of the following conditions are met:</p> <ul style="list-style-type: none">• Borrower proves ownership of the business for at least the past 5 years.• Individual tax returns reflect consistent income for the past 2 years.• Funds for down payment or closing costs are not from the business.

Continued on next page

8. Documentation for Automated Underwriting Cases, Continued

- f. **Documentation Guidelines for Assets** Refer to the following table for documentation guidelines for assets.

Subject and Reference	Documentation Classification	
	Documentation Guidelines and Reductions for Refer	Additional Documentation Reductions for Accept/Approve
Verify closing costs (section 4 subsection a of this chapter)	Verify veteran's source of funds for payment of any difference between sales price and loan amount plus closing costs, if sales price exceeds reasonable value established by the Notice of Value (NOV).	No verification of veteran's source of funds is required if closing costs plus difference between the sales price of the property and the base loan amount is <4% of the lesser of the following: <ul style="list-style-type: none"> • Sales price • Reasonable value established by a NOV.
Verify assets to close in applicant's name (section 4 of this chapter)	Provide original bank statements or certified true copies covering the most recent 2 month period in lieu of a Verification of Deposit (VOD).	Provide original bank statements or certified true copies covering most recent 1 month period in lieu of a VOD.

9. How to Complete VA Form 26-6393, Loan Analysis

Change Date July 20, 2007, Change 5
Subsections b and f have been changed to update the reference to VA Form 26-6393 line numbers.

a. General In order to properly enter information on [VA Form 26-6393](#), the underwriter must understand and apply the guidelines provided in the preceding sections of this chapter.

Self-explanatory items are **not** discussed in this section.

b. Estimated Monthly Shelter Expenses Special instructions are listed in the following table.

Item	Special Instructions
16	If taxes are expected to increase, use the increased amount.
17	Include the flood insurance premium for properties located in special flood hazard areas.
18	If special assessments are anticipated, use the anticipated amount.
19	Calculate maintenance and utility costs using 14¢ per square foot. <u>Example:</u> A 1500 square foot home would have a combined maintenance and utility cost of \$210 (1500sq X .14).
20	For condominiums or houses in a Planned Unit Development (PUD), include the monthly amount of maintenance assessment payable to the homeowner's association. If the assessment is less than the maximum provided in the covenants or master deed and it appears likely that the assessment will be insufficient for operation of the condominium or PUD, include the maximum amount the veteran could be charged.

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

**c. Debts and
Obligations**

List all known debts and obligations of the applicant and spouse including any alimony and/or child support payments.

Place a check mark in the (3) column next to any “significant” debt or obligation. See the topic “Analysis of Debts and Obligations” in section 5 of this chapter, for an explanation of “significant.”

Job Related Expense

Include any costs for child care, significant commuting costs, and any other direct or incidental costs associated with the applicant’s (or spouse’s) employment. Checkmark this item if total job related expenses are significant.

**d. Item 33,
Federal Income
Tax**

Enter the applicant’s estimated monthly Federal income tax. If the applicant has a Mortgage Credit Certificate, reduce the Federal income tax by the estimated tax credit.

Reference: See the topic “Income Tax Credits from Mortgage Credit Certificates” in section 3 of this chapter.

**e. Item 44,
Balance
Available for
Family Support**

Enter the appropriate residual income amount from the following tables in the “guideline” box. Residual income is the amount of net income remaining (after deduction of debts and obligations and monthly shelter expenses) to cover family living expenses such as food, health care, clothing, and gasoline.

The numbers are based on data supplied in the Consumer Expenditures Survey (CES) published by the Department of Labor’s Bureau of Labor Statistics. They vary according to loan size, family size, and region of the country.

Special Instructions for Using Tables

Count **all** members of the household (without regard to the nature of the relationship) when determining “family size,” including:

- an applicant’s spouse who is **not** joining in title or on the note, and
 - any other individuals who depend on the applicant for support. For example, children from a spouse’s prior marriage who are not the applicant’s legal dependents.
-

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

**e. Item 44,
Balance
Available for
Family Support
(continued)**

Special Instructions for Using Tables (continued)

Exception: The lender may omit any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is **not** included in effective income in the loan analysis. For example:

- a spouse not obligated on the note who has stable and reliable income sufficient to support his or her living expenses, or
- a child for whom sufficient foster care payments or child support is received regularly.

Reduce the residual income figure (from the following tables) by a minimum of 5 percent if

- the applicant or spouse is an active-duty or retired serviceperson, and
- there is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use 5 percent unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction.

A key to the geographic regions is listed in the following tables.

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7.			

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

e. Item 44, Balance Available for Family Support (continued)(continued)

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7.			

Key to Geographic Regions Used in the Preceding Tables			
Northeast	Connecticut Maine Massachusetts	New Hampshire New Jersey New York	Pennsylvania Rhode Island Vermont
Midwest	Illinois Indiana Iowa Kansas	Michigan Minnesota Missouri Nebraska	North Dakota Ohio South Dakota Wisconsin
South	Alabama Arkansas Delaware District of Columbia Florida Georgia	Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma	Puerto Rico South Carolina Tennessee Texas Virginia West Virginia
West	Alaska Arizona California Colorado	Hawaii Idaho Montana Nevada	New Mexico Oregon Utah Washington Wyoming

Continued on next page

9. How to Complete VA Form 26-6393, Loan Analysis, Continued

f. Item 45, Debt-to-Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and other debt) to gross monthly income.

Add: Items 15 + 16 + 17 + 18 +20 +40 = Debt

Add: Items 31 + 38* = Income

Divide: Debt ÷ Income = Debt-to-Income Ratio

Round: To the nearest 2 digits

The "Debt-to-Income Ratio" heading in section 10 of this chapter contains special procedures to apply if the ratio exceeds 41 percent.

*Tax-free income may be "grossed up" for purposes of calculating the debt-to-income ratio only (**not** residual income). This is a tool that may be used to lower the debt ratio for veterans who clearly qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Do not add non-taxable income to taxable income before "grossing up."

Tax-free income includes certain military allowances, child support payments, workers' compensation benefits, disability retirement payments, and certain types of public assistance payments. Verify that the income is indeed tax-free before "grossing up."

If "grossing up" is used, indicate such and provide the "grossed up" ratio in item 47, "Remarks."

g. Item 46, Past Credit Record

Indicate whether the applicant (and spouse, if applicable) is a satisfactory or unsatisfactory credit risk based on a complete analysis of credit data.

10. How to Analyze the Information on VA Form 26-6393

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

**a. Residual
Income**

VA's minimum residual incomes (balance available for family support) are a guide. They should not automatically trigger approval or rejection of a loan. Instead, consider residual income in conjunction with all other credit factors.

An obviously inadequate residual income alone can be a basis for disapproving a loan.

If residual income is marginal, look to other indicators such as the applicant's credit history, and in particular, whether and how the applicant has previously handled similar housing expense.

Consider whether the purchase price of the property may affect family expense levels. For example, a family purchasing in a higher priced neighborhood may feel a need to incur higher-than-average expenses to support a lifestyle comparable to that in their environment, whereas a substantially lower priced home purchase may not compel such expenditures.

Also consider the ages of the applicant's dependents in determining the adequacy of residual income.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393, Continued

b. Debt-to- Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and so on) to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio greater than 41 percent requires close scrutiny unless:

- the ratio is greater than 41 percent solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on "grossing up" of the tax-free income.), or
- residual income exceeds the guideline by at least 20 percent.

Loans Closed Automatically with Ratio Greater than 41 percent

Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless residual income exceeds the guideline by at least 20 percent. The statement must:

- not be perfunctory, or
 - list the compensating factors justifying approval of the loan.
-

c. Credit History

A poor credit history alone is a basis for disapproving a loan.

If credit history is marginal, look to other indicators such as residual income.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393, Continued

d.
Compensating
Factors

Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are marginal with respect to residual income or debt-to-income ratio. They cannot be used to compensate for unsatisfactory credit.

Valid compensating factors should represent unusual strengths rather than mere satisfaction of basic program requirements. For example, the fact that an applicant has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor.

Valid compensating factors should logically be able to compensate (to some extent) for the identified weakness in the loan. For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not.

Compensating factors include, but are not limited to the following:

- excellent credit history
- conservative use of consumer credit
- minimal consumer debt
- long-term employment
- significant liquid assets
- sizable down payment
- the existence of equity in refinancing loans
- little or no increase in shelter expense
- military benefits
- satisfactory homeownership experience
- high residual income
- low debt-to-income ratio
- tax credits for child care, and
- tax benefits of home ownership.

Continued on next page

10. How to Analyze the Information on VA Form 26-6393, Continued

**e. Compare
What Shelter
Expenses will
be to What
Applicant Pays
Now**

Closely scrutinize a case in which the applicant will be paying significantly higher shelter expenses than he or she currently pays. Consider the:

- ability of the applicant and spouse to accumulate liquid assets; such as cash and bonds, and
- amount of debts incurred while paying a lesser amount for shelter.

If an application shows little or no capital reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed.

11. Examples of Underwriting Deficiencies

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Purpose	Because of the high loan-to-value ratios of VA-guaranteed loans, it is critical that underwriters use sound judgment. The underwriting deficiencies listed in this section represent a sample of actual deficiencies found on VA loans that went into default. The deficiencies were of such significance that many of the loans should not have been made.
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b. Inadequate Development of Credit Information	Deficiencies included: <ul style="list-style-type: none">• failing to compare documented information with the applicant's initial application• failing to question and investigate obvious discrepancies<ul style="list-style-type: none">- in the number of dependents or household size, and- between actual year-to-date average monthly earnings and the income claimed on the loan application• failing to question multiple Social Security numbers for an applicant• failing to determine future plans of an active-duty serviceperson whose separation from service is imminent, and• accepting an explanation for a bad credit history without documenting the circumstances alleged to have caused the credit problem, judgment, or bankruptcy.
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c. Missing Documentation	Deficiencies included failure: <ul style="list-style-type: none">• to inquire about and document the payment history on previous home loans, including prior VA loans, and• to obtain documentation of employment history during the previous two years.
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11. Examples of Underwriting Deficiencies, Continued

d. Verification and Procedural Errors

Deficiencies included:

- requiring the veteran to sign partially completed or blank forms
 - permitting income or asset deposit information to be hand carried by the applicant, real estate/sales agent, or a party other than the lender's specifically-designated employee
 - addressing verification forms to an individual chosen by the applicant rather than to the employer's personnel or payroll department, and
 - obtaining multiple/revised credit reports without validating the need for the subsequent reports.
-

e. Income Analysis Errors

Deficiencies included:

- showing that an applicant is a salaried employee when, in fact, the applicant works solely on a commission basis, is a contract employee, or is actually self-employed
- failing to use net profit or net income from Schedule C of IRS Form 1040 rather than the gross income of an applicant who is self-employed
- using short-term, temporary, or sporadic income to qualify an applicant for a loan, and
- qualifying a marginal applicant for a loan by using a buydown or graduated payment mortgage without establishing that the applicant's income will keep pace with the scheduled increase in mortgage payments. This is especially important in times of low inflation and stagnant or declining real estate markets.

Examples of unreliable income sources include:

- overtime pay in an industry or area that is experiencing an economic slowdown or decline
 - income from a second job even though the applicant does not have a record of steadily working two jobs
 - rental income even though the applicant does not have verified experience as a landlord, and
 - poorly documented income from self-employment.
-

Continued on next page

11. Examples of Underwriting Deficiencies, Continued

f. Other Analysis Errors

Deficiencies included:

- failing to consider
 - changes in marital status or household size after application and prior to closing, and
 - pay statements showing deductions to creditors that are not shown on the application, credit reports, or deposit verifications
 - approving a loan solely on the basis of an emotional appeal from the applicant or spouse, the sales agent, seller, or other interested party. A decision or an inclination to reject a loan application should **not** be changed unless there is new and compelling information available to justify approving the loan.
 - approving high debt-to-income ratio loans with few or no valid compensating factors
 - using gift letters to offset past due obligations, pay off debts, and so on, without consideration of the credit risk implications of the past due obligations
 - ignoring debts, judgments, bankruptcies, alimony or child support obligations because they don't appear on the credit report, and
 - failing to reconcile a large increase in shelter expense with an undemonstrated ability to accumulate cash assets.
-

Chapter 5. How to Process VA Loans and Submit Them to VA

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic name	See Page
1	Refinancing Loans	5-2
2	Procedures the Lender Must Complete Before VA Issues Guaranty	5-3
3	How to Submit Loan Documents to VA	5-5
4	Prior Approval Loan Procedures	5-7
5	Automatically Closed Loan Procedures	5-16
6	Submit “Other Necessary Documents”	5-19
7	What Does VA Do When Loans are Reported?	5-23

1. Refinancing Loans

Change date

September 15, 2004, Change 4

This section has been changed to create subsection lettering.

**a. Where to
Find
Information**

This chapter applies, for the most part, to non-refinancing loans.

Reference: See [Chapter 6](#) for information specific to refinancing loans.

2. Procedures the Lender Must Complete Before VA Issues Guaranty

Change Date September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
- Subsection c has been changed to remove references to “Certificate of Reasonable Value (CRV).” CRV’s are no longer issued by VA, lenders can issue a Notice of Value through [TAS](#).

a. Order of Completion The procedures discussed in this section may be initiated and completed in any feasible order, as long as they are all completed prior to loan closing. These procedures apply to both prior approval loans and loans closed automatically (except the procedure which specifically refers to prior approval loans).


To avoid delays in closing, it is recommended that the lender take the following actions in the very early stages of loan processing:

- Request a Certificate of Eligibility, (COE) if the veteran does not already have one (See [Chapter 2](#))
 - request assignment of an appraiser (See [Chapter 10](#))
 - initiate CAIVRS and VA-indebtedness searches (See [section 6 of chapter 4](#)), and
 - request credit report and verifications (See [Chapter 4](#)).
-

b. Obtain Certificate of Eligibility Verify the veteran’s eligibility for home loan benefits and amount of available entitlement by obtaining a COE.

Ensure any conditions of the COE are satisfied.

Reference: See [Chapter 2](#) for details.

c. Establish the Reasonable Value of the Property Obtain a VA  Notice of Value (NOV) through The Appraisal System ([TAS](#)) or Master Certificate of Reasonable Value (MCRV), See [Chapter 10](#).

Obtain evidence of compliance with any  NOV requirements.

Continued on next page

2. Procedures the Lender Must Complete Before VA Issues Guaranty, Continued

d. Determine Whether VA's Occupancy Requirement is Met

Determine whether the applicant meets VA's occupancy requirement. The loan cannot be made unless the requirement is met.

Reference: See [section 5 of chapter 3](#).

e. Underwrite the Loan

Complete the procedures, verifications, and loan analysis described in [Chapter 4](#) of this handbook.

f. Fulfill Requirements for Active Duty Members

Ensure **every** active duty service member who applies for a loan is counseled through the use of VA Form [26-0592](#), Counseling Checklist for Military Homebuyers, as early as possible in the transaction.

- Lenders should furnish these forms to real estate brokers and builders with whom they deal and request their assistance in providing counseling.
- The applicant's signature on the form signifies that counseling has been completed.

Ensure an applicant eligible as an active duty member is still on active duty at the time of closing if the Certificate of Eligibility indicates "Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of the date of note is required." If the lender becomes aware that the applicant is no longer on active duty, the loan may **not** be closed unless VA re-establishes the veteran's eligibility.

g. Obtain Certificate of Commitment on Prior Approval Loans

Submit all prior approval loans to VA.

Obtain a VA Certificate of Commitment.

Ensure compliance with any conditions of the Certificate of Commitment.

Reference: See [section 4 of this chapter](#) for details.

3. How to Submit Loan Documents to VA

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection b has been changed to add a reference to VA's Internet based electronic systems in relation to VA loan numbers.
a. Where to Submit Documents	See Appendix A for a list of VA offices and their jurisdictions.
b. Loan Number	A 12-digit VA Loan Identification Number (LIN) is assigned to each loan by VA at the time the appraisal is requested. Use this number electronically in VA systems or where requested on VA forms and other documents.
c. Who Can Sign Documents for the Lender?	<p>Under certain circumstances, VA requires specific parties to execute documents. For example, a VA-approved underwriter must approve or disapprove a loan for a nonsupervised automatic lender.</p> <p>Where VA does not have a specific requirement, branch managers, employees, and agents of the lender or holder may execute VA forms in the name of and on behalf of the principals.</p>

Continued on next page

3. How to Submit Loan Documents to VA, Continued

**d. Use of
Imaged
Documents**

Lenders must obtain specific approval from VA to use imaged documents.
Send a request to:

Department of Veterans Affairs
Loan Guaranty Service (262A)
810 Vermont Avenue, NW
Washington, D.C. 20420

Include with the request

- a full description of the lender's imaging system
- an explanation of how the lender uses the system, and
- a copy of the lender's quality control plan to ensure consistent imaging quality.

VA may request additional information as needed.

VA will send notice of its determination to the lender.

4. Prior Approval Loan Procedures

Change Date September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
- Subsection c has been changed to delete Step 12. VAF 26-1805 is now available through [TAS](#). The form is no longer required for issuance of a commitment on prior approval loans. Steps following 12 have been renumbered.

a. Which Loans are Submitted for Prior Approval? Lenders without automatic authority must submit all loans to VA for prior approval except IRRRLs made to refinance loans that are **not** delinquent.

 All lenders, whether or not they have automatic authority, **must** submit the following types of loans to VA for prior approval:

- Joint loans
- Loans to veterans in receipt of VA nonservice-connected pension*
- Loans to veterans rated incompetent by VA*
- Interest Rate Reduction Refinancing Loans made to refinance delinquent VA loans
- Manufactured home loans (**Except** when the manufactured home is permanently affixed to the lot and considered real estate under state law) unless the lender has been separately approved for this purpose
- Cooperative loans (contact VA to discuss)
- Unsecured loans or loans secured by less than a first lien
- Supplemental loans

*Lenders with automatic authority may also elect to submit a loan (of a type not on the above list) for prior approval when issues or circumstances cannot be resolved by the lender's own underwriting staff.

- The submission must include the underwriter's analysis and explanation of why it is being submitted for prior approval.
- Do **not** use this provision to shift the burden of a loan rejection to VA.
-

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4. Prior Approval Loan Procedures, Continued

**a. Which Loans
are Submitted
for Prior
Approval?
(continued)**

Note: VA Form [26-8937](#), Verification of VA Benefit-Related Indebtedness, will indicate whether the veteran receives VA nonservice-connected pension or has been rated incompetent by VA. See “Debt Related to VA Benefits” in [section 6 of chapter 4](#).

**b. Before
Requesting
Prior Approval**

Before submitting the loan documents to VA for prior approval

- establish the reasonable value of the property (appraisal)
 - underwrite the loan (See [Chapter 4](#)), and
 - ensure active duty members receive counseling using VA Form [26-0592](#).
-

**c. How to
Request Prior
Approval**

Submit the following documents to VA in the order listed.

Order	Document
1	Lender’s cover or transmittal letter (if used).
2	VA Form 26-8320 , Certificate of Eligibility or VA Form 26-8320a, Certificate of Eligibility (Reserves).
3	URLA (Uniform Residential Loan Application) with revised VA Form 26-1802a , HUD/VA Addendum to URLA . <ul style="list-style-type: none">• These forms must be signed and dated.• These forms must be properly completed and legible, but do not have to be typed.
4	Interest Rate and Discount Disclosures Statement .
5	VA Form 26-0592 , Counseling Checklist for Military Homebuyers, if applicant is on active duty.
6	VA Form 26-8937 , Verification of VA Benefit-Related Indebtedness (if applicable).
7	VA Form 26-6393 , Loan Analysis.
8	All original credit reports obtained in connection with the loan and any related documentation.

Continued on next page

4. Prior Approval Loan Procedures, Continued

c. How to Request Prior Approval (continued)

Order	Document
9	VA Form 26-8497a , Request for Verification of Deposit, and other related documents (Alternative documentation: Original or certified true copies of the last two bank statements).
10	VA Form 26-8497 , Request for Verification of Employment, and other verifications of income such as pay stubs and tax returns. Reference: See section 2 of chapter 4 .
11	Purchase/earnest money contracts.
12	<ul style="list-style-type: none">• LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property [1].• VA Form 26-1843a, Master Certificate of Reasonable Value, if applicable, with any applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer generated form). <p>Highlight to show lot and block identification, house type valuation, and optional equipment applicable to veteran's purchase.</p>
13	The original Freddie Mac Form 70/Fannie Mae Form 1004 , Uniform Residential Appraisal Report (URAR), including all addendum's, photographs and any documents(s) revising or correcting the fee appraiser's original URAR. Note: The URAR and attending information is not required when VA Form 26-1843a, MCRV, is submitted.
14	Any other necessary documents. Reference: See section 6 of this chapter .

Continued on next page

4. Prior Approval Loan Procedures, Continued

d. What Happens Next?

VA will review the documents submitted and do one of the following:

- Suspend processing and request additional information from the lender
 - send a notice of denial to the lender and applicant, or
 - issue VA Form 26-1866, Certificate of Commitment, to the lender, evidencing approval of the loan.
-

e. Certificate of Commitment

The lender may close the loan in reliance on VA's Certificate of Commitment. The lender is subsequently entitled to evidence of guaranty if:

- The closed loan is identical in all respects to that submitted to VA on the [URLA](#) and described on the Certificate of Commitment (or, if not identical, any required VA approval of changes was obtained prior to closing), and
- the lender has complied with all applicable provisions of the law and loan guaranty regulations in making the loan.

If, at any time prior to closing, the lender or VA has reason to doubt the continued qualification of the loan, the lender will delay closing until all facts are determined.

VA may cancel a commitment if the validity period of the Certificate of Commitment has expired and there is no reasonable expectation that the loan will be reported for guaranty.


Continued on next page

4. Prior Approval Loan Procedures, Continued

**f. Changes
Occurring
After Issuance
of the
Certificate of
Commitment**

Generally, changes to the loan occurring between issuance of the Certificate of Commitment and loan closing must be approved by VA. The following table lists

- exceptions to VA's prior approval of changes requirement, and
- circumstances which warrant special instructions.

If ...	Then ...
an increase in the amount of down payment decreases the loan amount (with or without a reduction in the term of the loan) and there is no increase in the monthly mortgage payments	no VA approval is needed. Include an explanation of the change with the closing package.
the maturity of the loan is extended but does not exceed the maximum of 30 years and 32 days or the economic life of the property as provided by the  NOV, and there is no increase in the monthly mortgage payments	no VA approval is needed. Include an explanation of the change with the closing package.
the loan amount is increased to cover the cost of energy efficiency improvements up to \$6,000	no VA approval is needed. See section 3 of chapter 7 for special underwriting requirements and documentation required with the closing package.
discount points to be paid by the applicant increase by any amount over the points indicated on the Certificate of Commitment	no VA approval is needed. Include with closing package: <ul style="list-style-type: none"> • An explanation of the change • the URLA with changes initialed and dated by the applicant, and • if previously verified assets are not sufficient to cover the additional points, verification of sufficient additional assets.

Continued on next page

4. Prior Approval Loan Procedures, Continued

f. Changes Occurring After Issuance of the Certificate of Commitment (continued)

If ...	Then ...
the loan is to be closed at an interest rate more than one percent greater than the rate indicated on the Certificate of Commitment	VA approval is needed. Submit the Certificate of Commitment and a new URLA signed and dated by the applicant, or the original URLA with the change initialed and dated by the applicant, to VA for re-underwriting.

g. Conditional Commitments

VA may issue a conditional commitment in the following seven types of cases. The lender must ensure compliance with the condition prior to loan closing.

Case	Condition/Notation on Certificate
Loan is to the spouse of a serviceperson missing in action or prisoner of war (MIA/POW)	<p>“Prior to closing the subject loan, lender should obtain assurance from borrower that official notice of any change in the service member’s status has not been received and that the applicant is still the spouse of the service member.”</p> <p>Reference: See section 6 of this chapter, for required documentation.</p>
Loan is to the unmarried surviving spouse of an eligible, deceased veteran	<p>“Conditioned on borrower’s certification that status as an unmarried surviving spouse has not changed since the Certificate of Eligibility was issued.”</p> <p>Reference: See section 6 of this chapter, for required documentation.</p>

Continued on next page

4. Prior Approval Loan Procedures, Continued

g. Conditional Commitments (continued)

Case	Condition/Notation on Certificate
Loan is to a service person who has not received an honorable discharge and must certify to continuous active duty	<p>“Certification of active duty status as of date of note required.”</p> <p>To ensure compliance, check the active duty box in Section III, Veteran’s Certifications, on VA Form 26-1820, Report and Certification of Loan Disbursement. Ensure that the veteran signs the form.</p>
Loan is to a veteran and fiancé/fiancée who intend to marry prior to loan closing - title is to be taken in the name of veteran and spouse	<p>“Conditioned on proof of marriage prior to loan closing.”</p> <p>A copy of the applicant’s marriage certificate or other proof of marriage must be submitted with the closing package. A marriage license is inadequate.</p>
Loan involves use of an attorney in fact	<p>“No evidence of guaranty with respect to the loan to which this commitment relates will be issued by the Secretary unless the lender makes the certification specified by the Department of Veterans Affairs at the time the lender requests a certificate of guaranty to the effect that the veteran was alive and, if the veteran is on active military duty, not in a “missing in action” status on the date the note and security instruments were executed on the veteran’s behalf by the attorney-in-fact.”</p> <p>Reference: See section 6 of this chapter, for required documentation.</p>

Continued on next page

4. Prior Approval Loan Procedures, Continued

g. Conditional Commitments (continued)

Case	Condition/Notation on Certificate
Veteran intends to sell property on which he/she has an existing VA loan prior to closing on the new VA loan, in order to have entitlement restored	<p>“This commitment is conditioned upon submission of evidence of disposal of the property which the veteran now owns and previously purchased using VA entitlement and evidence that the loan has been paid in full or that an eligible veteran has substituted his or her entitlement for that used by the original veteran.”</p> <p>Reference: See section 6 of chapter 5, for required documentation.</p>
Veteran intends to sell property in order to have sufficient income and/or assets to qualify for the loan	<p>“This commitment is conditioned upon the consummation of the sale of residential real property now owned by the veteran, as proposed in the loan application.”</p> <p>Reference: See section 6 of this chapter for required documentation.</p>

h. Joint Loans See [section 1 of chapter 7](#).

i. Before Closing Complete all applicable procedures in [section 2 of this chapter](#).

Continued on next page

4. Prior Approval Loan Procedures, Continued

j. How to Report Loan Closing and Request Guaranty

A loan must be reported (that is, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation (Document #9 below).

To report a loan, submit the following documents to VA, in the order listed.

Order	Document
1	Lender's cover or transmittal letter (if used).
2	VA Form 26-0285 , VA Transmittal List. []
3	VA Form 26-0286 , VA Loan Summary Sheet. []
4	Funding Fee receipt from the Funding Fee Payment System (FFPS) or evidence borrower is exempt. <i>Reference:</i> See section 8 of chapter 8 for information on exemptions.
5	VA Form 26-1820 , Report and Certification of Loan Disbursement.
6	Lender's quality certification per 38 CFR part 36 and 38 U.S.C. Chapter 37 (See Step 7 of the Lender Procedures in section 1 of chapter 4).
7	HUD-1 , settlement statement.
8	Evidence of compliance with [] MCRV or NOV requirements; for example, final compliance inspection, termite certification, warranty, etc.
9	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan and provides the specific reason(s) why the loan was not submitted on time.
10	Any other necessary documents. <i>Reference:</i> See section 6 of this chapter .

5. Automatically Closed Loan Procedures

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection a has been changed for the following:
 - Steps 2 and 3 have had links added for the forms. The references to those forms as exhibits at the end of the chapter have been removed.
 - Step 5 has added a reference to the funding fee payment system.
 - Step 7 has been changed from “Loan Prospector” to “Automated Underwriting” to reflect the addition of approved systems.
 - Step 12 reference to CRV has been deleted.
 - Step 16 has been changed to abbreviate Uniform Residential Loan Application to URLA.
 - Step 21 has been deleted and all steps that followed have been renumbered. The 1805 is no longer required for guaranty. The newly re-numbered Step 21 has had the reference to “CRV” deleted.

a. How to Report Loan Closing and Request Guaranty

A loan must be reported (that is, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation (Document #13 below).

Note: Before closing, complete all applicable procedures in [section 2 of this chapter](#).

To report a loan, submit the following documents to VA, in the order listed.

Order	Document
1	Lender’s cover or transmittal letter (if used)
2	VA Form 26-0285 , VA Transmittal List []
3	VA Form 26-0286 , VA Loan Summary Sheet []
4	VA Form 26-8320 (or 26-8320a), Certificate of Eligibility
5	Funding Fee receipt from the Funding Fee Payment System (FFPS) or evidence borrower is exempt. Reference: See section 8 of chapter 8 for information on exemptions.
6	VA Form 26-6393 , Loan Analysis

Continued on next page

5. Automatically Closed Loan Procedures, Continued

a. How to Report Loan Closing and Request Guaranty (continued)

Order	Document
7	For Automated Underwriting cases: Feedback Certificate and underwriter's certification (acceptable variations on the documentation required in items 17, 18, and 19 that follow, and the underwriter's certification, are explained in section 8 of chapter 4).
8	VA Form 26-1820, Report and Certification of Loan Disbursement
9	Lender's quality certification per 38 CFR part 36 and 38 U.S.C. Chapter 37 (See Step 7 of the Lender Procedures in section 1 of chapter 4 .)
10	VA Form 26-8937 , Verification of VA Benefit-Related Indebtedness (if applicable)
11	HUD-1 , settlement statement
12	Evidence of compliance with MCRV or NOV requirements; such as, final compliance inspection, termite certification, warranty.
13	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current. This statement must be submitted with any late request for issuance of a Loan Guaranty Certificate.
14	Interest Rate and Discount Disclosure Statement.
15	VA Form 26-0592 , Counseling Checklist for Military Homebuyers, if applicant is on active duty.
16	Uniform Residential Loan Application (URLA) with revised VA Form 26-1802a , HUD/VA Addendum to URLA . <ul style="list-style-type: none"> • These forms may be signed and dated anytime from the date of initial application to the date of loan closing. • These forms must be properly completed and legible, but do not have to be typed.
17	All original credit reports obtained in connection with the loan and any related documentation
18	VA Form 26-8497 , Request for Verification of Employment, and other verifications of income such as pay stubs and tax returns. Reference: See Section 2 of chapter 4 .

Continued on next page

5. Automatically Closed Loan Procedures, Continued

a. How to Report Loan Closing and Request Guaranty (continued)

Order	Document
19	VA Form 26-8497a , Request for Verification of Deposit, and other related documents (Alternative documentation: Original or certified true copies of last two bank statements).
20	Purchase/earnest money contracts.
21	<ul style="list-style-type: none"> • LAPP Notice of Value (NOV) and any special requirements or conditions applicable to the property [1]. • VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV), with any applicable endorsements and/or change orders (VA Forms 26-6363 and/or 26-1844 or VA computer generated form). <p>Highlight to show lot and block identification, house type valuation, and optional equipment applicable to veteran's purchase.</p>
22	<p>The original Freddie Mac Form 70/Fannie Mae Form 1004, Uniform Residential Appraisal Report (URAR) including all addendum's, photographs and any document(s) revising or correcting the fee appraiser's original URAR</p> <p>Note: The URAR and attending information is not required when VA Form 26-1843a, MCRV, is submitted.</p>
23	<p>Any other necessary documents.</p> <p>Reference: See section 6 of this chapter.</p>

6. Submit “Other Necessary Documents”

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection b, in the fourth circumstance a redundant reference to “in section 7 of chapter 9” has been deleted.
-

a. What are Other Necessary Documents?

Other necessary documents are verifications, explanations, forms, etc., that are either:

- required by VA under certain circumstances, or
 - necessary to clarify some aspect of the loan or the borrower’s qualifications.
-

b. Circumstances Requiring Additional Documents

The table below provides some of the circumstances for which VA requires specific additional documentation to be submitted with the loan closing package.

Circumstances	Required Documentation
Loan includes funds for energy efficiency improvements	<p><i>Improvements of \$3,000 to \$6,000:</i> Documentation of the lender’s determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs.</p> <p><i>Improvements up to \$6,000:</i> Evidence of the cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost.</p> <p><i>Improvements over \$6,000:</i> Documentation of VA’s valuation of the energy efficiency improvements.</p> <p><i>Reference:</i> See section 3 of chapter 7 for details, including special provisions for IRRRLs.</p>

Continued on next page

6. Submit “Other Necessary Documents”, Continued

b. Circumstances Requiring Additional Documents (continued)

Circumstances	Required Documentation
Postponed completion of exterior improvements	<ul style="list-style-type: none"> • VA Form 26-1847, Request for Postponement of Offsite or Onsite Improvements-Home Loan, and • VA Form 26-1849, Escrow Agreement for Postponed Exterior Onsite Improvements, or • VA Form 26-6378, Escrow Agreement for Postponed Exterior Offsite Improvements. <p>Reference: See section 9 of chapter 9.</p>
Loan involves use of an attorney in fact	Power of attorney meeting the requirements described in section 7 of chapter 9 , including written evidence of the veteran’s consent to the specific transaction plus the lender certification found under the “Requirements” heading. [] .
Veteran intended to sell property on which he/she has an existing VA loan prior to closing on the new VA loan, in order to have entitlement restored	<ul style="list-style-type: none"> • A completed VA Form 26-1880, Request for a Certificate of Eligibility for VA Home Loan Benefits, and • evidence that the veteran has sold the property and either <ul style="list-style-type: none"> – evidence that the veteran has fully repaid the prior loan, or Note: a HUD-1 settlement statement clearly showing sale of the property by the veteran and pay-off of the prior VA loan satisfies this requirement. – documentation that the veteran can be released from liability and the assumer meets the requirements for substitution of entitlement.

Continued on next page

6. Submit “Other Necessary Documents”, Continued

b. Circumstances Requiring Additional Documents (continued)

Circumstances	Required Documentation
Veteran intended to sell property in order to have sufficient income and/or assets to qualify for the loan	<p>Lender’s certification that the sale of the veteran’s property has been completed and the proceeds disbursed.</p> <p>Note: The lender’s certification must be based on its examination of a HUD-1 settlement statement or other appropriate documentation of the transaction.</p>
Loan is to the unmarried surviving spouse of an eligible, deceased veteran	<p>The following affidavit obtained from the surviving spouse at the time of loan closing:</p> <p>“I, _____, being first duly sworn, on oath, say, that, on the __ day of _____, 2__ (insert date loan was closed), I am (was) the unmarried surviving spouse of _____ and that I make this affidavit for the express purpose of inducing _____ to make a loan to me and/or for inducing the Department of Veterans Affairs to guarantee or insure such loan, knowing that it is a criminal offense to make a false statement for this purpose; and that the above and foregoing is true and correct.”</p> <p>_____ Notary’s jurat Signature of surviving spouse</p>
Loan is to the spouse of a serviceperson missing in action or prisoner of war (MIA/POW)	<p>Documentation that, at the time of loan closing, the lender asked the applicant and the applicant provided verbal assurance that</p> <ul style="list-style-type: none"> • no official notice of any change in the service member’s status had been received, and • applicant was still the spouse of the service member.
Graduated Payment Mortgage (GPM)	<p>Veteran’s statement acknowledging payment increases.</p> <p>Reference: See section 6 of chapter 7.</p>

Continued on next page

6. Submit “Other Necessary Documents”, Continued

b. Circumstances Requiring Additional Documents (continued)

Circumstances	Required Documentation
Supplemental loan for home improvements	See “Procedures” in section 5 of chapter 7 .
There are restrictions on the purchase or resale of the property the veteran is purchasing	Veteran’s written consent to the restrictions (obtained at the time of loan application). <i>Reference:</i> See section 2 of chapter 9 .

7. What Does VA Do When Loans are Reported?

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection b has been changed to reflect electronic evidence of guaranty.• Subsection c has been changed to remove the reference to returning a Certificate of Eligibility. The remainder of the paragraph was slightly altered to adjust the structure as the only paragraph of the subsection.
a. VA Review	VA performs some level of review on each loan reported either before or after issuing evidence of guaranty. If VA finds significant deficiencies in a loan submission, VA will contact the lender regarding any corrective measures needed and any impact on VA's guaranty of the loan.
b. Evidence of Guaranty	Evidence of guaranty can be VA Form 26-1899, Loan Guaranty Certificate, or an electronic notice of guaranty for those lenders who submit guaranty requests via EDI. The evidence of guaranty is the lender's record that VA has guaranteed the loan. See section 11 of chapter 3 for an explanation of what evidence of guaranty means to the lender.
c. Materials Sent to the Borrower	VA sends a pamphlet and letter to the borrower(s) which provide information on the borrowers' rights and responsibilities with regard to making loan payments, owning a home, selling the property, and reusing entitlement.

Chapter 6. Refinancing Loans

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	Interest Rate Reduction Refinancing Loans (IRRRLs)	6-2
2	IRRRL Made to Refinance Delinquent Loan	6-13
3	Cash-Out Refinancing Loans	6-17
4	Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans	6-19
5	Other Refinancing Loans	6-21

1. Interest Rate Reduction Refinancing Loans (IRRRLs)

Change Date

July 20, 2007, Change 5

- Subsection b adds a reference to the use of ARMs.
 - Subsection q has been changed by deleting Step 2, VA Form 26-0285, VA Transmittal List, which is no longer required. Steps 2 through 9 have been renumbered.
-

a. What is an IRRRL?

An IRRRL is a VA-guaranteed loan made to refinance an existing VA-guaranteed loan, generally at a lower interest rate than the existing VA loan, and with lower principal and interest payments than the existing VA loan.

Generally, no appraisal, credit information or underwriting is required on an IRRRL, and any lender may close an IRRRL automatically.

Note: Exceptions and specific requirements are explained in the remainder of this section.

b. Interest Rate Decrease Requirement

An IRRRL (which can be a fixed rate, hybrid ARM or traditional ARM) must bear a lower interest rate than the loan it is refinancing unless the loan it is refinancing is an Adjustable Rate Mortgage (ARM).

c. Payment Decrease/Increase Requirements

The principal and interest payment on an IRRRL must be less than the principal and interest payment on the loan being refinanced unless one of the following exceptions applies:

- The IRRRL is refinancing an ARM.
- Term of the IRRRL is shorter than the term of the loan being refinanced, or
- Energy efficiency improvements are included in the IRRRL.

A significant increase in the veteran's monthly payment may occur with any of these three exceptions, especially if combined with one or more of the following:

- financing of closing costs
 - financing of up to two discount points
 - financing of the funding fee, and/or
 - higher interest rate when an ARM is being refinanced.
-

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1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

**c. Payment
Decrease/
Increase
Requirements
(continued)**

If the monthly payment (PITI) increases by 20 percent or more, the lender must:

- determine that the veteran qualifies for the new payment from an underwriting standpoint; such as, determine whether the borrower can support the proposed shelter expense and other recurring monthly obligations in light of income established as stable and reliable, and
 - include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.
-

**d. Veteran's
Statement and
Lender's
Certification**

For all IRRRLs, the veteran must sign a statement acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate.

The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. The statement must also indicate how long it would take to recoup ALL closing costs (both those included in the loan and those paid outside of closing).

If the monthly payment (PITI) increases by 20 percent or more, the lender must include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.

Example:

- Vet's monthly payment decreases by \$50.00.
- Vet pays \$5,000 in closing costs (includes all costs – closing costs, funding fee, discounts, etc).
- Recoup closing costs in 100 months - \$5,000 divided by \$50.

Note: This would not be required in those limited cases where the payment is not decreasing (reduced term of loan, etc.).

The veteran's statement may be combined with the lender's certification and should be on the lender's own letterhead. For a sample please go to:
http://www.homeloans.va.gov/docs/VA_Rate_Reduction_Cert.pdf.

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1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

e. What Closing Costs, and so on, can be Included in the Loan?

The following fees and charges may be included in an IRRRL:

- The VA funding fee, and
- Any allowable fees and charges discussed in [section 2 of chapter 8](#); such as, all allowable closing costs, including the lender's flat charge.

However, There Is One Limitation

While the borrower may pay any reasonable amount of discount points in cash, only up to two discount points can be included in the loan amount.

Although VA does **not** require an appraisal or credit underwriting on IRRRLs, any customary and reasonable credit report or appraisal expense incurred by a lender to satisfy its lending requirements may be charged to the borrower and included in the loan.

The lender may also set the interest rate on the new loan high enough to enable the lender to pay all closing costs, as long as the requirements for lower interest rate and payments (or one of the exceptions to those requirements) are met.

For IRRRLs to refinance loans 30 days or more past due (which must be submitted for prior approval), the following can be included in the new loan:

- Late payments and late charges on the old loan, and
- Reasonable costs if legal action to terminate the old loan has commenced.

f. When Can the Borrower Receive Cash at Closing?

An IRRRL cannot be used to take equity out of the property or pay off debts, other than the VA loan being refinanced. Loan proceeds may only be applied to paying off the existing VA loan and to the costs of obtaining or closing the IRRRL. Therefore, the general rule is that the borrower cannot receive cash proceeds from the loan. (If necessary, the refinancing loan amount must be rounded down to avoid payments of cash to the veteran).

The one exception is reimbursement of the veteran for the cost of energy efficiency improvements up to \$6,000 completed within the 90 days immediately preceding the date of loan closing.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

**f. When Can
the Borrower
Receive Cash at
Closing?**
(continued)

Note: Use of loan proceeds for energy efficiency improvements **not** involving cash reimbursement of the veteran is also an option. See [section 3 of chapter 7](#).

In a limited number of situations, the borrower may receive cash at closing. Some examples of situations in which VA does not object to the borrower receiving cash are:

- computational errors
- changes in final pay-off figures
- up-front fees paid for the appraisal and/or credit report that are later added into the loan, and
- refund of the escrow balance on the old loan. This often occurs when a party other than the present holder originates the loan.

VA does not set a “ceiling” or a specific dollar limitation on cash refunds resulting from adjustments at closing. However, if a situation involves a borrower receiving more than \$500, consult VA as to its acceptability. Lenders and VA personnel should exercise common sense when assessing such situations and draw from basic program information to know the difference between an equity withdrawal and cash from unforeseen circumstances.

**g. Maximum
Loan**

Always use [VA Form 26-8923](#), IRRRL Worksheet, to calculate the maximum loan amount. The maximum loan amount is:

The existing VA loan balances plus the following:

- including any late payments* and late charges, plus
- allowable fees and charges (includes up to two discount points), plus
- the cost of any energy efficiency improvements, and
- the VA funding fee.

*Any IRRRL that includes delinquent payments in the loan amount must be submitted for prior approval, even when a lender has automatic authority.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

g. Maximum Loan (continued)

Note: There is no maximum dollar amount for VA loans. Since an IRRRL rolls the above items into the new loan, and VA guarantees at least 25 percent of the loan amount (without regard to the veteran's entitlement), the new loan amount may be more than the limits established by the secondary market. It is the lender's responsibility to ensure it has a marketable loan.

h. Amount of Guaranty and Entitlement Use

No additional charge is made to the veteran's entitlement for an IRRRL; such as, the amount of the veteran's previously used and available entitlement remains the same before and after obtaining the IRRRL.

The new IRRRL loan amount may be equal to, greater than, or less than, the original amount of the loan being refinanced. This may impact the amount of guaranty on the new loan, but **not** the veteran's use of entitlement.

Example Of New Loan Amount More Than Old Loan

The existing VA loan was originally made for \$110,000 with a guaranty of \$27,500, or 25 percent. The new IRRRL is for \$112,000. The guaranty on the new loan is \$28,000 or 25 percent, but the veteran's entitlement use remains at \$27,500.

Example Of New Loan Amount Less Than Old Loan

The existing VA loan was originally made for \$42,000 with a guaranty of \$25,000, or almost 60 percent (the percentage applicable under former law). The new IRRRL is for \$40,000. The guaranty on the new loan is \$20,000 or 50 percent, but the veteran's entitlement use remains at \$25,000.

Amount	How to calculate the amount of guaranty on an IRRRL
IRRRLs up to \$45,000	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> • 50% of the IRRRL loan amount, or • The amount of guaranty used on the VA loan being refinanced. <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> • The above result, or • 25% of the IRRRL loan amount.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

h. Amount of Guaranty and Entitlement Use (continued)

Amount	How to calculate the amount of guaranty on an IRRRL
IRRRLs of \$45,001 to \$56,250	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> • \$22,500, or • The amount of guaranty used on the VA loan being refinanced. <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> • The above result, or • 25% of the IRRRL loan amount.
IRRRLs of \$56,251 to \$144,000	<p>First, calculate the lesser of:</p> <ul style="list-style-type: none"> • 40% of the IRRRL loan amount, or • The amount of guaranty used on the VA loan being refinanced. <p>The amount of guaranty is the greater of:</p> <ul style="list-style-type: none"> • The above result, or • 25% of the IRRRL loan amount.
IRRRLs greater than \$144,000	Guaranty on these is always 25% of the IRRRL loan amount.

i. Maximum Loan Term

The maximum loan term is the original term of the VA loan being refinanced plus ten years, but not to exceed 30 years and 32 days. For example, if the old loan was made with a 15-year term, the term of the new loan cannot exceed 25 years.

j. Title/Lien Requirements

The IRRRL must replace the existing VA loan as the first lien on the same property. Any second lien-holder would have to agree to subordinate.

- The borrower cannot pay off liens other than the existing VA loan from IRRRL proceeds.
- The veteran (or surviving co-obligor spouse) must still own the property.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

k. Who Can an IRRRL be Made to?

Generally, the party(ies) obligated on the original loan must be the same on the new loan (and the veteran must still own the property).

The lender should contact VA regarding a proposed IRRRL involving a change in obligors unless the acceptability of the IRRRL is clear. Sample cases are provided in the table in this subsection.

Examples:

In Case 7 the divorced spouse is keeping the home and wishes to refinance. The spouse cannot get an IRRRL unless the veteran agrees to be obligated on the new loan and commit his or her entitlement to the new loan. A person without entitlement cannot get an IRRRL or any other type of VA loan.

In Cases 8 through 10 the applicants cannot obtain an IRRRL because they do **not** include the veteran or a person who was the veteran's spouse at the time the original loan was made, and who was obligated on the loan along with the veteran.

In the case of the unmarried veteran obtaining the original loan (Case 8):

- the marriage and death of the veteran occurred after the loan was made, and
- the deceased veteran's spouse is **not** obligated on the original loan. **Thus**, an IRRRL is **not** possible.

In the case of the veteran and spouse obligated on the original loan (Case 9):

- the divorce, remarriage, then death of the veteran occurred after the loan was made and,
- the deceased veteran's new spouse is **not** obligated on the original loan. **Thus**, an IRRRL is not possible.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

k. Who Can an IRRRL be Made to? (continued)

In the case of the veteran/nonveteran joint loan (Case 10):

- The veteran “sold out” to the nonveteran co-obligor after the loan was made and,
 - The veteran no longer has any ownership interest in the property.
- Thus**, an IRRRL is not possible.

Parties Obligated on Old VA Loan		Parties to be Obligated on new IRRRL	Is IRRRL Possible?
1	Unmarried veteran	Veteran and new spouse	Yes
2	Veteran and spouse	Divorced veteran alone	Yes
3	Veteran and spouse	Veteran and different spouse	Yes
4	Veteran alone	Different veteran who has substituted entitlement	Yes
5	Veteran and spouse	Spouse alone (veteran died)	Yes
6	Veteran and nonveteran joint loan obligors	Veteran alone	Yes
7	Veteran and spouse	Divorced spouse alone	No
8	Unmarried veteran	Spouse alone (veteran died)	No
9	Veteran and spouse	Different spouse alone (veteran died)	No
10	Veteran and nonveteran joint loan obligors	Nonveteran alone	No

l. Underwriting of IRRRLs When Obligators Have Changed

Although VA does **not** require any credit/income documentation or re-underwriting of IRRRLs when there has been a change in obligors, lenders may want to consider the following:

- Check mortgage payment record in lieu of obtaining a full credit report, unless required by investor.
- For death or divorce cases, obtain a statement from the obligor(s) on the ability to make payments on the new loan without the co-obligor’s income.
- Obtain a statement about the addition of a different spouse, change in number of dependents, as applicable.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs),

Continued

l. Underwriting of IRRRLs When Obligors Have Changed
(continued)

The lender should satisfy itself that the lower payment and interest rate and the minimum 25 percent guaranty compensate for no re-underwriting on the new loan when there has been a change in obligors.

m. Occupancy

For IRRRLs, the veteran or the spouse of an active service member must certify that he or she previously occupied the property as his or her home. This is different than the requirement for non-IRRRL VA loans that the veteran must intend to personally occupy the property as his or her home.

Reference: See [chapter 3](#) for details.

n. VA Loan Identification Number

Request a new loan number for each IRRRL through [The Appraisal System \(TAS\)](#), without requesting an appraisal.

o. Credit Underwriting

No credit information or underwriting is required unless:

- The loan to be refinanced is 30 days or more past due (see section 2 of this chapter) or,
- the monthly payment (PITI) will increase 20 percent or more.

Reference: See subsection d of this section.

A borrower with a recent Chapter 13 bankruptcy may need approval of the trustee for the new loan.

p. Prior Approval Procedures

An IRRRL can be closed on an automatic basis by any lender (such as, a lender with or without automatic authority to close other types of loans on an automatic basis) in any geographic location.

Exception: For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed (see section 2, subsection a of this chapter).

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

p. Prior Approval Procedures (continued)

A lender may choose to submit an IRRRL for prior approval, even if the existing loan is not 30 days or more past due. In such cases, submit only items 1 through 10 (and 17, if applicable) of the information listed under “Prior Approval Submission.” Also include an explanation of why the loan is being submitted for prior approval.

Submit documents on closed prior approval IRRRLs in accordance with the instructions under section 2, subsection c of this chapter.

Note: Prior approval for IRRRLs **is not required** for veteran’s in receipt of nonservice-connected pension or for veterans rated incompetent by VA when these veterans meet the requirements of this section.

q. Procedures for Automatic Processing of IRRRLs

An IRRRL can be closed on an automatic basis by any lender (such as, a lender with or without automatic authority to close other types of loans on an automatic basis) in any geographic location.

Exception: For IRRRLs to refinance existing VA loans 30 days or more past due, VA prior approval is needed. See section 2, subsection a of this chapter.

A loan must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. (see document #12.)

To report a loan, submit the following documents to VA in the order listed.

Order	Document
1	Lender’s cover or transmittal letter (if used).
2	VA Form 26-0286 , VA Loan Summary Sheet.
3	VA Form 26-8320 (or 26-8320a), Certificate of Eligibility, or a request for a duplicate certificate on VA Form 26-1880 , Request for a Certificate of Eligibility.
4	Funding fee receipt. Reference: See section 8 of chapter 8 for information on exemptions.

Continued on next page

1. Interest Rate Reduction Refinancing Loans (IRRRLs), Continued

q. Procedures for Automatic Processing of IRRRLs (continued)

Order	Document
5	Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. <ul style="list-style-type: none"> • The statement must show the interest rate and monthly payments for the new loan versus that for the old loan. • The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing). • If applicable, the veteran's statement may be combined with the lender's certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more.
6	VA Form 26-8923 , Interest Rate Reduction Refinancing Loan Worksheet.
7	VA Form 26-1820 , Report and Certification of Loan Disbursement.
8	VA Form 26-8937 , Verification of VA Benefits (if applicable).
9	HUD-1, settlement statement.
10	VA Form 26-0503 , Federal Collection Policy Notice.
11	Lender's certification that the prior loan was current (not 30 days or more past due) at the time of loan closing.
12	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current. This statement must be submitted with any late request for issuance of a Loan Guaranty Certificate.
13	Documentation of the cost of energy efficiency improvements included in the loan. For cash reimbursement of the veteran, the improvements must have been completed within the 90 days immediately preceding the date of the loan. <i>Reference:</i> See section 3 of chapter 7 .
14	Any other necessary documents (see section 6 of chapter 5).

2. IRRRL Made to Refinance Delinquent Loan

Change Date July 20, 2007, Change 5
Subsection c has been changed to delete Step 2, VA Form 26-0285, VA Transmittal List, which is no longer required. Steps 2 through 9 have been renumbered.

a. Prior Approval Submission Any IRRRL made to refinance a loan that will be 30 days or more past due as of the date of closing, must be submitted for prior approval.

The lender must first obtain sufficient information and perform sufficient analysis to determine that the:

- cause of the delinquency has been resolved, and
- veteran is willing and able to make the proposed loan payments.

Submit a written proposal to VA which contains the following information:

Item	Information
1	The full name of the veteran and all other parties obligated on the prior loan and to be obligated on the new loan.
2	The VA loan number and month and year of origination of the loan to be refinanced.
3	The name and address of the lender proposing to make the loan.
4	The approximate proposed loan amount, interest rate, and term for the new loan versus the old loan.
5	Discount to be charged, expressed as a percentage of the loan and a dollar amount.
6	Statement signed by the veteran acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. <ul style="list-style-type: none">• The statement must show the interest rate and monthly payments for the new loan versus that for the old loan.• The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing).

Continued on next page

2. IRRRL Made to Refinance Delinquent Loan, Continued

a. Prior Approval Submission (continued)

Item	Information
7	<p>The appropriate certification concerning occupancy signed by the veteran or the spouse of an active-duty service member. One of the following must be signed.</p> <p>“I have previously occupied the property securing this loan as my home.”</p> <p>_____</p> <p>veteran’s signature</p> <p>“While my spouse was on active duty and unable to occupy the property securing this loan, I occupied the property securing this loan as my home.”</p> <p>_____</p> <p>spouse’s signature</p>
8	VA Form 26-8923 , Interest Rate Reduction Refinancing Loan Worksheet.
9	VA Form 26-8937 , Verification of VA Benefits (if applicable).
10	Certificate of Eligibility, or, if unavailable, a request for a duplicate certificate VA Form 26-1880 , Request for a Certificate of Eligibility.
11	Uniform Residential Loan Application (URLA).
12	Explanation of the reason(s) for the loan delinquency, including appropriate documentation to verify the cause.
13	Documentation to verify that the cause of the delinquency has been corrected.
14	Credit report (in-file credit report is acceptable).
15	Current pay stub and telephone verification of current employment.
16	VA Form 26-6393 , Loan Analysis.
17	Documentation of the cost of energy efficiency improvements to be included in the loan, if known. See section 3 of chapter 7 . For cash reimbursement of the veteran, the improvements must be completed within the 90 days immediately preceding the date of the loan.

Continued on next page

2. IRRRL Made to Refinance Delinquent Loan, Continued

b. What Happens Next?

VA will inform the lender of its decision.

The lender may close the loan in reliance on a VA-issued Certificate of Commitment.

Reference: See [section 4 of chapter 5](#) for further information on the Certificate of Commitment.

c. How to Report Loan Closing and Request Guaranty

A prior approval IRRRL must be reported (such as, all documentation submitted) to VA within 60 days of closing. A lender that fails to meet this time limit must provide a written explanation. (see order #8).

To report an IRRRL, submit the following documents to VA in the order listed.

Order	Document
1	Lender's cover or transmittal letter (if used).
2	VA Form 26-0286 , VA Loan Summary Sheet.
3	Funding fee receipt. See section 8 of chapter 8 for information on exemptions.
4	If the loan amount has increased beyond the amount indicated on the Certificate of Commitment, an updated VA Form 26-8923 , Interest Rate Reduction Refinancing Loan Worksheet.
5	VA Form 26-1820 , Report and Certification of Loan Disbursement.
6	HUD-1 , settlement statement.
7	VA Form 26-0503 , Federal Collection Policy Notice.
8	If loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender which identifies the loan and provides the specific reason(s) why the loan was not submitted on time.
9	Any other necessary documents. (See section 6 of chapter 5 .)

Continued on next page

2. IRRRL Made to Refinance Delinquent Loan, Continued

**d. Treatment of
Late Payments
and Late
Charges**

All late payments and late charges (and reasonable costs if legal action to terminate the old loan has commenced) can be rolled into the new loan.

If the amount of late payments, late charges and legal costs is significant, the proposed monthly payment will be adversely impacted. Carefully analyze whether the IRRRL would benefit the veteran and not create unacceptable risk to the Government in light of the new monthly payment.

3. Cash-Out Refinancing Loans

Change Date	July 20, 2007, Change 5 Language referring to a maximum guaranty of \$60,000 has been deleted from subsection d.
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a. What is a VA Cash-Out Refinancing Loan?	A cash-out refinancing loan is a VA-guaranteed loan which refinances any type of lien or liens against the secured property. The liens to be paid off may be:
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- current or delinquent, and
- from any source, such as
 - tax or judgment liens, and/or
 - VA, FHA, or conventional mortgages.

Loan proceeds beyond the amount needed to pay off the lien(s) may be taken as cash by the borrower for any purpose acceptable to the lender.

A cash-out refinancing loan is limited to 90 percent of the reasonable value of the property.

The loan must be secured by a first lien on the property.

b. Maximum Loan Amount	The maximum loan amount is 90 percent of the appraised value plus the cost of any energy efficiency improvements plus the VA funding fee.
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c. What Fees and Charges can be Included in the Loan?	While only the VA funding fee can be added to the 90 percent limit to increase the loan amount, cash proceeds from the loan may be used to pay allowable fees and charges and discount points.
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The total of the following items, if paid from loan proceeds, cannot exceed 90 percent of reasonable value:

- payoff of liens
 - allowable fees and charges (other than the funding fee)
 - reasonable discount points, and
 - cash to the borrower.
-

Continued on next page

3. Cash-Out Refinancing Loans, Continued

d. Maximum Guaranty	The maximum guaranty on cash-out refinancing loans is \$36,000, even for loans greater than \$144,000.
e. Veteran's Entitlement	The veteran must have sufficient available entitlement for the loan. If an existing VA loan on the same property will be paid off by the refinancing loan, the entitlement used for that existing loan can be restored for purposes of obtaining the new loan.
f. Occupancy	<p>The veteran must certify that he or she intends to personally occupy the property as his or her home.</p> <p><i>Reference:</i> See section 5 of chapter 3 for details.</p>
g. Automatic or Prior Approval Processing?	Only lenders with authority to close loans automatically may close cash-out refinancing loans automatically. All others must submit these loans for prior approval by VA.
h. Lender Procedures	<p>Loan processing procedures are virtually the same as for non-refinancing loans. A full appraisal, credit information, and underwriting are required. Generally, follow the procedures described in chapter 5 of this handbook.</p> <p>To report loan closing, submit all of the documents required for non-refinancing loans (See chapter 5) plus a statement signed by the veteran which shows:</p> <ul style="list-style-type: none">• the cash proceeds paid• an itemization of the debts paid from loan proceeds, and• the identification of those debts secured by liens of record.

4. Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans

Change Date July 20, 2007, Change 5
Subsection a has been updated to provide the appropriate legal citations.

a. Table IRRRL vs. Cash-out The following table provides a quick reference for IRRRLs versus cash-out refinances

Feature	IRRRL	Cash-out Refinancing
Purpose	To refinance existing VA loan at lower interest rate	To pay off lien(s) of any type - can also provide cash to borrower
Interest rate	Rate must be lower than on existing VA loan (unless existing loan is ARM)	Any negotiated rate
Monthly payment amount	Payment must be lower than on existing VA loan (unless ARM being refinanced, term shortened or energy efficiency improvements included)	No requirement
Discount points	Reasonable points can be paid - only two of these points can be included in the loan amount	Reasonable points can be paid - if paid from loan proceeds, do not exceed 90% loan limit
Maximum Loan	Existing VA loan balance plus allowable fees and charges plus up to two discount points plus the cost of any energy efficiency improvements plus the VA funding fee	90% of the reasonable value of the property indicated on the NOV plus the cost of any energy efficiency improvements plus the VA funding fee
Maximum Guaranty	See section 1 subsection h of this chapter. Guaranty is at least 25% in all cases	\$36,000 - See section 3 subsection d of this chapter.

Continued on next page

4. Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans, Continued

a. Table IRRRL vs. Cash-out (continued)

Feature	IRRRL	Cash-out Refinancing
Entitlement	The veteran re-uses the entitlement used on the existing VA loan - The IRRRL does not impact the amount of entitlement the veteran has in use	Must have sufficient available entitlement - if existing VA loan on the same property is being refinanced, entitlement can be restored for the refinance
Fees and Charges in Loan	All allowable fees and charges, including up to two discount points, may be included in loan	Allowable fees and charges and points may be paid from loan proceeds, subject to the 90% limit
Cash to Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender
Lien/Ownership	Must be secured by first lien - veteran must own property	Must be secured by first lien - veteran must own property
Refinance of Other Liens	Cannot refinance other liens - can only refinance the existing VA loan	Can refinance any type of lien(s)
Maximum Loan Term	Existing VA loan term plus 10 years, not to exceed 30 years + 32 days	30 years + 32 days
Occupancy	Veteran or spouse of active duty member must certify to prior occupancy	Veteran or spouse of active duty member must certify as to intent to occupy
Appraisal	No appraisal is required	Appraisal is required
Credit Underwriting	No underwriting is required except in certain cases	Full credit information and underwriting are always required
Automatic Authority	All lenders can close IRRRLs automatically, except if refinanced loan is 30 days or more past due, prior approval is always required	Only lenders with automatic authority can close these loans automatically
Law	38 U.S.C. 3710(a)(8)	38 U.S.C. 3710(a)(5)

5. Other Refinancing Loans

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to update formatting for subsection lettering.• Subsection a has been changed to include the previous subsection c.
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a. What are they?	These consist of loans to refinance <ul style="list-style-type: none">• construction loans• installment land sale contracts, and• loans assumed by veterans at interest rates higher than that for the proposed refinance.
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Note: These loans are like cash-out refinancing loans except:

- the maximum loan amount is different—these loans are not based on 90 percent of reasonable value, and
- borrowers receive no cash at closing.

b. Maximum Loan	These loans may not exceed the lesser of <ul style="list-style-type: none">• the VA reasonable value plus the VA funding fee, or• the sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee) and discounts. <p>The cost of energy efficiency improvements can also be added to the loan.</p>
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Chapter 7. Loans Requiring Special Underwriting, Guaranty and Other Considerations

Overview

Introduction This chapter contains information about loans requiring special underwriting, guaranty and other considerations.

In this Chapter This chapter contains the following topics.

Topic	Topic	See Page
1	Joint Loans	7-2
2	Construction/Permanent Home Loans	7-13
3	Energy Efficient Mortgages (EEMs)	7-16
4	Loans for Alteration and Repair	7-22
5	Supplemental Loans	7-23
6	Adjustable Rate Mortgages (ARMs)	7-27
7	Graduated Payment Mortgages (GPMs)	7-29
8	Growing Equity Mortgages (GEMs)	7-34
9	Loans Involving Temporary Interest Rate Buydowns	7-35
10	Farm Residence Loans	7-38
11	Cooperative Home Loans	7-40
12	Loans for Manufactured Homes Classified as Real Estate	7-41
13	Loans to Native American Veterans on Trust Lands	7-44

1. Joint Loans

Change Date

July 20, 2007, Change 5

- Subsection i has been changed to show the increase in available entitlement for loans in excess of \$144,000.
 - Subsections j, k, l, and m have been changed to show the percentage available for a joint loan where the veteran's portion of the loan exceeds \$144,000.
 - Subsection q has been changed to reflect the current funding fee.
-

a. What is a VA Joint Loan?

“Joint loan” generally refers to a loan for which:

- a veteran and another person(s) are liable, and
- the veteran and the other obligor(s) own the security.

A joint loan is a loan made to:

- the veteran and one or more nonveterans (not spouse)
- the veteran and one or more veterans (not spouse) who will not be using their entitlement
- the veteran and the veteran's spouse who is also a veteran, and both entitlements will be used, or
- the veteran and one or more other veterans (not spouse), all of who will use their entitlement.

A loan involving a veteran and his or her spouse will not be treated as a “joint loan” if the spouse:

- is not a veteran, or
- is a veteran who will not be using his or her entitlement on the loan.

A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan.

b. VA Regulations

The regulations at [38 CFR 36.4307](#) address joint loans.

Continued on next page

1. Joint Loans, Continued

c. Terminology Used in this Section

To avoid confusion, the terms “veteran/nonveteran joint loan” and “two veteran joint loan” will be used throughout this section to include the various types of joint loans.

Veteran/nonveteran joint loan:

Common meaning: A loan involving one veteran and one nonveteran (not spouse).

For purposes of applying the principles explained in this section, this term will also be used to represent **any** other type of joint loan involving at least one veteran using his or her entitlement and at least one other person **not** using entitlement (can be a veteran or nonveteran, but not a spouse).

Examples:

- Three veterans using entitlement and one nonveteran.
- One veteran using entitlement and four nonveterans.
- Two veterans using entitlement and two veterans **not** using entitlement.

Two veteran joint loan:

Common meaning: A loan involving two veterans who are not married to each other, both using their entitlement.

For purposes of applying the principles explained in this section, this term will also be used to represent **any** other type of joint loan involving only veterans, each of whom uses his or her entitlement.

It can include loans to:

- The veteran and the veteran’s spouse who is also a veteran, if **both** entitlements will be used, or
- Three, four, or more veterans, **all** of whom will use their entitlement.

d. Occupancy

Any person who uses entitlement on a joint loan must certify intent to personally occupy the property as his or her home.

Any borrower on a joint loan who does not use entitlement for the loan (such as a nonveteran), does not have to intend to occupy the property.

Continued on next page

1. Joint Loans, Continued

e. How Many Units Can the Property Have?

If a property is to be owned by two or more eligible veterans, it may consist of four family units and one business unit, plus one additional unit for each veteran participating in the ownership.

Thus, two veterans may purchase or construct residential property consisting of up to six family units (the basic four units plus one unit for each of the two veterans), and one business unit.

If the property contains more than four family units plus one family unit for each veteran participating in the ownership and/or more than one business unit, the loan is **not** eligible for guaranty.

f. Which Joint Loans Require Prior Approval?

Any joint loan for which the veteran will hold title to the property and any person **other than** the veteran's spouse must be submitted for prior approval.

Any loan for which the veteran and the veteran's spouse will hold title to the property, whether or not the spouse also uses entitlement, may be closed automatically by a lender with automatic authority.

g. How to Underwrite a Joint Loan

The following underwriting considerations apply:

Part Type of Joint Loan	Underwriting Considerations Function
Two veteran joint loan	Consider the credit and combined income and assets of both parties. Strengths of one veteran related to income and/or assets may compensate for income/asset weaknesses of the other. However, satisfactory credit of one veteran cannot compensate for the other's poor credit.

Continued on next page

1. Joint Loans, Continued

g. How to Underwrite a Joint Loan (continued)

Part Type of Joint Loan	Underwriting Considerations Function
Veteran/nonveteran joint loan	<p>Veteran's credit must be satisfactory and veteran's income must be sufficient to repay that portion of the loan allocable to the veteran's interest in the property.</p> <p>A different analysis applies to the portion of the loan allocable to the nonveteran. The credit of the nonveteran must be satisfactory. However, the combined income of both borrowers can be considered in evaluating repayment ability.</p> <p>In other words:</p> <ul style="list-style-type: none"> • income strength of the veteran may compensate for income weakness of the nonveteran, but • income strength of the nonveteran cannot compensate for income weakness of the veteran in analyzing the veteran's ability to repay his or her allocable portion of the loan.

h. How to Calculate Guaranty and Entitlement Use on Veteran/Nonveteran Joint Loans

Guaranty is limited to that portion of the loan allocable to the veteran's interest in the property.

The lender **must** satisfy itself that the requirements of its investor or the secondary market can be met with this limited guaranty.

Continued on next page

1. Joint Loans, Continued

i. Procedure VA calculates the guaranty as described in the table below.

Step	Action
1	Divide the total loan amount by the number of borrowers.
2	<p>Multiply the result by the number of veteran-borrowers who will be using entitlement on the loan.</p> <p>There is usually only one veteran borrower, in which case the result of this Step is the same as the result of Step 1.</p>
3	<p>Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2 (as if that portion was the total loan).</p> <p>Use the maximum guaranty table in section 4 of chapter 3 of this handbook.</p>
4	<p>VA will guarantee the lesser of:</p> <ul style="list-style-type: none">• the maximum potential guaranty amount arrived at in Step 3, or• the combined available entitlement of all veteran-borrowers. <p>If the result of Step 2 is greater than \$144,000, additional entitlement may be added to each veteran's entitlement. The maximum entitlement on the loan cannot exceed 25 percent of the Freddie Mac single family conventional conforming loan limit. Please contact a Regional Loan Center to discuss specifics for joint loans.</p>
5	<p>VA makes a charge to the veteran-borrowers' available entitlement in the amount of the guaranty.</p> <p>If more than one veteran is involved, VA divides the entitlement charge equally between them if possible. If only unequal entitlement is available, unequal charges may be made with the written agreement of the veterans.</p>

Continued on next page

1. Joint Loans, Continued

j. Examples Veteran/Nonveteran Loans

Borrowers and Available Entitlement	Total Loan Amount	Vet's Portion	Maximum Potential Guaranty on Vet's Portion	Entitlement Charge ----- T=Total
Vet \$36,000 Nonvet \$0	\$100,000	\$ 50,000	\$22,500	\$22,500
Vet \$36,000 Nonvet \$0	\$290,000	\$145,000	\$36,250	\$36,250
Vet \$27,500 Vet \$36,000 Nonvet \$0	\$108,000	Total for both vets \$72,000	Total for both vets \$28,800	\$14,400 \$14,400 T=\$28,800
Vet \$25,000 Vet \$11,000 Nonvet \$0	\$201,000	Total for both vets \$134,000	\$36,000	\$25,000 \$11,000 T=\$36,000

Note: The last example would require a written agreement from the veterans to make unequal charges to their entitlement.

Quick Reference For Calculation Used	
Step	Action
1	Divide the total loan amount by the number of borrowers.
2	Multiply the result by the number of veterans using entitlement.
3	Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2, using the maximum guaranty table in section 4 of chapter 3 .
4	VA will make a charge to entitlement up to the amount arrived at in Step 3. <ul style="list-style-type: none"> • VA will divide the charge equally between multiple veterans if possible. • If Step 2 is greater than \$144,000, additional entitlement may be added to each veterans entitlement. The maximum entitlement on the loan cannot exceed 25 percent of the Freddie Mac single family conventional conforming loan limit.

Continued on next page

1. Joint Loans, Continued

k. How to Calculate Guaranty and Entitlement Use on Two Veteran Joint Loans

As with a non-joint loan, the potential maximum guaranty on a joint loan is calculated based on the total loan amount and cannot exceed 25 percent of the Freddie Mac single family conventional conforming loan limit (please contact your RLC to discuss these situations), even if the available entitlement of the veterans involved adds up to a greater amount.

l. Procedure

VA calculates the guaranty as described in the following table.

Step	Action
1	<p>Calculate the maximum potential guaranty on the total loan amount.</p> <p>Use the maximum guaranty table in section 4 of chapter 3 of this handbook.</p>
2	<p>VA will guarantee the lesser of:</p> <ul style="list-style-type: none"> • the maximum potential guaranty amount arrived at in Step 1, or • the combined available entitlement of all veteran-borrowers. <p>If the loan amount is greater than \$144,000, additional entitlement may be added to each veterans entitlement. The maximum entitlement on the loan cannot exceed 25 percent of the Freddie Mac single family conventional conforming loan limit.</p> <p>If possible, VA will use this additional entitlement to arrive at equal entitlement charges for the veterans involved.</p>
3	<p>VA will make charges to the veterans' available entitlement which total the maximum guaranty arrived at in Step 1, or the total of their available entitlement if less than the maximum potential guaranty.</p> <p>VA will divide the entitlement charge equally between the veterans if possible, or, if only unequal entitlement is available, unequal charges may be made with the veterans' written agreement.</p> <p>Exception: VA will make the entitlement charge for husband and wife veterans according to their preference.</p>

Continued on next page

1. Joint Loans, Continued

m. Examples Two veteran joint loans

Veterans and Available Entitlement	Total Loan Amount	Maximum Potential Guaranty	Additional Entitlement Use Per Vet	Total Entitlement Charge Per Vet	Total Guaranty on Loan
Vet 1 \$36,000 Vet 2 \$36,000	\$100,000 0	\$36,000	\$0 \$0	\$18,000 \$18,000	\$36,000
Vet 1 \$23,500 Vet 2 \$ 8,500	\$ 80,000 0	\$32,000		\$23,500 \$ 8,500	\$32,000
Vet 1 \$36,000 Vet 2 \$36,000	\$300,000 0	\$75,000	Maximum entitlement on the loan cannot exceed 25 percent of the Freddie Mac single family conventional conforming loan limit	\$37,500 \$37,500	\$75,000
Vet 1 \$15,000 Vet 2 \$20,000	\$203,000 0	\$50,750		\$25,375 \$25,375	\$50,750
Vet 1 \$0 Vet 2 \$0 Vet 3 \$ 6,500	\$300,000	\$75,000		\$25,000 \$25,000 \$25,000	\$75,000

Note: The last two examples on the chart would require a written agreement from the veterans to make unequal charges to their entitlement.

Continued on next page

1. Joint Loans, Continued

n. Certificate of Commitment

For joint loans involving one or more nonveterans:

- the loan amount shown on the commitment is limited to the veteran's portion of the loan, and
- the percent of guaranty is based on the ratio of the amount of entitlement the veteran has available to the veteran's portion of the loan.

VA will issue the Certificate of Commitment with a reminder that:

- no part of the guaranty applies to the portion of the loan allocated to the nonveteran, and
 - in the event of foreclosure where a loss is sustained, the holder must absorb any loss attributable to the nonveteran's portion of the loan.
-

o. Loan Guaranty Certificate

The "Amount of Loan" reflects **only** the veteran's portion of the loan.

If more than one veteran used entitlement on the loan, it will reflect the total of **all** portions allocable to those veterans.

For veteran/nonveteran joint loans, the Loan Guaranty Certificate (LGC) will contain the statement, "The amount of guaranty on this loan is limited to the veteran's portion of the loan."

The lender must satisfy itself that the requirements of its investor or the secondary market can be met with this limited guaranty.

Whereas the whole loan amount will appear on the mortgage security documents; that is, mortgage note or deed of trust, only the veteran's portion is shown on the Certificate of Commitment and the LGC.

Continued on next page

1. Joint Loans, Continued

**p. ECOA
Considerations**

The applicability of the guaranty to only a portion of the loan in the case of a veteran/nonveteran joint loan may cause a lender to refuse to accept an application for such loan.

This may appear to conflict with the Equal Credit Opportunity Act (ECOA) prohibition against discrimination based on marital status, however, the lender may refuse the application under these circumstances without violating ECOA.

This is based on an exemption for VA being a special purpose credit program.

**q. Calculation
of the Funding
Fee**

Apply the appropriate funding fee percentage to any portion of the loan allocable to a veteran using his or her entitlement who is not exempt from the funding fee. Determine the appropriate percentage for the type of veteran involved from the funding fee tables in [section 8 of chapter 8](#) of this handbook.

Example: On a no-down payment loan to three veterans; one a first-time homebuyer, one a subsequent user, and one a first-time reservist; funding fee percentages of 2.15 percent, 3.3 percent, and 2.4 percent, respectively, would each be applied to one-third of the loan amount.

No funding fee will be assessed on any portion of a joint loan allocable to:

- a nonveteran
 - a veteran who did not use his or her entitlement, or
 - a veteran who used his or her entitlement, but is exempt from the funding fee.
-

Continued on next page

1. Joint Loans, Continued

**q. Calculation
of the Funding
Fee (continued)**

Downpayment: The actual loan amount is allocated equally between the borrowers for purposes of calculating the funding fee, whether or not a down payment is made, and regardless of where the funds for such a down payment come from.

Example: On a veteran/nonveteran loan, the nonveteran makes a \$5,000 (5 percent) down payment out of his cash resources, to purchase a \$100,000 property, resulting in a \$95,000 loan amount. The veteran is a first-time homebuyer. The veteran must pay a funding fee of \$712.50, based on 1.5 percent of his/her \$47,500 portion.

If situations arise which are not addressed here, contact VA for assistance.

2. Construction/Permanent Home Loans

- Change Date** September 15, 2004, Change 4
- This section has been changed to create subsection lettering.
 - Subsections e and f have been added back into this section. The previous change to the handbook erroneously removed these sections.
-

a. The Basics VA will guarantee a “construction/permanent home loan,” that is, a loan to finance the construction/purchase of a residence. The loan is closed prior to the start of construction with proceeds disbursed to cover the cost of, or balance owed on, the land, and the balance into escrow. The escrowed monies are paid out to the builder during construction.

The lender must obtain written approval from the borrower before each draw payment is provided to the builder.

This section does not address other construction loans guaranteed by VA; that is, those for the purchase of a residence newly constructed for the veteran by a builder who financed the construction from his or her own resources.

b. Amortization The veteran begins making payments on a construction/permanent home loan **only** after construction is complete. Therefore, the initial payment on principal may be postponed up to one year if necessary. The loan must be amortized to achieve full repayment within its remaining term.

Example: If it takes six months to complete construction, the payment schedule for the veteran obtaining a 30-year mortgage must provide for full repayment of the loan in 29 years and six months.

Rather than requiring a balloon payment, it may be preferable to set up equal payments (beginning after construction is complete) which are large enough to repay the loan within the original maturity without a balloon payment.

VA’s amortization requirements that payments be approximately equal and principal be reduced at least once annually apply to construction loans. (See [section 9 of chapter 3](#).) However, the final installment requirement is different. The final installment may be for an amount that does not exceed 5 percent of the original principal amount of the loan.

Continued on next page

2. Construction/Permanent Home Loans, Continued

**c. What the
Builder Must
Pay**

On a construction/permanent home loan, the builder is responsible for

- interest payments during the construction period, and
 - all fees normally paid by a builder who obtains an interim construction loan including, but **not** limited to
 - inspection fees
 - commitment fees
 - title update fees, and
 - hazard insurance during construction.
-

d. Interest Rate

The permanent mortgage loan interest rate is established at closing.

Lender's may offer a "ceiling-floor" where the veteran "floats" the interest rate during construction. The agreement must provide that at lock-in, the permanent interest rate will not exceed a specific maximum interest rate yet also permit the borrower to lock-in at a lower rate based on market fluctuations.

Note: The borrower must qualify for the mortgage at the maximum rate.

**e. What Fees
the Veteran
Can Pay**

The veteran may **not** pay any fees which are the builder's responsibility. Fees the veteran can pay are described in [section 2 of chapter 8](#).

**f. Funding Fee
and Loan
Reporting**

The funding fee is due and payable to VA within 15 days of loan closing; that is, it is **not** tied to the commencement or completion of construction. The loan must be reported to VA within 60 days of receipt of a clear final compliance inspection report.

**g. Loan
Guaranty
Certificate**

Although the loan will normally be considered guaranteed upon closing, the LGC on a construction/permanent home loan will not be issued until a clear final compliance inspection report has been received by VA.

Continued on next page

2. Construction/Permanent Home Loans, Continued

**h. If Loan
Proceeds not
Fully Disbursed**

If construction is not fully completed and loan proceeds not fully disbursed, guaranty will apply **only** to the proper pro rata part of the loan. To calculate the proper pro rata part of the loan

- take loan proceeds disbursed for construction purposes
 - add any other payments made to the builder by or on behalf of the veteran
 - take the lesser of the above total or 80 percent of the value of that portion of the construction actually completed, and
 - add any loan disbursements made for the purchase of the land on which the construction is situated.
-

3. Energy Efficient Mortgages (EEMs)

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection c has been changed to delete references to “CRV.”
-

a. What are EEMs?

EEMs are loans to cover the cost of making energy efficiency improvements to a dwelling. They can be made in conjunction with

- a VA loan for the purchase of an existing dwelling, or
- a VA refinancing loan secured by the dwelling.

Acceptable energy efficiency improvements include, but are not limited to

- solar heating systems, including solar systems for heating water for domestic use
 - solar heating and cooling systems
 - caulking and weather-stripping
 - furnace efficiency modifications limited to replacement burners, boilers, or furnaces designed to reduce the firing rate or to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency, devices for modifying flue openings which will increase the efficiency of the heating system, and electrical or mechanical furnace ignition systems which replace standing gas pilot lights
 - clock thermostats
 - new or additional ceiling, attic, wall and floor insulation
 - water heater insulation
 - storm windows and/or doors, including thermal windows and/or doors
 - heat pumps, and
 - vapor barriers.
-

b. Requirements

Funds for energy efficiency improvements are considered part of the total loan, which must be secured by a first lien.

If the labor is to be performed by the veteran, the loan increase will be limited to the amount necessary to pay for materials.

Continued on next page

3. Energy Efficient Mortgages (EEMs), Continued

b.
Requirements
(continued)

A loan for existing property may be increased by up to \$6,000 for energy efficiency improvements at the option of the lender and veteran at any time up to loan closing without VA's prior approval.

The lender must determine that the proposed weatherization and/or energy conservation improvements are reasonable for the particular property. The lender must evaluate the veteran's ability to pay the increased loan payments caused by addition of energy efficiency improvements.

For energy efficiency improvements that will increase a loan amount by more than \$6,000, the amount of the increase must be supported by an increased valuation in an equal amount.

c. Borrower
Notice on the
NOV

Information on EEMs is provided to a veteran who applies for a loan which requires a NOV (that is, a loan for a home purchase or cash-out refinance). The NOV includes the following notice to the veteran:

“The buyer may wish to contact a qualified person/firm for a home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased as a result of making energy efficiency improvements such as: Solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking, and storm windows/doors. Other energy related improvements may also be considered.

The mortgage may be increased by

- up to \$3,000 based solely on the documented costs
 - up to \$6,000 provided the increase in monthly mortgage payment does not exceed the likely reduction in monthly utility costs, or
 - more than \$6,000 subject to a value determination by VA.
-

Continued on next page

3. Energy Efficient Mortgages (EEMs), Continued

**d.
Underwriting
Considerations**

Energy efficiency improvements up to \$3,000:

The resulting increase in loan payments will normally be offset by a reduction in utility costs.

Energy efficiency improvements more than \$3,000, up to \$6,000:

The lender must make a determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs. Rely on locally available information provided by utility companies, municipalities, state agencies or other reliable sources, and document the determination.

Energy efficiency improvements over \$6,000:

Lenders should exercise discretion and consider

- whether the increase in monthly mortgage payments exceeds the likely reduction in monthly utility costs, and
- whether the veteran's income is sufficient to cover the higher loan payment.

A VA Certificate of Commitment issued before the decision to make energy efficiency improvements over \$6,000 must be returned to VA for a determination that the applicant still qualifies.

Energy efficiency improvements in conjunction with an IRRRL:

If the monthly payment (PITI) for the new loan exceeds the PITI of the loan being refinanced by 20 percent or more, the lender **must** certify to having determined that the veteran qualified for the higher payment.

Continued on next page

3. Energy Efficient Mortgages (EEMs), Continued

**e.
Documentation
Required with
Closed Loan
Package**

Energy efficiency improvements up to \$3,000:

Evidence of the cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost.

Improvements more than \$3,000, up to \$6,000:

Evidence of the

- cost of improvements such as a copy of the bid(s) or contract itemizing the improvements and their cost, and
- the lender's determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs.

Improvements over \$6,000:

- Documentation of VA's valuation of the energy efficiency improvements, and
- for prior approval loans, the Certificate of Commitment must reflect the additional amount.

IRRRL with significant increase in payments:

If the cost of the improvements causes the new loan payment (PITI) to be 20 percent or more higher than the old payment (on the loan being refinanced), then include the lender's certification that it has determined that the veteran qualified for the higher payment.

Continued on next page

3. Energy Efficient Mortgages (EEMs), Continued

**f. How to
Calculate
Guaranty and
Entitlement Use**

Guaranty is calculated on an energy efficient mortgage as described in the following table.

Step	Action
1	Calculate guaranty on the loan without the portion attributable to the energy efficiency improvements.
2	Calculate guaranty on the energy efficiency improvements portion by applying the same percentage used in Step 1.
3	Add the results of Steps 1 and 2 to arrive at guaranty on the entire loan.

However

The veteran's entitlement will **only** be charged the amount arrived at in Step 1; that is, based upon the loan amount **before** adding the cost of the energy efficiency improvements.

Example 1: If a veteran has full entitlement and applies for a loan of \$80,000, plus \$6,000 in energy efficiency improvements, VA will guarantee 40 percent of the full loan amount of \$86,000. Thus, the dollar amount of the guaranty will be \$34,400, even though the charge to the veteran's entitlement is only \$32,000.

Example 2: If a veteran with full entitlement applies for a \$144,000 loan to purchase a home, and adds \$6,000 in energy efficiency improvements, the 25 percent guaranty on the loan will only require the use of \$36,000 entitlement, but the dollar amount of guaranty will be \$37,500.

**g. How to
Calculate the
Funding Fee**

Calculate the funding fee based on the full loan amount including the cost of the energy efficiency improvements.

Continued on next page

3. Energy Efficient Mortgages (EEMs), Continued

h.
Improvements
Not Completed
Before Closing

If the energy efficiency improvements are not completed before closing, the lender may establish an escrow or earmarked account and close the loan.

- A formal escrow is not required.
- Only the amount needed to complete the improvements must be withheld.
- Check the appropriate block in item 23 [VA Form 26-1820](#), Report and Certification of Loan Disbursement.
- No additional documentation concerning the escrowed/earmarked funds must be submitted when reporting the closed loan.

Generally, the improvements should be completed within six months from the date of loan closing.

- Provide written notification to VA when improvements are completed and the escrow funds are disbursed, and
- assure the funds are properly applied to the costs of improvements.

If, after a reasonable time, the lender determines that the improvements will not be completed

- apply the balance of the escrowed/earmarked funds to reduce the principal balance on the loan, and
 - provide written notification to VA that this has been done.
-

i.
Reimbursement
of Veteran out
of IRRRL
Proceeds

The veteran generally may not obtain cash proceeds from an IRRRL.

Note: There is **one** exception. Up to \$6,000 of IRRRL loan proceeds may be used to reimburse the veteran for the cost of energy efficiency improvements completed within the 90 days immediately preceding the date of the loan.

4. Loans for Alteration and Repair

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Description VA may guarantee a loan for alteration and repair

- of a residence already owned by the veteran and occupied as a home, or
- made in conjunction with a purchase loan on the property.

The alterations and repairs must be those ordinarily found on similar property of comparable value in the community.

b. Value Considerations The cost of alterations and repairs to structures may be included in a loan for the purchase of improved property to the extent that their value supports the loan amount.

5. Supplemental Loans

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection e has been changed to delete references to “CRV.”
-

a. What is a Supplemental Loan?

A supplemental loan is a loan for the alteration, improvement, or repair of a residential property. The residential property must

- secure an **existing** VA-guaranteed loan, and
- be owned and occupied by the veteran, or the veteran will reoccupy upon completion of major alterations, repairs, or improvements.

The alterations, improvements, or repairs must

- be for the purpose of substantially protecting or improving the basic livability or utility of the property, and
- be restricted primarily to the maintenance, replacement, improvement or acquisition of real property, including fixtures.

Installation of features such as barbecue pits, swimming pools, etc., does not meet this requirement.

No more than 30 percent of the loan proceeds may be used for the maintenance, replacement, improvement, repair or acquisition of nonfixtures or quasi-fixtures such as refrigeration, cooking, washing, and heating equipment, and the equipment must be related to or supplement the principal alteration for which the loan is proposed.

Continued on next page

5. Supplemental Loans, Continued

**b. Required
Lien and
Maximum
Loan Term**

It is the lender's responsibility to obtain an effective lien of the required dignity.

Possible methods to secure a supplemental loan are

- through an open end provision of the instrument securing the existing loan
- through an amendment of the existing loan security instrument
- by taking a new lien to cover both the existing and the supplemental loans, or
- by taking a separate lien immediately junior to the existing lien.

The maximum loan term is

- 30 years if amortized, or
 - 5 years if not amortized.
-

**c. Other
Requirements**

The existing loan must be current with respect to taxes, insurance, and amortized payments, and must not otherwise be in default **unless** a primary purpose of the supplemental loan is to improve the ability of the borrower to maintain the loan obligation.

The making of a supplemental loan can never result in any increase in the rate of interest on the existing loan.

A supplemental loan to be written at a higher rate of interest than that payable on the existing loan must be evidenced by a separate note from the existing loan.

**d. Prior
Approval or
Automatic
Loan Closing**

A supplemental loan will require the prior approval of VA if

- the loan will be made by a lender who is not the holder of the currently guaranteed obligation
 - the loan is to be made by a lender that does not have authority to close loans on an automatic basis, or
 - an obligor liable on the currently outstanding obligation will be released from personal liability by operation of law or otherwise.
-

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5. Supplemental Loans, Continued

- e. Procedures** Submit a statement describing the alterations, improvements, or repairs made or to be made with the prior approval application (or loan closing package, if closed automatically). In addition, report the amount outstanding on the existing loan as of the date of closing of the supplemental loan in the loan closing package.

If the cost of the repairs, alterations, or improvements exceeds \$3,500:
A NOV and compliance inspections are required.

If the cost of the repairs, alterations, or improvements does not exceed \$3,500

A NOV and compliance inspections are not required. Instead, a statement of reasonable value may be submitted. The statement must be completed and signed by a VA-designated appraiser. A VA-designated appraiser is an individual nominated by the lender (who may be an officer, trustee, or employee of the lender or its agent) who has been approved by the local VA office. The statement must specify

- the work done or to be done
- the purchase price or cost of the work and material, and
- that the purchase price or cost does not exceed the reasonable value.

In lieu of VA compliance inspections, the lender must submit a certification as follows:

“The undersigned lender certifies to the Department of Veterans Affairs that the property as repaired, altered, or improved has been inspected by a qualified individual designated by the undersigned, and based on the inspection report, the undersigned has determined that the repairs, alterations, or improvements financed with the proceeds of the loan described in the attached [VA Form 26-1820](#) appear to have been completed in substantial conformance with related contracts.”

Continued on next page

5. Supplemental Loans, Continued

f. Guaranty and Entitlement *If the supplemental loan will not be consolidated with a related outstanding guaranteed loan:*

- the veteran must have sufficient entitlement for the new loan, and
- VA will issue a new Loan Guaranty Certificate solely for supplemental loans.

If the supplemental loan will be consolidated with a related outstanding guaranteed loan:

VA will issue a new modified guaranty certificate.

g. Procedure If the veteran has no available entitlement, VA can still guarantee the supplemental loan provided the lender is the holder of the veteran's existing loan and the loans are to be consolidated.

The amount of the modified guaranty will be the maximum guaranty effective on the existing loan at the time the supplemental loan is closed.

To calculate the percentage of guaranty applicable to the combined indebtedness take the result of Step 1, and divide by the result of Step 3.

Follow the steps in the table below to calculate the percentage of guaranty applicable to the combined indebtedness.

Step	Action
1	<ul style="list-style-type: none"> • Take the balance of the existing loan at the time of closing of the supplemental loan, and • multiply by the percentage of guaranty for the existing loan, as shown on the guaranty certificate.
2	Calculate the amount of guaranty that would be issued on the supplemental loan as an independent loan (do not exceed the amount of entitlement available to the veteran).
3	<ul style="list-style-type: none"> • Take the balance of the existing loan, and • add the amount of the supplemental loan.
4	<ul style="list-style-type: none"> • Take the result of Step 1 above, and • add the result of Step 2 above.
5	Divide by the result of Step 3 above.

6. Adjustable Rate Mortgages (ARMs)

Change Date July 20, 2007, Change 5
This section has been created to provide specific information pertaining to the Adjustable Rate Mortgage and Hybrid Adjustable Rate Mortgage loan types.

a. Definition of Adjustable Rate Mortgage Public Law 108-454 gives VA authority to guarantee “traditional” Adjustable Rate Mortgages (ARMs) in a manner similar to HUD’s Adjustable Rate Mortgages under section 251 of the National Housing Act. VA previously had this authority but it expired September 30, 1995. The legislation provides authority through September 30, 2008.

An ARM loan offers more flexible interest rates based on negotiated initial fixed interest rates coupled with periodic adjustments to the interest rate over time. Hybrid ARMs have longer initial fixed rates of three, five, seven, or ten years while a “traditional” ARM allows for an annual adjustment after 1 year.

b. Interest Rate Adjustments *Traditional ARMs*
Interest rate adjustments occur on an annual basis. The annual interest rate adjustments are limited to a maximum increase or decrease of 1 percentage point. Additionally, interest rate increases are limited to a maximum of 5 percentage points over the life of the loan.

Hybrid ARMs

If the initial contract interest rate remains fixed for less than five years, the initial adjustment is limited to a maximum increase or decrease of 1 percentage point and the interest rate increase over the life of the loan is limited to 5 percentage points.

If the initial contract interest rate remains fixed for five years or more, the initial adjustment will be limited to a maximum increase or decrease of 2 percentage points and the interest rate increase over the life of the loan will be limited to 6 percentage points.

Note: After the initial interest rate adjustment, annual adjustments may be up to 2 percentage points.

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6. Adjustable Rate Mortgages (ARMs), Continued

c. Underwriting an ARM ARM loans that may adjust after one year **MUST** be underwritten at 1 percentage point above the initial rate.

Hybrid ARMs with a fixed period of three or more years may be underwritten at the initial interest rate.

d. Extension of Authority for Hybrid ARM Loans The provisions of Public Law 108-454 will not affect existing hybrid ARMs. VA hybrid ARM loans made prior to Public Law 108-454 will be subject to the terms in effect at the time they were made.

Example: A hybrid ARM with an initial fixed rate for five years made in October 2004 is limited to a 1 percent initial adjustment and a 5 percent limit over the life of the loan.

Note: Public Law 108-454 extends VA authority to guarantee hybrid ARM loans to September 30, 2008.

7. Graduated Payment Mortgages (GPMs)

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsections c and i have been changed to delete references to “CRV.”
a. Description	<p>A GPM is a mortgage with the following amortization features:</p> <ul style="list-style-type: none">• lower initial monthly payments than payments on a comparable mortgage under the standard amortization plan• periodic (normally annual) increases in the monthly payment by a fixed percentage for a stated “graduation period,” and• monthly payments that level off after the graduation period and remain the same for the duration of the loan.<ul style="list-style-type: none">– The payments, after the leveling off period, are higher than payments on a comparable mortgage under the standard amortization plan. <p>The method used to achieve this involves deferring a portion of the interest due on the loan each month during the graduation period and adding that interest to the principal balance. This</p> <ul style="list-style-type: none">• decreases the monthly payments during the graduation period, and• increases the outstanding principal balance during the graduation period, creating “negative amortization.”
b. Acceptable Use of GPMs	<p>GPMs should be used as an alternative for qualified veterans whose income</p> <ul style="list-style-type: none">• is expected to increase at a rate which can accommodate the increase in monthly payments, or• is currently sufficient to accommodate the higher GPM payments after the leveling off period. <p>GPMs should not be used as a tool to qualify veterans who cannot qualify for loans under the standard amortization plan unless their income can reasonably be expected to increase at a rate which can accommodate the increase in monthly payments.</p>

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7. Graduated Payment Mortgages (GPMs), Continued

b. Acceptable Use of GPMs (continued)

A GPM may be used **only** to acquire a single-family dwelling unit (but **not** a manufactured home) and can include funds for energy efficiency improvements.

A GPM may **not** be used for a refinancing loan, for alteration, repair, or improvement only purposes, or to acquire a multiple unit dwelling.

c. Maximum Loan Amount and Down Payment Required

Existing properties:

The principal amount of the loan may **never** exceed the initial reasonable value of the property (that is, the value indicated on the NOV used for loan closing).

- Since the principal balance increases during the initial years of the loan, a loan made for the full amount of reasonable value would violate this provision.
- Therefore, a down payment is required to keep the principal balance from **ever** exceeding the initial reasonable value of the property.

To calculate the maximum initial loan amount and the required down payment, use HUD tables for Plan III Section 245 GPMs showing outstanding principal balance factors and monthly installment amounts per \$1,000 of original loan proceeds. The factors vary according to the interest rate on the loan.

- These tables are available on diskette through HUD offices.

Determine the maximum initial loan amount as follows:

$$\begin{array}{r} \text{Initial reasonable value of the property} \\ \div \\ \text{Highest outstanding principal balance factor per \$1,000 of original loan} \\ \text{proceeds for the particular interest rate (from the HUD tables)} \\ \times \\ 1,000 \end{array}$$

The difference between this maximum initial loan amount and the initial reasonable value of the property is the amount of down payment required.

Continued on next page

7. Graduated Payment Mortgages (GPMs), Continued

**c. Maximum
Loan Amount
and Down
Payment
Required
(continued)**

New construction or existing homes not previously occupied:

The initial loan amount may not exceed the lesser of the purchase price or 97.50 percent of the initial reasonable value of the property.

- A down payment will be required to cover the difference between the reasonable value and the initial loan amount.

The principal amount of the loan thereafter (including the amount of all interest deferred and added to principal, but not including any amount attributable to the funding fee or energy efficiency improvements) may not be scheduled to exceed the projected value of the property at any time.

Calculate the projected value of the property by increasing the reasonable value of the property from the time the loan is made at a rate not in excess of 2.5 percent per year, but never to exceed 115 percent of the initial reasonable value.

Downpayment:

- The amount required depends upon whether the dwelling is new or existing. (See above.)
- The veteran may choose to pay a higher down payment to offset the negative amortization.
- The downpayment must be paid in cash from the veteran's own resources.

Impact of interest rate increase on loans in process:

Any increase in the interest rate requires recalculation of the maximum loan amount, down payment, and payment schedule.

Funding fee and energy efficiency improvements:

The initial loan amount may be increased by the amount of the VA funding fee, if financed in the loan, and the cost of any energy efficiency improvements.

d. Amortization

Loan payments increase each year at a rate of 7.5 percent per year for the first five years. At the beginning of the sixth year, the payments become level for the remaining term. This amortization plan is similar (except for the "minimum cash investment" requirement) to HUD's GPM Plan III under Section 245 of the National Housing Act.

Continued on next page

7. Graduated Payment Mortgages (GPMs), Continued

**e. How to
Calculate
Monthly
Installments**

Perform the necessary calculations using HUD tables for Plan III Section 245 GPMs showing outstanding principal balance factors and monthly installment amounts per \$1,000 of original loan proceeds. The factors vary according to the interest rate on the loan.

Note: These tables are available on diskette to lenders through HUD offices.

Determine the monthly installment amounts as follows:

$$\begin{array}{c} \text{Number of thousands of dollars in the original loan amount (including the} \\ \text{VA funding fee, if financed, and the cost of any energy efficiency} \\ \text{improvements)} \\ \times \\ \text{Monthly installment factor per \$1,000 of original loan proceeds for the} \\ \text{particular interest rate from the HUD tables (Different factors are} \\ \text{provided for each of years one through five, and year six and beyond.)} \end{array}$$

**f. APR
Calculation**

HUD's GPM Annual Percentage Rate (APR) tables may **not** be used for VA purposes because they include an adjustment for the HUD mortgage insurance premium.

**g. Underwriting
Considerations**

If there are strong indications that the applicant's income can reasonably be expected to keep pace with the increases in the monthly mortgage payment then

- analyze the adequacy of the applicant's income, and
- complete [VA Form 26-6393](#), Loan Analysis, using only the first year's mortgage payment in monthly shelter expenses.

However, if such strong indications are absent then

- analyze the adequacy of the applicant's income, and
- complete [VA Form 26-6393](#), Loan Analysis, using the payment which would apply if the loan was under the standard amortization plan.

The lower initial payments of the GPM can be considered a compensating factor, if appropriate.

Continued on next page

7. Graduated Payment Mortgages (GPMs), Continued

h. Veteran's Statement

The following statement must be signed by the veteran and submitted with each prior approval application or automatic loan report involving a VA GPM:

“I fully understand that because of the graduated-payment loan obligation I am undertaking, my mortgage payment excluding taxes and insurance will start at \$_____ and will increase by 7.5 percent each year for five years to a maximum payment of \$_____, and the mortgage balance will increase to no more than \$_____ at the end of the _____ year. The maximum total amount by which the deferred interest will increase the principal is \$_____. Monthly installments will be due according to the following schedule:

- \$_____ during the first year of the loan
- \$_____ during the second year of the loan
- \$_____ during the third year of the loan
- \$_____ during the fourth year of the loan
- \$_____ during the fifth year of the loan
- \$_____ during the sixth year of the loan and every year thereafter.”

If the interest rate increases after the veteran has signed the initial statement, an amended statement must be prepared and signed by the veteran before loan closing, and included with the loan closing package.

i. Other Requirements

The property securing the loan must have a remaining economic life of at least 30 years, as shown on the NOV.

While a GPM cannot be used to refinance another loan, a GPM can be refinanced by a fixed rate VA-guaranteed refinancing loan.

8. Growing Equity Mortgages (GEMs)

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
a. Description	<p>A GEM has gradually increasing monthly payments, with all of the increase applied to the principal balance. Compared to the standard amortization plan, GEMs have a faster accumulation of equity and earlier loan payoff.</p> <p>GEM amortization plans are generally acceptable for VA loan purposes.</p>
b. Amortization Examples	<p>The initial payment on a GEM is typically based on what the payment would be for a 30-year mortgage under the standard amortization plan. Payment increases can be fixed or tied to an index.</p> <p><i>Example 1:</i> Monthly payments are increased by 3 percent each year for the first ten years. The payments level off in the 11th year and remain constant through loan payoff. Loan payoff may occur within a few years of the leveling off of the payment, depending upon interest rate.</p> <p><i>Example 2:</i> The increases in the monthly payments are based on a percentage of a Commerce Department index that measures per capita, after-tax disposable personal income in the United States.</p>
c. Underwriting	The lender must determine that the applicant's income can reasonably be expected to keep pace with the increases in the monthly mortgage payment.

9. Loans Involving Temporary Interest Rate Buydowns

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Description As a marketing tool, builders, sellers, or lenders will sometimes establish and fund escrows to temporarily reduce a borrower's loan payments during the initial years of the mortgage. The borrower may also fund such an escrow for herself/himself as a financial management tool.

VA will guaranty loans involving temporary interest rate buydowns, if otherwise eligible.

A temporary interest rate buydown can be used in conjunction with **any** type of VA-guaranteed loan except a GPM.

b. Escrow Requirements Funds must be safely escrowed with an independent third-party escrow agent beyond the reach of prospective creditors of the builder, seller, lender, and the borrower.

Exception: If the Federal National Mortgage Association (FNMA) is the holder, it may take custody of the funds.

The escrow agent must make payments directly to the lender or servicer. The funds may be used **only** for payments due on the note. The funds may **not** be used to pay past due monthly loan payments. If the loan is foreclosed or prepaid, the funds must be credited against the veteran's indebtedness.

Escrowed funds may **not** revert to the party that established the escrow. If the property is sold subject to, or on an assumption of the loan, the escrow must continue to pay out on behalf of the new owner.

Continued on next page

9. Loans Involving Temporary Interest Rate Buydowns, Continued

**c. If Borrower's
Income is
Expected to
Keep Pace with
Payment
Increases**

The loan application may be underwritten based on the first year's payment amount if there are strong indications that the income used to support the application will increase to cover the yearly increases in loan payments.

- Routine cost of living increases **cannot** be used for this purpose.
- Increases resulting from confirmed future promotions or wage percentage increases guaranteed by labor contracts (for example, teachers, auto workers) may be given favorable consideration.

The assistance payments must run for a minimum of one year. Scheduled reductions in the assistance payments must occur annually on the anniversary of the first mortgage payment.

The reduction in the assistance payments may be accomplished through

- annual payment increases in equal or approximately equal amounts, or
- equal annual increases in the interest rate.

Continued on next page

9. Loans Involving Temporary Interest Rate Buydowns,

Continued

**d. If it is
Unclear
Whether
Borrower's
Income Can
Keep Pace with
Increases**

The loan application must be underwritten based on the **full** payment amount if there are no strong indications that the income used to support the application can reasonably be expected to keep pace with the increases in loan payments.

The buydown arrangement can be considered a compensating factor. If the residual income and/or debt-to-income ratio is marginal, the buydown plan (used to offset short-term debts), along with other compensating factors, may support approval of the loan. See "Compensating Factors" in [section 10 of chapter 4](#).

Provide a statement signed by the underwriter giving reasons for approval.

The terms of the buydown arrangement are **not** limited to specific criteria such as a minimum or maximum number of years for application of the assistance payments.

It is the lender's responsibility to review and determine the acceptability of the buydown.

**e. Other
Requirements**

Lenders must provide the veteran-borrower with a clear, written explanation of the buydown agreement.

A copy of the buydown and escrow agreements must accompany the loan submission.

10. Farm Residence Loans

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Eligibility A loan for the purchase, construction, repair, alteration, or improvement of a farm residence which is occupied or will be occupied by the veteran as a home is eligible for guaranty.

The loan cannot cover

- the nonresidential value of farm land in excess of the homesite
- the barn, silo, or other outbuildings necessary to the operation of the farm, or
- farm equipment or livestock.

A portion of the proceeds of a loan to construct a farm residence on encumbered land owned by the veteran may be used to pay off the lien or liens on the land **only if** the reasonable value of the land is at least equal to the amount of the lien(s).

Continued on next page

10. Farm Residence Loans, Continued

b.
Underwriting

If some or all of the income necessary to support the loan payments comes from farming operations, the veteran's ability and experience as a farm operator must be established. The procedures and analysis provided under "Self-Employment Income" in [section 2 of chapter 4](#) apply generally. In addition, apply the following:

New farmer or new farm operation:

Obtain the following:

- The veteran's proposed plan of operation of the farm, showing the number of acres for each crop, amount of livestock, etc., upon which an estimate of income and expenses may be made.
- The veteran's statement that he or she owns or proposes purchasing the farm equipment required to operate the farm. If additional indebtedness is to be incurred in the purchase of this equipment, the statement should contain full details as to repayment terms, etc...
- An estimate of farm income and expenses by a local farm appraiser designated by VA or another qualified person, or the estimate used by a lender that has agreed to carry an operating line of credit for the veteran. The estimate should be based on the veteran's proposed plan of operation, his or her ability and experience, and the nature and condition of the farm to be sold, including livestock and livestock products. The expense estimate must detail labor, seed, fertilizer, taxes and insurance, repairs, machinery, fuel, etc...
- A copy of a commitment from a lender for an operating line of credit or evidence of the resources to be used to cover operating expenses.

Experienced farmer continuing same farm operation:

If the veteran finances operations out of an operating line of credit, obtain records of advances from, payments to, and carryover balances on the operating line of credit for the last three years (or additional periods if needed to demonstrate stability of veteran's operation). Analyze the reasons for any build-up of operating debt.

11. Cooperative Home Loans

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
a. Procedures	Before a NOV is issued in any case involving a cooperative plan of ownership, the details of the case must be referred by the local VA office to VA Central Office for specific processing instructions.

12. Loans for Manufactured Homes Classified as Real Estate

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. How to Begin This section only addresses manufactured homes which are, or will be, permanently affixed to a lot **and** considered real estate under state law.

Lenders considering making a loan involving a manufactured home that is **not** permanently affixed should contact the local VA office for processing instructions.

b. Allowable Loan Purposes and Calculation of Maximum Loan Amount Permanently affixed manufactured home loans can be made for any of the allowable loan purposes listed in the table below. Loan specifications and treatment of these loans are virtually the same as for any other VA-guaranteed home loans from a loan processing standpoint, except for calculation of the maximum loan amount.

The following table provides the methods for calculating maximum loan amount.

Allowable Loan Purpose	Maximum Loan The loan amount is limited to:
To purchase a manufactured home to be affixed to a lot already owned by the veteran.	The lesser of <ul style="list-style-type: none">the sum of the purchase price plus the cost of all other real property improvements, orthe total reasonable value of the unit, lot, and real property improvements, plusthe VA funding fee

Continued on next page

12. Loans for Manufactured Homes Classified as Real Estate, Continued

b. Allowable Loan Purposes and Calculation of Maximum Loan Amount (continued)

Allowable Loan Purpose	Maximum Loan The loan amount is limited to:
To purchase a manufactured home and a lot to which it will be affixed	<p>The lesser of</p> <ul style="list-style-type: none"> • the total purchase price of the manufactured home unit and the lot plus the cost of all other real property improvements, or • the purchase price of the manufactured home unit plus the cost of all other real property improvements plus the balance owed by the veteran on a deferred purchase money mortgage or contract given for the purchase of the lot, or • the total reasonable value of the unit, lot, and property improvements, plus • the VA funding fee.
To refinance an existing loan on a manufactured home and purchase the lot to which the home will be affixed	<p>The lesser of</p> <ul style="list-style-type: none"> • the sum of the balance of the loan being refinanced plus the purchase price of the lot, not to exceed its reasonable value plus the costs of the necessary site preparation as determined by VA plus a reasonable discount on that portion of the loan used to refinance the existing loan on the manufactured home plus authorized closing costs, or • the total reasonable value of the unit, lot, and real property improvements, plus • the VA funding fee.

Continued on next page

12. Loans for Manufactured Homes Classified as Real Estate, Continued

b. Allowable Loan Purposes and Calculation of Maximum Loan Amount (continued)

Allowable Loan Purpose	Maximum Loan The loan amount is limited to:
An IRRRL to refinance an existing VA loan on a permanently affixed manufactured home and lot	<p>The sum of</p> <ul style="list-style-type: none">• the balance of the VA loan being refinanced, plus• allowable closing costs, plus• up to 2 discount points, plus• the VA funding fee. <p><i>Note:</i> This is the only type of permanently affixed manufactured home loan that does not require full underwriting and an appraisal. The provisions applicable to IRRRLs apply (See section 1 of chapter 6) except the term of the loan may be as long as 30 years and 32 days.</p>

13. Loans to Native American Veterans on Trust Lands

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. General VA can guarantee loans to Native American veterans on trust land. Lenders have shown little interest in making these loans because of difficulties obtaining title to properties on trust land in the event of foreclosure.

VA does have a Native American Direct Loan Program. Lenders should advise interested Native American veterans to contact the nearest VA office for information.

Chapter 8. Borrower Fees and Charges and the VA Funding Fee

Overview

In this Chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	VA Policy on Fees and Charges Paid by the Veteran-Borrower	8-2
2	Fees and Charges the Veteran-Borrower Can Pay	8-3
3	Fees and Charges the Veteran-Borrower Cannot Pay	8-9
4	Other Parties Fees and Charges for the Veteran-Borrower	8-11
5	Seller Concessions	8-12
6	What Happens to Fees and Charges If the Loan Never Closes	8-14
7	Fees and Charges That Can be Included In the Loan Amount	8-15
8	The VA Funding Fee	8-17

1. VA Policy on Fees and Charges Paid by the Veteran-Borrower

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy

The VA home loan program involves a veteran's benefit. VA policy has evolved around the objective of helping the veteran to use his or her home loan benefit. Therefore, VA regulations limit the fees that the veteran can pay to obtain a loan.

Lenders must **strictly** adhere to the limitations on borrower-paid fees and charges when making VA loans.

b. The VA Funding Fee

In order to defray the cost of administering the VA home loan program, each veteran must pay a funding fee to VA at loan closing.

Congress may periodically change the funding fee rates to reflect changes in the cost of administering the program, or to assist a certain class of veterans.

2. Fees and Charges the Veteran-Borrower Can Pay

-
- Change Date** July 20, 2007, Change 5
- Subsection c has been changed to add Mortgage Electronic Registration System (MERS) Fee to list of itemized fees and charges.
 - Subsection d has been changed to remove a section break that cut the list of charges into two lists.
-

- a. VA Regulations** VA regulations at [38 CFR 36.4312](#) provide the list of fees and charges that the veteran can pay.
-

- b. Overview** The veteran can pay a maximum of:
- reasonable and customary amounts for any or all of the “Itemized Fees and Charges” designated by VA, plus
 - a 1 percent flat charge by the lender, plus
 - reasonable discount points.

Note: Some special provisions apply to construction, alteration, improvement and repair loans.

Reference: See section 2, subsection e, “Construction Loans.”

- c. Itemized Fees and Charges** The veteran may pay any or all of the following itemized fees and charges in amounts that are reasonable and customary.

Charge	Description
Appraisal and Compliance Inspections	<ul style="list-style-type: none">• The veteran can pay the fee of a VA appraiser and VA compliance inspectors.• The veteran can also pay for a second appraisal if he or she is requesting reconsideration of value.• The veteran cannot pay for an appraisal requested by the lender or seller for reconsideration of value.• The veteran cannot pay for appraisals requested by parties other than the veteran or lender.

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges (continued)

Charge	Description
Recording Fees	The veteran can pay for recording fees and recording taxes or other charges incident to recordation.
Credit Report	<p>The veteran can pay for the credit report obtained by the lender.</p> <p>For Automated Underwriting cases, the veteran may pay the evaluation fee of \$50 in lieu of the charge for a credit report. For “Refer” cases, the veteran may also pay the charge for a merged credit report, if required.</p>
Prepaid Items	The veteran can pay that portion of taxes, assessments, and similar items for the current year chargeable to the borrower and the initial deposit for the tax and insurance account.
Hazard Insurance	The veteran can pay the required hazard insurance premium. This includes flood insurance, if required.
Flood Zone Determination	<p>The veteran can pay the actual amount charged for a determination of whether a property is in a special flood hazard area, if made by a third party who guarantees the accuracy of the determination.</p> <p>The veteran can pay a charge for a life-of-the-loan flood determination service purchased at the time of loan origination.</p> <p>A fee may not be charged for a flood zone determination made by the lender or a VA appraiser.</p>
Survey	<p>The veteran can pay a charge for a survey, if required by the lender or veteran.</p> <p>Any charge for a survey in connection with a condominium loan must have the prior approval of VA.</p>

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges (continued)

Charge	Description
Title Examination and Title Insurance	The veteran may pay a fee for title examination and title insurance, if any. If the lender decides that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the veteran.
Special Mailing Fees for Refinancing Loans	For refinancing loans only, the veteran can pay charges for Federal Express, Express Mail, or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling.
VA Funding Fee	Unless exempt from the fee, each veteran must pay a funding fee to VA.
Mortgage Electronic Registration System (MERS) Fee	The veteran may pay a fee for MERS. MERS is a one-time fee for the purpose of electronically tracking the ownership of the beneficial interest in a loan and its servicing rights.
Other Fees Authorized by VA	Additional fees attributable to local variances may be charged to the veteran only if specifically authorized by VA. The lender may submit a written request to the RLC for approval if the fee is normally paid by the borrower in a particular jurisdiction and considered reasonable and customary in the jurisdiction.

Whenever the charge relates to services performed by a third party, the amount paid by the borrower must be limited to the actual charge of that third party.

Example: If the lender obtains a credit report at a cost of \$30, the lender may only charge the borrower \$30 for the credit report. The lender may **not** charge \$35, even if it believes that a \$5 handling charge is fair.

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

c. Itemized Fees and Charges
(continued)

In addition, the borrower may **not** pay a duplicate fee for services that have already been paid for by another party.

Examples:

- An appraisal is completed on a property and paid for by a prospective purchaser, but the sale is never completed. A second purchaser applies for a loan before the validity period of the Notice of Value (NOV) expires. The lender uses the same NOV. The lender may **not** charge the second purchaser an appraisal fee if no second appraisal is ordered.
- A survey or flood zone determination, if the lender elects to use an existing survey or flood determination.

d. Lender's 1 Percent Flat Charge

In addition to the “itemized fees and charges,” the lender may charge the veteran a flat charge not to exceed 1 percent of the loan amount.

- Calculate the 1 percent on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds (except IRRRLs).
- **Note:** For IRRRLs, use [VA Form 26-8923](#), IRRRL Worksheet for the Calculation.

The lender's flat charge is intended to cover all of the lender's costs and services which are **not** reimbursable as “itemized fees and charges.”

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

d. Lender's 1 Percent Flat Charge (continued)

The following list provides examples of items that cannot be charged to the veteran as "itemized fees and charges." Instead, the lender must cover any cost of these items out of its flat fee.

- lender's appraisals
- lender's inspections, except in construction loan cases
- loan closing or settlement fees
- document preparation fees
- preparing loan papers or conveyancing fees
- attorney's services other than for title work
- photographs
- interest rate lock-in fees
- postage and other mailing charges, stationery, telephone calls, and other overhead
- amortization schedules, pass books, and membership or entrance fees
- escrow fees or charges
- notary fees
- commitment fees or marketing fees of any secondary purchaser of the mortgage and preparation and recording of assignment of mortgage to such purchaser
- trustee's fees or charges
- loan application or processing fees
- fees for preparation of truth-in-lending disclosure statement
- fees charged by loan brokers, finders or other third parties whether affiliated with the lender or not, and
- tax service fees.

Continued on next page

2. Fees and Charges the Veteran-Borrower Can Pay, Continued

e. Construction Loans

The lender can charge an additional flat charge on construction, alteration, improvement, or repair loans.

- If the lender supervises the progress of construction and/or makes advances to a veteran in excess of 50 percent of the loan during construction, alteration, improvement, or repair
- Then the lender may charge the veteran up to 2 percent of the loan amount in addition to the lender's 1 percent flat charge.

Example: Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a 3 percent flat charge plus discount points.

- If the lender does not supervise the progress of construction or make advances to a veteran in excess of 50 percent of the loan during construction, alteration, improvement, or repair
- Then the lender may charge the veteran up to 1 percent of the loan amount in addition to the lender's 1 percent flat charge.

Example: Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a 2 percent flat charge plus discount points.

This provision also applies to supplemental loans.

3. Fees and Charges the Veteran-Borrower Cannot Pay

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection a has been changed to reference “section” instead of “topic.”
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a. Lender’s Use of 1 Percent Flat Charge	The lender’s maximum allowable flat charge of 1 percent of the loan amount (or greater percentage in the case of construction loans) is intended to cover all of the lender’s costs and services which are not reimbursable as “itemized fees and charges.” The lender may pay third parties for services or do as it wishes with the funds from the flat charge, as long as the lender complies with the Real Estate Settlement Procedures Act (RESPA).
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Section 2, subsections c and d of this chapter provide some examples of items that **cannot** be charged to the veteran as “itemized fees and charges.”

This section provides more examples of items that cannot be paid by the veteran, but can be paid out of the lender’s flat charge or by some party other than the veteran.

b. Attorney’s Fees	The lender may not charge the borrower for attorney’s fees. Reasonable fees for title examination work and title insurance can be paid, however, by the borrower. They are allowable itemized fees and charges.
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VA does not intend to prevent the veteran from seeking independent legal representation. Therefore, the veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home. Closing documents should clearly indicate that the attorney’s fee is **not** being charged by the lender, but is being paid by the veteran as part of an independent arrangement with an attorney.

Continued on next page

3. Fees and Charges the Veteran-Borrower Cannot Pay, Continued

c. Brokerage Fees

Fees or commissions charged by a real estate agent or broker in connection with a VA loan may **not** be charged to or paid by the veteran-purchaser.

While use of “buyer” brokers is not precluded, veteran-purchasers may **not**, under any circumstances, be charged a brokerage fee or commission in connection with the services of such individuals. Since information on property available for purchase and financing options is widely available to the public from a variety of sources, VA does not believe that preventing the veteran from paying buyer-broker fees will harm the veteran.

d. Prepayment Penalties

A veteran obtaining a VA refinancing loan cannot use loan proceeds to pay penalty costs for prepayment of an existing lien.

A veteran purchasing a property with a VA loan cannot pay penalty costs required to discharge any existing liens on the seller’s property.

e. HUD/FHA Inspection Fees for builders

In proposed construction cases in which the dwelling was constructed under HUD supervision, the cost of any inspections or re-inspections must be borne by the builder or sponsor and are **not** chargeable to the veteran-purchaser. This includes:

- re-inspections by VA or HUD of onsite or offsite work for which an escrow agreement was established, and
 - any additional re-inspections deemed necessary by VA to assure conformity with VA regulations.
-

4. Other Parties Fees and Charges for the Veteran-Borrower

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Policy	<p>The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower.</p> <p>VA regulations limit charges “made against or paid by” the borrower. They do not limit the payment of fees and charges by other parties.</p>
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b. Exception	<p>Excessive seller concessions are prohibited.</p> <p><i>Reference:</i> See section 5 of this chapter.</p>
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5. Seller Concessions

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Definition	For purposes of this topic, a seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide.
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b. Seller Concessions	<p>Seller concessions include, but are not limited to, the following:</p> <ul style="list-style-type: none">• payment of the buyer's VA funding fee• prepayment of the buyer's property taxes and insurance• gifts such as a television set or microwave oven• payment of extra points to provide permanent interest rate buydowns• provision of escrowed funds to provide temporary interest rate buydowns, and• payoff of credit balances or judgments on behalf of the buyer. <p>Seller concessions do not include</p> <ul style="list-style-type: none">• payment of the buyer's closing costs, or• payment of points as appropriate to the market.• Example: If the market dictates an interest rate of 7½ percent with two discount points, the seller's payment of the two points would not be a seller concession. If the seller paid five points, three of these points would be considered a seller concession.
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c. The Problem	In some localities, builders or sellers offer concessions as a competitive tool. In extreme cases, the concessions may entice unwary and unqualified veterans into home mortgages they cannot afford. The concessions may disguise the veteran's inability to qualify for the loan.
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5. Seller Concessions, Continued

**d. The 4
Percent Limit**

Any seller concession or combination of concessions which exceeds 4 percent of the established reasonable value of the property is considered excessive, and unacceptable for VA-guaranteed loans.

Do **not** include normal discount points and payment of the buyer's closing costs in total concessions for determining whether concessions exceed the 4 percent limit.

6. What Happens to Fees and Charges If the Loan Never Closes

Change Date

September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Itemized Fees and Charges

The borrower's out-of-pocket expenses for itemized fees and charges already incurred, such as the appraisal and credit report, do **not** get refunded.

b. The 1 Percent Flat Fee

If the lender has already collected the 1 percent flat fee from the borrower, the lender **must** refund the fee. This applies to a loan that does not close for any reason, including the borrower going to another lender.

7. Fees and Charges That Can be Included In the Loan Amount

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering and references.
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a. All VA Loans For all types of VA loans, the loan amount may include the VA funding fee.

No other fees and charges or discount points may be included in the loan amount for regular purchase or construction loans.

Only refinancing loans may include other allowable fees and charges and discount points in the loan amount.

Note: Maximum loan amounts are discussed in [section 3 of chapter 3](#).

b. “Cash-out” Refinancing Loans For “cash-out” refinancing loans, allowable fees and charges and discount points (as discussed in section 2 of this chapter) may be paid from cash proceeds of the loan, as long as total loan proceeds do **not** exceed 90 percent of the reasonable value of the property.

Only the VA funding fee (and the cost of any energy efficiency improvements) can be added to the 90 percent limit to increase the loan amount.

c. IRRRLs The following fees and charges may be included in an Interest Rate Reduction Refinancing Loan (IRRRL):

- Any allowable fees and charges discussed in section 2 of this chapter. This includes closing costs from the “Itemized Fees and Charges” list, the funding fee, and the lender’s flat charge.
 - However, there is **one** limitation unique to IRRRLs: While the borrower may pay any reasonable amount of discount points in cash, no more than two discount points can be included in the loan amount.
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7. Fees and Charges That Can be Included In the Loan Amount, Continued

d. Other Refinancing Loans

The following information applies to any loan to refinance:

- a construction loan
- an installment land sales contract, or
- a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan.

The loan amount may include

- any allowable fees and charges discussed in section 2 of this chapter, and
- reasonable discount points.

However, maximum loan limits may not allow inclusion of the full amount of these items.

The maximum loan amount will be the lesser of the

- sum of the outstanding balance of the loan being refinanced plus allowable fees and charges (other than the funding fee) plus discount points, or
 - VA reasonable value of the property, plus
 - VA funding fee, plus
 - cost of any energy efficiency improvements.
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8. The VA Funding Fee

Change Date	July 20, 2007, Change 5 <ul style="list-style-type: none">• Subsection b has been changed to add servicemembers who have received a VA pre-rating decision prior to discharge.• Subsection c has been changed to remove the reference to the veteran's award letter. This document is no longer accepted as proof of funding fee exemption.• Subsections d and h have been changed to add notes for clarification purposes.
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a. The Lender's Role	<p>The lender must:</p> <ul style="list-style-type: none">• verify the status of any veteran who may be exempt from paying the funding fee• determine the amount of funding fee owed by any non-exempt borrower• collect the appropriate fee from all non-exempt borrowers at loan closing• electronically remit the funds to VA in a timely manner through the Funding Fee Payment System (FFPS)• print proof of payment of the funding fee, and• submit proof that the funding fee has been paid or that the veteran is exempt from paying the funding fee to VA with the closed loan package.
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Note: The funding fee may be paid from loan proceeds or cash from borrower.

b. Who is Exempt from Paying the Funding Fee?	<p>The following persons are exempt from paying the funding fee:</p> <ul style="list-style-type: none">• Veterans receiving VA compensation for service-connected disabilities.• Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.• Veterans who are rated by VA as eligible to receive compensation as a result of pre-discharge disability examination and rating.• Surviving spouses of veterans who died in service or from service-connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan).
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8. The VA Funding Fee, Continued

c. How to Verify Exempt Status

The lender must verify exempt status by obtaining one of the following:

- a properly completed and signed [VA Form 26-8937](#), Verification of VA Benefits, indicating the borrower's exempt status
- for a veteran who elected service retirement pay instead of VA compensation, a copy of the original VA notification of disability rating and documentation of the veteran's service retirement income, or
- indications on the Certificate of Eligibility that the borrower is entitled as an unmarried surviving spouse.

Consult VA if the borrower's status is unclear after reviewing the appropriate documents, or if conflicting information is found.

d. Loan Submissions Involving Exempt Borrowers

Submit a copy of the documentation used to verify exempt status with the closing package.

Exception: The lender does **not** have to submit the documentation if:

- the borrower is an eligible surviving spouse, or
- the documentation had been previously provided to VA with the loan application as verification of the veteran's income.

Note: A lender who believes that a service member may be exempt from payment of the funding fee based on a pre-discharge exam should contact the VA Regional Loan Center (RLC) of jurisdiction for assistance confirming the exempt status.

Continued on next page

8. The VA Funding Fee, Continued

**e. If Exempt
Status Cannot
be Determined**

If the veteran's exempt status cannot be verified prior to loan closing, the funding fee **must** be remitted as if the borrower was **not** exempt.

Indicate in the closing package that the veteran claims exempt status. VA will determine the borrower's status and refund the funding fee if appropriate.

Reference: Refer to the heading "Refunding Overpayments to the Veteran" in this section.

If the veteran has a pending disability compensation claim at the time of loan closing, the funding fee must be remitted as if the borrower was **not** exempt.

Advise the veteran to contact the VA RLC to request a refund if it is later determined that the veteran is entitled to compensation retroactively to a date prior to loan closing.

Reference: Refer to the heading "Refunding Overpayments to the Veteran" in this section.

**f. How to
Calculate the
Funding Fee**

For all loans except IRRRLs, apply the appropriate percentage (from the funding fee tables) to the loan amount.

If the funding fee is to be paid from loan proceeds, apply the percentage to the loan amount without the funding fee amount added to it.

For IRRRLs, calculate the funding fee by completing [VA Form 26-8923](#), Interest Rate Reduction Refinancing Loan Worksheet.

Reference: For joint loans, see "Calculation of the Funding Fee" in [section 1 of chapter 7](#).

Continued on next page

8. The VA Funding Fee, Continued

g. How to Use the Funding Fee Tables

The lender must find the appropriate percentage in the tables using the following parameters:

- Is the veteran eligible for VA loan benefits through service in the regular military or the Reserves/National Guard? Examine the Certificate of Eligibility (COE). For Reserves/National Guard, the COE bears the notation, “RESERVES/NATIONAL GUARD - INCREASED FUNDING FEE,” and is buff-colored rather than green.
- Is the veteran a subsequent user of VA home loan benefits or obtaining his or her first VA loan? Examine the COE. An entitlement code of “5” indicates subsequent use, as does a loan number entered in the “Loan Number” column.
- What type of loan is the veteran obtaining? The funding fee varies depending upon whether the loan is a purchase or construction loan, an IRRRL, or a cash-out refinancing loan.
- Is the veteran making a downpayment of at least 5 or 10 percent?
 - Calculate what percentage of the sales price of the property the veteran is remitting as a downpayment.
 - The down payment may come from the veteran’s own resources or borrowed funds. **Except**, if the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value must be paid by the veteran in cash without borrowing.
- For construction loans only, equity in the secured property counts as a downpayment for calculating the funding fee.

Continued on next page

8. The VA Funding Fee, Continued

h. Funding Fee Tables Purchase And Construction Loans

Note: The funding fee for ALL subsequent use loans closed on or after October 1, 2006, and before October 1, 2007, is 3.35 percent. This applies to all purchase loans where no downpayment of 5 percent or more is made as well as cash-out refinances where the fee would have been 3.3 percent. Effective October 1, 2007, the subsequent use fee reverts back to 3.3 percent.

Type of Veteran	Down Payment	Percentage for First Time Use	Percentage for Subsequent Use
Regular Military	None	2.15%	3.3% *
	5% or more (up to 10%)	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/ National Guard	None	2.4%	3.3% *
	5% or more (up to 10%)	1.75%	1.75%
	10% or more	1.5%	1.5%

Cash-Out Refinancing Loans

Type of Veteran	Percentage for First Time Use	Percentage for Subsequent Use
Regular Military	2.15%	3.3% *
Reserves/National Guard	2.4%	3.3% *

*The higher subsequent use fee does not apply to these types of loans if the veteran's only prior use of entitlement was for a manufactured home loan.

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
Interest Rate Reduction Refinancing Loans	.50%
Manufactured Home Loans (NOT permanently affixed)	1.00%
Loan Assumptions	.50%

Continued on next page

8. The VA Funding Fee, Continued

**i. How and
When to Remit
the Funding
Fee to VA**

Lenders must remit the VA funding fee via the [FFPS](#) within 15 calendar days of loan closing.

Lenders paying the fee more than 15 days after loan closing will automatically be assessed a 4 percent late fee. Fees paid more than 30 days late will automatically be assessed an interest charge in addition to the late fee.

**j. Refunding
Overpayments
to the Veteran**

A refund is appropriate if:

- an exempt veteran paid a funding fee, or
- a miscalculation of the fee caused an overpayment.

Using the VA [FFPS](#), lenders can make appropriate corrections that may result in refunds being due.

If the veteran was overcharged, the following applies:

- A veteran who paid cash for the funding fee receives a cash refund for the amount of the overpayment.
 - In the case of a veteran who paid the funding fee out of loan proceeds, the lender must apply the overpayment against the loan balance. Submit evidence to VA that the refund was applied to the loan's principal balance.
-

Chapter 9. Legal Instruments, Liens, Escrows and Related Issues

Overview

Introduction This chapter contains information about legal instruments, liens, escrows, and related issues.

In this Chapter This chapter contains the following topics.

Topic	Topic Description	See Page
1	Security Instruments	9-2
2	Title Limitations	9-5
3	Land Sale Contracts and Option Contracts	9-8
4	Secondary Borrowing	9-9
5	Purchase of Property with Encumbrances	9-11
6	Liens Covering Community-Type Services and Facilities	9-12
7	Powers of Attorney	9-14
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9	Escrow for Postponed Completion of Improvements	9-20
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11	Escrow for Taxes and Insurance	9-27

1. Security Instruments

Change Date	July 20, 2007, Change 5 Subsection d has been added to include VA’s policy on escape clauses for sales contracts.
a. Requirements	<p>Lenders may use any note and mortgage forms they wish for VA loans. VA regulations at 38 CFR 36.4334 provide that security instruments used by a lender which are inconsistent with VA regulations in effect on the date the loan is closed will be considered amended and supplemented to conform to the regulations.</p> <p>Lenders must ensure that the security instruments they use:</p> <ul style="list-style-type: none">• Establish the required lien• Comply with the laws and regulations governing VA’s home loan program• Comply with applicable state laws, and• Contain the following VA clauses<ul style="list-style-type: none">– Assumption Approval clause– Acceleration clause– Funding Fee clause– Processing Charge clause, and– Indemnity Liability Assumption clause. <p>If a lender fails to obtain the required lien or otherwise comply with applicable law, VA may reduce or deny liability under its guaranty to the extent that such failure might have prejudiced the rights of the Secretary.</p>
b. Assumption Approval Clause	<p>The instruments evidencing the loan must read substantially as follows:</p> <p>“THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE DEPARTMENT OF VETERANS AFFAIRS OR ITS AUTHORIZED AGENT.”</p> <p>The loan assumption notice must appear conspicuously on at least one of the security instruments for the loan.</p>

Continued on next page

1. Security Instruments, Continued

c. Other Clauses

The mortgage or deed of trust must contain four additional clauses related to the assumption of the loan. VA does not specifically require that these clauses also be included in the note, unless this is required under state law to make them enforceable. Due to variations in local laws, the lender should obtain legal guidance as to any minor changes in these sample clauses which may be necessary to ensure that they have the effect required by the law and regulations; that is, the lender does not have to use the exact language provided for these four clauses.

Acceleration Clause:

“This loan may be declared immediately due and payable upon transfer of the property securing such loan to any transferee, unless the acceptability of the assumption of the loan is established pursuant to [Section 3714 of Chapter 37, Title 38, United States Code](#).”

Funding Fee Clause:

“A fee equal to one-half of 1 percent of the balance of this loan as of the date of transfer of the property shall be payable at the time of transfer to the loan holder or its authorized agent, as trustee for the Department of Veterans Affairs. If the assumer fails to pay this fee at the time of transfer, the fee shall constitute an additional debt to that already secured by this instrument, shall bear interest at the rate herein provided, and at the option of the payee of the indebtedness hereby secured or any transferee thereof, shall be immediately due and payable. This fee is automatically waived if the assumer is exempt under the provisions of [38 U.S.C. 3729\(c\)](#).”

Processing Charge Clause:

“Upon application for approval to allow assumption of this loan, a processing fee may be charged by the loan holder or its authorized agent for determining the creditworthiness of the assumer and subsequently revising the holder’s ownership records when an approved transfer is completed. The amount of this charge shall not exceed the maximum established by the Department of Veterans Affairs for a loan to which [Section 3714 of Chapter 37, Title 38, United States Code](#) applies.”

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1. Security Instruments, Continued

**c. Other
Clauses
(continued)**

Indemnity Liability Assumption Clause:

“If this obligation is assumed, then the assumer hereby agrees to assume all of the obligations of the veteran under the terms of the instruments creating and securing the loan. The assumer further agrees to indemnify the Department of Veterans Affairs to the extent of any claim payment arising from the guaranty or insurance of the indebtedness created by this instrument.”

**d. Escape
Clause For the
Sales Contract**

Escape Clause

If the sales contract was signed by the veteran prior to receipt of the NOV, the contract must include, or be amended to include, the clause below.

“It is expressly agreed that, notwithstanding any other provisions of this contract, the purchaser shall not incur any penalty by forfeiture of earnest money or otherwise or be obligated to complete the purchase of the property described herein, if the contract purchase price or cost exceeds the reasonable value of the property established by the Department of Veterans Affairs. The purchaser shall, however, have the privilege and option of proceeding with the consummation of this contract without regard to the amount of the reasonable value established by the Department of Veterans Affairs. (Authority: 38 U.S.C. 501, 3703(c)(1))”

This clause may be found at [38 CFR 4303\(k\)\(4\)](#) in its entirety.

2. Title Limitations

Change Date	September 15, 2004, Change 4 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection f has been changed to delete a reference to “CRV.”
a. Estate of the Veteran in the Property	<p>VA regulations at 38 CFR 36.4350 provide the parameters for the required estate of a veteran in real property securing a VA guaranteed loan. The lender is responsible for ensuring the loan conforms to these parameters.</p> <p>Generally, title to the estate shall be that which is acceptable to informed buyers, title companies, and attorneys in the community in which the property is situated.</p>
b. Title Insurance	<p>VA does not require a lender making a VA loan or the veteran-borrower to obtain title insurance. The lender may apply its own title insurance requirements to VA loan transactions. VA requires only that title to the property meet the standards described above in “Estate of the Veteran in the Property.”</p>
c. Restrictions on the Purchase or Resale of Properties	<p>Restrictions on the purchase or resale of the property are unacceptable to VA, with certain exceptions. The lender must</p> <ul style="list-style-type: none">• ensure any restrictions fall within the exceptions provided by VA regulations at 38 CFR 36.4308 and 38 CFR 36.4350• consult VA where doubt exists• obtain VA approval where appropriate, and• fully inform the veteran and obtain his or her consent to the restrictions in writing at the time of loan application.

Continued on next page

2. Title Limitations, Continued

**d. Examples of
Restrictions
that Require
VA Approval**

A lender may not accelerate a loan based on the sale of the secured property unless the acceptability of the assumption of the loan has not been established pursuant to [Section 3714 of Chapter 37, Title 38, U.S.C.](#), except that

- Under [38 CFR 36.4308\(b\)](#), VA may guarantee a loan made through a State, Territorial or local government program where restrictions in the legal instruments require acceleration of the loan if it is assumed by a party ineligible for assistance under the program.
- Such acceleration must be mandated by Federal, State, Territorial or local law or regulation.

VA may guarantee a loan made through a state or local government program, designed to assist low- or moderate-income individuals, which imposes resale and price restrictions on purchasers.

Under such a program, if the property is resold within a period established by local law or ordinance, certain restrictions as set forth in [38 CFR 36.4350\(b\)\(5\)\(iv\)\(A\)](#) on to whom the property may be sold, the resale price, and other restrictions approved by the Secretary may be applied.

VA may guarantee a loan on which a title restriction limits the sale, lease, or occupancy of the dwelling to persons based on age, including a prohibition against the permanent occupancy of the dwelling by children, provided such restriction complies with applicable Federal law.

VA may refuse to approve a property with an age restriction if its operation would work an undue hardship upon the owner in the case of sudden, unforeseen events or be likely to result in an increased risk of loan default.

Continued on next page

2. Title Limitations, Continued

e. Examples of Restrictions That Do Not Require VA Approval

Title to property involving reasonable encroachments, easements, servitudes, and reservations for water, timber, or subsurface rights, generally do not require VA approval. However, they must be taken into consideration in determining reasonable value.

If any of these restrictions impact the basic livability of the property, VA approval is required.

f. Effect of Title Limitations on Reasonable Value

Title conditions or limitations must be shown on the NOV and considered by the appraiser in determining the reasonable value of the property.

If the lender discovers, prior to loan closing, title conditions or limitations not shown on the NOV, the lender must have VA review the conditions and determine whether the value assigned to the property is materially affected.

Without such a determination by VA, the lender risks a later finding that the condition or limitation affects the reasonable value of the property to the extent that

- the loan will be ineligible for guaranty, or
- a claim on the guaranty will be subject to reduction under
- [38 CFR 36.4325\(b\)\(10\)](#).

When VA reasonable value is based on [HUD Form 92800.5B](#), Conditional Commitment, Direct Endorsement, Statement of Appraised Value, lenders must contact HUD to process requests for review of title conditions or limitations.

3. Land Sale Contracts and Option Contracts

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Eligibility of Land Sale Contracts VA may guarantee an obligation secured by a land sale contract for the purchase of improved residential property in the same manner as any obligation secured by a mortgage or deed of trust.

- The land sale contract must contain the mandatory clauses provided in section 1 of this chapter.
- The contract must be recorded.

VA may also guarantee a loan to refinance the unpaid balance under a land sale contract for the purchase of improved residential property, provided

- the veteran will obtain title to the property described in the contract upon closing of the loan, and
- the obligation to be guaranteed is in the form of a note or bond secured by a mortgage or other acceptable form of security instrument other than the existing land sale contract.

b. Eligibility of Option Contracts Option contracts are not eligible for guaranty, however, VA may guarantee a loan made for the unpaid purchase price of residential property when the option is exercised.

4. Secondary Borrowing

Change Date July 20, 2007, Change 5
Language in section c referring to interest rates on second mortgages has been removed.

a. What is Secondary Borrowing? For purposes of this topic, secondary borrowing refers to the veteran obtaining a second mortgage simultaneously with a VA-guaranteed first mortgage, both secured by the same property.

b. Policy Secondary borrowing is acceptable as long as

- the veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA, and
- the requirements detailed below are met.

c. Requirements The second mortgage must meet the following requirements:

Factor	Requirement
Documentation	The lender must submit documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligors.
Lien Position	The second mortgage must be subordinated to the VA-guaranteed loan, that is, the second mortgage must be in a junior lien position relative to the VA loan.
Allowable Purposes	<p>Proceeds of the second mortgage may be used for a variety of purposes, including but not limited to</p> <ul style="list-style-type: none">• closing costs, or• a down payment to meet secondary market requirements of the lender. <p>But may not be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over VA's reasonable value.</p>

Continued on next page

4. Secondary Borrowing, Continued

c. Requirements (continued)

Factor	Requirement
Cash back	There can be no cash back to the veteran from the VA first mortgage or a second mortgage obtained simultaneously.
Underwriting	The veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation. <i>Reference:</i> See section 5 of chapter 4 .
Interest Rate	The rate on the second mortgage may exceed the rate on the VA-guaranteed first, however, it may not exceed industry standards for second mortgages.
Assumability	The second mortgage should not restrict the veteran's ability to sell the property any more than the VA first mortgage. That is, it should be assumable by creditworthy purchasers.
Grace Period	There should be a reasonable grace period before <ul style="list-style-type: none">• a late charge comes due, or• commencement of foreclosure proceedings in the event of default.

d. Unusual Terms

Second mortgages bearing unusual terms, interest rates, etc., are sometimes offered by parties such as

- Federal, state, or local government agencies
- non-profit organizations
- private individuals
- a builder, or
- the seller.

Consult VA if it is unclear whether the terms of the second mortgage meet VA standards or if there may be a reasonable basis for VA to make an exception to the standards detailed in this topic.

5. Purchase of Property with Encumbrances

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy Generally, VA-guaranteed loans must be first liens. Any existing liens on the property must be paid off or subordinated to the VA loan.

A loan to purchase property subject to unpaid delinquent taxes, special assessments, prior mortgage indebtedness, or other obligations secured by effective liens that the veteran agrees to pay or which constitute encumbrances on the property is not eligible for guaranty if the loan amount plus these unpaid obligations exceeds VA's reasonable value of the property.

6. Liens Covering Community-Type Services and Facilities

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy Generally, loans for the purchase and construction of homes will be first liens, subject only to taxes, special assessments, and ground rents.

VA will not approve superior liens in favor of private entities unless they

- are legally or practically necessary, and
 - result in no prejudice to veterans or the Government.
-

b. Requirements The lender must obtain VA approval of liens held by private parties which are superior to VA home mortgage liens.

Liens held by mandatory membership home associations in planned unit developments are not addressed in this topic.

The lender must demonstrate that

- it is not legal or practical to subordinate the superior lien to the VA mortgage
- there is a viable rationale for not subordinating the superior lien
- the superior lien will not prejudice veterans or the Government, and
- if periodic charges or assessments are involved, the amounts are reasonable and limits on the amounts have been established.

Always obtain VA approval before the lien is recorded. Builders and developers should be aware that if they plan to market properties through VA financing, covenants creating superior liens should not be recorded without VA approval.

Continued on next page

6. Liens Covering Community-Type Services and Facilities, Continued

c. Examples

VA may find the following types of superior liens acceptable:

- Liens for taxes, assessments, and ground rents.
 - Liens by private entities to secure assessments or charges for municipal-type services and facilities which
 - are clearly governmental in nature
 - a municipality could support out of public tax revenue if it provided the service, **but**
 - the municipality does not provide them.
 - Liens to implement or augment a service or facility if the government's provision of such service or facility is inadequate.
 - Liens for services or facilities in locations where the services or facilities are adequately supplied by local government generally will **not** be approved by VA.
 - Liens created by recorded covenants in favor of private entities to secure the homeowner's share of the costs of the management, operation, maintenance, services or programs for the benefit of a development.
 - Liens (on existing properties) previously retained by trustees, improvement associations or other nongovernmental entities for community-type services and facilities in a given area or subdivision, such as maintenance of streets, parkways, playgrounds, water systems, sewage systems, police and fire protection, or street lighting.
-

7. Powers of Attorney

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy VA will allow a veteran to use an attorney-in-fact to execute any documents necessary to obtain a VA guaranteed loan. This enables active duty servicepersons stationed overseas, and other veterans who cannot be present to execute loan documents, to obtain VA loans.

b. Requirements The veteran must execute a general or specific power of attorney which is valid and legally adequate. The veteran's attorney-in-fact may use this power of attorney to apply for a [Certificate of Eligibility](#) and initiate processing of a loan on behalf of the veteran.

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific power of attorney complies with state law to the extent that

- the mortgage can be legally enforced in that jurisdiction, and
- clear title can be conveyed in the event of foreclosure.

To complete the loan transaction using an attorney-in-fact VA also requires the veteran's written consent to the specifics of the transaction. This requirement can be satisfied by either

- the veteran's signature on both the sales contract and the URLA, as long as the veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents, or
- a specific power of attorney or other document(s) signed by the veteran, which encompasses the following elements:
 - Entitlement—A clear intention to use all or a specified amount of entitlement.
 - Purpose—A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing.
 - Property Identification—Identification of the specific property.
 - Price and Terms—The sales price, if applicable, and other relevant terms of the transaction.
 - Occupancy—The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).

Continued on next page

7. Powers of Attorney, Continued

**b.
Requirements
(continued)**

In addition, at the time of loan closing, the lender must

- verify that the veteran is alive, and, if on active military duty, not missing in action, and
- make the following certification:

“The undersigned lender certifies that written evidence in the form of correspondence from the veteran or, if on active military duty, statement of his or her commanding officer (including statement of person authorized to act for said officer), affirmatively indicating that the veteran was alive and, if the veteran is on active military duty, not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed on the veteran’s behalf by the attorney-in-fact.”

**c. Veteran’s
Status as Alive
and not MIA**

The lender must always verify that the veteran is alive at the time of loan closing, whether or not the veteran is still in the military.

If the lender has difficulty obtaining verification that a service person in a combat area is alive and not in MIA status, the lender may request that VA obtain the necessary information on its behalf.

VA may deny guaranty on a loan if the lender failed to properly verify the veteran’s status and the veteran was deceased (or MIA) at the time the loan was closed.

**d. Prior
Approval
Loans**

VA will issue a Certificate of Commitment only if the veteran has executed a valid and legally adequate power of attorney and consented to the specific transaction (as described under the “Requirement” heading). If VA has information that the veteran is MIA or deceased, VA will not issue a commitment.

The Certificate of Commitment issued in power of attorney cases contains the condition indicated under “Conditional Commitments” in [section 4 of chapter 5](#).

Continued on next page

7. Powers of Attorney, Continued

e. Hardship Exceptions

VA may relax the requirements in an exceptional case if serious hardship may result due to the time or other pertinent factors involved in obtaining the veteran's consent to the specific transaction.

Submit the facts of the case to VA for a determination.

8. Lender Review of Sales Contracts on Proposed Construction

Change Date	September 15, 2004, Change 4 This section has been changed to create subsection lettering.
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a. Procedures	Prior to requesting an appraisal of proposed construction, the lender must review the sales contract or purchase agreement on the property. The lender must determine whether the contract
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- is acceptable, and
- does not contain unfair contractual provisions.

The lender may request revision of an unacceptable contract by the parties to the transaction.

The lender should report unacceptable contract practices by a VA program participant (such as a builder) to VA if

- the program participant is engaged in practices which seriously prejudice the interests of veterans or the Government, or
- the program participant repeatedly uses unacceptable contracts or contracts containing unfair contractual provisions, and is uncooperative in changing such practices.

The closing of the loan indicates that the lender has determined the contract is acceptable.

Continued on next page

8. Lender Review of Sales Contracts on Proposed Construction, Continued

b. Examples of Unfair Contract Provisions or Features

Unfair contractual provisions or features include, but are not limited to, the information in the table below.

Example	Unfair Contract Provisions or Features
1	Provisions allowing the down payment or earnest money of the purchaser to be forfeited or retained as liquidated damages if the purchaser cannot obtain VA financing.
2	Inclusion in a lump-sum contract of an “escalator clause” which obligates the purchaser to pay a higher price in the event of increased costs for labor, material, or other items prior to delivery of title unless accompanied by a proviso which gives the purchaser the option of canceling the contract and obtaining a refund of the moneys paid if the increased price is not acceptable to the veteran.
3	Provisions which infringe upon the usual or customary freedom or right of an owner to sell a property, except as allowed under 38 CFR 36.4308(e) and 36.4350(b)(5) . For example, a provision that the purchaser will give a stated real estate agency an exclusive listing if he or she resells the property within 2 years after acquisition, or will give the seller or another a first option to buy other than in a cooperative housing project or as provided in 38 CFR 36.4350(b)(5) .

Continued on next page

8. Lender Review of Sales Contracts on Proposed Construction, Continued

b. Examples of Unfair Contract Provisions or Features (continued)

Example	Unfair Contract Provisions or Features
4	<p>A requirement that purchasers waive or release any claim or right for nonperformance by the builder under the contract.</p> <ul style="list-style-type: none">• This does not prevent a builder from obtaining a statement from the purchaser at closing that he or she has inspected the house and has not observed any unsatisfactory construction, nor• does it prevent the builder from obtaining a release from the purchaser in settlement of a bona fide dispute.
5	<p>Omission of a description sufficient to identify accurately the property sold.</p>
6	<p>Omission of a provision specifying whether the builder or the veteran is to be charged with any special assessments or improvement bonds. This includes those assessments or bonds which are payable in the future, for improvements included in the plans and specifications or commenced or completed at the time of closing, such as streets, sidewalks, curbs, gutters, and sewers.</p>
7	<p>Omission of a date for completion of proposed construction or failure to give the veteran the option of canceling the contract and obtaining a refund of the deposit if the dwelling is not completed on a specified date or within a reasonable time afterwards.</p>
8	<p>Failure of a contract covering proposed construction to obligate the seller to complete the dwelling in substantial accordance with identified and definite plans and specifications.</p>

9. Escrow for Postponed Completion of Improvements

- Change Date** July 20, 2007, Change 5
- Subsections a and c have been changed to remove references to off-site improvements like road surfacing or public sidewalks.
 - Subsections e and f have been changed to remove references to VA Forms 26-1847 and 26-6378 which are no longer required. Additionally, the steps in section e have been renumbered to reflect this change.
-

a. General In some instances, it may not be possible to complete certain items before the veteran wishes to move into the property. The escrow of funds can permit the veteran-purchaser to gain occupancy of the dwelling prior to completion of certain items which must be postponed due to weather conditions or other circumstances. Such items include, but are not limited to:

- walkways, driveways, and retaining walls
- exterior painting
- landscaping
- garages

VA may permit the escrow of funds necessary to complete the unfinished work later, and still issue evidence of guaranty.

b. What is an Escrow? An escrow involves the following:

- withholding 1 1/2 times the dollar amount necessary to complete the postponed items (as estimated by a third party) from the proceeds due the seller at closing
- holding the escrowing funds in a proper, secure manner, and
- releasing the funds once the postponed items have been satisfactorily completed.

Continued on next page

9. Escrow for Postponed Completion of Improvements, Continued

c. What is Required to Establish an Escrow?

To establish an escrow, the following must apply:

- Construction of the dwelling must be complete and the house must be suitable for immediate occupancy
- postponement of the improvements must be beyond the control of the builder/seller
- the duration of the postponement must not be unreasonable (usually 90 to 120 days)
- the amount escrowed must be at least 1 1/2 times an estimate of the amount needed to complete the work.

d. When is an Escrow Not Required?

Lender's are not required to escrow funds when:

- the incomplete work is limited to the installation of landscaping features (lawns, shrubbery, etc.)
- the estimate of the cost to complete the work is not greater than \$500, and
- there is adequate assurance that the work will be completed timely and satisfactorily (usually 90 to 120 days).

e. General Procedures

No prior approval of VA is required to escrow funds. Lenders are responsible for establishing escrows in accordance with the guidelines presented in this topic. Lenders are also responsible for assuring that the postponed work is completed. Once the loan closes, VA will randomly monitor cases to ensure completion of escrowed items.

Lenders escrowing funds should follow the procedures below:

Step	Action
1	Close loan and escrow the required funds.
2	Submit closed loan package for issuance of guaranty with <ul style="list-style-type: none">• lender evidence of escrow agreement, or• a completed VA Form 26-1849, Escrow Agreement for Postponed Exterior Onsite Improvements.

Continued on next page

9. Escrow for Postponed Completion of Improvements, Continued

e. General Procedures (continued)

Step	Action
3	<p>Release escrowed funds when work is satisfactorily completed, as evidenced by doing the following:</p> <ul style="list-style-type: none">• Complete VA Form 26-1839, Compliance Inspection Report, indicating the postponed work has been satisfactorily completed, or• if the postponed work is minor, uncomplicated, and not involving structural issues, provide written certification from the lender indicating the work has been completed, and a statement from the veteran-purchaser that he or she is satisfied with the work.

Note: In cases involving postponed improvements which affect more than one loan by a lender in a tract development, [VA Form 26-1849](#) will only be required for the initial loan to a veteran in the development.

f. Letters of Credit

A commercial letter of credit may be used in lieu of a cash escrow provided:

- the dollar amount of available credit is at least 1 1/2 times the estimated cost of the postponed work
- a trust agreement describing the duties, obligations, and responsibilities is submitted ([VA Form 26-1849](#) may be used)
- the letter of credit is irrevocable and a valid and binding obligation on the issuing bank **and** extends at least six months beyond the date for completion of improvements
- a copy of the letter of credit and trust agreement is furnished to the appropriate VA office so a control can be maintained on the available credit.

Note: A letter of credit acceptable to HUD which conforms to the standards above is also acceptable to VA. In such cases, the escrow agent or trustee must agree to keep VA informed of charges against the letter of credit.

Continued on next page

9. Escrow for Postponed Completion of Improvements, Continued

- g. Surety Bonds** Cash escrows are not required when the offsite improvements are to be installed by the builder, provided that:
- a surety bond acceptable to the local government authority provides assurance of the builder's obligation to install the offsite improvements.
 - the amount of the bond is at least equal to the estimated cost of installing the offsite improvements.
 - the local government provides VA evidence
 - that the offsite improvements will be installed without cost or assessment to the purchasers of the abutting properties, and
 - if the builder does not complete the improvements by a specified date, the local government authority will be responsible for their completion, with no cost or assessment to the purchasers of properties affected by the improvements.
 - the local government has provided evidence that it will be responsible for continuous maintenance of the completed offsite improvements.
 - the principal law officer of the local authority advises VA that the local authority is legally empowered to assume these obligations.
-

10. Hazard Insurance

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. General Requirements The lender is responsible for ensuring that hazard insurance is obtained prior to loan closing, and maintained for the term of the loan. It must be of a type or types and in an amount sufficient to protect the property against risks or hazards to which it may be subjected in the locality.

Generally, the type(s) and amount of insurance coverage customary in the locality will satisfy this requirement.

Policies must provide that all amounts payable, including unearned premiums, shall be payable to the holder, or to a trustee or other person for the holder. All policy payments received for insured losses must be applied to the restoration of the security or to the loan balance.

b. Flood Insurance Requirements The lender is responsible for ensuring that flood insurance is obtained and maintained on any building or personal property that secures a VA loan if the property is located in a special flood hazard area (SFHA), as identified by the Federal Emergency Management Agency (FEMA).

- The lender/holder's responsibility extends through the entire term of the loan, and includes insuring any secured property that becomes newly located in a SFHA due to FEMA remapping.
- The VA appraiser's opinion on whether the property is located in a SFHA does not relieve the lender from responsibility for ensuring flood insurance coverage on a property which is in fact located in a SFHA
- Personal property requiring coverage can include a manufactured home and its appliances, carpet, etc. if they secure the loan.
- The amount of flood insurance must be equal to the lesser of the outstanding principal balance of the loan or the maximum limit of coverage available for the particular type(s) of property under the National Flood Insurance Act.
- Contact local property insurance agents or brokers, or FEMA regional offices, for current information on maximum available coverage.

Note: VA cannot guarantee a loan if the security is located in a SFHA and flood insurance is not available.

Continued on next page

10. Hazard Insurance, Continued

**c. Unavailable
or Terminated
Insurance**

If it is not possible to obtain and maintain insurance on the property, contact VA. VA will determine whether to waive the requirement or declare the (existing) loan to be in default.

**d.
Consequences
of Uninsured
Losses**

VA may reduce a future guaranty claim based on the lender's noncompliance with VA hazard/flood insurance requirements which results in uninsured losses (unless a waiver has been granted).

**e. VA
Determination
of the Amount
of Insurance
Required**

The lender may request VA to determine the minimum insurance coverage needed to meet the requirements of [38 CFR 36.4326](#) for a specific loan.

If the required amount of coverage is maintained, no future guaranty claim can be reduced due to inadequate coverage provided there has been no change in the nature, value, or use of the security that would require new or additional coverage (based on what is customary in the locality) since VA's determination was made.

Continued on next page

10. Hazard Insurance, Continued

**f. Special
Considerations
with
Homeowners
Associations**

Condominiums and many townhouse homeowners associations (HOAs) maintain blanket or master policies on common areas, including common mechanical and structural elements. The limits of coverage should be described in the policy, and may also be referred to in the organizational documents.

Lenders should be aware that policies maintained by some HOAs may not provide adequate coverage. They may protect only the shell of the structure. These “studs out” policies do not cover

- interior walls
- flooring
- plumbing or electrical fixtures
- cabinets
- HVAC equipment
- appliances, and
- other items considered part of the real property.

Carefully review the terms of each blanket policy, or confirm with the HOA that adequate coverage is in effect (and check periodically for any changes in coverage). If coverage is inadequate, the homeowner can be held responsible through the terms of the loan instruments, for maintaining coverage on the portions of the real property not covered by the master policy.

11. Escrow for Taxes and Insurance

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a.
Requirements VA does not require the lender to establish escrow accounts for the collection and payment of property taxes, hazard insurance premiums, and similar items. However, it is the lender's responsibility to ensure that these items are paid timely.

A lender who chooses to escrow for taxes and insurance must comply with applicable laws, including the Real Estate Settlement Procedures Act (RESPA).

Chapter 10

Property Eligibility and Appraisal Requests

Overview

Introduction

This chapter contains information about

- the eligibility of property to be the security for a VA guaranteed loan, and
 - appraisal requests.
-

In this Chapter

This chapter contains the following topics.

Topic	See Page
10.01 Why An Appraisal Is Required	10-2
10.02 Who Can Request an Appraisal	10-3
10.03 The Appraisal System	10-4
10.04 How to Request an Appraisal	10-5
10.05 Types of Property Eligible for Appraisal	10-8
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10.01 Why An Appraisal Is Required

**Value and
Condition**

An appraisal is required to help ensure that any property which will become the security for a VA-guaranteed loan

- has a value of at least as much as the loan amount, and
 - is in a condition acceptable to VA.
-

10.02 Who Can Request an Appraisal

**Lender
Preferred**

VA prefers that the appraisal be requested by the lender, although it can be requested by any other party to the transaction, provided the appraiser is assigned by VA.

Lenders must ensure that agents and mortgage brokers requesting VA appraisals on their behalf are familiar with the requirements in this chapter.

10.03 The Appraisal System

Purpose of System

The Appraisal System (TAS) allows appraisal requesters to contact VA via the Internet any time of the day or night to obtain VA assignment of a case number and fee appraiser (and construction inspector, if applicable).

Access to and Instructions for Using TAS

The Internet address for TAS is <http://tas.vba.va.gov>

Instructions for use of the system are available on-line.

Problem Solving***Problem with user ID or password or fee panel-related problem?***

Contact the VA office of jurisdiction for the property (Appendix A is a list of VA offices).

Technical problem with TAS?

Contact the VA Help Desk in Philadelphia at (215) 381-3050.

No access to the Internet or unable to resolve problem with TAS?

Assignments can be requested on a limited basis by telephone, fax or in writing.

Reference: See Section 10.04 for more information.

10.04 How to Request an Appraisal

Procedure

Follow the steps in the table below to request an appraisal. More detailed guidance is provided in Figure 2, VA Appraisal Request Checklist, at the end of this chapter.

Step	Action
1	<p>Ensure that the property is eligible for appraisal and all other appraisal request requirements can be satisfied (Sections 10.05 through 10.10). Contact the VA office of jurisdiction for the property if there are</p> <ul style="list-style-type: none">• questions about the property's eligibility, or• if the property is not eligible for appraisal but is already the security for a VA loan. <p>Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. <i>If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a detailed explanation.</i></p>
2	<p>Access TAS per Section 10.03, and provide all necessary information about the case.</p> <p>TAS will:</p> <ul style="list-style-type: none">• assign<ul style="list-style-type: none">– a case number (in liquidation cases, this will be the existing VA loan number for the property, as provided by the requester)– an appraiser (since VA is required by law to select the fee appraiser on a rotational basis from a panel maintained by VA), and– an inspector, if appropriate, and• issue a complete VA Form 26-1805-1, VA Request for Determination of Reasonable Value, which includes the above information <p>Note: LAPP lenders and loan holders/servicers who wish to have the appraisal report e-mailed to them must provide an e-mail address in Item 5 of the appraisal request.</p>

Continued on next page

10.04 How to Request an Appraisal

Continued

Procedure (continued)

Step	Action
3	<p data-bbox="548 506 1403 611">The same day as the assignment is made e-mail, fax or mail the TAS-generated VA Form 26-1805-1, and any other required documentation, to the appraiser assigned.</p> <p data-bbox="548 653 1403 831">For liquidation appraisals, include the name and telephone number of the current or last known occupant. If the property is vacant, also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property; for example, the name and telephone number of a local person to contact.</p> <p data-bbox="548 873 1192 905">If appraised as “<u>Proposed or Under Construction</u>,”</p> <ul data-bbox="548 947 1403 1230" style="list-style-type: none"> • ensure that the construction exhibits meet the requirements in Section 10.10 • mark the case number assigned on the outside of each set of the construction exhibits • include a set of the construction exhibits with the appraiser’s VA Form 26-1805-1. This will be considered the VA file copy, and • send the inspector, if assigned, a copy of VA Form 26-1805-1 and a set of the construction exhibits. <p data-bbox="548 1272 1403 1346">If the veteran is acting as the general contractor in building a home for his or her own occupancy, include:</p> <ul data-bbox="548 1388 1403 1566" style="list-style-type: none"> • any construction exhibits needed for appraisal purposes, and • the veteran’s written agreement to pay for any special VA fee inspections that may be needed to ensure that the work meets VA Minimum Property Requirements for existing (not proposed) construction.

Continued on next page

10.04 How to Request an Appraisal

Continued

If Access to TAS Is Unavailable

If Internet access to TAS is not available, complete Step 1 for the previously listed procedures. Then complete VA Form 26-1805, VA Request for Determination of Reasonable Value. A typed, fully completed form is required for every request, except for the following:

- properties already listed on a valid VA Form 26-1843a, Master Certificate of Reasonable Value (**Reference:** See Section 13.03, Step 6)
- loans for alterations, improvements or repairs of \$3,500 or less (**Reference:** See Section 10.05), or
- partial release of the security for a VA-guaranteed loan (**Reference:** See Section 10.05)

For LAPP Cases, write “LAP” as the prefix for the case number in Item 1 of VA Form 26-1805 and write “LENDER APPRAISAL PROCESSING PROGRAM” in capital letters under the lender’s name and address in Item 5. This lets the appraiser know to forward the appraisal report to the lender, not VA, for processing.

For liquidation cases, write “LIQUIDATION APPRAISAL” in capital letters in Item 28 of VA Form 26-1805. Also include the name and telephone number of the current or last known occupant. If the property is vacant, the request must also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property (such as, the name and telephone number of a local person to contact).

Then telephone the necessary information to the VA office of jurisdiction for the location of the property, or fax or mail VA Form 26-1805 and any exhibits to that office.

Finally, for telephoned or faxed requests

- enter the case number assigned by VA in Item 1 of VA Form 26-1805 and the name of the appraiser (and inspector, if assigned) in Item 43, **and**
 - complete Step 3 in the previously listed procedures.
-

10.05 Types of Property Eligible for Appraisal

**Lender
Responsibility**

If the lender fails to exercise due diligence in determining appraisal eligibility, VA may deny or reduce payment on a future claim based on the ineligibility of the property.

Properties not eligible for appraisal and other appraisal request restrictions are described in Sections 10.06 and 10.07.

**Existing
Construction**

A home which has either been previously owner-occupied or had all onsite and offsite improvements fully completed for one year or more is eligible.

**New
Construction**

Newly completed properties (completed less than one year and never owner-occupied) are eligible if either

- covered by a one-year VA builder's warranty
- enrolled in a HUD-accepted ten-year insured protection plan, or
- built by a veteran, as the general contractor, for his/her own occupancy.

Note: An exception may be made for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a ten-year insured protection plan.

Reference: See Section 10.08 for details.

**Proposed or
Under
Construction**

Property is eligible for appraisal prior to construction or during construction, if

- the appraisal is based on proposed construction exhibits, and
- the property is inspected by VA or HUD during construction

Reference: See Section 10.09 for details.

Continued on next page

10.05 Types of Property Eligible for Appraisal

Continued

Manufactured Home Classified as Real Estate

To be eligible for a VA loan term of 30 years, a manufactured home must be

- classified and taxed as real property
- properly affixed to a permanent foundation (Section 12.10)
- substantially conform with VA MPRs (Chapter 12), and
- conform with applicable building code and zoning requirements for real estate.

Reference:

- Section 10.10, *Construction Exhibits*,
- Section 11.12, *Other Property Types and Situations*,
- Section 13.06, *notice of Value Conditions and Requirements*, and
- Section 14.04, *Manufactured Homes Classified as Real Estate*.

Other Manufactured Homes

Modular homes are eligible, provided they are covered by a HUD structural engineering bulletin, or constructed to the standards of the State in which the factory is located and receive that State's approval certification. They are delivered to the building site in sections, but are not attached to a chassis supported by wheels. For homes processed as "proposed or under construction. (**Reference:** See "Modular Construction" in Section 10.10)

For traditional manufactured homes (not classified as real estate and attached to a chassis which is supported by wheels), **Reference:** See Title 38 CFR 36.4200 series.

[38 CFR 36.4200]

Continued on next page

10.05 Types of Property Eligible for Appraisal

Continued

**Property to be
Altered/
Improved/
Repaired**

A VA-guaranteed loan may be acquired to alter, improve or repair a property owned and occupied by the veteran as the veteran's home. The property is eligible for appraisal either

- prior to being altered, improved or repaired. (When extensive alterations, improvements or repairs are to be made, VA must determine on a case-by-case basis at the time of the appraisal request which of the construction exhibits in Section 10.10 are required. All work must be inspected, to the extent determined appropriate by VA on a case-by-case basis.), **or**
- after being altered, improved or repaired.

Note: This usually involves a VA-guaranteed loan for refinancing purposes. No construction exhibits or inspections are generally required, if the work was completed prior to the appraisal.

In either situation, all work must be acceptably completed before VA guaranty of the loan.

Reference: See Section 7.03 for more information on energy efficiency-related alterations or repairs.

Continued on next page

10.05 Types of Property Eligible for Appraisal

Continued

Security for Existing VA Loan

Property securing an existing VA loan is eligible for appraisal for the following purposes:

Refinancing:

Either

- cash-out, which requires both an appraisal and a VA notice of value, or
- interest rate reduction only, which requires neither an appraisal nor a notice of value. However, if the new loan balance will exceed the original loan amount by 5% or more, the lender may wish to consider requesting an appraisal.

Partial release of security:

The request must be in writing and include any information that the VA office of jurisdiction considers necessary. A formal appraisal is not required if there is sufficient information for VA staff to determine the reasonable value of the property being released and the value of the security remaining.

Foreclosure:

When the VA loan is in default. A liquidation appraisal should be requested at the time the notice of sale is forwarded to VA, but no later than 30 days prior to the estimated or scheduled sale date. The lender/holder/servicer is responsible for assisting the appraiser in gaining access to the interior of the property.

Reference: See Section 11.13 for more information about interior access.

10.06 Properties Not Eligible for Appraisal

Properties Not Likely to Meet MPRs

Property in a badly deteriorated condition is not eligible for appraisal unless VA agrees there is a reasonable likelihood that it can be repaired to meet VA Minimum Property Requirements (MPRs) prior to loan closing.

Other MPR-related restrictions are outlined in Chapter 12.

Location-Related Problem

Property is not eligible for appraisal if the improvements are or will be located in

- a Special Flood Hazard Area (SFHA) and either
 - it is proposed/under/new construction with elevation of the lowest floor below the 100 year flood level, or
 - flood insurance is not available (**Reference:** See Section 11.12)
 - an area subject to regular flooding for whatever reason, whether or not it is in an SFHA (**Reference:** See Section 11.12)
 - a Coastal Barrier Resources System area (**Reference:** See Section 11.12)
 - an airport Noise Zone 3, if proposed or under construction (**Reference:** See Section 11.12)
 - a transmission line easement involving high-pressure gas or liquid petroleum or high voltage electricity, if any part of the residential structure is located within the easement (**Reference:** See Section 12.07), or
 - an area susceptible to geological or soil instability (earthquakes, landslides or other history of unstable soils), if proposed/under/new construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design (**Reference:** See Section 10.10).
-

Continued on next page

10.06 Properties Not Eligible for Appraisal

Continued

Condo Not Approved

A condominium must be acceptable to VA before any unit in the project can be eligible for VA loan guaranty.

To avoid an unnecessary appraisal fee, a condominium unit should not be appraised unless there is a reasonable likelihood that VA or HUD will accept the project prior to loan closing.

Reference: See Chapter 16.

Ownership Not Fee Simple

Property involving a less than fee simple ownership (i.e., leaseholds, cooperatives, ground rental arrangements) is not eligible for appraisal without prior VA approval of the specific legal arrangement or project. Submissions to VA Central Office (262A) must include

- details of the ownership arrangement
- copies of leases or other instruments creating the estate, and
- recommendations of the VA office of jurisdiction.

Other Ineligible Properties

Reference: See Section 10.07.

10.07 Other Appraisal Request Restrictions

No Duplicate Appraisals

No new appraisal can be requested on property which already has a valid VA value determination.

The process for changing notices of value is outlined in Chapter 13.

Builder ID Required

For any property appraised as either “proposed or under construction” or “new construction”, the builder must have a valid builder identification number prior to a VA notice of value being issued.

To obtain and maintain a valid, VA-assigned builder ID, all of the following must be fully-executed, up-to-date and on file at the VA office of jurisdiction over the location of the property:

- VA Form 26-421, Equal Employment Opportunity Certification.
 - VA Form 26-8791, VA Affirmative Marketing Certification.
 - The identifying information and certifications shown in Figure 1 of this chapter, as worded and in the order shown, and either on the builder’s letterhead or attached to a statement on the builder’s letterhead which references it.
-

No Appraisal Due to Sanction

Property is ineligible for VA appraisal if any party of interest to the transaction, other than the purchaser, is debarred Government-wide, or otherwise excluded from participation in the Loan Guaranty program due to a VA-imposed sanction for substantially prejudicing a veteran by either

- failing to correct justified construction complaint items
 - violating VA Minimum Property Requirements
 - deviating from plans and specifications without VA approval
 - failing to honor other contractual obligations on houses previously built and sold with VA financing, or
 - using a sales contract or marketing method or practice which VA considered to be unfair or unduly prejudicial to the veteran involved.
-

Continued on next page

10.07 Other Appraisal Request Restrictions

Continued

No Appraisal Due to Sanction (continued)

When the sanctioned party is a builder, this restriction applies to any property still owned by the builder, including houses under construction and existing houses. VA's refusal to appraise will not be affected by either the fact that

- a fee inspector approved the work on which the sanction was based, or
- the builder changes the company's name or organization or becomes a principal or officer in another organization.

Note: Reference: See Section 17.01. Lenders are responsible for identifying builders on the GSA list. For sanctioned builders not on the GSA list, each VA office of jurisdiction will either

- periodically provide lenders with a list of such builders to check or
- assume responsibility for ensuring that those builders do not participate in the VA loan guaranty program.

Building Code Enforcement

If there are local building authority requirements due to building code enforcement or urban renewal, either

- provide evidence with the appraisal request that those requirement(s) are satisfied, or
- the notice of value will be conditioned to require such evidence.

Reference: See Section 13.06.

Potential Restriction to Veterans Under Contract

During times of heavy VA workload or limited resources, a VA field station may notify lenders that it will temporarily accept only appraisal requests involving a veteran under contract. In that situation, the appraisal request must either

- be accompanied by a copy of the fully-executed purchase agreement, or otherwise clearly identify the transaction with a proposed VA loan, or
- indicate that the appraisal is for a purpose not affected by this restriction (such as, proposed construction, refinancing, foreclosure, or a loan for alterations/improvements/repairs).

Continued on next page

10.07 Other Appraisal Request Restrictions

Continued

**Potential
“Master”
Appraisal
Restrictions**

During times of heavy VA workload or limited resources and with VA Central Office concurrence, a VA field station may temporarily refuse a builder’s requests for “master” appraisals if experience with that builder or location indicates that a minority of the units will receive VA financing. In that situation, the builder may obtain an individual appraisal on any property sold to a veteran.

With VA Central Office concurrence, a VA field station may also limit the number of

- units in a “master” appraisal to the number which it believes can be successfully marketed during the validity period of the VA value notice, or
- optional items of equipment or variations from basic house types to be included in a “master” appraisal.

**If No Inspector
Available**

In areas where there is no qualified VA or HUD fee inspector, properties cannot be appraised until they qualify as

- “new construction” (**Reference:** See Section 10.08), or
 - “existing construction” (**Reference:** See Section 10.05).
-

10.08 New Construction

Definition Construction Exhibits and Inspections

To be eligible for appraisal as “new construction”, the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering, appliances, fixtures and equipment, etc.) and those improvements for which escrows are permitted (**Reference:** See Section 9.09). This eliminates the need for construction exhibits.

Note: For properties which do not meet the criteria for appraisal as “new construction”, **Reference:** See Section 10.05 (“Proposed or Under Construction” and “Existing Construction”).

Neither construction exhibits nor VA or HUD inspections during construction are required for properties appraised as “new construction”.

Note: Appraisal without VA or HUD inspections during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain VA or HUD inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with this restriction.

Construction Warranty

Properties appraised as “new construction” must be covered by either

- a one-year VA builder’s warranty, or
- a ten-year insurance-backed protection plan.

If the builder will provide a one-year VA builder’s warranty, then both of the following will be required

- the veteran purchaser’s written acknowledgment that, “I am aware that VA did not inspect this property during construction and that VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported in writing during the one-year VA builder’s warranty period.” **Reference:** See Section 13.06, “Not Inspected Acknowledgment.”
- a one-year VA builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction. **Reference:** See Section 13.06, “Construction Warranty”.

Continued on next page

New Construction, Continued

**Construction
Warranty,
Continued**

If the builder will provide a ten-year insurance-backed protection plan, then both of the following will be required

- the veteran purchaser's written acknowledgment that, "I am aware that VA did not inspect this property during construction and that it does not qualify for VA assistance with construction complaints." **Reference:** See Section 13.06, "Not Inspected Acknowledgment".
- evidence of enrollment of the property in a ten-year insured plan acceptable to HUD. **Reference:** See Section 13.06, "Ten Year Insured Protection Plan".

Exception: An exception may be made for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a ten-year insured protection plan. In that situation, all of the following will be required:

- the veteran purchaser's written acknowledgment that, "I am aware that this property does not qualify for VA assistance with construction complaints, since it was not inspected by VA during construction. I am also aware that this new property will not be covered by either a one-year VA builder's warranty or a ten-year insured protection plan, as is normally required in this situation."
 - the builder's written certification that, "This company is not more than occasionally involved with VA financing and is aware that this property is being accepted without any VA-required warranty on an exception basis only upon the request of the veteran purchaser. The dwelling was constructed according to standard building practices and is in conformity with all applicable building codes and complies with the energy conservation standards of the 1992 Council of American Building Officials Model Energy Code," **and**,
 - the lender obtains a copy of documentation issued by the local building authority to verify that construction was acceptably completed, such a final inspection or occupancy permit. Where local authorities do not perform building inspections, the builder must certify in writing that "The dwelling was not inspected during construction by any State, county or local jurisdiction."
-

10.09 Proposed or Under Construction

Individual vs. “Master” Appraisals

Properties can be appraised prior to the start or completion of construction either

- individually, or
- as a group of 5 or more on a “master” appraisal. Each model or house type is appraised at the same time by the same fee appraiser on a separate appraisal report. All of the properties are included on the same *VA Master Certificate of Reasonable Value*.

Construction Exhibits

Construction exhibits must be provided with the request to appraise properties as “proposed or under construction”. **Reference:** See Sections 10.04 and 10.10.

Construction Inspections

Properties appraised as “proposed or under construction” must be inspected by VA or HUD during construction (**Reference:** See Chapter 14).

The purpose of the inspection(s) is to help ensure that the property

- is built according to the construction exhibits used in the appraisal, and
- meets VA Minimum Property Requirements for proposed construction (**Reference:** See Section 12.02).

Only a final inspection is required if either

- the property is to be covered by a ten-year insured protection plan (**Reference:** See “Construction Warranty” below), or
- VA can rely on local building authority inspections in lieu of first and second stage VA inspections (**Reference:** See Section 14.03).

Note: VA acceptance of only a final VA or HUD inspection during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain a full complement of inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with the restriction.

Continued on next page

10.09 Proposed or Under Construction, Continued**Construction
Warranty**

In every case processed as proposed or under construction, the builder must provide the veteran home buyer with a one-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction.

If only a final VA or HUD inspection is made during construction (**Reference:** See "Construction Inspections" above), a ten-year insured protection plan acceptable to HUD is also required (unless the builder provides evidence of local building authority inspections acceptable to VA in lieu of VA first and second stage inspections per Section 14.03).

Reference: See Section 13.06, "Construction Warranty".

**Determining
the Type of
Warranty**

Use the table below to determine the type of warranty required.

When the property is appraised as...	...then...
existing construction	no warranty is required.
new construction	either: <ul style="list-style-type: none"> 1 year builder's warranty is required, or a 10 year insured protection plan is required.
proposed or under construction with a full complement of VA inspections	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are accepted in lieu of VA first and second stage inspections per Section 14.03)	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are not accepted in lieu of VA first and second stage inspections per Section 14.03)	<ul style="list-style-type: none"> both a 1 year builder's warranty, and a 10 year insured protection plan are required.

10.10 Construction Exhibits

General Requirement

Construction exhibits are required for properties appraised as “proposed or under construction”. They are **not** required for properties appraised as either “new construction” or “existing construction.”

Required Exhibits

Each set of proposed construction exhibits must include

- specifications on VA Form 26-1852, Description of Materials, signed and dated by the builder in all cases and by the veteran when one is under contract in an individual case processed as “proposed or under construction”. Other specification formats are also acceptable, provided they are signed and dated by the builder and veteran as described above and are sufficiently detailed for VA appraisal and compliance inspection purposes.
- plot plan which includes the location of the well/septic systems, if applicable.
- all exterior building elevations.
- foundation or basement plan.
- plan of all floors.
- sectional wall details.
- a certification signed and dated by a technically qualified and properly identified individual (such as, builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD Form 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

Note: In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 **or** Items 5, 6, 9, 10, 12 and 13.

Continued on next page

10.10 Construction Exhibits

Continued

**Number and
Distribution of
Exhibit Sets**

If inspections during construction are to be made by

- VA, then two sets of construction exhibits are required. **Reference:** See Section 10.04 (Step 3), regarding distribution details.
 - HUD, then only one set of construction exhibits is required. The appraisal requester will include that set with the assignment notice to the appraiser.
-

**Reduced-Size
Plans**

VA highly recommends the use of reduced-size construction drawings to save reproduction, mailing and storage costs for all parties involved. Building plans, elevations and details, traditionally drawn at 1/4 inch scale and larger, can be photographically reduced or computer-drawn to be clearly readable on 8½ by 14 inch sheets.

While VA will currently accept 11 by 17 inch sheets, this size is not compatible with standard industry scanner equipment generally available to VA and program participants. Therefore, this size is discouraged and in the future may be eliminated as an option. Other exhibits normally provided in an 8½ by 11 inch format (such as specifications, certifications, etc.) must not be further reduced.

**Changes to
Exhibits**

Reference: See Section 14.07 for information about changing the construction exhibits after they are used for VA appraisal purposes, but prior to loan closing.

10.10 Construction Exhibits

Continued

**“Master”
Appraisals**

In addition to the other requirements in this section, a “master” appraisal request must include the following:

- Plat showing the locations of each lot or unit to be included in the appraisal,
 - completed VA Form 26-1843b, Master Certificate of Reasonable Value Worksheet, and
 - Building Program Statement, which includes:
 - total number of dwellings to be built in the project
 - number of dwellings contemplated in the primary construction phase, and anticipated starting and completion dates of that phase
 - arrangements regarding the construction, dedication and maintenance of streets and utilities, and
 - information regarding any special assessments to be assumed by purchaser.
-

**Property to be
Altered/
Improved/
Repaired**

Reference: See Section 10.05.

**Veteran as
Contractor**

Reference: See Section 10.04, Step 3.

Continued on next page

10.10 Construction Exhibits

Continued

**Modular
Construction**

In addition to the other requirements in this section, an appraisal request involving modular construction must include either

- evidence of coverage by a HUD structural engineering bulletin, or
 - a certification of approval by the State in which the unit is fabricated. This requirement will be made a condition of the VA value notice if not submitted with the appraisal request.
-

**Manufactured
Home
Classified as
Real Estate**

Any case in which the foundation has not been fully completed and the manufactured home unit installed is considered to be “proposed or under construction.”

In those cases, each set of construction exhibits must include

- specifications for the foundation and a plot plan as required for conventional site-built homes
 - in double-wide homes, a detail of the mating line piers, if applicable
 - a foundation plan showing the location and a cross-sectional detail of the supporting piers. In all cases, include drawings of the foundation anchorage details.
 - a floor plan of the unit and exterior elevation drawings/photographs of the front and rear of the home, unless the unit is physically located on the site to be appraised or the appraiser has access to the unit on the dealer’s lot. These may be provided in the manufacturer’s advertising or technical installation manual.
 - in States or localities that require the underside of the unit to be completely enclosed, details of the perimeter enclosure that comply with those requirements.
 - since site conditions vary considerably from location to location, any revision needed to information provided in the manufacturer’s technical installation manual in order to comply with local requirements.
 - appropriate construction exhibits for any other on-site improvements, such as decks, enclosed patios, garages and carports, etc., to be financed with the loan proceeds.
-

Continued on next page

10.10 Construction Exhibits

Continued

**Manufactured
Home
Classified as
Real Estate**
(continued)

- a certification signed and dated by a technically qualified and properly identified individual (such as builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

Note: In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 **or** Items 5, 6, 9, 10, 12 and 13.

Reference: See Section 12.02 for specific Minimum Property Requirement-related information that could impact what is required in the construction exhibits.

**Geological or
Soil Instability**

In areas that have a history of geological or soil instability, the builder must submit either

- a certification that to the best of the builder’s knowledge and belief, any geological or soil-related hazard **has been compensated for in the engineering design of the improvements** and no portion of the construction will rest on fill, **or**
- evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements.

Qualified geologists are State licensed or are a member of a national or State organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology.

Continued on next page

10.10 Construction Exhibits

Continued

**If Inspections
to be Made by
HUD**

If HUD will make the inspections during construction, the appraisal request must include

- The construction exhibits required above, except for the certification regarding those exhibits.
- The certification directly above item 38 on VA Form 26-1805.
- A certification by the builder or lender that the construction exhibits submitted to VA, including any HUD-accepted change orders, are identical to those submitted to HUD.
- A copy of the final HUD inspection report countersigned by HUD or a HUD Direct Endorsement underwriter, or a letter from HUD that the property has been completed in accordance with the approved plans and specifications and acceptable change orders, if any. This requirement will be made a condition of the VA notice of value if not submitted with the appraisal request.
- If the final HUD inspection report stipulates that certain incomplete work, such as street improvements, will be completed according to requirements specified by HUD elsewhere, a copy of the documentation that states those requirements must be furnished. In that situation, there must also be a VA-approved escrow agreement and a subsequent VA or HUD re-inspection report or other acceptable evidence of satisfactory completion. The veteran cannot be charged the cost of that re-inspection.

If there is a question about HUD consistency with VA in the interpretation and application of VA/HUD Minimum Property Requirements, the VA field station may impose a VA inspection, at an appropriate inspection stage, in addition to the HUD inspections.

10.11 Conversion of HUD Value Notices for VA Use

Policy

Generally, HUD value notices cannot be converted for VA use, since VA is required by law to assign fee appraisers and HUD allows lenders to select appraisers.

There is one exception.

Exception

To eliminate duplicative efforts and unnecessary appraisal costs for veterans, VA staff will convert a HUD conditional commitment issued by either HUD staff or a Direct Endorsement lender to a VA Certificate of Reasonable Value (CRV) if **all** of the following requirements are met:

- The appraiser is
 - a VA fee panel member, and
 - not a staff employee of the lender.
- The property
 - was appraised as an individual case (that is, not listed on a valid HUD “master” value determination)
 - did not already have a valid VA value determination on the date of the purchase agreement, and
 - was appraised for HUD purposes and the lender documents a legitimate need to change to VA financing after the appraisal was made. That is, the buyer changed from HUD to VA financing while under contract, or the property is being purchased with VA financing after a contract with a previous buyer requiring HUD financing fell through.
- The lender submits to the VA office of jurisdiction
 - the lender’s written request for conversion, which includes a certification that identifies the property and addresses **each** of the above requirements
 - a completed VA Form 26-1805, Request for Determination of Reasonable Value
 - the HUD value notice and
 - the original appraisal report, including photographs and all other addenda.

VA will list applicable VA requirements and conditions on the CRV.

10.12 Fees For Appraisals and Inspections

Policy	<p>The maximum appraisal and inspection fees allowed by each VA field station is based on customary fees for similar services in that station's jurisdiction. Regardless of the amount of the maximum fee, appraisers and inspectors must not charge veterans more than they charge other clients for similar services.</p>
Liquidation Appraisal Fees	<p>The appraisal requester will pay the appraiser's fee and the expense will be included in the claim under loan guaranty.</p> <p>If the borrower attempts to pay the full arrears after the appraisal is obtained, the holder must include the cost of the appraisal in its computation of the total amount delinquent.</p>
"Master" Appraisal Fees	<p>Veterans cannot be charged for any portion of a "master" appraisal fee.</p> <p>Total maximum "master" appraisal fee = (Fee per House Type x Number House Types x Number Appraisers Assigned) + (Fee per Lot x Number Lots) + (Fee per Option x Number Options).</p>
Construction Inspection Fees	<p>The builder, sponsor, or lender will pay the inspection fees, which are not to exceed \$100 per inspection unless otherwise specified by the VA field station.</p> <p>While the veteran can be charged for all regular inspections of an individual property, the veteran cannot be charged for re-inspections due to</p> <ul style="list-style-type: none">• the builder's noncompliance with VA requirements• the builder's failure to provide access to the property or have the work ready for inspection, or• the inspector's failure to arrive at the appointed time.

Continued on next page

10.12 Fees For Appraisals and Inspections

Continued

Mileage Fee

If a property is located outside of the fee person's normal business area, an additional fee may be charged **only** for that portion of travel beyond the normal business area and at a mileage rate not to exceed that allowed for federal employee travel.

That travel must be by the most direct route and the billing must include a breakdown of the mileage. VA offices will consider adding more fee panel members to provide better coverage in areas where mileage-related fees are excessive.

Fee Payment Problems

VA offices may allow a fee panel member to require payment in advance from a particular appraisal or inspection requester if both

- a regular, ongoing payment problem that is well outside of normal business practices is documented by the fee person, and
- the party responsible for payment fails to reasonably respond to the fee person's written notice about the problem and its possible consequences.

In such cases, VA will review the documentation from the fee appraiser. If in concurrence, VA will contact the requester to discuss and attempt to resolve the problem. If this contact does not resolve the matter, VA will notify the requester that written authority will be sent to all fee appraisers indicating that they are authorized to require advance payment in future cases from this particular appraisal/inspection requester.

Note: Appraisers may not require advance payment from requesters unless they have been given this written authority from VA.

Late Fees

Late fees may be authorized by VA Regional Loan Centers. Fee appraisers must have prior authorization by VA to assess late fees.

Figure 1: Builder Information and Certifications

[on builder's letterhead]
Builder Information and Certifications
VA Loan Guaranty Program

1. This is to certify that this company:
 - a) Will not use any marketing practices or sales contracts which include features considered by VA to be unfair or prejudicial to veteran-purchasers per Section 9.08 of the VA Lenders Handbook. I understand that the closing of the loan denotes that the builder has determined that the contract is acceptable to VA.
 - b) Will construct every property which is to become the security for a VA-guaranteed loan to substantially conform to applicable building codes, applicable VA requirements and the standards of quality as measured by acceptable trade practices.
2. In cases processed by VA as "proposed or under construction", I understand that all construction must equal or exceed that shown or described in the construction exhibits used by VA to appraise the property and that, in any conflict between those construction exhibits and the applicable VA minimum property requirements, the latter will govern; and that VA will consider changes to those exhibits to be binding only when they are listed on a properly executed VA Form 26-1844, Request for Acceptance of Changes in Approved Drawings and Specifications; and that I will be proceeding at my own risk in changing or deviating from those exhibits without advance VA approval.
3. A fully executed VA Form 26-421, Equal Employment Opportunity Certification, and VA Form 8791, VA Affirmative Marketing Certification, is either attached or was previously submitted to VA.
4. Names of all persons who have a controlling or proprietary interest in this company or are principal shareholders, officers or directors. This company agrees to keep this list updated with VA:

Name (*Type or print*) _____ Title _____

Signature _____ Date _____

FIGURE 2: VA Appraisal Request Checklist

- 4) How will the property be appraised? (The choices are: existing construction, new construction, or proposed or under construction. Definitions are in Section 10.05.)
- 4) Have you been made aware that any of the following affect the property, making it ineligible for VA appraisal? (Details are in Sections 10.06 and 10.07.)
 - a) A valid VA value determination already exists.
 - b) Bad physical condition.
 - c) Located in a condominium unlikely to be approved by VA or HUD prior to loan closing.
 - d) Less than fee simple ownership without VA approval.
 - e) A party of interest to the transaction is excluded from participation in the VA Loan Guaranty program for any reason.
 - f) Proposed, new or under construction and the builder is unable to obtain a VA builder identification number.
 - g) Located in a Special Flood Hazard Area (SFHA) and:
 - i) Flood insurance is not available, or
 - ii) Proposed, new or under construction and the elevation of the lowest floor is below the 100 year flood level.
 - h) Subject to regular flooding, whether or not it is in a SFHA.
 - i) Located in a Coastal Barrier Resources System area.
 - j) Proposed or under construction and in an airport Noise Zone 3.
 - k) Any part of the residence is within a transmission line easement for high-pressure gas, liquid petroleum or high voltage electricity.
 - l) Proposed, new or under construction and in an area susceptible to earthquakes or landslides or having a history of unstable soils and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design.
- 4) Will the appraisal involve any of the following? (Special requirements or other pertinent information for each is in Section 10.05, unless otherwise noted.)
 - a) Common interest community (Sections 16-A.01 and 16-A.02)
 - b) Manufactured or modular home
 - c) Existing property to have major alterations or improvements prior to loan closing
 - d) Refinance only for interest rate reduction purposes
 - e) Partial release of the security for an existing loan
 - f) Conversion of a HUD value determination (Section 10.11)
 - g) Foreclosure on a defaulted loan

Continued on next page

FIGURE 2: VA Appraisal Request Checklist, Continued

- 4) If the property will be appraised as new construction:
 - a) Is the builder on the GSA list as debarred Government-wide (Section 10.07)?
 - b) Does the builder have a VA builder identification number, as required (Section 10.07)?
 - c) Is the construction fully completed except for “customer preference” items or items for which escrows are permitted, as required (Section 10.08)?
 - d) Does the builder agree to provide the veteran purchaser with either a one-year VA builder’s warranty or a ten-year insured protection plan, as required (Section 10.08)?
 - e) Will the veteran purchaser agree to make the required written acknowledgment (Section 10.08)?
- 4) If the property will be appraised as proposed or under construction:
 - a) Is the builder on the GSA list as debarred Government-wide (Section 10.07)?
 - b) Does the builder have a VA builder identification number, as required (Section 10.07)?
 - c) Did the builder provide the construction exhibits described in Section 10.10, as required?
 - d) Does the builder agree to have the property inspected by VA, as required (Section 10.09)?
 - e) Does the builder agree to provide the veteran purchaser with a one-year VA builder’s warranty (Section 10.09)?
 - f) If the property is eligible for only a final VA inspection (per Section 10.09) and local building authority inspections are not acceptable to VA in lieu of VA first and second stage inspections (per Section 14.03), does the builder agree to provide the veteran purchaser with both a one-year VA builder’s warranty and a ten-year insured protection plan?
- 4) Request the appraisal according to the instructions in Section 10.04 if:
 - a) You’ve determined how the property will be appraised (Item 1 above), and
 - b) The property appears to be eligible for VA appraisal (Item 2 above), and
 - c) You are aware of VA requirements if the appraisal involves any of the issues in Items 3, 4 and 5 above.

Note: When in doubt, look for guidance in the VA Lender’s Handbook, including its index. If still in doubt, contact the VA office with jurisdiction over the location of the property.

Chapter 11. Appraisal Requirements

Overview

Introduction This chapter contains information about appraisal requirements.

In this Chapter This chapter contains the following topics.

Topic	Topic description	See Page
1	Using This Information	11-2
2	VA Reasonable Value	11-3
3	VA Appraisal Requirements	11-4
4	Appraisal Report Contents	11-6
5	Submission of Appraisal Reports	11-9
6	Approaches to Value	11-11
7	Selection and Analysis of Comparable Sales	11-12
8	Other Market Analysis Considerations	11-14
9	Minimum Property Requirements and Repairs	11-17
10	Remaining Economic Life of Improvements	11-18
11	Proposed Construction	11-20
12	Other Property Types and Situations	11-22
13	Liquidation Appraisals	11-27

1. Using This Information

Change Date	July 20, 2007, Change 5 This section has been changed to create subsection lettering.
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a. Appraisers	This chapter describes the requirements that must be followed in appraising property for VA loan guaranty purposes.
----------------------	---

b. Lenders	The Lender's Staff Appraisal Reviewer (SAR) of a lender with Lender Appraisal Processing Program (LAPP) authority must use the information in this chapter when reviewing the work of VA fee appraisers. This information will also help lenders without LAPP authority to understand appraisal reports and VA-issued Notices of Value (NOV).
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2. VA Reasonable Value

Change Date July 20, 2007, Change 5
This section has been changed to create subsection lettering.

a. Definition For VA loan guaranty purposes, the “reasonable value” of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions.

b.
“Reasonable”
vs. “Market”
Value VA considers reasonable value and market value to be synonymous. VA’s definition of market value is consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations.

3. VA Appraisal Requirements

- Change Date** July 20, 2007, Change 5
- This section has been changed to create subsection lettering.
 - Subsection a has been changed to add a reference to the VA computer application E-Appraisal and to name VA as the client on the appraisal report.
 - Subsection b has been changed to include lender notification instructions.
 - Subsection c now specifies contacting the VA Regional Loan Center (RLC) when properties are not eligible for VA appraisals.
-

- a. General Requirements** Every VA appraisal must:
- name VA as the client on the appraisal report form
 - be performed within VA timeliness requirements
 - conform to Uniform Standards of Professional Appraisal Practice (USPAP)
 - meet the additional requirements (as outlined in this chapter) that VA considers to be supplemental to USPAP, and
 - be uploaded into E-Appraisal by the appraiser as a PDF document.
-

- b. Timeliness** Fee appraisers must complete VA assignments as quickly as appraisals for conventional loans are generally completed in the area where the property is located. An exception may be allowed in a particular case if:
- valid extenuating circumstances are documented, and the
 - VA Regional Loan Center (RLC) with jurisdiction is notified on IND cases, or the
 - Lender Appraisal Processing Program (LAPP) lender, indicated on [VA Form 26-1805](#), VA Request For Determination of Reasonable Value (Real Estate), item #5, is notified on LAPP cases.

Note: Liquidation appraisals must be completed within five business days. The time required to gain interior access (*see* section 13 of this chapter) will not be counted against this standard. VA will consider reasonable explanations for delays beyond the control of the appraiser.

RLCs will consider adding appraisers to the fee panel in areas where it consistently takes lenders longer to obtain a VA appraisal than a comparable conventional appraisal.

Continued on next page

3. VA Appraisal Requirements, Continued

**c. Properties
Not Eligible for
Appraisal**

Fee appraisers must not complete an assignment for a property that does not appear to be eligible to become the security for a VA-guaranteed loan without first contacting the lender involved or the RLC with jurisdiction.

See [chapter 10](#), section 6.

d. USPAP

Every VA appraisal must meet the USPAP requirements. Lenders and their Staff Appraisal Reviewers are expected to be familiar with applicable USPAP provisions.

**e. Sales Price
Accommo-
dation
Prohibited**

Any appraisal which is not based on recognized appraisal practices in order to “accommodate” the sale price is unacceptable and will result in VA disciplinary action.

**f. Appraisal
Tasks Not to be
Delegated**

The VA assigned fee appraiser must personally:

- view the interior and exterior of the subject property (except on proposed construction cases) and the exterior of each comparable
 - select and analyze the comparables
 - make the final value estimate, and
 - sign the appraisal report as the appraiser.
-

**g. Appraisal
Assistance**

If the VA assigned appraiser relied on significant professional assistance in performing the appraisal or in preparing the appraisal report (except as prohibited in subsection f of this chapter) the name of that individual and the specific tasks performed must be shown in the “Reconciliation” section of the appraisal report.

4. Appraisal Report Contents

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a clarifies that floor plans must be included in footprint sketches of all improvements. Also, a list of any conditions and requirements to meet VA minimum property requirements is required. VA Form 26-1805 is no longer required with the appraiser's submission. An invoice should be enclosed with the report. The use of Manufactured Home Appraisal Report and Exterior-Only Inspection Residential Report are required.
 - Subsection b has been changed to eliminate original photograph references and clarify what types of photographs are required.
 - Subsection c has been changed to note that appraisal reviewers must review any changes in the Statement of Assumptions and Limiting Conditions.
-

a. Required Items

Every VA appraisal report must include the following items.

- A properly completed (according to the requirements in this chapter) appraisal report using one of the following forms:
 - Uniform Residential Appraisal Report (URAR), Freddie Mac Form 70/Fannie Mae Form 1004, if the property is a single-family residence, not a manufactured home or a unit in a condominium.
 - Manufactured Home Appraisal Report, Freddie Mac Form 70B/Fannie Mae Form 1004C, if the property is a single-family manufactured home.
 - Individual Condominium Unit Appraisal Report, Freddie Mac Form 465/Fannie Mae Form 1073, if the property is a condominium unit.
 - Small Residential Income Property Appraisal Report, Freddie Mac Form 72/Fannie Mae Form 1025, if the property has two to four living units.
 - Exterior-Only Inspection Residential Appraisal Report, Freddie Mac Form 2055/Fannie Mae Form 2055, for liquidation appraisals (only), when interior access can not be obtained. (see section 13 of this chapter)
 - A location map, showing the location of the subject and each comparable.
 - Building perimeter sketches showing the "footprint" of all improvements, including floor plan layout of residential spaces. The calculation for the square foot size of the improvements must also be shown either here or in the "Comments on Cost Approach" section of the URAR.
 - Photographs (See subsection b of this section).
 - An itemized list of any observed repairs required to be completed, customer preference items to be installed, inspections to be performed, or conditions to be corrected, for the property to meet VA minimum property requirements.
 - A copy of the appraisal invoice should be included preceding the report.
-

Continued on next page

4. Appraisal Report Contents, Continued

a. Required Items (continued)

- Any additional appraisal or repair-related information that may be needed to support the fee appraiser's conclusions. The appropriate areas of the computer-generated URAR can be expanded to include such information, provided the standard sequence of the URAR instructions, information entries, etc., does not change and the "Sales Comparison Analysis" does not appear on two separate pages.

b. Photograph Requirements

Each appraisal report requires:

- photographs of the subject property showing a front and rear view (preferably including a different side view in each photograph) and the street scene.
- a photograph of each comparable (only a front view of the comparable sales is required).

Exception:

If...	...then...
it is a proposed construction case and no improvements are under construction,	only a photograph of the subject site and street scene are required in addition to a front view photograph of each comparable.
the property is in a condominium more than 3 units high,	no photographs of the comparable sales are required, provided they are located in the same project as the subject property and are substantially identical to the subject property.
the appraiser documents an inability to take photos of the comparable sales due to lack of access, poor visibility, etc.,	copies of listing service or advertising pictures are acceptable for the comparable sales if they clearly depict the properties. Copies of listing service or advertising pictures in lieu of photographs are never acceptable for the subject property.

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4. Appraisal Report Contents, Continued

**c. Additional
Conditions and
Certifications**

Additional certifications required by State law or related to continuing education or membership in appraisal organizations, etc., can be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions or with any VA policy.

Note: Appraisal reviewers must determine that additions or changes to the Statement of Assumptions and Limiting Conditions do not conflict with VA requirements.

5. Submission of Appraisal Reports

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a provides new information on using the E-Appraisal application.
 - Subsection b has been added to clarify who may have access to the appraisal.
 - Subsection c clarifies requirements for appraiser E-Appraisal exemption.
 - Subsection d has been changed to note that E-appraisal reports must be electronically signed.
 - The Distribution subsection has been removed.
-

a. Electronic Transmission

Fee appraisers are required to upload their appraisals into E-Appraisal at the VA [Veterans Information Portal](https://vip.vba.va.gov) (VIP) web site. (<https://vip.vba.va.gov>)

System failures of VIP or E-Appraisal should be reported to: VIP@vba.va.gov.

In the event of system unavailability(s), VA appraisers may e-mail their report to the Lender Appraisal Processing Program (LAPP) Lender or to VA (IND Cases), but must upload into E-Appraisal at a later time when the system(s) is available.

As with all other aspects of the VA appraisal process, fee appraisers must meet all Uniform Standards of Professional Appraisal Practice (USPAP) requirements applicable to electronically transmitted appraisal reports.

The appraiser must upload a fully completed appraisal report with all related exhibits, including photographs, into E-Appraisal using the Portable Document Format (PDF) from Adobe Acrobat®.

b. Access to Appraisal Reports

VA staff, lenders, agents, servicers, and other requesters with VA issued ID numbers that are associated with the loan number will be able to retrieve the appraisal from E-Appraisal for review, issuance of the Notice of Value (NOV), or other functions. Only the latest copy of the appraisal uploaded into E-Appraisal will be available for retrieval.

Continued on next page

5. Submission of Appraisal Reports, Continued

c. Appraiser E-Appraisal Exemption

An exemption to the E-Appraisal upload requirements may be granted when warranted. Appraisers must request and obtain written authorization from the Regional Loan Center (RLC) of jurisdiction to be exempt from the E-appraisal requirement.

If an exemption to E-Appraisal is granted, the appraiser must send the appraisal report by overnight mail delivery to the:

- VA RLC of jurisdiction and,
 - LAPP lender, indicated on VA Form 26-1805, item #5, for LAPP cases.
 - Requester for liquidation appraisals not identified as LGI.
-

d. Appraiser Signature and Electronic Signature

Appraisal reports must have the appraiser's signature, either electronically or handwritten.

The electronic signature may be a digitized image controlled through a personal identification number, or other verified signature electronic media where the appraiser has the sole control of affixing the signature.

Note: USPAP provides specifics on what can be considered an electronically verified signature. Please refer to these standards for more information.

6. Approaches to Value

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection b has been changed to add an example.
 - Subsection c has been changed to clarify the income approach for income-producing properties..
-

**a. Sales
Comparison
Approach**

VA relies exclusively on the sales comparison approach to value, except in very unusual circumstances involving inadequate or nonexistent comparable sales or an extremely unique property. The VA value estimate should never exceed what has been indicated through the sales comparison approach.

This approach recognizes that a well-informed purchaser will generally pay no more for a property than the price of acquiring a similar property of equal desirability and utility without an undue delay.

**b. Cost
Approach**

Since the residential real estate market does not base transaction decisions on a property's reproduction or replacement cost, the cost approach to value may only be used to support the sales comparison approach in the final reconciliation. VA does not require the completion of the cost approach unless it is applicable to the appraisal.

Example: The cost approach may be useful in supporting the sales comparison approach in an appraisal of a new manufactured home in a rural area that has only recent sales of stick-built homes and much older manufactured homes.

**c. Income
Approach**

Development of an income approach for a single family property is not required. If the appraisal involves an income-producing property (more than one living unit), the appraiser will use the Small Residential Income Property Appraisal Report, Freddie Mac Form 72 or Fannie Mae Form 1025, which requires value estimates developed through both the income approach and the sales comparison approach in the final reconciliation.

7. Selection and Analysis of Comparable Sales

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a has been changed to emphasize the use of closed sales.
 - Subsection b has been changed to note that adjustments require explanations.
 - Subsection c clarifies VA requirements for data verification.
 - Subsection d clarifies comparable sales dates.
 - Subsection e clarifies location considerations for comparable sales.
 - Subsection f discusses the use of adjustments when Minimum Property Requirement (MPR) repairs are identified.
-

a. General Requirement

The appraiser must select the three best closed comparable sales available and properly adjust the sales price of each comparable sale for market recognized differences between it and the subject property. The goal is to obtain a VA value estimate that does not exceed the price at which similar properties can be purchased in the current market.

The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject.

Sales listings, contract offers, and unsettled sales must not be used as comparables.

b. Sales Price Range

Comparable sales should preferably exhibit a narrow price range. A wide range in the sales prices of comparables before or after adjustment must be adequately explained by the appraiser.

c. Data and Verification

A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a secondary data source or a party without an interest in the transaction.

d. Sales Dates

Comparable sales should be recent sales, typically within six months and generally not more than 12 months old. In some markets, sales over six months old may be considered outdated.

Note: The appraiser must adequately explain the use of sales over 12 months old.

Continued on next page

7. Selection and Analysis of Comparable Sales, Continued

e. Location

Comparable sales should be located as close to the subject as practical. Their proximity to the subject (such as three blocks north) must be described. Generally, blocks should be used in cities and miles in rural areas to locate properties.

The appraiser must adequately explain any reliance on sales located either:

- further from the subject than similar recent comparable sales readily available in the subject neighborhood, or
- outside of the subject's market area.

Note: In some rural areas, comparable sales may be 5, 10, or 20 miles away from the subject property and still be within the subject's immediate market area.

f. Value Adjustments

To be in a condition acceptable to VA, properties must meet VA MPR's (see [chapter 12](#)). Since MPR repairs identified in the appraisal report must be completed as a condition of the report, value adjustments to the comparables are to be made as if the repairs to the subject have been accomplished.

Generally, good comparables require minimal adjustment for individual feature differences and a minimal total net adjustment. The appraiser must adequately explain large adjustments.

Adjustments based on some factor other than market reaction, such as builder costs for materials, project development, etc., are not generally acceptable.

8. Other Market Analysis Considerations

Change Date	July 20, 2007, Change 5 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsections b, c, d, and e have been changed to allow optional reporting of the market analysis considerations.
a. Introduction	The following market analysis considerations are provided as a reminder of VA appraisal expectations and as an aid in development of the appraisal report. Reporting each consideration, separate from the requirements of the appraisal report form is optional, unless time adjustments are used in the report.
b. Sales or Financing Concessions	The appraiser should report: <ul style="list-style-type: none">• in the “Neighborhood” section of the URAR or on an addendum, the prevalence of sales or financing concessions (for example, interest rate buy-downs, inclusion of non-realty items in the transaction, seller payment of any buyer closing costs, etc).• if any comparable sale involved concessions, the effect of the concessions on the sales price of the comparable should be noted. In doing so, the appraiser should consider:<ul style="list-style-type: none">– that the effect of financing/sales concessions can vary in different locales.– that the amount of any adjustment should generally be based upon the real estate market reaction to the concession, and not on the dollar-for-dollar cost of the concession(s) to the seller, and– in proposed construction cases, closed sales by the same builder, sales in competitive subdivisions, and re-sales of similar existing properties.
c. Housing Supply and Demand	In every case, the appraiser should: <ul style="list-style-type: none">• consider the supply and demand for available housing in the subject market area, and• report, either in the “Neighborhood” section of the URAR or on an addendum, the average listing price to sale price ratio for the subject market area. Professional judgment must be used to estimate that ratio if it cannot be determined from available data sources.

Continued on next page

8. Other Market Analysis Considerations, Continued

d. Marketing Time and Trend

In every case, the appraiser should:

- consider the marketing time trend (increasing or decreasing) in the subject market area, and
 - report, either in the “Neighborhood” section of the URAR or on an addendum, the extent of increase or decrease in the average marketing time (listing period) in that market area. For example, “In the last three months, the listing period in the subject’s market area decreased from 180 to 90 days.”
-

e. Sales Listings and Contract Offers

In every case, the appraiser should:

- analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal. This is especially important in markets with rapidly increasing or decreasing values. If the subject property is in a new subdivision, the analysis should include the builder’s closed sales, sales in competitive subdivisions, and sales of similar existing properties.
 - certify, either in the “Neighborhood” section of the URAR or on an addendum: “I have considered relevant competitive listings/contract offerings in performing this appraisal, and any trend indicated by that data is supported by the listing/offering information included in this report.”
 - provide a listings/offers addendum if a significant market transition is indicated in the “Neighborhood” section due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc.
-

Continued on next page

8. Other Market Analysis Considerations, Continued

**e. Sales Listings
and Contract
Offers**
(continued)

If a sales listing and/or contract offers addendum is submitted:

- It should provide all of the following information regarding competitive listings or verifiable, bona fide contract offerings considered the most similar and proximate to the subject:
 - The information usually found in a Multiple Listing Service (MLS) entry or other listing.
 - How long each property has been on the market (total time listed).
 - Any change in the listing price of each property (if known).
 - A short statement comparing the property to the subject.
 - Contract offerings are more desirable than listings.
 - Any new construction contract must clearly identify all optional items and variations from the basic house type and any sales/financing concession included in the sales price.
 - Listings should be properly identified and may include a legible copy of a MLS entry.
 - Although not required, it may be helpful to make adjustments or otherwise use a sales comparison analysis grid.
-

9. Minimum Property Requirements and Repairs

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a clarifies that appraisers are not required to enter crawl space and attic areas. It also clarifies the requirements when improvements or site conditions do not meet Minimum Property Requirements.
-

a. Existing Construction

Fee appraisers are experienced observers who must view both the interior and exterior of the subject property to:

- determine its overall condition, and
- recommend any readily observable repairs necessary to make it meet VA MPRs stated in [chapter 12](#).

On the URAR, the fee appraiser must select the appropriate box in the “Reconciliation” section following, “This appraisal is made”

- “As is”, if the property meets MPRs with no repairs required, or
- “Subject to the following repairs...”, if repairs are required for the property to meet MPRs. The appraiser must also provide an itemized list of observed repairs, customer preference items to be installed on new construction cases, or other action necessary to ensure the property meets MPRs.

When there is an indication of a potential environment problem (e.g., abandoned underground fuel storage tank), the appraisal report must contain a requirement for correction of the problem in accordance with any local, State or Federal requirements.

Appraisers must not recommend electrical, plumbing, heating, roofing or other inspections only as a measure of liability protection. Improvements or site conditions that do not appear to meet MPR’s should, in most instances, be required to be corrected, repaired or replaced, rather than inspected. An inspection should be recommended only if there is an indication of a complex problem requiring a professional opinion, such as, pests, site drainage, structural defects, safety concerns, code violations, etc.

Note: Fee appraisers are required to view, but not enter, any accessible crawl space and/or attic areas of the home and report any significant defective conditions observed.

b. Proposed Construction

See [chapter 12](#).

10. Remaining Economic Life of Improvements

Change Date	July 20, 2007, Change 5 <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection b clarifies VA requirements for reporting a property's remaining economic life.
a. Definition	Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home.
b. Basic Requirements	<p>For VA Loan Guaranty purposes, the remaining economic life of the security must be at least as long as the loan repayment term, typically 30 years.</p> <p>A remaining economic life estimate of less than 30 years must be adequately explained and not arbitrarily established. This is to avoid depriving veterans of the home of their choice in an area where they can afford to live.</p>
c. What the Appraiser Must Consider	<p>In estimating remaining economic life, the appraiser must consider:</p> <ul style="list-style-type: none">• the relationship between the property and the economic stability of the block, neighborhood, and community• comparisons with homes in the same or similar areas• the need for a home of the particular type being appraised• the architectural design, style, and utility from a functional point of view• the workmanship and durability of the construction, its physical condition and probable cost of maintenance and/or repair• the extent to which other homes in the area are kept in repair, and• in areas where rehabilitation and code enforcement are operating or under consideration, their expected results in improving the neighborhood for residential use.

Continued on next page

10. Remaining Economic Life of Improvements, Continued

**d. What the
Appraiser Must
Report**

If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation, based on either known economic factors or observed physical condition.

If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate at its maximum (for example, 40 years).

For condominium units, the estimate of remaining economic life must be reported in the “Reconciliation” section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.

11. Proposed Construction

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a was changed to add the VA Form 26-1852, Description of Materials, as an example of a construction exhibit to be identified.
 - Subsection c added a note to clarify when cost handbook data can be used.
-

**a. Appraiser
Certification
Required**

Proposed construction appraisals based on construction exhibits must include the following certification:

“I hereby certify that the information contained in [*specific identification of all construction exhibits (e.g., Smith Construction Plan Type A, 9 sheets, [VA Form 26-1852](#), Description of Materials, plot plan by Jones, Inc.)*] was used to arrive at the estimate of reasonable value noted in this report.

[*appraiser’s signature*]
”

**b. “Master”
Appraisal
Reports**

Each “master” appraisal must include:

- a separate URAR completed for each basic house type in the appraisal
 - narrative analysis of the project to include:
 - current status of project (development stage, number of sales, etc.)
 - status of off-site improvements (streets, common area improvements, etc.)
 - any condominium/planned unit development related or other information not sufficiently covered in the URAR.
 - list of all options with the value estimate for each one (see subsection c of this chapter).
 - list of all offsite improvements included in the value estimate.
 - list of all lots/units, to include:
 - each lot number or legal description
 - value estimate for each lot (according to its relative size and desirability), and
 - total value estimate for each lot and the basic improvements to be built on it (or a schedule which provides for the substitution of models on individual lots).
-

Continued on next page

11. Proposed Construction, Continued

c. Valuing “Options”

“Options” are items of equipment and variations from the basic house type (such as kitchen appliances, fireplace, building elevation variations, etc.) not included in the base price of the house.

Personal-type items (such as, blenders, fireplace equipment, furniture, drapes, rugs, etc.) cannot be included in the VA valuation.

VA value estimates for options must be:

- based on real estate market data (the contribution to the home’s basic value, based on sales of properties with such options).
- applied uniformly and should not vary considerably from one subdivision to another in the same real estate market.

VA will consider requests to increase the established value of options and make appropriate changes if warranted by sufficient and valid market data.

Note: Cost handbook data can only be used to supplement insufficient market data.

12. Other Property Types and Situations

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a clarifies VA requirements when an appraiser is unable to access and inspect a new manufactured home.
 - Subsection c added a requirement to the estimated value calculation when there is a partial release of loan security.
 - Subsection d has been changed to add a reference to reporting known pending litigation regarding the dwelling or its homeowners association.
 - Subsection g clarifies that VA sets no limits for farm residence acres. It also clarifies how to value improvements that are not typically considered residential.
 - Subsection j has been changed by deleting the requirement for appraisers to specifically identify unvented fireplaces or space heaters.
-

a. Manufactured Homes Classified as Real Estate

The appraiser must enter the manufactured home (MH) unless it is both:

- new, and
- has not been delivered to the dealer or to the site.

In those cases where the appraiser is unable to access and/or inspect the new MH, the appraiser must obtain the following documents to be included in his/her appraisal:

- MH plans: design or floor plans showing room layout and exterior dimensions for MH unit, and elevation plans;
- Specifications: information on all standard items of inclusion such as flooring, heating, plumbing, electrical equipment, and appliances;
- Supplemental information on any selected options or upgrades included in the subject sale; and
- Foundation plan.

If other MH's classified as real estate on permanent foundations are not available for use as comparables, the appraisal report must:

- state that fact, and
- show in the market analysis grid that the sales prices of the best comparable conventional home sales available were properly adjusted.

See [section 5 of chapter 10](#), and [section 10 of chapter 12](#).

Continued on next page

12. Other Property Types and Situations, Continued

b. Property to be Altered/Improved/Repaired

When the purpose of the VA loan is to make alterations, improvements, or repairs costing in excess of \$3,500, the appraiser must estimate reasonable value both on an “as is” and an “as repaired” basis and disclose the full extent of the work to be done.

c. Partial Release of Loan Security

If an appraisal is required per [section 5 of chapter 10](#), the appraisal report will contain three values. The estimated reasonable value of:

- the entire property on an “as is” basis,
 - the described parcel to be released, and
 - that portion of the property which will remain as security, after release of the described parcel.
-

d. PUDs and Condos

The appraisal report must:

- show the amount of the current monthly assessment.
- for condominiums, indicate which utilities are/are not included.
- comment on the adequacy of the monthly assessment, based upon the appraiser’s opinion of the adequacy of the project’s budget and a comparison to competitive projects. If the assessment is considered inadequate, a “fair” or “market” assessment must be recommended.
- report any known pending litigation involving the subject project or its homeowners association.

See [chapter 16](#) for additional information.

e. Solar Energy Systems

For VA purposes, the value of a solar energy system must be based on real estate market data.

See [section 3 of chapter 12](#) for solar system requirements.

f. Local Housing/Planning Authority Code Enforcement

If the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser’s report must take this into consideration.

Continued on next page

12. Other Property Types and Situations, Continued

g. Farm Residences

Although VA does not make farm or other business loans, the law allows veterans to use their Loan Guaranty benefit to purchase a farm on which there is a farm residence. VA does not set a limit on the number of acres which the property may have.

The appraisal of properties with acreage should not present difficulties if a sufficient number of similar properties in the area, *which may include improvements not typically considered residential (i.e. barns, sheds, corrals, stables, pastures)*, were recently sold primarily for residential use. For VA purposes, the valuation must not include livestock, crops, or farm equipment and supplies.

In any case, individual improvements not typically considered residential (i.e. barns, sheds, corrals, stables, pastures) will be valued at their fair market value on the basis of the use of the property for residential purposes only.

h. Properties Subject to Flooding

Special Flood Hazard Areas (SFHAs) are those areas in 100-year floodplains delineated on Federal Emergency Management Agency (FEMA) flood maps. SFHAs are usually designated Zones A, AO, AH, AE, A99, VO, VE, or V. Older maps use numbered A and V Zones (for example, A2, V30).

The appraiser must:

- check FEMA flood map(s) for the area in which the property is located.
 - notify VA and the lender if it appears that the property may **not** be eligible for VA appraisal because
 - it is proposed or new construction and there is an indication that the elevation of the lowest floor is below the base flood level (100 year flood level). See 24 CFR 200.926d(c)(4), or
 - there is an indication that it is subject to regular flooding, for whatever reason. Regular flooding would cause the property to not meet VA Minimum Property Requirements whether or not it is located in a SFHA.
 - If the property is eligible for appraisal and located on a flood map
 - identify the map number and flood zone on the appraisal report, whether or not the property is located in a SFHA.
 - If any part of the dwelling is in a SFHA, provide appropriate information in the “Site” section of the appraisal report.
 - If a “master” appraisal, provide a list of the lots located in a SFHA.
-

Continued on next page

12. Other Property Types and Situations, Continued

h. Properties Subject to Flooding
(continued)

Flood insurance is not required in Zones B, C, X, and D.

Also see “Properties in Coastal Barrier Areas” listed in subsection i of this chapter.

i. Properties in Coastal Barrier Areas

Properties located in a Coastal Barrier Resources System (CBRS) area, as delineated on a CBRS map, are not eligible as security for a VA-guaranteed loan. Affected areas include portions of the Great Lakes, Gulf Coast, Puerto Rico, Virgin Islands, and the Atlantic coast.

Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Fish and Wildlife Service. Prohibited areas on the maps are those inside the solid heavy black lines.

j. Properties Near Airports

The appraisal report must identify any airport noise zone or safety-related zone in which the property is located.

Noise Zones are defined in decibels (db) in the table below.

Noise Zone	CNR (Composite Noise Rating)	NEF (Noise Exposure Forecast)	DNL (Day/Night Average Sound Level)
1	Under 100 db	Under 30 db	Under 65 db
2	100-115 db	30-40 db	65-75 db
3	Over 115 db	Over 40 db	Over 75 db

- Clear zones are areas of highest accident risk located immediately beyond the ends of a runway.
 - Accident potential zones are beyond the clear zones but still have significant potential for accidents. Only military airports identify them.
 - No existing property will be rejected because of airport influence if that property is already the security for an outstanding VA loan.
-

Continued on next page

12. Other Property Types and Situations, Continued

j. Properties Near Airports (continued)

Depending on the type of construction and the airport noise or safety-related zone involved, the following requirements also apply with regard to the appraisal and/or VA NOV:

Type Construction	Noise Zone One	Noise Zone Two	Noise Zone Three	Clear Zone	Accident Potential Zone
Proposed	A	A, B, C, D	E	F	A, C, H, I
New/Existing	A	A, D	A, D	A, C, G	A, C, I

Requirement	
A	The fee appraiser's market data analysis must include a consideration of the effect on value, if any, of the property being located near an airport.
B	Sound attenuation features must be built into the dwelling to bring the interior DNL of the living unit to 45 decibels or less.
C	Available comparable sales must indicate market acceptance of the subdivision in which the property is located.
D	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an area near an airport, and that aircraft noise may affect livability, value, and marketability of the property.
E	Not acceptable as the security for a VA loan unless the project was accepted by VA before noise zone 3 contours were changed to include it. In that situation, the requirements for proposed construction in noise zone 2 must be met.
F	Not acceptable as the security for a VA loan.
G	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located near the end of an airport runway, and that this may have an affect upon livability, safety, value, and marketability of the property.
H	The project in which the properties are located must be consistent with the recommendations found in the airport's Air Installation Compatible Use Zone (AICUZ) report.
I	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an accident potential zone and that this may have an affect upon livability, safety, value, and marketability of the property.

13. Liquidation Appraisals

Change Date

July 20, 2007, Change 5

- This section has been changed to create subsection lettering.
 - Subsection a has been changed to clarify VA requirements for interior access.
 - Subsection d has been changed to emphasize use of closed comparable sales.
 - Subsection e has been changed to address consideration of reported repairs (costs) effect on value adjustments.
-

**a. Interior
Access**

The lender/servicer must assist the appraiser in gaining access to the vacant property. Failure to provide such assistance may limit VA liability. However, the lender/servicer may ask the RLC of jurisdiction to waive this requirement for a particular case or in a particular area, based on a written opinion from their legal counsel regarding a legal conflict or other serious concern.

With the above assistance, the fee appraiser must gain access to the interior of the dwelling unless one or more of the following apply.

- The RLC has approved a request to waive the lender/servicer's responsibility for access of a vacant property as described above.
 - The property owner/occupant has permanently refused the appraiser's entry.
 - The appraiser considers access to present a legitimate hazard.
 - Three or more attempts to call the telephone number(s) provided with the liquidation appraisal request, on different days and at times most likely for the occupant to be at home, have resulted in no access to an occupied residence.
 - The appraiser has made three appointments to enter the dwelling, all of which have been broken.
 - The property is vacant and jurisdictional law prohibits the lender from gaining or assisting in gaining access to the property, and the RLC has waived such access.
 - On a case-by-case basis, the RLC may consider there to be other valid extenuating circumstances (such as, the owner's personal effects remain in a vacant property causing legitimate concern about exposure to litigation).
-

Continued on next page

13. Liquidation Appraisals, Continued

**a. Interior
Access**
(continued)

If interior access cannot be gained to a vacant property, despite requesting assistance from the lender/servicer, the appraiser:

- must document the appraisal report, or its addendum, with the dates, names, and telephone numbers of all individuals contacted in attempting to gain access to the property, and a brief description of the responses received.
- must make reasonable efforts to verify the interior conditions by the best available means (such as through a listing service data source, property assessment records, interviews with neighbors or others knowledgeable about the property).
- in the absence of factual information, must make reasonable assumptions about interior conditions as they relate to physical inadequacies or needed repairs (both VA Minimum Property Requirement-related and cosmetic) that impact value.
- must obtain and document approval from the RLC of jurisdiction prior to completing a drive-by exterior inspection appraisal for any vacant property.

Freddie Mac Form 2055/Fannie Mae Form 2055, Exterior-Only Inspection Residential Appraisal Report, will be used when interior access is not gained.

**b. Origination
and
Liquidation
Similarities**

Except as noted in subsection c of this chapter, liquidation appraisal requirements are the same as the origination appraisal requirements outlined in this chapter.

**c. Approach to
Liquidation
Value**

Liquidation appraisals must be market value appraisals (that is, the price the property can command if exposed for sale in the open market, allowing a reasonable time to find a purchaser). A liquidation appraisal is not an appraisal of value under forced sale or foreclosure conditions.

The fee appraiser's value estimate for all liquidation appraisals will be for the subject property in its "as is" condition.

Continued on next page

13. Liquidation Appraisals, Continued

d. Selection of Comparables

Comparables must be the best available closed sales in the subject's market area, considering typical transactions and actions of typical buyers and sellers. REO Sales may be considered if they are reflective of the market and are truly an indicator of the subject's value.

Comparables must not be restricted solely to those in a similar "as is" condition. A property in the immediate area but in a better condition than the subject may, with proper adjustments to the sales price, be a better indicator of value than a comparable in a similar condition but in a different area.

e. Repairs

The appraiser must provide a list of all repairs which are needed to make the property meet VA Minimum Property Requirements (i.e., needed to make the home safe, sound, sanitary, and secure) and those that are cosmetic but affect the marketability of the property.

The repair list must show:

- the estimated cost of each repair, and
- any contributory value of each repair. In estimating contributory value, the fee appraiser must recognize that cost does not always equal value. In some cases, the real estate market only recognizes several individual repair items considered in the aggregate as contributing to value.

Note: If there are listed repairs, the appraiser should correlate any condition adjustments made to the comparable sales with the total contributory value amount of those repairs.

f. Liquidation Addendum

Every liquidation appraisal must include an addendum. Use of the Liquidation Appraisal Addendum Example contained in this handbook is recommended, although an addendum that substantively provides the same information is acceptable. Figure 1 provides this addendum.

Figure 1: Liquidation Appraisal Addendum Example

LIQUIDATION APPRAISAL ADDENDUM FOR CASE NO. _____

INTERIOR ENTERED? _____ if unable to gain access, show at least three earnest attempts):

	<u>Date</u>	<u>Time</u>	<u>Phone</u>	<u>Contact</u>	<u>Comments</u>
1.	_____	_____	_____	_____	_____
2.	_____	_____	_____	_____	_____
3.	_____	_____	_____	_____	_____

PROPERTY VACANT? _____ OCCUPIED? _____ PROPERTY SECURED? _____

REPAIRS NEEDED? _____ (indicate emergency repairs with an asterisk (*) by the number):

	<u>Description</u>	<u>VA MPR Violation?</u>	<u>Estimated Cost</u>	<u>Estimated Contributory Value</u>
1.	_____	_____	_____	_____
2.	_____	_____	_____	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

ANALYSIS OF LISTINGS AND OFFERS:

No. 1 - Asking/Offered Price (current and previous with dates of change)

\$ _____ Days on Market _____ Comparison with Subject _____

No. 2 - Asking/Offered Price (current and previous with dates of change)

\$ _____ Days on Market _____ Comparison with Subject _____

No. 3 - Asking/Offered Price (current and previous with dates of change)

\$ _____ Days on Market _____ Comparison with Subject _____

COMMENTS/CONTINUATIONS:

Chapter 12

Minimum Property Requirements

Overview

Purpose of MPRs

VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties which will become the security for VA-guaranteed loans.

In proposed or under construction cases, the MPRs help ensure that the property is constructed according to the applicable

- building code
- Federal regulations, and
- HUD requirements.

In existing and new construction cases, the MPRs provide a basis for determining that the property is

- safe, structurally sound and sanitary, and
 - meets the standards considered acceptable in a permanent home in its locality.
-

Scope of MPRs

Any reference to “MPRs for existing construction” in this handbook applies to all MPRs outlined in this chapter, except those shown as specifically applicable to “proposed construction.”

Specially Adapted Housing

Additional MPRs apply to Specially Adapted Housing program cases. Each VA office has an SAH agent to answer questions.

Overview, Continued

**In This
Chapter**

This chapter contains the following topics.

Topic	See Page
12.01 MPR Variations and Exemptions	12-3
12.02 Proposed Construction MPRs	12-4
12.03 Basic MPRs	12-6
12.04 Shared Facilities and Utilities	12-9
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12.06 Hazards and Defective Conditions	12-11
12.07 Fuel Pipelines and High Voltage Electric Lines	12-13
12.08 Individual Water Supply/Sewage Disposal Requirements	12-14
12.09 Community Water Supply/Sewage Disposal Requirements	12-16
12.10 Manufactured Homes Classified as Real Estate	12-20

12.01 MPR Variations and Exemptions

Variations

VA may agree to modify the MPRs where justified by certain conditions common to a particular geographic area or occurring on the site, or where such conditions make compliance impractical or impossible.

Exemptions

An MPR for existing construction can be waived by the VA field office if

- a veteran is under contract to purchase the property, and
 - the veteran and lender request the exemption in writing, and
 - the property is habitable from the standpoint of safety, structural soundness and sanitation, and
 - VA is satisfied that the nonconformity has been fully taken into account by way of depreciation in the VA valuation.
-

12.02 Proposed Construction MPRs

Where a Building Code is Enforced

If the property is located in a jurisdiction which enforces a State, county or local building code, then VA MPRs require that the construction comply with

- the applicable State, county or local building code
- 24 Code of Federal Regulations (CFR) 200.926d, *Construction Requirements*
- 1992 Council of American Building Officials (CABO) *Model Energy Code (MEC)*, and
- HUD references below.

[\[CFR 200.926d\]](#)

Where a Building Code is Not Enforced

If the property is located in a jurisdiction which **does not** enforce a State, county or local building code, then VA MPRs require that the construction comply with

- applicable provisions of the current *CABO International One and Two Family Dwelling Code*, and any mandatory codes or standards incorporated by reference
- 24 CFR 200.926d, *Construction Requirements*
- 24 CFR 200.926e, *Supplemental Information for Use with CABO One and Two Family Dwelling Code*
- 1992 CABO *Model Energy Code (MEC)*, and
- HUD references below.

[\[24 CFR 200.926d\]](#)

[\[24 CFR 200.926e\]](#)

Continued on next page

12.02 Proposed Construction MPRs, Continued

HUD References

The following references from the Department of Housing and Urban Development (HUD) are also included in VA MPRs, as applicable:

- HUD engineering bulletins and materials releases that address, the use of new or unconventional construction methods, or materials that have been reviewed and considered suitable from a technical standpoint by HUD, and
 - standards and practices recommended in HUD Handbooks
 - Handbook 4140.1, *Land Planning Principles for Home Mortgage Insurance*
 - Handbook 4140.2, *Land Planning Procedures and Data for Insurance for Home Mortgage Programs*, and
 - Handbook 4140.3, *Land Planning Data Sheet Handbook*.
-

Using HUD Publications

When Using HUD Publications for VA Purposes

- read all references to “HUD” and “HUD field office” as “VA” and “VA field station”
 - construe “insured mortgage” to mean “VA-guaranteed mortgage,” and
 - remember that, **for MPR purposes**, VA treats properties with up to four living units the same as properties with only one living unit.
-

Entity	The property must be a single, readily marketable real estate entity.
Nonresidential Use	<p>Any nonresidential use of the property must be subordinate to its residential use and character.</p> <p>If any portion of a property is designed or used for nonresidential purposes, that property is eligible only if the nonresidential use does not</p> <ul style="list-style-type: none">• impair the residential character of the property, or• exceed 25 percent of the total floor area.•• Note: In making this calculation, the total nonresidential area must include storage areas or similar spaces that are integral parts of the nonresidential portion.
Space Requirements	<p>Each living unit must have the space necessary to assure suitable</p> <ul style="list-style-type: none">• living• sleeping• cooking and dining accommodations, and• sanitary facilities.
Mechanical Systems	<p>Mechanical systems must</p> <ul style="list-style-type: none">• be safe to operate• be protected from destructive elements• have reasonable future utility, durability and economy, and• have adequate capacity and quality.

Continued on next page

12.03 Basic MPRs, Continued

Heating

Heating must be adequate for healthful and comfortable living conditions.

If the property has an **unvented space heater**, see the requirements in Section 11.12.

Homes with a **wood burning stove** as a primary heating source must also have a permanently installed conventional heating system that maintains a temperature of at least 50 degrees Fahrenheit in areas with plumbing.

Solar systems for domestic water heating and/or space heating must:

- meet standards in HUD Handbook 4930.2, Solar Heating and Domestic Hot Water Heating Systems, and
- be backed-up 100 percent with a conventional thermal energy subsystem or other backup system which will provide the same degree of reliability and performance as a conventional system.

Note: VA field stations may determine that climatic conditions are such that mechanical heating is not required.

Water Supply and Sanitary Facilities

Each unit must have **the following**:

- domestic hot water
- a continuing supply of safe and potable water for drinking and other household uses, and
- sanitary facilities and a safe method of sewage disposal.

Reference: For requirements regarding **individual** water supplies and individual sewage disposal systems, see Section 12.08.

Continued on next page

12.03 Basic MPRs, Continued

Roof Covering

The roof covering must

- prevent entrance of moisture, and
- provide reasonable future utility, durability, and economy of maintenance.

When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.

Crawl Space

The crawl space must

- have adequate access
- be clear of all debris, and
- be properly vented.

The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing.

Any **excessive dampness or ponding of water** in the crawl space must be corrected.

Ventilation

Natural ventilation of structural spaces such as attics and crawl spaces must be provided to reduce the effect of excess heat and moisture which could cause decay and deterioration of the structure.

Electricity

Each unit must have electricity for lighting and for necessary equipment.

12.04 Shared Facilities and Utilities

Facilities

Facilities such as laundry and storage space or heating may be shared in two-to-four living unit buildings under a single mortgage.

Utilities

Utility services must be independent for each living unit, except

- living units under a single mortgage or ownership may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit, and
- living units under separate ownership may share connections from the main to the building line when those connections are protected by
 - easement or covenant, and
 - a maintenance agreement acceptable to VA.

Individual utilities serving one living unit shall not pass over, under, or through another living unit unless there is a legal provision for permanent right of access for maintenance and repair of the utilities without trespass on adjoining properties.

12.05 Access-Related Issues

Access to Property

Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street.

Private streets must be

- protected by a permanent easement, and
- maintained by a homeowners association or joint maintenance agreement.

All streets must have an all-weather surface.

Access to Living Unit

Access to the living unit must be provided without passing through any other living unit.

Each living unit must be able to be used and maintained individually without trespass upon adjoining properties. Any easements required must run with the land.

Access to Rear Yard

Access to the rear yard must be provided without passing through any other living unit.

For a row-type dwelling, the access may be by means of

- alley
 - easement
 - passage through the subject dwelling, or
 - other acceptable means.
-

Access for Exterior Wall Maintenance

There must be adequate space between buildings to permit maintenance of the exterior walls.

12.06 Hazards and Defective Conditions

Hazards

The property must be free of hazards which may

- adversely affect the health and safety of the occupants
 - adversely affect the structural soundness of the dwelling and other improvements to the property, or
 - impair the customary use and enjoyment of the property by the occupants.
-

Defective Conditions

Conditions which impair the safety, sanitation, or structural soundness of the dwelling will cause the property to be **unacceptable** until the defects or conditions have been remedied and the probability of further damage eliminated. Such conditions include but are not limited to

- defective construction
 - poor workmanship
 - evidence of continuing settlement
 - excessive dampness
 - leakage
 - decay, and
 - termites.
-

Drainage

The site must be graded so that it

- provides positive, rapid drainage away from the perimeter walls of the dwelling, and
 - prevents ponding of water on the site.
-

Wood Destroying Insects/Fungus/Dry Rot

Appraisers must look for and report evidence of wood destroying insect infestation, fungus growth, and dry rot in addition to any VA requirement for an inspection of the property by a wood destroying insect inspector.

Continued on next page

12.06 Hazards and Defective Conditions, Continued

Lead-Based Paint

Lead-based paint constitutes an immediate hazard that must be corrected, unless testing shows that lead is not present in the paint at a level above that permitted by law.

Appraisers must

- assume that a defective paint condition (involving cracking, scaling, chipping, peeling, or loose paint) on any interior or exterior surface of properties built prior to 1978 involves lead-based paint
- clearly identify the location of such conditions, and
- recommend correction.

Any defective paint condition identified must receive adequate treatment to prevent the ingestion of contaminated paint. Either

- the surface requiring treatment must be thoroughly washed, scraped, wirebrushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping and loose paint and then repainted with two coats of a suitable nonlead paint, or
- the paint shall be completely removed or the surface covered with a suitable material such as gypsum wallboard, plywood or plaster before any painting is undertaken if the paint film integrity of the surface needing treatment cannot be maintained.

Party Walls

A building constructed to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the roof ridge. The wall may separate row type townhouses or semi-detached units.

12.07 Fuel Pipelines and High Voltage Electric Lines

Gas and Petroleum Pipelines

No part of any residential structure may be located within a high pressure gas or liquid petroleum pipeline easement.

Any detached improvements even partially in the pipeline easement will not receive value for VA purposes.

If a proposed residential structure will be located outside the pipeline easement, but within an area that extends 220 yards on either side of the centerline of the pipeline itself, the VA notice of value will be conditioned for the following, as applicable:

- High Pressure Gas Pipelines – A statement from an authorized official of the pipeline company certifying compliance with 49 CFR 192.607, 192.609, 192.611 and 192.613.
- Liquid Petroleum Pipelines – A statement from an authorized official of the pipeline company certifying compliance with 49 CFR 195 and amendments thereto.

[\[49 CFR 192.607, 192.609, 192.611 and 192.613\]](#)
[\[49 CFR 195\]](#)

High Voltage Electric Transmission Lines

No part of any residential structure may be located within a high voltage electric transmission line easement.

Any detached improvements even partially in a transmission line easement will not receive value for VA purposes.

12.08 Individual Water Supply/Sewage Disposal Requirements

Connection to Public System

Connection to a public or community water/sewage disposal system is required whenever feasible.

Water Quality

Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.

If the health authority is unable to perform the water quality analysis in a timely manner, a commercial testing laboratory or a licensed sanitary engineer acceptable to the health authority may take and test the water sample.

Water Treatment Systems

Water treatment systems are not acceptable for wells which do not meet VA quality standards due to insufficient depth or a contamination source near the supply.

However, if public water is not available and individual water supplies in the area are served by an aquifer confirmed by the health department to be contaminated, the property is eligible for a VA loan if the lender provides

- a copy of the health department letter confirming the aquifer contamination
 - evidence that all of the requirements in HUD Mortgagee Letters 92-18 and 95-34, concerning individual water purification systems, have been met for the property, and
 - the veteran purchaser's written acknowledgment that he/she understands that the well water serving the property must be continuously treated by the homeowner, as required by the local health department, to be considered safe for human consumption.
-

Continued on next page

12.08 Individual Water Supply/Sewage Disposal Requirements

12.08 Individual Water Supply/Sewage Disposal Requirements, Continued

Shared Wells

The following requirements must be met for a shared well:

- The well must be capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes.
- There must be a permanent easement which allows access for maintenance and repair.
- There must be a well-sharing agreement which
 - makes reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs
 - is binding on the signatory parties and their successors in title, and
 - is recorded in local deed records.

Springs or Cisterns

Springs or cisterns are permitted where such facilities are customary and the only feasible means of water supply, provided they are installed in accordance with the recommendations of the local health authority, and the veteran purchaser acknowledges in writing his/her awareness of the situation.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

Sewage Disposal System

An individual sewage disposal system must adequately dispose of all domestic wastes in a manner which will not create a nuisance, or in any way endanger the public health.

Pit Privies

Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal, provided they are installed in accordance with the recommendations of the local health authority.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

12.09 Community Water Supply/Sewage Disposal Requirements

Basic Requirement

If the property will be served by a community water and/or sewage disposal system, VA must be satisfied that the type of system and organization will provide adequate, continuous service at reasonable rates.

The **water supply** must be sufficient in size for the project. The quality of the water must be approved by the local or State health officials.

The **sewage system** must also be adequate in size and properly operated and maintained so as to prevent it from becoming obnoxious or a menace to public health.

Documentation Required

For properties appraised as existing or new construction, the only requirement is evidence of approval of the facilities by the appropriate State or local public utility and health authorities.

For properties appraised as proposed or under construction, the VA field station will review the following documentation:

- evidence of the financial stability and technical experience of the corporation, firm or organization operating the facilities
 - evidence of approval of the facilities by the appropriate State or local public utility and health authorities, and
 - rates for the water supply and/or sewage disposal systems (to ensure that they are not greater than the charges for like services to properties similarly situated).
-

When a Trust Deed is Required

The trust deed will be designed and established to ensure satisfactory control and adequate protective measures if the State Board of Health, Public Utility Commission, or similar State authority does not

- enforce compliance with its requirements
 - fix rates, or
 - provide for prompt relief in case of deficient operations or service or exorbitant rates.
-

12.09 Community Water Supply/Sewage Disposal Requirements, Continued

Trust Deed Forms

The forms of trust deed for privately owned community systems (illustrated in HUD Handbook 4075.12) must generally be used without modification. Those HUD forms do not apply to systems owned and operated by an acceptable home owners' association.

Trust deeds will not be supplied as VA forms.

Acceptability of Trust Deed

The VA field station will accept the trust deed if

- the trustee is a responsible firm
- the description of the property in the trust deed is accurate and complete, and
- the charges set forth and the trustee's fee (normally about 5 percent and in no event in excess of 10 percent of gross receipts) are reasonable.

The trustee will preferably be a VA or HUD-approved lender, but may be any responsible, established firm (such as a title company) in the community. In the latter case, there must be no identity-of-interest between the sponsoring group and the trustee.

Builder Costs Included in Valuation

If the builder recoups system installation costs via sale of lots and the VA value estimate is predicated on the inclusion of such cost in the value of the lots, the service rate must not permit the builder to realize the installation costs a second time.

Continued on next page

12.09 Community Water Supply/Sewage Disposal Requirements, Continued

System Transfer

When the VA value estimate considers the system installation costs to be paid in full by the builder, then additional controls are needed to protect against possible future excessive rates or assessment charges which may result if the system is transferred to a public utility company.

The trust deed must provide that transfers

- may be made only to a governmental authority or public utility company controlled by a State utility commission or similar body, and
- any funds gained from such transfer shall be distributed among property owners served by the system.

This protection will be obtained by insertion of an alternate paragraph 1 in the trust deed.

Reference: See HUD Handbook 4075.12, Appendix A, page 11, or Appendix B, page 11, as applicable.

Lower Valuation

Any lack of assurance of satisfactory service, at reasonable rates, without the possibility of a future charge to pay for the utility systems would be reflected in a lower reasonable value.

Field Station Review for Problems or Changes

If trust deed amendments are proposed or the above conditions are not satisfied, the situation must be reviewed by the VA field station legal staff prior to acceptance. In this situation, the field station may also need to coordinate with the local HUD office.

Continued on next page

12.09 Community Water Supply/Sewage Disposal Requirements, Continued

HUD Handbook References

HUD Handbook references for community water and sewerage systems requirements include

- 4940.02, *Minimum Design Standards for Community Water Supply Systems*
 - 4940.03, *Minimum Design Standards for Community Sewerage Systems*, and
 - 4075.12, *Central Water and Sewerage Systems-Ownership and Organization*.
-

12.10 Manufactured Homes Classified as Real Estate

Existing Construction

When the foundation for a manufactured home has been fully completed and the manufactured home unit has been installed, the home is considered to be “existing construction.”

There are two MPR-related requirements for these existing construction cases:

- The site, manufactured home unit, and other on-site improvements must meet VA MPRs for existing construction described in this Chapter.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.

Note: If the fee appraiser has reasonable doubts as to the acceptability of the foundation system where there are no local requirements, a statement from a registered professional engineer is acceptable. Considering their cost, such statements should be required only when necessary and not just as a measure of liability protection for fee appraisers.

Continued on next page

12.10 Manufactured Homes Classified as Real Estate, Continued

Proposed or Under Construction

When the foundation for a manufactured home has **not** been fully completed and the unit has not been installed, the home is considered to be “proposed or under construction.”

There are two MPR-related requirements for these proposed or under construction cases:

- The site and on-site improvements (but not the manufactured unit itself) must meet the requirements outlined in Section 12.02.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.
- **References:** In addition to *Proposed Construction MPRs* in this chapter, additional information regarding manufactured home installations can be found in
 - the manufacturer's installation instructions (used to determine the permissible points of support for vertical loads and points of attachment for the anchorage system used to resist horizontal and uplift forces), and
 - the *Appendix* section of the *CABO One and Two Family Dwelling Code*.

Continued on next page

12.10 Manufactured Homes Classified as Real Estate, Continued

Foundation Requirements

The following table lists each foundation component and any related requirements for “proposed or under construction” cases.

Foundation Component	Requirement
Piers and Footings	<p>The load-bearing piers and footings must</p> <ul style="list-style-type: none"> • be of sufficient size and number to distribute the weight of the manufactured home evenly • be of materials acceptable to the building authority having jurisdiction, and • (where applicable) have footings which extend below the frost line.
Concrete Slabs or Continuous Footings	<ul style="list-style-type: none"> • Concrete slabs or continuous footings are acceptable in areas where their use is permitted by local building authorities. Steel anchorage devices must be cast into the concrete slab or footing and be capable of providing holding strength to resist horizontal and uplift forces.
Anchoring Devices	<p>Anchoring devices, adequate to resist all loads, must</p> <ul style="list-style-type: none"> • be attached to the main frame of the unit by a bolted, welded, or mechanical connector • be placed at every supporting pier or as specified by the manufacturer, and • extend into the pier footing. <p>Anchoring straps or cables affixed to ground anchors, other than pier footings, will not meet this requirement unless specifically allowed by the building authority of jurisdiction.</p>
Hurricane Ties	<p>Properties located in Wind Zone II or III (wind speeds in excess of 80 mph) must be provided with diagonal hurricane ties which have been properly engineered for the location, and comply with the requirements of the building authority having jurisdiction.</p> <p>Important: The installation procedures included in both the manufacturer's foundation instructions and <i>NCS BCS Handbook A225.1</i> are not generally adequate for manufactured homes in these areas.</p>

12.10 Manufactured Homes Classified as Real Estate, Continued**Hurricane Ties (continued)**

Foundation Component	Requirement
Flexible Connections for Seismic Activity	<p>Properties located in areas of high seismic activity require special foundation designs to compensate for the effects of ground movement and to provide flexible connections between the foundation system and the manufactured home and all utility connections.</p> <p>Building authorities in these areas should be consulted for acceptable design features and special code requirements.</p>
Permanent Perimeter Enclosure	<p>A permanent perimeter enclosure (not “skirting”) with a continuous foundation-type footing will be required only when specifically required by the local building authority. When required, it must be</p> <ul style="list-style-type: none">• designed to resist all forces which cause frost heave, soil settlement, or the shrinking or swelling of expansive soils without transmitting the movement or effects to the manufactured home, and• properly secured to the perimeter of the manufactured home to exclude entry of vermin and water, and provide ventilation and a means of access to the crawl space.
Moisture and Humidity Reduction	<p>The reduction of moisture and humidity in an enclosed under floor space is required. Except in arid regions with dry soil conditions, a continuous moisture barrier that covers the natural or excavated ground surface within the perimeter enclosure of the home must be installed.</p> <p>Provisions should also be made to prevent water from entering the crawl space and for the control and diversion of surface water away from the manufactured home.</p>

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Chapter 13

Value Notices

Overview

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Overview, Continued

Importance of VA Value Estimate

Accurate value estimates based on proper appraisal reviews are essential to the viability of the VA Loan Guaranty program and have a direct effect on the interests of the Government, veterans and lenders.

Rely Only on Notice of Value

Since appraisal reports are subject to change upon review, lenders and holders should rely only upon a VA notice of value issued by the appraisal reviewer.

Issuing a Notice of Value

The table below describes the steps to follow when issuing a Notice of Value.

Steps	Description	Refer to
1	Confirm eligibility of property for appraisal and LAPP processing.	<ul style="list-style-type: none">• Chapter 10, and• Section 15.09.
2	Review the appraisal report.	<ul style="list-style-type: none">• Section 13.01, and• Chapter 11.
3	Resolve any appraisal-related problems.	Section 13.02.
4	Document the appraisal review.	Section 13.02.
5	Prepare the Notice of Value.	<ul style="list-style-type: none">• Section 13.04• Section 13.05• Section 13.06, and• Section 12.08.
6	Distribute the Notice of Value.	Section 13.07.

Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a *detailed explanation*.

Continued on next page

13.01 Reviewing Appraisal Reports

Purpose of Review

Every appraisal made for VA purposes **must** be reviewed either by the lender's VA-authorized staff appraisal reviewer (SAR) under the Lender Appraisal Processing Program (LAPP), or a VA staff appraiser in order to

- confirm that the photographs accurately reflect the appraiser's description of the subject and comparable properties
- verify that the appraisal report is fully complete, clear and prepared according to industry-accepted appraisal techniques and VA instructions
- determine that the appraiser's methodology is appropriate and that the appraiser's conclusions are consistent, sound, supportable, logical and based upon data in the appraisal report
- determine, through use of reasonably available information, that the appraiser's value recommendation and other conclusions are consistent with those in similar cases recently processed
- identify all property-related conditions and requirements that must be satisfactorily resolved before the property can become the security for a VA guaranteed loan, and
- issue a notice of value.

Handbook References for Reviewing Appraisal Reports

The following references in this handbook provide additional information when reviewing appraisal reports.

- Chapter 11
- Section 13.02
- Section 13.03
- Section 13.04
- Section 13.05
- Section 13.06
- Section 13.07, and
- Section 13.08.

Continued on next page

13.01 Reviewing Appraisal Reports, Continued

**Other
Reference
Materials**

The appraisal reviewer must maintain up-to-date

- copies of this handbook and all other VA-issued directives and other reference material pertaining to the Loan Guaranty program.
-
- For LAPP lenders, this includes the material issued by VA field stations having jurisdiction over each area where the lender originates LAPP loans
-
- applicable Federal statutes and VA regulations
- “*Uniform Standards of Professional Appraisal Practice*,” published by The Appraisal Foundation (www.appraisalfoundation.org), and
- real estate market sales data (to be used for comparative purposes).

Additional material is recommended:

- Any publications providing instructions for completing the *Uniform Residential Appraisal Report* (URAR). In the event of a conflict between VA and private source material, however, the VA-issued material must be considered controlling.
- Other current reference materials regarding major real estate market conditions and trends. This includes weekend subscriptions to major newspapers, which typically have expanded real estate sections; industry-related newsletters; publications which provide analyses and forecasts of various housing and mortgage trends and relevant statistical data.

**Real Estate
Market
Familiarity**

Although VA has no requirement that appraisal reviewers visit the geographic areas where appraised properties are located, they should keep up-to-date on major real estate market conditions and trends, in order to properly analyze the location-related information contained in appraisal reports.

13.02 Resolving LAPP Appraisal Review Problems

Contact and Cooperation

LAPP lenders are expected to take reasonable steps to resolve problems detected during their appraisal reviews. While branch office staff and authorized agents may contact the fee appraiser about the timeliness of a particular appraisal, only the lender's VA-authorized staff appraisal reviewer (SAR) may contact the appraiser to discuss valuation matters.

VA fee appraisers are expected to cooperate in addressing concerns about the content of their appraisal reports and timeliness in completing assignments.

Additional Information

When information, methodology or conclusions in the appraisal report require additional clarification or support, the SAR must contact the fee appraiser and obtain the necessary information.

Appraisal Report Changes

Any clarification, correction or revision by a fee appraiser to an appraisal report must be in writing, signed and dated. The fee appraiser must clearly identify any revised appraisal report as such in bold letters.

The lender must attach any clarification, correction or revision to the original appraisal report provided by the fee appraiser. The withholding of this or any other appraisal documentation is unacceptable and may result in administrative action against the lender and/or fee appraiser, as appropriate.

See: Section 13.04, which addresses restrictions on changes by the SAR to the fee appraiser's value estimate.

Continued on next page

13.02 Resolving LAPP Appraisal Review Problems, Continued

Referral to VA When a substantive problem is not corrected after a reasonable effort, the SAR must send the VA office of jurisdiction

- a written report which clearly outlines the problem(s) and the dates and results of contact with the fee appraiser, and
- the appraisal report and/or other pertinent documentation.

VA will subsequently notify the appropriate parties of its decision and document the fee appraiser's performance file, the lender's file and the case file, as appropriate. It may be necessary for VA staff to review the appraisal report and issue a VA Certificate of Reasonable Value.

Note: Refer all **complaints** about property condition or appraiser performance to VA.

Timeliness

LAPP lenders are responsible for resolving any timeliness problems involving authorized agents and branch personnel.

SARs should notify VA when fee appraiser timeliness expectations are not being met.

VA Consistency VA offices are expected to be as consistent as possible regarding NOV conditions and requirements. They must notify LAPP lenders by posting changes to the "approved local conditions" section of the C&V web pages when a local situation dictates an additional condition or requirement not listed on the standard NOV.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

13.03 Documenting LAPP Appraisal Reviews

SAR are not Appraisers

VA does not consider the lender's staff appraisal reviewer (SAR) to be acting as an "appraiser" when reviewing appraisal reports, or taking on the responsibility of a "cosigner" or a "supervisory appraiser." Except for the certification described below, the SAR should not sign, initial or make any comments or adjustments anywhere on the appraisal report.

SAR's Responsibility

The SAR **must**

- circle the fee appraiser's market value estimate
- sign and date any SAR comments or other documentation relative to the appraisal review and attach that material to the appraisal report, and
- complete the SAR certification.

SAR Certification Placement

The certification must be either

- stamped on the appraisal report in the "cost approach" or "reconciliation" block in a manner which least obscures other information, or
- attached as a separate sheet which also includes the VA case number and property address.

SAR Certification Wording

The certification must be signed, dated and read, "I reviewed this appraisal report to determine the acceptability of the property for VA Loan Guaranty purposes in light of VA minimum property requirements and the appropriateness, completeness, consistency and accuracy of the fee appraiser's reasonable value determination. In completing this administrative review, I'm performing a due diligence function and not acting as, or taking the responsibility of, a cosigner of the report or supervisory appraiser. Any disagreements or comments, etc., resulting from the administrative review of this appraisal are fully explained on the attachment to this report.

This box [] is checked if there were none.

Signature

LAPP ID. No.

Date

Continued on next page

13.03 Documenting LAPP Appraisal Reviews, Continued

**Implication of
SAR
Certification**

By making this certification and the certifications required with the application to participate in LAPP, the SAR is stating that in every case he/she

- personally reviewed the appraisal report
 - concurred with the fee appraiser's recommendation, except as noted in an attachment to the report
 - determined that the appraiser
 - used methodologies that were appropriate and reasonable in light of industry-accepted appraisal techniques
 - made conclusions that were consistent, based upon data in the report, and
 - complied with applicable VA requirements.
 - did not exert pressure or undue influence on the appraiser to change information or to reach a predetermined value for the subject property in order to accommodate the sale price or mortgage transaction, if clarification or corrections to the appraisal report were requested.
-

13.04 LAPP- Issuing a NOV at Other Than the Appraiser's Value Estimate

Change Restrictions

The lender's staff appraisal reviewer (SAR) may issue a NOV that is up to 5 percent above or below the fee appraiser's value estimate provided the adjustment is:

- *clearly warranted and fully supported*
 - by the real estate market, **or**
 - by other valid data considered adequate and reasonable by professional appraisal standards,

And

- *fully documented.*

The documentation must:

- be attached to the original appraisal report,
- include any supporting documentation from the fee appraiser or any other source, **and**
- include a completed sales comparison grid in appraisal report format, or similar format, when appropriate. This analyzes any additional sales data, including adjustments for all value-related differences between the subject property and the additional sales.

Other Changes

Changes in fee appraiser repair recommendations are addressed in Section 13.06 (under "NOV Item-Repairs")

Value increases of more than five percent or other changes requested after the notice of value is issued are addressed in Section 13.09.

Continued on next page

13.04 LAPP- Issuing a NOV at Other Than the Appraiser's Value Estimate, Continued

Penalty for Abuse

If VA determines that the SAR's value change was unwarranted and resulted in a VA loss due to payment of a claim under guaranty, the lender must indemnify VA to the extent that VA determines such loss was caused or increased by the increase in value.

Potential Conflict With State

SARs may not wish to exercise this authority where it is considered to be in conflict with State requirements.

In some states, the agency which regulates appraisers may take the position that any change in value by an appraisal reviewer subjects that individual to the State's requirements for appraisers.

13.05 Preparing Notices of Value

Format Under LAPP

Under LAPP, the lender's VA-authorized staff appraisal reviewer (SAR) must complete the standard notice of value form **in TAS, or on**

- the lender's corporate letterhead, **or**
- attached to a statement on that letterhead which references it.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

Format If Prepared by VA Staff

If prepared by VA staff, the notice of value **may be TAS generated or prepared on** VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV) for a group of related properties.

Notice of Value Contents

Every notice of value will include

- estimated reasonable value of the property (*See* Section 11.02).
- estimated remaining economic life of the property (*See* Section 11.10), and
- a list of any property-related conditions and requirements necessary for VA loan guaranty.

Reference: See Section 13.06.

13.06 Notice of Value Conditions and Requirements

Introduction

Every notice of value (NOV) issued in conjunction with an appraisal review must include a list of any conditions and requirements that must be satisfied for the property to be eligible for VA loan guaranty.

Reference: See Section 13.05.

Table of NOV Conditions & Requirements

The Table of NOV Conditions and Requirements below

- lists each condition and requirement shown on the standard LAPP NOV in the same order as shown on that NOV,
- explains when each item is applicable,
- explains what action is required to satisfy the condition or requirement, and
- references any additional information about the item in this handbook.

Reference: See Chapter 13, Exhibit 1, LAPP Lender's Notice of Value.

NOV Item	Instructions for Preparing the NOV
Energy Conservation Improvements	<p>Check this item for every property appraised as "existing construction." This action allows lenders to increase the loan amount for buyers to make energy efficiency improvements to the property.</p> <p>Note: "Proposed" or "under construction" and "new construction" cases are not eligible for VA's Energy Efficient Mortgage program. For more on Energy efficient improvements, see Item 1 on the NOV or Section 7.03.</p>

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued**Table of NOV Conditions & Requirements (continued)**

NOV Item	Instructions for Preparing the NOV
Wood Destroying Insect Information	<p>Check the appropriate items if the property is located in an area where the probability of termite infestation is "very heavy" or "moderate to heavy" according to the Termite Infestation Probability Map published in The <i>Council of American Building Officials</i> (CABO) One and Two Family Dwelling Code.</p> <p>Note: If there is a question about the location of an infestation probability boundary line in relation to the subject property, contact the VA office of jurisdiction to determine if this requirement is applicable.</p> <p>Additional Requirements</p> <ul style="list-style-type: none"> • In cases processed as "New Construction," the builder can meet the requirements for either "existing construction" or "proposed or under construction." • The pest control operator must meet all requirements of the State in which the property is located. • In States which require the use of a State inspection form in all transactions, the State form is acceptable for VA loan guaranty purposes. • Inspection reports are valid for VA purposes for 90 days from the date of inspection. <p>References: See Section 12.06.</p>
Lien Supported Assessment	<p>Check the appropriate items and provide the required information, if applicable. Generally, this involves only units in a planned unit development or condominium.</p> <p>References:</p> <ul style="list-style-type: none"> • Item 3 on the NOV • Chapter 16, Section B.

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Condominium Requirements	<p>Check the appropriate items if the property is located in a condominium.</p> <p>Important: The project must be acceptable to VA, and all project approval-related requirements satisfied, for the property to be eligible for VA loan guaranty.</p> <p>Reference: See Chapter 16, Section A.</p>
Water/Sewer System Acceptability	<p>Check the appropriate items for a property served by an individual</p> <ul style="list-style-type: none">• water supply, such as a well, or• septic system in all cases appraised as “proposed or under” construction, and in “new” and “existing” construction cases in which there is an indication of a problem or the property is in an area known to have soil percolation problems. <p>A spring or cistern water supply or pit privy may be acceptable in areas where they meet the standards of the locality and are properly constructed. Lenders should contact the VA office of jurisdiction regarding such cases.</p> <p>References:</p> <ul style="list-style-type: none">• Item 5 on the NOV• Section 10.10 (“Required Exhibits”)• Section 12.08.• Section 14.02 (“Third Inspection”).
Connection to Public Water/Sewer	<p>Check the appropriate items if the property is served by an individual well or septic system and there is an indication that public water or sewer is available.</p> <p>References:</p> <ul style="list-style-type: none">• Item 6 on the NOV• Section 12.08.
Private Road/Common Use Driveway	<p>Check this item if access to the property is by a private road or common-use driveway.</p> <p>References:</p> <ul style="list-style-type: none">• Item 7 on the NOV• Section 12.05.

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Flood Insurance	<p>Check this item if the dwelling is located in a Special Flood Hazard Area (SFHA). It is the lender's responsibility to assure that flood insurance is obtained and maintained on properties located in SFHAs, whether or not the appraiser correctly identifies the property as being in an SFHA.</p> <p>Exceptions:</p> <ul style="list-style-type: none"> • The property is not eligible as the security for a VA home, if the property is located in an SFHA and flood insurance is not available because the community is not participating in the National Flood Insurance Program (NFIP) • The lender can appeal to the Federal Insurance Administration (FIA), if there is an indication that a property is incorrectly included in a SFHA. <p>• Note: Based on FIA's administrative review of the scientific or technical data submitted by the lender, FIA may issue a Letter of Map Amendment (LOMA) to amend the current FEMA map and establish that the property is not located in a SFHA.</p> <p>References:</p> <ul style="list-style-type: none"> • Item 8 on the NOV • Section 9.10 • Section 10.06 • Chapter 11, Figure 1.
Airport Acknowledgement	<p>Check this item if the property is located in an airport noise zone or safety-related zone acceptable to VA.</p> <p>Reference:</p> <ul style="list-style-type: none"> • Item 9 on the NOV • Section 10.06 • Chapter 11, Figure 1.

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Repairs	<p>Check the appropriate items and list the repairs recommended by the appraiser which are necessary to make the property meet VA Minimum Property Requirements (MPRs).</p> <p>Lead-Paint Conditions Since properties built prior to 1978 may contain lead-based paint, the correction of any defective paint condition on such properties must be made according to the requirements in Section 12.03 and inspected only by VA fee personnel or VA staff.</p> <p>Notes:</p> <ul style="list-style-type: none"> • A notice of value should not be issued for a property in a badly deteriorated condition unless there is a reasonable likelihood that it can be repaired to meet VA MPRs prior to loan closing. • A certification regarding the condition or adequacy of the roof, electrical/plumbing/heating systems, etc., should not be required unless there is an indication of a problem. • Lenders and fee appraisers should use their own letterhead when certifying that required repairs have been satisfactorily completed. Generally, fee inspectors will not inspect repairs to existing properties, unless the loan involves alterations or improvements for which construction exhibits are required. <p>Lender and purchaser disagreements with fee appraiser repair recommendations will be resolved by either:</p> <ul style="list-style-type: none"> • SAR contact with the fee appraiser (if the repair recommendations do not appear necessary per Section 11.09, for the property to meet MPRs). SAR must then provide in writing any changes made by the appraiser, or • VA contact with SAR or fee appraiser (if initial lender/appraiser contact does not resolve the issue), or • SAR and purchaser request VA to waive the repair item(s) in question, if necessary and appropriate per Section 12.01 under "Exemptions".

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Repairs, continued	Reference: <ul style="list-style-type: none">• Item 10 on the NOV• Section 10.01• Section 10.05• Section 10.06• Section 11.04• Section 11.09• Chapter 12.
Local Housing/ Planning Authority Code Requirements	Check this item if the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes Reference: <ul style="list-style-type: none">• Item 11 on the NOV• Section 10.07• Figure 1 in Chapter 11

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
"Not Inspected" Acknowledgement	<p>Check the appropriate items if the property was appraised as "new construction".</p> <p>Note: <i>Item 12a</i> on the NOV applies if the property is to be covered by a one-year builder's warranty per Section 10.08. <i>Item 12b</i> on the NOV applies if the property is to be covered by a 10-year insured protection plan per Section 10.09.</p> <p>Reference:</p> <ul style="list-style-type: none">• Item 12 on the NOV• Section 10.05• Section 10.08• Chapter 10, Figure 1.
10-Year Insured Protection Plan	<p>Check this item if the property was appraised as either "proposed or under construction" or "new construction" and is to be covered by a 10-year insured protection plan.</p> <p>Note: A copy of the builder's application to enroll the subject property in an acceptable 10-year plan is adequate "evidence of enrollment." It is the builder's responsibility to ensure that all enrollment fees are paid and the enrollment process is otherwise completed.</p> <p>Reference:</p> <ul style="list-style-type: none">• Item 13 on the NOV• Section 10.05• Section 10.09• Chapter 14, Overview.

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13.06 Notice of Value Conditions and Requirements, Continued**Table of NOV Conditions & Requirements (continued)**

NOV Item	Instructions for Preparing the NOV
Energy Efficient Construction	<p>Check this item if the property was appraised as “new construction.”</p> <p>The certification is required even when State or local energy-related requirements exceed the 1992 Council of American Building Officials (CABO) Model Energy Code (MEC) standard.</p> <p>The certification is not required if the dwelling is either</p> <ul style="list-style-type: none"> • manufactured home built to HUD code and inspected by HUD in the factory, or • individual unit in a condominium over two stories high. <p>References:</p> <ul style="list-style-type: none"> • <i>Item 14</i> of the NOV • Section 12.02.
Lead/Water Distribution System	<p>Check this item if the property was appraised as “new construction.”</p> <p>This requirement also applies to cases involving alterations, improvements or repairs to the potable water distribution system.</p> <p>Reference: See <i>Item 15</i> on the NOV.</p>

Continued on next page

13.06 Notice of Value Conditions and Requirements, Continued**Table of NOV Conditions & Requirements (continued)**

NOV Item	Instructions for Preparing the NOV
Offsite Improvements	<p>Check this item if the property was appraised as either “proposed or under construction” or “new construction” and off-site improvements have not been completed and accepted for maintenance by the local authority at that time, such as</p> <ul style="list-style-type: none"> • streets • sidewalks • drains, and/or • sewers. <p>References:</p> <ul style="list-style-type: none"> • <i>Item 16</i> on the NOV • Section 9.09 • Figure 1 in Chapter 10.
Proposed Construction	<p>If the property was appraised as “proposed or under construction,” check this item and provide the information required to identify the construction exhibits used.</p> <p>References:</p> <ul style="list-style-type: none"> • <i>Item 17</i> on the NOV • Section 10.10.
Construction Inspections	<p>Check this item and identify the VA-assigned fee inspector if the property was appraised as “proposed or under construction.”</p> <p>References:</p> <ul style="list-style-type: none"> • <i>Item 18</i> on the NOV • Section 10.04 • Chapter 14.

13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV								
Construction Warranty	<p>Check this item if the property was appraised as either</p> <ul style="list-style-type: none"> • “proposed or under construction,” or • “new construction” and the builder will provide a one-year VA builder’s warranty (instead of a ten-year insured protection plan). <p>In both of the above situations, the veteran purchaser must be provided with a one-year builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction, signed by an authorized official.</p> <p>See “NOV Item – Ten Year Insured Protection Plan” in this Section if the property will be covered by a ten-year protection plan.</p> <p>Use the following to determine how to handle cases involving manufactured homes classified as real estate.</p> <table> <tr> <th>When cases ...</th><th>Then ...</th></tr> <tr> <td>processed as “proposed or under construction” (See the definition in Section 10.10)</td><td>the contractor responsible for the construction of the foundation and other onsite features must provide the one-year warranty.</td></tr> <tr> <td>involve a new manufactured home unit</td><td>the manufacturer must provide the purchaser with a one-year warranty on VA Form 26-8599, Manufactured Home Warranty.</td></tr> <tr> <td></td><td><i>Note:</i> This warranty will cover the manufactured home unit only.</td></tr> </table>	When cases ...	Then ...	processed as “proposed or under construction” (See the definition in Section 10.10)	the contractor responsible for the construction of the foundation and other onsite features must provide the one-year warranty.	involve a new manufactured home unit	the manufacturer must provide the purchaser with a one-year warranty on VA Form 26-8599, Manufactured Home Warranty.		<i>Note:</i> This warranty will cover the manufactured home unit only.
When cases ...	Then ...								
processed as “proposed or under construction” (See the definition in Section 10.10)	the contractor responsible for the construction of the foundation and other onsite features must provide the one-year warranty.								
involve a new manufactured home unit	the manufacturer must provide the purchaser with a one-year warranty on VA Form 26-8599, Manufactured Home Warranty.								
	<i>Note:</i> This warranty will cover the manufactured home unit only.								

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13.06 Notice of Value Conditions and Requirements, Continued**Table of NOV Conditions & Requirements (continued)**

NOV Item	Instructions for Preparing the NOV	
Construction Warranty, continued	When cases ...	Then ...
	involve a used manufactured home sold by a dealer	<p>the dealer must provide the purchaser with a six-month warranty on VA Form 26-8730, Used Manufactured Home Limited Warranty.</p> <p>This warranty that the mechanical equipment, electrical, gas and heating systems, and water and plumbing systems are in operating condition and the roof is weathertight. This warranty is not required in connection with the sale of a used manufactured home not involving a dealer.</p>
	<p>References:</p> <ul style="list-style-type: none"> • <i>Item 19</i> on the NOV • Section 10.05 • Section 10.08 • Section 10.09 • Section 10.10. 	

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13.06 Notice of Value Conditions and Requirements, Continued

Table of NOV Conditions & Requirements (continued)

NOV Item	Instructions for Preparing the NOV
Other Conditions & Requirements	<p>Check this item and list any other conditions or requirements necessary to satisfy fee appraiser or local VA office concerns, or otherwise cause the property to meet all VA requirements.</p> <p>Example: If the dwelling will have a permanently installed, non-electric, non-vented fireplace or other non-vented space heater, the NOV must be conditioned to require</p> <ul style="list-style-type: none"> • the veteran purchaser's written acknowledgement that the dwelling contains an non-vented fireplace or space heater which has not been inspected by VA, and • a written heating/air conditioning contractor, that identifies the property and states that the non-vented appliance <ul style="list-style-type: none"> – is equipped with an approved Oxygen Depletion Sensor, and – meets local building authority requirements, or is installed according to the manufacturer's recommendations if there are no local requirements. <p>Consistency and Additional Conditions VA offices are expected to be as consistent as practicable regarding NOV conditions and requirements. They will notify lenders in writing when a local situation dictates an additional condition/requirement not listed on the standard NOV.</p>
SAR Signature	<p>Ifthen...</p> <p>the NOV was issued through</p> <ul style="list-style-type: none"> • TAS <p>*the signature of the SAR is required on the NOV sent to the veteran, *however, no SAR signature is required on E-mailed copies to the veteran.</p> <p>the NOV was not issued through TAS</p> <p>* the signature of the SAR is required on both the NOV sent to the veteran and the NOV sent to VA. *the SAR's signature is also required on the SAR Certification which must be sent to VA with a copy of a reviewed appraisal and NOV.</p>

13.07 Distributing Notices of Value

LAPP Cases

For cases processed under LAPP, the SAR must send the

- veteran borrower the NOV and a copy of the reviewed appraisal report, within five business days of the lender's earliest receipt of the appraisal report by the SAR or an authorized agent/broker.

Note: Any delay without documented, reasonable extenuating circumstances, such as the need to obtain additional information from the fee appraiser, will not be acceptable.

- VA office of jurisdiction
 - a copy of the NOV, and
 - a complete set of the appraisal report contents (Section 11.04), either on the same day the NOV is sent to the veteran or by the last day of the month along with the other NOVs issued that month, and
 - fee inspector if assigned by VA, a copy of the NOV, if applicable
-

NOV Issued by VA

For VA processed cases, VA will send the

- lender the original NOV or Master CRV and an original copy of the VA-reviewed appraisal report with all related exhibits, **and**
- veteran borrower a copy of the NOV. If the borrower is unknown at the time the NOV is prepared, the copy will be
 - retained in the case file and mailed to him/her upon VA receipt of the Uniform Residential Loan Application (in "prior approval" cases), **or**
 - sent ☐ after the loan is guaranteed (for loans processed on the automatic basis).

Note: For properties valued on a Master CRV, the veteran borrower's notice of value will be considered to be VA Form 26-1820, Report and Certification of Loan Disbursement or VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application.

13.08 How Long Notice of Value is Valid

Existing or New Construction	A notice of value for property appraised as existing or new construction is valid for six months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.
Proposed or Under Construction	A notice of value for a property appraised as proposed or under construction is valid for 12 months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.
Veteran Under Contract	If a veteran signs a purchase agreement during a notice of value's validity period, that notice of value will remain valid until that transaction is either completed or terminated.
Extension of Validity Period	<p>VA will extend the validity period only when it is determined that current market conditions make it likely that the original value estimate will remain valid through the extended period.</p> <p>Generally, extension requests will be sent to the VA office of jurisdiction, which will contact the fee appraiser involved, if appropriate, and issue an endorsement to the notice of value, if justified.</p>

13.09 Requesting Changes to the NOV

Policy

After a notice of value is issued, the value estimate or any NOV condition or requirement may be changed if either

- the change is clearly warranted and fully supported by real estate market or other valid information which would be considered adequate and reasonable by professional appraisal standards, or
 - the NOV's issuance involved fraud, misrepresentation or substantial VA or LAPP lender administrative error and action is necessary to make the valuation consistent with the real estate market.
-

How to Request a Change

Any party of interest may request a change to a NOV. For documentation purposes, every such request must be in writing.

The change request should be submitted to the lender.

Submission of Real Estate Market Data

Although there is no requirement that comparable sales or other real estate market information be submitted with a request for a change in value, such supporting information will greatly assist in reviewing the request.

Note: A new VA appraisal must not be requested for any property which already has a valid NOV. However, an additional appraisal not assigned by VA can be used to support a request for an increase in value, provided the veteran purchaser was not required to pay any portion of the cost of that additional appraisal.

Processing Change of NOV Request

Upon receipt of a request to change a notice of value, the lender will either:

- Process the request per Section 13.04 ("LAPP-Issuing NOV at Other Than Appraiser's Value Estimate") or Section 13.06 ("NOV Item – Repairs"), if applicable, **or**
 - Forward the request to the VA-assigned appraiser if it involves a request for increase in the value estimate of more than five percent but less than 10 percent or otherwise needs fee appraiser involvement, (i.e. repairs/condition waivers) **or**,
 - Forward the request to the VA office of jurisdiction if it involves a request for increase in the value estimate of 10 percent or more or if it involves matters regarding appraiser's performance.
-

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13.09 Requesting Changes to the NOV, Continued

Appraiser's Role

When a fee appraiser receives a request from a lender regarding a change in a notice of value, the fee appraiser will

- record on the request the date that it was received (for VA timeliness calculation purposes)
- review the request and any supporting documentation
- prepare a written recommendation, with justification that would be considered adequate and reasonable by professional appraisal standards, and

Note: In most cases, this will include a sales comparison analysis grid or similar analysis.

- forward the recommendation and all related documentation to either the
 - lender, if the case is being processed under LAPP and an increase in value of not more than 5 percent is justified, or
 - VA office of jurisdiction, in all other cases.

Note: The appraiser may charge a reasonable fee (not to exceed that allowed by VA) if the market data necessary to reconsider the value estimate was not available at the time of the appraisal.

VA's Role

Upon receipt of either a request from a lender to change a notice of value or a fee appraiser's recommendation regarding a change to a notice of value, VA staff will:

- review the material received.
- contact the fee appraiser, if necessary, and otherwise determine if the requested change is justified, and
- notify the lender of VA's decision.

Continued on next page

13.09 Requesting Changes to the NOV, Continued

Lender's Role

For cases processed under LAPP, an amended NOV will be issued in TAS and provided to the veteran purchaser,

- upon reconsideration by the SAR of additional data justifying an increase in value, of not greater than five percent, or
- upon receipt of a fee appraiser's justified recommendation for an increase in value, of not greater than five percent, or
- upon receipt of the VA letter authorizing an increase in value or other changes to the NOV.

Documentation concerning the change is to be retained for future VA reference. The amended NOV will replace the original NOV which will not be retained.

13.10 Transfer of Appraiser's Reports Between Lenders

**Lender
Cooperation**

Lenders are expected to cooperate on a reciprocal basis when a veteran purchaser chooses to have his/her mortgage transaction completed by a lender other than the one who ordered the appraisal.

LAPP Cases

A LAPP notice of value is **not** transferable to another lender. However, an appraisal report requested by one lender can be subsequently used by a LAPP lender, if the LAPP lender assumes full responsibility for LAPP processing by performing a complete review of the appraisal report and issuing, on its own letterhead, a notice of value to the veteran borrower.

Other Cases

If the subsequent lender does not have LAPP authority and no VA Form 26-1843, Certificate of Reasonable Value, was ever issued by VA staff, then all appraisal documentation must be submitted to VA. VA staff will review that material and issue a VA Form 26-1843 to the subsequent lender.

A notice of value issued by VA staff on VA Form 26-1843 can be transferred to a subsequent lender.

**If Unable to
Obtain
Appraisal**

If a subsequent lender is unable to obtain an original copy of a needed appraisal report and all addenda, including clear copies of all pictures, that lender may contact the fee appraiser involved for that documentation. The fee appraiser may negotiate a reasonable fee, to be paid by the lender or veteran, for any additional work that may be necessary.

**Validity Period
Issues**

For information on validity period issues, see Section 13.08.

13.11 Discovery of Title Limitations & Conditions

**Requirement to
Notify VA**

Any title limitation or condition discovered after examination of the title but prior to loan closing must be submitted to the VA office of jurisdiction (along with a copy of the appraisal report in LAPP cases), unless it

- was considered in the appraisal report, or
- is listed in [38 CFR 36.4350](#) as **not** materially affecting the reasonable value of residential property.

[\[38 CFR 36.4350\]](#)

**If VA Value
Based on HUD
Appraisal**

If the VA notice of value was based on a HUD value determination per Chapter 10.11, and neither of the above two exclusions apply, the lender must

- contact HUD to determine what effect, if any, the limitation or condition has on the value of the property, and
 - provide the VA office of jurisdiction with the results so that office can issue a VA Form 26-6363, Endorsement to Certificate of Reasonable Value.
-

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13.11 Discovery of Title Limitations & Conditions, Continued**Limitations and Conditions Not Affecting Value**

Per, the following conditions or limitations to title have been determined by VA as not materially affecting the VA value estimate of residential property (whether or not enforceable by a reverter clause), provided there has been no breach of the conditions affording a right to an exercise of the reverter clause.

[\[38 CFR 36.4350\]](#)

When the limitation or condition is ...	There is no material affect on the VA value estimate if ...
Building or use Restriction	<ul style="list-style-type: none"> • no violation exists, and • the proposed use by the veteran is not likely to result in a violation.
Violation of Building or Use Restrictions of Record	<ul style="list-style-type: none"> • they have existed for more than one year, • are not the subject of pending or threatened litigation, and • do not provide for a reversion or termination of title, condemnation by municipal authorities, or a lien for liquidated damages which may be superior to the lien of the guaranteed or insured mortgage.
Easement	<ul style="list-style-type: none"> • public utility/drainage easement along one or more of the property lines or easement for drainage or irrigation ditches, provided the exercise of the rights of such easement does not interfere with the use of any of the buildings or improvements located on the subject property • mutual easement for joint driveway located partly on the subject property and partly on adjoining property, provided the agreement is recorded in public records, or • easement for underground conduits which are in place and which do not extend under any buildings on the subject property.

13.11 Discovery of Title Limitations & Conditions, Continued**Limitations and Conditions Not Affecting Value (continued)**

When the limitation or condition is ...	There is no material affect on the VA value estimate if ...
Encroachment	<ul style="list-style-type: none"> • encroachment on the subject property by improvement on the adjoining property when such encroachment does not exceed one foot within the subject boundaries, provided such encroachment does not touch any buildings or interfere with the use or enjoyment of any building or improvement on the subject property • encroachment by hedges or removable fences belonging to subject or adjoining property • encroachment not exceeding one foot on adjoining property by driveway belonging to subject property, provided there exists a clearance of at least eight feet between the buildings on the subject property and the property line affected by the encroachment, or • lot line variation between the length of the subject property lines as shown on the plot plan or other exhibits submitted to VA and as shown by the record or possession lines, provided such variation does not interfere with the current use of any of the improvements on the subject property and does not involve a deficiency of more than two percent with respect to the length of the front line, or more than five percent with respect to the length of any other line.

13.11 Discovery of Title Limitations & Conditions, Continued

**VA Processing
of Limitations/
Conditions
Affecting Value**

For limitations/conditions submitted to VA which were not considered in the appraisal report or covered by [38 CFR 36.4350](#), the VA office of jurisdiction will

- contact the fee appraiser (via VA Form Letter 26-209) if additional information is needed to determine the effect of the limitation/condition on the value estimate
- consider the impact of the condition/limitation on the reasonable value of the property, and
- notify the lender or other interested party of its determination via either VA Form Letter 26-210 or an endorsement (containing the language found on FL 26-210) to the request for VA consideration of the condition/limitation.

[\[38 CFR 36.4350\]](#)

13.12 Effect of Major Disasters on Notices of Value

VA Notice to Program Participants

As soon as practicable after a major natural disaster, VA offices in the area(s) affected by the disaster will send their program participants instructions regarding the handling of cases in which a notice of value is outstanding.

Exhibit 1—LAPP Lender's Notice of Value

[on lender's letterhead]
LENDER'S NOTICE OF VALUE

[date of notice] LENDER LOAN NO.: VA CASE NO.:
 APPRAISAL REVIEWER: [SAR name, SAR id #]
[Mr. and/or Ms.] [purchaser's PROPERTY ADDRESS: [complete address]
name and current mailing address]

Dear [Mr. and/or Ms.] [purchaser's last name]:

The above property has been appraised by a fee appraiser assigned by the VA regional office in [city and state]. On [date], our VA-authorized appraisal reviewer personally reviewed the fee appraiser's report and determined the property's estimated reasonable value to be \$[amount]. The maximum repayment period for a loan to purchase this property is [fee appraiser's "economic life" estimate or 30, whichever is less] years.

The VA appraisal was made to determine the reasonable value of the property for loan purposes. It must not be considered a building inspection. Neither VA nor the lender can guarantee that the home will be satisfactory to you in all respects or that all equipment will operate properly. A thorough inspection of the property by you or a reputable inspection firm may help minimize any problems that could arise after loan closing. In an existing home, particular attention should be given to plumbing, heating, electrical and roofing components.

REMEMBER: VA GUARANTEES THE LOAN, NOT THE CONDITION OF THE PROPERTY.

THE CONDITIONS/REQUIREMENTS CHECKED BELOW APPLY TO THIS PROPERTY:

- _____ 1. **ENERGY CONSERVATION IMPROVEMENTS.** You may wish to contact the utility company or a reputable firm for a home energy audit to identify needed energy efficiency improvements to this previously occupied property. Lenders may increase the loan amount to allow buyers to make energy efficiency improvements such as: Solar or conventional heating/cooling systems, water heaters, insulation, weather-stripping/caulking and storm windows/doors. Other energy-related improvements may also be considered. The mortgage may be increased by up to \$3,000 based solely on documented costs; or up to \$6,000 provided the increase in monthly mortgage payment does not exceed the likely reduction in monthly utility costs; or more than \$6,000 subject to a value determination by VA.

Exhibit 1—LAPP Lender's Notice of Value, Continued

CONDITIONS/REQUIREMENTS (CONTINUED)

[Check all items which apply and give appropriate information]

PROPERTY ADDRESS [complete address]

VA CASE NO.:

2. WOOD-DESTROYING INSECT INFORMATION

a. Inspection Report (Existing Construction). The property must be inspected at no cost to you by a qualified pest control operator using Form NPCA-1, or other form acceptable to VA. Any reported infestation or structural damage affecting the value of the property must be corrected to VA's satisfaction prior to loan settlement. You must acknowledge receipt of a copy of the inspection report in the space provided on the form.

b. Soil Treatment Guarantee (Proposed or Under Construction). A properly completed Form NPCA-99a is required. If the soil is treated with a termiticide, a properly completed Form NPCA-99b is also required. The lender will provide you with a copy.

3. LIEN-SUPPORTED ASSESSMENT. This property is located in a development with mandatory membership in a homeowners' association. The lender is responsible for ensuring that title meets VA requirements for such property and that homeowner association assessments are subordinate to the VA-guaranteed mortgage.

a. Homeowner Association Fee. Estimated fee of \$[amount] per [period of time].

b. Other. _____

4. CONDOMINIUM REQUIREMENTS. The lender is responsible for ensuring that this condominium is acceptable to VA and that any condominium-related special conditions or requirements have been met. There may be additional information in "Other Conditions/Requirements" below.

5. WATER/SEWAGE SYSTEM ACCEPTABILITY. Evidence from the local health authority or other source authorized by VA that the individual _____ **water supply**, _____ **sewage disposal** system(s) is/are acceptable.

6. CONNECTION TO PUBLIC WATER/SEWER. Evidence of connection to _____ **public water**, _____ **public sewer**, if available, and that all related costs have been paid in full.

7. PRIVATE ROAD/COMMON-USE DRIVEWAY. Evidence that use of the private road or common-use driveway is protected by a recorded permanent easement or recorded right-of-way from the property to a public road, and that a provision exists for its continued maintenance.

Exhibit 1—LAPP Lender's Notice of Value, Continued

CONDITIONS/REQUIREMENTS (CONTINUED)

[Check all items which apply and give appropriate information]

PROPERTY ADDRESS: [complete address]

VA CASE NO.:

- ____ 8. **FLOOD INSURANCE.** Since improvements on this property are located in a FEMA Special Flood Hazard Area, flood insurance is required.
- ____ 9. **"AIRPORT" ACKNOWLEDGEMENT.** Your written acknowledgement that you are aware that this property is located near an airport and that aircraft noise may affect the livability, value and marketability of the property.
- ____ 10. **REPAIRS.** The ____ lender ____ fee appraiser (____ [name]____) ____ fee compliance inspector (____ [name]____) is to certify that the following repairs have been satisfactorily completed. See the above second paragraph about your responsibility concerning the condition of the property.
- ____ [List repairs recommended by fee appraiser which are necessary to make the property meet VA minimum property requirements for existing construction. Inspections/certifications should not be required unless there is an indication of a potential problem.]
- ____ 11. **LOCAL HOUSING/PLANNING AUTHORITY CODE REQUIREMENTS.** Evidence that local housing or planning authority code requirements, if any, have been met.
- ____ 12. **"NOT INSPECTED" ACKNOWLEDGEMENT.** Your written Acknowledgement that, you are aware that since this new property was not inspected during construction by VA,
- ____ a. VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported during the one-year builder's warranty period.
- ____ b. VA will not intercede on your behalf in the processing of any construction complaints.
- ____ 13. **TEN-YEAR INSURED PROTECTION PLAN.** Evidence of enrollment of this new property in a 10-year insured protection plan acceptable to the Department of Housing and Urban Development (HUD).

Exhibit 1—LAPP Lender's Notice of Value, Continued

CONDITIONS/REQUIREMENTS (CONTINUED)

[Check all items which apply and give appropriate information]

PROPERTY ADDRESS: [complete address]

VA CASE NO.:

- _____ 14. **ENERGY EFFICIENT CONSTRUCTION.** Builder's certification which identifies this new dwelling and states that it was constructed to meet the energy conservation standards of the Council of American Building Officials (CABO) 1992 Model Energy Code (MEC).
- _____ 15. **LEAD/WATER DISTRIBUTION SYSTEM.** Builder's certification which identifies this new dwelling and states that the solders and flux used in construction did not contain more than 0.2 percent lead and that the pipes and pipe fittings used did not contain more than 8.0 percent lead.
- _____ 16. **OFFSITE IMPROVEMENTS.** Evidence that the streets, sidewalks, drains, water, sewer, etc. have been completed and accepted for maintenance by the local authority.
- _____ 17. **PROPOSED CONSTRUCTION.** To be completed based on construction exhibits identified as _____ [model name; or type of construction, square footage, # rooms, # bedrooms and # bathrooms]
- _____ 18. **CONSTRUCTION INSPECTIONS.** By VA fee compliance inspector (_____ [name] _____) or HUD fee inspector (with prior VA approval). _____ Only a final inspection is required if local building authority inspections are acceptable to VA, or if builder to provide you with a ten-year insured protection plan acceptable to HUD.
- _____ 19. **CONSTRUCTION WARRANTY.** One-year VA builder's warranty on a fully completed VA Form 26-1859, Warranty of Completion of Construction.

Exhibit 1—LAPP Lender's Notice of Value, Continued

CONDITIONS/REQUIREMENTS (CONTINUED)

[Check all items which apply and give appropriate information]

PROPERTY ADDRESS: [complete address]

VA CASE NO.:

____ 20. OTHER CONDITIONS/REQUIREMENTS

Sincerely,

[signature, name and title of person authorized to sign notice]

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Chapter 14

Construction Inspections

Overview

Purpose

The purpose of VA inspections during construction is to ensure that all onsite and offsite improvements have been acceptably completed according to

- the construction exhibits on which the VA value estimate is based, and
 - VA Minimum Property Requirements (MPRs) per Chapter 12.
-

Consequences of Inspections

A lender may close a loan based on a “clear” final inspection report.

Deviations from the construction exhibits may necessitate revision of the VA value estimate, if appropriate.

Properties that fail to meet VA MPRs will *not* be acceptable as the security for a VA loan.

Determining the Type of Inspection

Use the table below to determine the type of inspection required.

When the property is appraised as ...	Then ...
proposed or under construction with no insured ten year protection plan	<ul style="list-style-type: none">• either a full complement of inspections is required, or• a final (third stage) inspection is required, only if local building authority inspections are acceptable in lieu of VA first and second stage inspections.
proposed or under construction with an insured ten year protection plan	only a final (third stage) inspection is required.

Determining the Type of Inspection (continued)

When the property is appraised as ...	Then ...
existing construction with major <ul style="list-style-type: none">• alterations• improvements, or• repairs	VA will determine on a case-by-case basis <ul style="list-style-type: none">• what regular or special inspections are required, and• if it is appropriate, based on the nature of the work, to have the lender certify that it has been satisfactorily completed.

Specially Adapted Housing Cases

The compliance inspection procedures applicable in Specially Adapted Housing cases are identical with those for other types of cases, except that special emphasis should be given to the adaptive features.

Any questions should be referred to the VA Specially Adapted Housing Agent at the VA field station.

In this Chapter This chapter contains the following topics.

Topic	See Page
14.01 Obtaining an Inspection	14-3
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14.01 Obtaining an Inspection

How to Assign an Inspector

VA assigns, without favoritism or discrimination, an inspector from its fee inspector roster

- at the same time as the appraiser, in most cases, or
- at the time a notice of value is issued by VA staff, if the appraisal requester does not choose to have the inspectors assigned at the same time as the appraiser **and** the value determination will be made by VA staff.

VA may assign more than one inspector in the case of master appraisals.

Reference: For information about assigning a fee inspector, refer to Section 10.04.

Early Start Assignments

To avoid builder delays in starting construction, VA can assign the inspector prior to assigning the appraiser. The builder or sponsor must submit a written request which includes

- a statement of understanding of the special nature of the procedure and the fact that inspection fees will be paid whether or not a VA value notice is issued, and
 - construction exhibits which are properly certified in accordance with Section 10.10, *Construction Exhibits*.
-

Requesting an Inspection

The builder contacts the inspector directly to schedule inspections as each phase of construction is completed.

Inspection Report Form

All compliance inspections will be reported on VA Form 26-1839, Compliance Inspection Report.

14.02 Inspection Stages

Introduction

This topic contains information about

- displaying legal notices
 - the stages of inspection
 - what inspectors look for during the inspection
 - re-inspections
 - special inspections, and
 - missed inspections.
-

Equal Employment Opportunity Poster Requirement

At the initial inspection, inspectors will note any failure of the builder to prominently display VA Poster 26-83-1, Equal Employment Opportunity is the Law, as a noncompliance item on the inspection report. Each contractor and subcontractor must display the poster in conspicuous places at job sites covered by VA value notices for proposed construction.

In all areas with significant concentrations of Spanish-speaking people, VA Poster 26-83-1(S) printed in Spanish, must be displayed next to the poster in English.

When noncompliance with the poster requirement is found, the VA office of jurisdiction will immediately inform the builder that no further inspections will be made until the poster is displayed.

Obtaining Equal Employment Opportunity Posters

VA supplies the poster to the builder with the VA value notice, if issued by the VA. Although one poster may be used to cover a group of properties being constructed simultaneously by a builder, VA will furnish additional posters needed for adequate coverage.

Posters are available from the VA Forms and Publications Depot.

14.02 Inspection Stages, Continued

**First Inspection
Stage
Alternatives**

VA will notify builders, lenders, and inspectors which of the following first stage inspection alternatives are to be used in specific areas:

- *Excavation complete and ready for footings and foundations* usually applies in localities where it is advisable to have the bearing soil examined before construction proceeds, or
 - *Foundation walls complete and ready for backfill* usually applies where soil conditions are generally uniform and free of faults likely to cause foundation problems.
-

**Completion of
Excavation
Alternative**

For the *completion of excavation* alternative, VA inspects

- display of VA Poster 26-83-1, Equal Employment Opportunity is the Law
 - the nature of the bearing soil
 - form work for footings or the condition and quality of the footing trench if forms are not required, and
 - compliance with construction exhibits and VA Minimum Property Requirements regarding
 - the location of the structures on the plot, and
 - depth of excavation and its relation to street and proposed finish grades and to grades of adjoining improved properties.
-

**Completion of
Foundation
Alternative**

For the *completion of foundation* alternative, *all* of the above items will be observed and reported. In addition, VA will inspect

- the size, location, and condition of all footings, foundation walls, piers, and other supporting members, and
 - the quality of materials and workmanship of masonry, damp proofing, and foundation drainage.
-

14.02 Inspection Stages, Continued

Second Inspection Stage

During the second inspection stage VA inspects

- all construction below the superstructure not installed or which was installed but not inspected or reported upon at the first inspection stage, including footings, foundations, piers, columns, waterproofing and drainage provisions
- construction of the superstructure, including quality of materials and workmanship, details of construction, and the suitability of arrangement of all items for subsequent installation of equipment and of interior and exterior finishing materials
- plan of the dwelling, including the arrangement of partitions and the sizes and placement of all openings
- roughing-in of mechanical work, including plumbing, heating, and electric installations with respect to
 - providing for the correct installation of fixtures, equipment, and accessories
 - avoiding impairment of the strength of structural members, and
 - proper operation of the completed systems.

Note: No second stage inspection of the dwelling is required for modular construction since the unit is fabricated in a factory and must be inspected to state standards.

14.02 Inspection Stages, Continued

Third Inspection Stage

During the third inspection stage VA inspects for acceptable completion of *all* specified onsite and offsite improvements.

The table below lists the exterior and interior items to be inspected and reported upon during the third inspection stage.

Exterior Inspection:

- | | | |
|-------------------------------|---|--|
| • compaction of fill material | • protection against the elements and penetration of moisture | • offsite improvements including |
| • finish grading | • masonry pointing | – utilities |
| • drainage | • caulking at openings | – storm sewer system |
| • utility connections | • paint coverage | – drainage channels |
| • walks | • flashing | – grading |
| • drives | • design of dwelling structure | – curbs |
| • accessory buildings | • materials and details of their installation and finish | – gutters |
| • retaining walls | | – paving |
| • planting | | – pavement edging |
| • safety provisions at | | – subgrade, and |
| – terraces | | – base and wearing surface and erosion control |
| – porches | | |
| – areaways | | |

Interior Inspection:

- | | | |
|---|--|---|
| • design | • cabinets and millwork | • quality and operation of hardware |
| • materials, equipment, and details of their installation | • details and operation of systems, equipment, and fixtures related to | • quality of |
| • interior surfaces and their finish treatment | – plumbing | – tilework |
| | – heating | – glass |
| | – ventilating | – linoleum |
| | – electric | – venting of attics and underfloor spaces |

14.02 Inspection Stages, Continued

**Individual
Water Supply
and Sewage
Disposal
System****Individual Water Supply and Sewage Disposal System**

The inspector will include with the inspection report evidence obtained from the builder that installation is satisfactory to the health authority having jurisdiction.

**Final
Inspection**

Generally, this coincides with the third inspection stage and requires the Compliance Inspection Report, [VA Form 26-1839](#) to

- include two photographs (preferably taken from the diagonally opposite front and rear corners) to record the appearance of the dwelling and indicate the grading and drainage of the site
 - describe the condition, suitability, and readiness for use of all equipment, fixtures and observable construction of the property
 - report shortcomings such as scratches in painted surfaces, poorly fitted doors, stuck windows, cracks in walls, irrespective of any arrangements made on the site for corrections, and
 - confirm that any instance of inferior workmanship, defective materials or equipment, or faulty installation or application of materials or equipment and/or deviation from approved plans and specifications is reported on [VA Form 26-1839](#), and
 - if the property is a unit on a *master* appraisal either
 - clearly identify any optional variation or item of equipment included in the construction, or
 - state that none is included.
-

14.02 Inspection Stages, Continued

Special Inspections

VA may also require special inspections by the VA-assigned fee inspector at any stage of construction to help monitor cases involving

- unusual site features
- construction methods, or
- builders with frequent construction complaints.

For cases involving major alteration or repair work, the stages at which special inspections are to be made will be determined according to the nature of the proposed work.

Re-inspection

A re-inspection is required

- whenever a first- or second-stage, or special inspection shows noncompliance and the work involved will be concealed before the next regular inspection, or
 - as a result of noncompliance or incomplete work reported at the third-stage inspection, unless the VA field station waives the re-inspection because
 - the incomplete work is of a minor nature, and
 - the lender is willing to certify that it has been satisfactorily completed.
-

Missed Inspections

Occasionally a required inspection may be missed through oversight by the builder or other party responsible for requesting them. To waive a missed inspection, the VA field office must be provided with

- a written request signed by the lender and the veteran
 - evidence that the local building authority inspected the construction at the stage(s) not inspected by VA, and
 -
 - **Note:** In areas without local inspections at prescribed construction stages, the VA inspector must provide a statement regarding his/her experience with the quality of the builder's workmanship and the builder's conformity with both constructions exhibits submitted to VA and VA minimum property requirements.
 - evidence of HUD's consent to the waiver, if the case is HUD related.
-

14.03 VA Reliance on Local Building Inspections for First and Second Stages

Waiving First and Second Stage Inspections

The requirement for a first and second stage VA inspection is waived in all proposed or under construction cases in which both of the following requirements are met:

- The property is located in an area where the inspection procedures of the local building authority are acceptable to the Department of Housing and Urban Development (HUD) for loan insurance purposes, and
 - a third stage (final) VA compliance inspection is performed by a VA fee inspector assigned by the VA office of jurisdiction.
-

Exception

This provision has no affect on other proposed or under construction-related VA requirements and does not apply to cases involving a VA Specially Adapted Housing grant.

Lender's File Documentation

For each loan processed under this provision, the lender's loan origination file must include *both*

- a properly executed *clear* third stage (final) compliance inspection report on [VA Form 26-1839](#), and
 - an occupancy permit or other appropriate documentation issued by the locality to verify that all construction has been acceptably completed.
-

Discontinuing VA Reliance on Local Inspections

VA may discontinue relying on the inspections of a particular building authority if VA staff detects

- excessive construction deficiencies, or
 - construction complaint activity in that building authority's jurisdiction.
-

14.04 Manufactured Homes Classified as Real Estate

Required Inspections

The following inspections are required on manufactured homes classified as real estate.

First and third (final) inspections:

To verify that the manufactured home is properly attached to the permanent foundation as specified in the construction exhibits, and that all onsite and offsite improvements are properly completed.

Special inspections:

As discussed in the topic *Inspection Stages* in this chapter, and as necessitated by the construction of other onsite improvements financed with the VA guaranteed loan.

Note: Second stage inspections are not generally required since manufactured homes are factory fabricated.

Additional Inspections for Used Manufactured Homes

In cases involving a *used* manufactured home moved to the purchaser's lot to be affixed to a permanent foundation, all of the following additional manufactured home inspection reports are required to ensure the safety of the dwelling:

- Water-Plumbing Systems Inspection Report, VA Form 26-8731a
- Electrical Systems Inspection Report, VA Form 26-8731b
- Fuel and Heating Systems Inspection Report, VA Form 26-8731c, and
- certification that the roof was coated after set-up on the site.

These reports must be completed by qualified third-party inspectors, for example, experienced plumbers, electricians, heating and air-conditioning contractors and manufactured home service personnel, following the installation and setup of the manufactured home on the lot. The roof coating certification can be made by the lender.

14.04 Manufactured Homes Classified as Real Estate, Continued

**Qualified
Inspectors**

While inspectors will perform only those inspections for which they are qualified, licensed manufactured home service personnel will be permitted to perform any of the required inspections.

Lenders must order the inspections and retain the original of the reports in their loan origination file. No loan on a manufactured home with unsatisfactory inspections is eligible for VA guaranty.

14.05 Delayed Installation of Appliances and Finished Floor Covering

What is Required

With the exception of floor covering in bathrooms and wood finish flooring, installation of appliances and finished floor covering may be delayed until as late as just prior to loan closing, provided the third-stage inspection report includes the following:

- In Section 1, a description of
 - all appliances and finish floor covering to be installed as identified in the specifications, for example, carpet manufacturer’s name and carpet quality code number, and
 - the living area(s) involved, if not obvious.
- In Section 6, check
 - “Prefinal Report Approved,” and
 - “Certification is required that lender’s inspection prior to loan closing reveals satisfactory installation of specified appliances and finish floor covering as described in Item 1 in the area(s) identified in Item 1.”

What is not Required

A revised VA Value Notice is not required.

14.06 Lender Use of Inspection Reports

Receipt of Inspection Reports

If construction is acceptable and there are no deviations or substitutions, the compliance inspector will submit the inspection report (VA Form 26-1839) in the following manner:

- *If the lender is known:*
 - Provide the lender with a copy,
 - Provide the builder with a copy, and
 - Keep a copy for his/her file.
 - *If the lender is not known:*
 - Provide the builder with two copies, one of which the builder will forward to the lender when known, and
 - Keep a copy for his/her file.
-

Use of Inspection Reports

Considering the requirements to obtain VA loan guaranty, before the loan is closed, the lender should ensure that

- all VA value notice requirements regarding inspections are met
- any deviations and/or noncompliance items listed on the third-stage inspection report are resolved to VA's satisfaction
- any appliances or floor coverings installed under Section 14.05 are the same as those described in Section 1 of the third-stage inspection report, and

the third stage inspection report includes all of the information required for a final inspection.

Retention of Inspection Reports

The lender must retain all inspection-related material in their loan origination file.

14.07 Changes to Construction Exhibits

How to Request a Change Use the table below to request a change to construction exhibits after the appraisal.

When a Veteran is ...	Then ...
under contract	the veteran under contract must make a written request for any changes.
not under contract	the builder, lender, or sponsor making the written request for modification must certify that the property is not under contract to a veteran.

Change Request Form VA Form 26-1844, **Request For Acceptance of Changes in Approved Drawings and Specifications** must be used to request the change. There are two exceptions:

- If there is no veteran-purchaser involved and the change is limited to substitution of mechanical equipment of equal value, then the fee inspector may check [VA Form 26-1839](#), Section 1B, Substitutions or Deviations, describe the change of equipment and the value attributed to the substituted equipment and note the change on the related plans and specifications.
- If the property was inspected by HUD, provided
 - the additions, substitutions or variations are clearly described on the HUD inspection report
 - the veteran-purchaser has signed his/her acceptance of the changes, and
 - the change items are of a minor nature with no additional cost to the veteran involved and no change in reasonable value is indicated.
 -
 - **Example:** Substitution of water heater, furnace, hardware, bath fixtures and/or relocation of electrical outlets, windows, etc.

14.07 Changes to Construction Exhibits, Continued

Approval of Changes not Affecting Property Value

Fee inspectors may approve and distribute a properly completed VA Form 26-1844, containing all required signatures, which does not involve deletions or a change in value. In these cases, the builder must complete VA Form 26-1844 in duplicate and have the form at the job site at the time of the scheduled inspection.

The inspector

- confirms the above information
- inspects the property according to the plans, specifications and change order
- signs the change order in the appropriate space
- gives the builder the original counter-signed change order to forward to the lender, and
- retains one copy.

Approval of Changes Which Affect Property Value

VA staff must approve any VA Form 26-1844, **Request for Acceptance of Changes in Approved Drawings and Specifications**, including deletions or a change in value, by **issuing an amended NOV**.

VA will generally find it more appropriate to pursue this action in cases which also involve changes in notice of value conditions or legal requirements, legal descriptions substitution of plan types, etc...

14.07 Changes to Construction Exhibits, Continued

Notification

For changes approved by the VA staff, VA

- mails a copy of the amended NOV directly to the veteran-purchaser,
- places copy of amended NOV in the VA loan file, and
- notifies the lender that the amended NOV is available through TAS.

If no veteran is under contract, a copy will be attached to the veteran's copy of the notice of value in the loan file and mailed to him/her upon receipt of a loan application or loan report.

**Cancellation of
VA Approval**

Any violation of the Conditions of Acceptance printed on the reverse of VA Form 26-1844 will be cause to withdraw or cancel VA's acceptance of the changes.

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- Approval of Changes Affecting Property Value, 14-16
- Approval of Changes not Affecting Property Value, 14-16
- Assigning an Inspector, 14-3
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- Change Request Form, 14-15
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Chapter 15

Lender Appraisal Processing Program (LAPP)

Overview

Purpose of LAPP

The purpose of the Lender Appraisal Program (LAPP) is to speed the time to loan closing by allowing VA-authorized lenders to receive appraisal reports directly from appraisers and process them without VA involvement.

How LAPP Works

There are basically four steps in processing LAPP cases.

Stage	Description
1	The LAPP lender requests VA assignment of a fee appraiser and a VA loan number (same as any other case) and identifies the case as "LAPP."
2	The VA-assigned appraiser sends the appraisal report directly to the LAPP lender's VA-approved staff appraisal reviewer (SAR).
3	The LAPP lender's SAR <ul style="list-style-type: none">• reviews the appraisal report for completeness and conformity with industry-accepted appraisal practices and techniques as well as other VA requirements• determines the reasonable value of the property and any conditions which must be met prior to VA guaranty of the loan, and• sends the veteran buyer a written notice of the value which includes any conditions or requirements upon which the VA loan guaranty is contingent.
4	The LAPP lender then underwrites and closes the loan on the automatic basis and requests VA guaranty.

Continued on next page

Overview, Continued

In this Chapter This chapter contains the following topics.

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15.01 LAPP Eligibility

**Lender
Requirements**

VA may grant Lender Appraisal Processing Program (LAPP) authority to any automatic lender that requests it and meets the qualification criteria outlined in this chapter, including the Lender Quality Control System Requirements.

**Role of Staff
Appraisal
Reviewer
(SAR)**

The lender exercises its LAPP authority through an employee who is a VA-approved staff appraisal reviewer (SAR).

**SAR
Requirements**

A lender's staff appraisal reviewer (SAR) must

- be a full-time salaried employee of the lender, and
 - have at least 3 years of work experience of a type which qualifies him or her to competently perform administrative appraisals reviews in conjunction with underwriting loans for VA loan guaranty purposes.
-

15.01 LAPP Eligibility, Continued

SAR's Work Experience Requirements

The SAR's work experience must indicate that he or she has

- general knowledge of the principles, methods, practices and techniques of appraising and the ability to apply that knowledge
- the ability to review the work of others and recognize deviations from accepted appraisal principles and practices
- the ability to detect errors in computations, and
- ability to detect conclusions which are not supported.

It is also desirable for the SAR to have

- knowledge of general realty practices and principles related to real property valuation
- skill in collecting and assembling data, and
- ability to prepare clear and concise reports.

Note: Three years' experience related to the HUD Direct Endorsement program satisfies the experience requirement, provided all other application requirements are satisfied.

Location of SAR

- There is no restriction on the location of a lender's SAR.

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15.01 LAPP Eligibility, Continued

**Geographic
Extent of LAPP**

Once a SAR has satisfied the LAPP training and initial case review requirements (SAR Training and Initial Case Reviews in this chapter), their LAPP authority may be used for properties in any state in which the lender has authority to close loans under the automatic procedure.

If a lender's automatic authority is extended into a new state, their SAR's LAPP authority is immediately extended as well.

Important: It is the SAR's responsibility to stay informed about any local VA processing requirements unique to the VA jurisdiction in which a property is located.

**SAR Conflicts
of Interest**

There must be no conflict of interest between the SAR's role as SAR and any other activities that he or she conducts. Examples of other activities which would be a conflict of interest include

- SAR is on the VA fee appraisal panel, or
 - SAR is employed by or performs appraisal review services for another lender.
-

15.02 Lender Quality Control System Requirements

Introduction

To qualify for LAPP authority, the lender must have an effective quality control (QC) system which ensures the adequacy and quality of its staff appraisal reviews. This QC system must be independent of the lender's loan production operation.

Upon request, the lender must agree to furnish VA with findings and information about the system. The senior officer must certify on each SAR's LAPP application that the QC system meets the requirements detailed in this section.

Reference: See Exhibit 1 in this chapter.

QC Reviewers

Reviews of the SARs' work may be performed by an independent party or independent internal audit division which reports directly to the lender's chief executive officer. QC personnel should possess

- a basic familiarity with appraisal theory and techniques, and
 - the ability to prescribe appropriate corrective actions when problems in the appraisal review process are identified.
-

Frequency and Scope of Reviews

Perform desk reviews of each SAR's appraisal reviews on a routine basis (monthly or quarterly). The sample size should be no less than

- 5 percent of the SAR's LAPP cases processed monthly, or
- a minimum number of cases (for example, five cases).

There must be a procedure for expanding the scope of the reviews if a pattern of deficiencies is identified.

Continued on next page

Chapter 15: Lender Appraisal Processing Program (LAPP) VA Pamphlet 26-7 Revised 15.02 Lender Quality Control System Requirements, Continued

QC Review Criteria

QC reviews should consider the

- overall quality of the SAR's appraisal review
- acceptability of the property in light of VA minimum property requirements, and
- appropriateness of the reasonable value determination.

Maintenance of VA Publications

The QC system must provide assurance that all current pertinent VA regulations, directives, and other releases are maintained and immediately available to the quality control personnel and SARs.

Management Notification and Corrective Action

The QC system must provide for written notification of deficiencies cited as a result of audits or reviews at least quarterly to the

- lender's senior management, or
- chief executive officer.

The QC system must require senior management to

- promptly initiate and document actions to correct deficiencies, and
- provide SARs with corrective instructions.

Review of VA Fee Panel Appraisals

In addition to reviews of the SARs' work, random field reviews of VA fee panel appraisals should be performed. These reviews can be done by the

- SAR, or
- an independent appraiser on a contract basis.

Note: Formally report any substantive negative findings to the VA regional office where the appraiser is a member of the fee panel.

15.03 Applying for LAPP Authority

Application and Fees	<p>Submit a separate application and fee for each SAR approval request to the VA regional office with jurisdiction over the SAR's physical location.</p> <p>Legitimate requests to submit the application to a VA office more conveniently located for training and other interactions between the SAR and VA will be considered.</p> <p>For each SAR, include a \$100 processing fee plus the information, statements and certifications exactly as detailed in the Exhibits (at the end of this chapter), either on</p> <ul style="list-style-type: none">• lender letterhead, or• attached to a statement on lender letterhead which references it. <p>The same procedure applies to subsequent requests for VA approval of additional SARs.</p>
Notification of VA Decision	<p>The VA regional office will review the application materials submitted and notify the lender of its decision as quickly as possible.</p> <p>If VA determines that the SAR meets basic LAPP qualification requirements, it will inform the lender that the SAR must fulfill the <i>SAR Training and Initial Case Review</i> requirements detailed in this chapter.</p>
SAR ID Number	<p>The notice from VA will provide a permanent ID number for each SAR approved. The SAR always retains the same ID number, even if he or she goes to work for another lender and is approved as an SAR for that other lender.</p>

15.04 SAR Training

Training and Case Review Requirements

The SAR may not begin performing appraisal reviews independently after VA's notification of approval until he or she fulfills

- VA training requirements, and
- VA initial case review requirements.

Generally, VA staff will train the SAR and then conduct the initial case reviews.

Exceptions to Training and Case Review Requirements

The following are the three exceptions to the SAR training and initial case review requirements:

SAR Training During or After Case Reviews

The lender may request that the training be conducted during or after the case review requirement.

SAR With Prior LAPP Experience

The lender may request a waiver of the training and case review requirements for an SAR who

- previously satisfied those requirements while employed by another LAPP lender, and
- has satisfactorily processed LAPP cases within the last year.

Experienced SAR to Train and Supervise New SAR

The lender may request that one of its experienced SARs train and review the initial cases of a new SAR. The experienced SAR must

- have full LAPP authority and be performing acceptably
 - provide adequate training to the new SAR, and
 - review and ensure the acceptability of the new SAR's initial LAPP cases.
-

Chapter 15: Lender Appraisal Processing Program (LAPP) VA Pamphlet 26-7 Revised January 1, 2001 15-8 Chapter 15: Lender Appraisal Processing Program (LAPP) VA Pamphlet 26-7 Revised 15.04 SAR Training, Continued

Training and Case Reviews Completed by Experienced SAR

Once the training and case reviews are acceptably completed, the lender's senior officer must send the VA office a signed and dated notice which includes

- the name and SAR ID number of both the trainee and trainer, and
- a letter stating that
 - the training covered all VA LAPP requirements, and
 - the trainer reviewed at least five cases successfully completed by the trainee.

Note: The letter must include the VA case number for at least five cases.

Training by VA Staff

If the training and case review requirements are not waived by VA or completed by an experienced SAR upon receipt of VA's notification that the SAR meets the basic LAPP qualification requirements, the lender must call that VA office to arrange for SAR training. VA will normally provide the training

- at the VA office (but may provide it in meetings or seminars at other locations in conjunction with scheduled VA field travel), and
- within 30 days.

At a minimum, the training by VA staff should consist of a one day session to discuss

- LAPP processing procedures and guidelines, and
- any local VA office requirements and conditions.

Note: Due to the need for consistency between VA offices nationwide, each office is expected to limit local requirements and conditions to only those that are essential.

Continued on next page

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15-8 Chapter 15: Lender Appraisal Processing Program (LAPP) VA Pamphlet 26-7 Revised 15.04 SAR Training, Continued

Procedure for Case Reviews

Each SAR's first five cases must be processed as described in the table below.

Stage	Description
1	SAR fully reviews the fee appraiser's report.
2	SAR determines the reasonable value of the property.
3	SAR drafts a notice of value (NOV) to the veteran purchaser. <i>Note:</i> SAR should not send it to the veteran purchaser.
4	VA staff or an experienced SAR with VA permission reviews the following items: <ul style="list-style-type: none">• the NOV• the appraisal request• the appraisal report, and• any related documents.
5	If the SAR's work on the case is acceptable <ul style="list-style-type: none">• VA staff will issue a Certificate of Reasonable Value (CRV) to the lender within five work days of receipt of the package, or• The experienced SAR reviewer will also update and sign the SAR certification and mail the NOV to the veteran purchaser.•• <i>Reference:</i> See Section 13.03.

Continued on next page

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January 1, 2001 15-8 Chapter 15: Lender Appraisal
Processing Program (LAPP) VA Pamphlet 26-7 Revised 15.04
SAR Training, Continued**

**Case Reviews
by VA Staff**

Refer to the following table when the initial case reviews are made by VA staff.

If the SAR's appraisal review is ...	Then ...
deficient in any respect	VA will send a letter to the lender detailing the specific problems within five days of receipt of the package.
found to have substantive deficiencies such as failure to <ul style="list-style-type: none">• identify significant appraisal errors, or• correctly note minimum property requirements or other conditions or requirements on the NOV	VA's letter to the lender <ul style="list-style-type: none">• will state that the SAR must continue to submit LAPP cases for VA review and issuance of a VA CRV prior to closing, and• may direct the SAR to visit the VA office for counseling or further training.
fully acceptable	VA will not provide feedback on the individual case.
fully acceptable and the last item necessary to satisfy all initial case review (and training) requirements	VA will notify the lender by letter that the SAR has satisfied all requirements and may process cases independently and issue the NOV.

15.05 Changes in SAR's Employment or Lender's Status

SAR No Longer Employed or Performing SAR Work

The lender must promptly notify VA if the SAR

- is no longer employed, or
- is no longer functioning as an SAR for the lender.

If either of these two apply

- the SAR's LAPP authority automatically ceases, and
 - the lender's eligibility to participate in LAPP is terminated if that individual was the lender's only SAR.
-

SAR Employed By New Lender

If the SAR begins work for a new lender, that lender must promptly submit to VA a

- new LAPP application (Exhibit 1 in this chapter), and
- \$100 processing fee.

The lender may request a waiver of the training and case review requirements for that SAR by including

- a copy of VA's notice that the SAR has satisfied those requirements, and
 - a statement that the SAR processed LAPP cases within the last year.
-

Lender Changes

The lender must notify VA any time there is a

- change in ownership
- merger, or
- acquisition.

Reference: See Section 1.09 for a description of the information VA needs from the lender to continue its LAPP authority.

15.06 Lender Responsibilities Under LAPP

Due Diligence Lenders are expected to exercise due diligence in processing LAPP cases and are responsible for complying with all applicable

- VA policies and procedures
- VA regulations, and
- statutory requirements.

VA considers due diligence to be that care which is properly expected from, and ordinarily exercised by, a reasonable and prudent lender who is entirely dependent on the subject property as a security to protect their investment.

What LAPP Lenders Can Expect

In assuming the responsibilities involved with processing an appraisal under LAPP and subsequently underwriting the VA loan on the automatic basis, the lender has reasonable certainty that the VA Form 26-1899, *Loan Guaranty Certificate*, will be issued by VA, except in cases of

- fraud, or
- willful material misrepresentation by the lender.

Reference: See Section 17.04

LAPP Privilege

LAPP authority is a privilege delegated to lenders at VA's discretion. Lenders maintain this privilege by complying with all applicable LAPP-related requirements.

IF VA finds proper cause, the privilege extended to lenders under LAPP may be

- amended
- suspended, or
- withdrawn.

Reference: For more information, refer to Chapter 17.

15.07 LAPP Processing Procedures

Property Eligibility and Appraisal Requests

The appraisal of any property eligible to be the security for a VA loan can be processed under LAPP except

- master appraisals
- foreclosure appraisals
- those involving partial release of VA loan security, and
- those involving HUD value determinations.

Reference: For details regarding the eligibility of property for appraisal for VA purposes, as well as VA appraisal request instructions, see Chapter 10.

Appraisal Requirements

For details about VA appraisal requirements, see Chapter 11.

Appraisal Reviews

For details about requirements for reviewing appraisals and issuing notices of value for VA purposes, see Chapter 13. and Notices of Value

15.07 LAPP Processing Procedures

Submitting Cases to VA for Processing

An appraisal which the lender chooses not to process under LAPP can be submitted to the VA office of jurisdiction for VA staff to review and issue a **Notice of Value (NOV)**.

The submission must include the SAR's draft notice of value (NOV) letter to the veteran and all of the appraisal documentation required per Appraisal Report Contents in Chapter 11. All other VA requirements for a case submitted on the prior approval basis by an automatic lender must also be met.

Reference: See Section 5.04.

Note: Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a **detailed** explanation.

15.08 Affiliates and Agents

Affiliates

Unless approved by VA, lenders are not authorized to use LAPP for any

- builder
- land developer
- real estate broker, or
- other entity which they own or have a financial interest in or are otherwise affiliated with.

This restriction may not apply if

- the only relationship between the lender and a builder is a construction loan, or
- the lender can provide a formal corporate agreement or other documentation which demonstrates to VA's satisfaction that the lender and builder, or other affiliate, are essentially separate entities operating independently of one another, free of all cross-influences.

The lender's quality control plan must specifically address the insulation of the fee appraiser, appraisal reviewer, and the underwriter from the influence of the affiliate.

See Section 1.07

Lender/Agent Relationship

Agents can be involved in LAPP processing only when the sponsoring (funding) lender has an established ongoing agency relationship with the agent, as evidenced by a corporate resolution accepted by VA.

See Section 1.08.

Corporate Resolution

The corporate resolution must provide that the sponsoring lender accept full responsibility for the actions of its agents. Additionally, the sponsoring lender is responsible for assuring that the agent is appropriately trained and knowledgeable about VA appraisal assignment procedures and the restrictions on their role in LAPP.

15.08 Affiliates and Agents, Continued

Agents and Appraisals

Refer to the following table for rules regarding agents and appraisals.

If the agent ...	Then ...
is acting on behalf of an approved LAPP lender and is authorized by that lender	he or she may request VA appraisals, receive appraisal reports, and forward them to the lender's staff appraisal reviewer.
requests an appraisal	<p>he or she may use either the sponsoring (funding) lender's VA Assignment System logon or his or her own logon to request appraisals. An appraisal cannot be requested unless the sponsoring lender is known at the time of the request.</p> <p>If the agent is to receive the appraisal report, the request must include the agent's</p> <ul style="list-style-type: none">• address in item 5• signature in item 38• firm's name in item 39, and• telephone number in item 40. <p>Note: In requesting an appraisal, the authorized agent is making the required certifications on behalf of the sponsoring lender.</p>

15.08 Affiliates and Agents, Continued

Agents and Appraisals (continued)

If the agent ...	Then ...
receives an appraisal report	he or she must immediately forward it to the sponsoring lender who must issue a LAPP NOV within 5 business days of the agent's receipt of the appraisal report.
contacts the fee appraiser	that contact may only be about the timeliness of the appraisal, and not about the value or condition of the property which only the lender's LAPP SAR is authorized to discuss with the fee appraiser.
does not have LAPP authority but advertises or otherwise represents in any way that he or she is "LAPP approved"	he or she will have violated a VA prohibition against such advertising or representation.
has LAPP authority	he or she cannot issue a LAPP NOV for any other lender. See Section 13.10.

1: LAPP Application

VA LENDER APPRAISAL PROCESSING PROGRAM (LAPP) APPLICATION

STAFF APPRAISAL REVIEWER NOMINEE:

(full name)

(residential address)

(social security number)

(business address)

(business telephone)

(10-digit VA lender ID for office where reviewer located)

(Fax)

(e-mail address)

OFFICER RESPONSIBLE FOR QUALITY OF APPRAISAL REVIEWER'S WORK:

(name and title)

(business address)

(business telephone)

Staff Appraisal Reviewer Nominee's Statements And Certifications:

Previous Lapp Approval - If I was previously approved by VA as a LAPP Staff Appraisal Reviewer (SAR), the SAR ID number assigned was _____.

Disclosure Of Sanctions - I have not been suspended, debarred or had a similar sanction taken against me by any Federal or State entity or any professional organization. I am not aware of any unresolved investigation involving me. Any potential problem regarding this disclosure has been submitted to VA, and a letter from VA indicating that the problem is resolved is attached.

Conflicts Of Interest - As a LAPP staff appraisal reviewer, I understand that I may not be employed by or perform appraisal review services for any other lender and may not be on the VA fee panel. I agree to report to VA any private interests or pursuits which might be considered by VA to be a conflict of interest.

Appraisal Review Experience - As indicated in the attached resume, or statement of work experience or evidence of HUD Direct Endorsement participation, I have the requisite experience outlined in chapter 15 of the VA Lender's Handbook.

Appraisal Report Reviews - I understand that all staff appraisal reviews made for VA loan guaranty purposes must be completed in accordance with the requirements in chapter 13 of the VA Lender's Handbook. I also understand that no pressure or influence is to be exerted on the appraiser to remove or change valid appraisal report information, or to reach a predetermined value for a property.

My signature below affirms that the information I am providing in all of the above statements and certifications is accurate and true, to the best of my knowledge.

(signature of staff appraisal reviewer)

(date)

Continued on next page

*VA Pamphlet 26-7, Revised
(LAPP)
Change 3*

Chapter 15- Lender Appraisal Processing Program

1: LAPP Application, Continued

SENIOR LENDING OFFICER'S STATEMENTS AND CERTIFICATIONS

STAFF APPRAISAL REVIEWER NOMINATION - The nominee is a full-time salaried employee of this company and is authorized to act on our behalf as a staff appraisal reviewer. Based on our personal interview with the nominee and a thorough review of the nominee's appraisal-related capabilities and performance, we find the nominee to be qualified as a staff appraisal reviewer in accordance with the requirements in chapter 15 of the VA Lender's Handbook. We acknowledge the responsibility that any improper actions of the nominee as a staff appraisal reviewer shall be imputed to the employer. We agree to promptly notify the appropriate VA office(s) if we ever change or limit this recommendation, or terminate our relationship with the nominee.

PROCESSING FEE - The \$100 processing fee for this nominee is attached.

PROPERTIES ALREADY VALUED - Unless VA grants authorization for a specific case, this company will not knowingly request an appraisal for a property which already has a valid value determination for VA loan purposes.

NO APPRAISAL REVIEWS FOR AFFILIATES - This company will not use LAPP for any builder, land developer, real estate broker or other entity which it owns or has a financial interest in, or with which it is otherwise affiliated. We realize that this restriction does not apply if our only relationship with a builder is a construction loan, or if VA agrees that the attached formal corporate agreement or other documentation demonstrates that we and our affiliate(s) are essentially separate entities operating independently of one another, free of all cross influences. In this latter situation, our quality control plan addresses the insulation of the fee appraiser, staff appraisal reviewer and the underwriter from the influence of the affiliate.

NO APPRAISAL REVIEWS FOR/FROM OTHER LENDERS - Although appraisal reports may be transferred from one lender to another, this company will not make VA value determinations for other mortgage lenders, nor use a value determination for VA loan guaranty purposes which was made by another mortgage lender, under any circumstances.

NO PRESSURE/INFLUENCE ON FEE APPRAISER OR STAFF APPRAISAL REVIEWER - This company will not exert pressure or influence on the fee appraiser or staff appraisal reviewer to remove or change valid appraisal report information, or to reach a predetermined value for a property.

QUALITY CONTROL SYSTEM - This company has an effective quality control or other system to ensure the adequacy and quality of its staff appraisal reviews. That system contains all of the basic elements identified in chapter 15 of the VA Lender's Handbook.

My signature below affirms that the information I am providing in all of the above statements and certifications is accurate and true, to the best of my knowledge.

July 14, 2003

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(signature and title of senior officer)

(date)

July 14, 2003

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Chapter 16

Common Interest Communities, Condominiums and Planned Unit Developments

Overview

What is a Common Interest Community

A common interest community is a subdivision containing common land, often including recreational amenities. That common property is typically owned by an association of the homeowners (HOA), to which they all must belong and pay lien-supported assessments for a proportionate share of the expenses of the HOA.

Condominiums and planned unit developments (PUDs) are common interest communities.

Basic VA Requirements

There are VA requirements applicable to **all properties** located in either a PUD or condominium. Also, **condominiums** (but not PUDs) must be **approved** by VA before any lots or units in the project are eligible for VA loan guaranty.

References: See Section 16-A

- *Requirements Applicable to All Properties in Common Interest Communities*, and
 - *Condominium Approval Procedures*.
-

VA Approved Condominium List

A nationwide list of VA-approved condominiums, the *Condominiums, Planned Unit Developments and Builders* list, can be reached via **The Appraisal System (TAS)**.

The internet address is <http://condopudbuilder.vba.va.gov>.

Continued on next page

Overview, Continued

In This Chapter

This chapter contains the following sections.

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Section A

Requirements for Properties in Common Interest Communities

Overview

Basic VA Policy VA's goal is to help protect the interests of veterans and the Government by ensuring that all properties located in a common interest community meet VA regulatory requirements. Meeting this goal as efficiently and cost effectively as possible serves the best interests of all program participants involved.

In This Section This section contains the following topics.

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16-A.01 Requirements Applicable to All Properties in Common Interest Communities

Introduction While only condominiums must be approved by VA, lots or units securing VA loans in condominiums and other planned unit developments must meet both title and lien-related VA regulatory requirements. The lender is responsible for ensuring that these requirements are met for each VA loan. Although there is no specific VA requirement that lenders maintain evidence in the loan file that these requirements are met, they may wish to be guided by the advice of their legal counsel in this regard.

Acceptable Title

The title requirements for every VA loan, whether or not the property is located in a common interest communities, are stated in VA regulations ([38 CFR 36.4350](#)). These requirements indicate

- the estate must not be less than fee simple, except under certain circumstances ([38 CFR 36.4350\(a\)](#))
- title must to be subject to unreasonable restrictions o use and occupancy, except under certain circumstances ([38 CFR 36.4350\(b\)](#)), and
- certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property
- ([38 CFR 36.4350 \(c\)](#)).

[38 CFR 36.4350]

[38 CFR 36.4350 (a)]

[38 CFR 36.4350 (b)]

[38 CFR 36.4350 (c)]

Superior VA Lien

VA regulations require that every VA loan be secured by a first lien on the property, except under certain circumstances. ([38 CFR 36.4351](#) and [38 CFR 36.4352](#))

When a property is located in a condominium or planned unit development, the lender must ensure that any mandatory homeowner association assessment is subordinate to the VA-guaranteed mortgage.

[38 CFR 36.4351]

[38 CFR 36.4352]

16-A.01 Requirements Applicable to All Properties in Common Interest Communities, Continued

Appraisal Related

Fee appraisers will use

- Freddie Mac Form 70/FannieMae Form 1004, Uniform Residential Appraisal Report, for properties located in a planned unit development, or
- Fannie Mae Form 1073, *Individual Condominium Unit Appraisal Report*, for properties located in a condominium. .

Requirements specific to properties located in a condominium are outlined in [38 CFR 36.4360a](#), Appraisal Requirements.

If there are any commercial **or** other non-residential ownership interests in the condominium, the appraisal report must include them and their impact on the value of the residential units.

In declarant/developer controlled **condominium conversions**, the appraiser must

- ascertain the degree to which the converted structure and unit(s) has been or will be rehabilitated for condominium use. The structure may have been, or is proposed to be, remodeled, renovated, rehabilitated, modernized, or “cosmetically” refurbished, and
- provide a description of the type of work completed or proposed to be completed in the conversion being appraised for declarant/developer sales. This information is not required in spot resales by sellers other than the declarant/developer.

[\[38 CFR 36.4360a\]](#)

Continued on next page

16-A.01 Requirements Applicable to All Properties in Common Interest Communities, Continued

Notice of Value-Related

The notice of value for **all** properties in a PUD or condominium will be conditioned: “This property is located in a development with mandatory membership in a homeowners’ association. The lender is responsible for ensuring that title meets VA requirements for such property and that homeowner association assessments are subordinate to the VA-guaranteed mortgage.”

In addition, the notice of value for a property in a **condominium** which has not been approved by VA or for which VA approval-related requirements remain to be satisfied, will be conditioned “The lender is responsible for ensuring that this condominium is acceptable to VA and that any condominium-related special conditions or requirements have been met. There may be additional information in ‘Other Conditions/Requirements’, below.”

Reference: See

- “Acceptable Title” and “Superior VA Lien,” in this section;
- Section 16-A.02, and
- Chapter 13, Exhibit 1, “LAPP Lender’s Notice of Value”, Items 3 and 4.

Note: There are other regulatory-related requirements for a property in a condominium. For example:

- pre-sale requirement per [38 CFR 36.4360a\(c\)](#)
- warranty requirements for the unit and common elements per
- [38 CFR 36.4360a\(d\)](#), and
- a wood-destroying insect inspection is required in low rise and high rise units only when the fee appraiser observes a potential problem.

[\[38 CFR 36.4350\]](#)

[\[38 CFR 36.4352\]](#)

[\[38 CFR 36.4360a\(c\)\]](#)

[\[38 CFR 36.4360a\(d\)\]](#)

16-A.02 Condominium Approval Procedures

Request for VA Approval

For condominium projects, the lender/sponsor must provide the following to the VA Office of Jurisdiction:

- a written request for VA-approval, and
- a copy of the condominium's organizational documents.

Note: These documents must be reviewed for compliance with VA regulations, and approved by VA before any lots or units in the project are eligible for VA loan guaranty.

Reference: See Section 16-A.03.

VA Processing of Approval Requests

VA will

- review the condominium's organizational documents for compliance with VA regulations, and
- notify the requesting lender/sponsor.

Note: The condominium must be approved by VA before any lots or units in the project are eligible for VA loan guaranty.

Continued on next page

16-A.02 Condominium Approval Procedures, Continued

How to Expedite VA Approval

HUD/USDA Approval

Generally, projects already approved by the Department of Housing and Urban Development (HUD) or the United States Department of Agriculture (USDA) do not need further VA review. Upon receipt of evidence of HUD/USDA approval, such as a copy of the HUD/USDA approved project list or the project approval letter, the VA office of jurisdiction adds the project to the nationwide VA list without issuing a formal VA approval letter.

In rare cases, HUD or USDA may approve a project that VA discovers does not comply with VA regulations. In those cases, VA notifies the lender as soon as practicable that it will not guarantee loans in the project.

Use of Attorney's Opinion

This is a highly recommended options for condominiums that have not been approved by HUD or USDA.

Reference: See Section 16-B.

Use of Previously Approved Documents

When the organizational documents being submitted are essentially the same as a set previously approved by VA, the lender/sponsor should include a certification from the declarant or declarant's attorney which

- states the fact
- specifically identifies the previous set, and
- describes any variation to the previous set.

State Agency Certification of a Condominium

If a state agency certifies that the condominium has been created in compliance with the laws of the state in which it is located, include the certification.

Continued on next page

16-A.02 Condominium Approval Procedures, Continued**VA Decision**

After completing its review of the material submitted with the request for project approval, the VA office of jurisdiction sends a written notice of its decision to the lender/sponsor.

When ...	Then the notice will ...
the project is approved	<p>indicate any special conditions/requirements which must be met prior to VA guaranty of an individual loan in the project, such as</p> <ul style="list-style-type: none"> • recording of documents • pre-sale requirement, or • completing of common areas. <p><i>Note:</i> There is no formal VA approval letter for projects accepted by VA based on their approval by HUD or USDA.</p>
<p>there were</p> <ul style="list-style-type: none"> • missing/incomplete documents • inaccurate/inconsistent information, or • correctable deviations from VA requirements 	<p>explain what further documentation is needed.</p> <p><i>Note:</i> VA will then suspend processing pending receipt of the needed information or material.</p>
the project is unacceptable	<p>state the reason.</p> <p><i>Note:</i> When there are objectionable provisions related to unreasonably retained controls or rights of the declarant/developer, and it is difficult to amend the documents, VA may consider a separate recorded agreement from the declarant/developer relinquishing the objectionable provisions.</p>

Continued on next page

16-A.02 Condominium Approval Procedures, Continued

Document Amendments After Project Approval

VA recommends that declarants have amendment procedures for the declaration or equivalent document, amendable by an instrument approved by not less than 67 percent of unit owners. The association must request VA approval of proposed amendments prior to recordation.

VA approval of **any** amendments to the declaration, bylaws, or other enabling documentation is required while the declarant is in control of the homeowner's association. A written statement signed by an officer of the Association's Board of Directors and submitted with VA Form 26-1844, is required as evidence of approval.

Changes made by the declarant prior to the first sale in a condominium project may require amendment of the organizational documents.

Note: VA approval is not required for amendments which annex additional phases to the condominium in accordance with a development plan previously accepted by VA.

Mortgagee Rights

The condominium documents may specify the following rights for the holders of first mortgages, provided the lender makes a written request to the Association for the right, and includes

- prior approval by first lienholders before the Association can
 - abandon condominium status or partition or subdivide a unit or the common elements
 - change the percentage interest of unit owners, or
 - materially amend the legal documents
- timely written notice to first lienholders of
 - any condemnation or eminent domain proceeding, and
 - substantial damage or destruction to the common elements
- the right to
 - examine the association books
 - receive annual audited financial statements and record, and
 - be given notice of association meetings and be entitled to a representative at such meetings.

16-A.03 Table of Required Documents

Table of Required Documents

The table below identifies the documents that the VA office of jurisdiction must review in order to approve a particular condominium project.

Reference: See Section 16-A.02, Condominium Approval Procedures

Using the Table As indicated in the table, some documents are required only

- if applicable
- if the declarant is in control of the project, or
- for condominium conversion projects.

The last column indicates whether or not it is acceptable to submit a draft of the document. Recorded or existing final documents must be provided if loans have closed in the project.

Required Document		New Project	Existing Resales	Draft
1	Declaration of Covenants, Conditions and Restrictions	Yes	Yes	Yes
2	Bylaws for HOA	Yes	Yes	Yes
3	Articles of Incorporation for HOA	If Applicable	If Applicable	Yes
4	“Umbrella” projects, Declaration, Bylaws and Articles of Incorporation, as above	If Applicable	If Applicable	Yes
5	Plat, map and/or air lot survey of project	Yes	Yes	Yes
6	Plat, map and/or air lot survey of unit(s)	If Applicable	If Applicable	Yes
7	Development plan and schedule	Yes	If Declarant Controls	Yes
8	Information or Public Offering Statement	Yes	If Declarant Controls	Yes
9	Grant/deed/leasehold agreement form	Yes	If Declarant Controls	Yes

16-A.03 Table of Required Documents, Continued

Using the Table (continued)

Required Document		New Project	Existing Resales	Draft
10	State reviewing agency's report	If Applicable	If Applicable	Yes
11	Annexation documents	If Applicable	If Applicable	Yes
12	Cross-easement(s)	If Applicable	If Applicable	Yes
13	Facility Leases	If Applicable	If Applicable	Yes
14	Management agreement	If Applicable	If Applicable	Yes
15	Service contract(s) (either form of or actual)	If Applicable	If Applicable	Yes
16	HOA budget (existing or proposed)	Yes	Yes	No
17	Current financial statements and reserves of project	If Applicable	If Applicable	No
18	Special assessments/litigation statement	Yes	Yes	No
19	Minutes of last two HOA meetings	Yes	Yes	No
20	Registered architect/engineer statement on project condition (conversions only)	If Declarant Controls	If Declarant Controls	No

Continued on next page

16-A.03 Table of Required Documents, Continued**Submit as
Available**

Although the following documents are also required, as applicable, they may not be available for submission with the initial package. They must be submitted as soon as available and before any lots or units in the project can be considered eligible for VA loan guaranty.

	Document	New Project	Existing Resales	Draft
21	Recorded documents	Yes	Yes	No
22	Recorded annexation document for subject phase (expandable projects only)	Yes	Yes	No
23	Evidence recreational facilities completed and common area conveyed to HOA	Yes	Yes	No
24	Statement on adequacy of utilities serving site (conversions only)	If Declarant Controls	If Declarant Controls	
25	Evidence common area title free of financial encumbrances	Yes	If Applicable	No
26	Evidence of final local authority approval and final VA inspection (Low/High Rises and Conversions only)	Yes	No	No
27	Lender's certification that pre-sale requirement met	Yes	Yes	No

Section B

Use of Attorney's Opinion

Overview

**Attorney's
Opinion
Encouraged**

Lenders/sponsors seeking VA approval of a condominium are encouraged to include an attorney's opinion that the project meets VA requirements, along with the organizational documents.

This will expedite VA approval of the project by reducing the extent of VA's review of those documents.

**General
Requirements**

The attorney's opinion must

- be prepared in letter form on the attorney's firm's letterhead
 - be signed, dated and show the name and title of the attorney rendering the opinion, and
 - address four areas
 - project identification
 - documents reviewed
 - attorney's qualifications, and
 - attorney's opinion.
-

In This Section

This section contains the following topics

Topic	See Page
16-B.01 Contents of Opinion	16-B-2
16-B.02 What Opinion Must Address	16-B-4
16-B.03 Assumptions That Opinion May Include	16-B-7
16-B.04 Qualifications or Limitations that Opinion May Include	16-B-10
16-B.05 Exhibit A: Other VA Requirements	16-B-12
16-B.06 Exhibit B: Condominium Regulations	16-B-28

16-B.01 Contents of Opinion

Identification of Project

Identification of the project must include

- the name of project (both legal and marketing, if applicable)
- the location of project (address if available, city/county, state and zip code)
- a statement regarding whether or not (if known at the time of submission) the
 - lots in the project are created and subjected to the Declaration in phases, and
 - approximate number of phases to be developed and the specific identities of the phases
- specific identification of units, and common areas to be subjected to the Declaration in the first phase being submitted for acceptance.
-
- **Note:** If the phases have been recorded, the description must be of those units and common areas legally subjected as of the date of the opinion, or there must be reference to a provided exhibit and the phase currently being proposed for annexation.
-
- information on the status of the master or umbrella association, if any, including
 - whether or not the documents are recorded
 - a general description of the overall project, and
 - the number of sub associations that may be planned.

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16-B.01 Contents of Opinion, Continued**List of Documents Reviewed**

The list of documents that are reviewed when developing the attorney's opinion must include, at a minimum the

- Declaration, including all exhibits incorporated by reference
-
- **Example:** Descriptions of subjected lots and land/lots to be subjected, additional lands, plats and development plans.
-
- Bylaws for the Association, or similar document governing the internal operation of the association
- Articles of Incorporation for the Association, or similar document, if not an incorporated entity,
- Public Offering Statement or Information Brochure for the project, and
- if applicable, the same documents for any umbrella or master association in which
 - owners in the subject association will be or are members, or
 - the sub associations will be or are members.

Statement of Qualifications

A statement regarding the attorney's qualifications must be similar to the following:

"The undersigned is experienced in the practice of real estate law in **(name of jurisdiction and locality in which the project is located)** and is familiar with the laws, ordinances, regulations, and other legal requirements that, as of the date of this opinion, were applicable with respect to the establishment and administration of property owners associations within that jurisdiction. Consequently, I am qualified to issue this opinion."

Actual Opinion

See Section 16-B.02.

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16-B.02 What Opinion Must Address

**Compliance
With VA
Regulations**

The attorney's opinion must address compliance of the organizational documents with VA regulations [38 CFR 36.4356](#) through [36.4360a\(g\)](#) for condominiums.

Reference: [\[38 CFR 36.4356](#) through [38 CFR 36.4360a\(g\)\]](#)

**Compliance
with Other VA
Requirements**

The attorney's opinion must address compliance of the organizational documents with the technical areas discussed in Exhibit A.

**Compliance
with
Local/State
Requirements**

The actual attorney's opinion must

- address compliance of the organizational documents with the material requirements of applicable state and local laws, ordinances, regulations and other legal requirements governing the creation of property owners associations as of the date of the opinion, and
 - identify the above applicable laws, ordinances, regulations and legal requirements by name and citation.
-

Variations

The attorney's opinion must identify any variation from any requirement, including failure to comply with a specific requirement. A recorded amendment correcting a document defect or deficiency with regard to a VA regulation is necessary in most cases, since VA offices do not have the flexibility to approve such defects or deficiencies.

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16-B.02 What Opinion Must Address, Continued**Master or
Umbrella
Association**

If there is a master or umbrella association, the attorney may provide a separate opinion which addresses the compliance with requirements applicable to that form of association.

**Special
Conditions**

The attorney's opinion must state whether or not any of the following conditions are present, and provide a detailed explanation for any that are to ensure compliance with VA guidelines and requirements:

- a conversion of a building from a former existing use such as former rental housing
 - HOA owns a community water and/or sewage disposal facility
 - alienation restrictions exist in connection with a state or local program designed to assist low or moderate income purchasers, or
 - restrictions exist which are associated with housing designed for older persons.
-

Mixed—Use

If the development is, or will be mixed-use, such as multi-family, commercial or other non-residential use, the opinion must include

- a detailed explanation of the arrangements
 - the percentage of multi-family or non residential units/uses, and
 - an explanation of the voting rights of those units.
-

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16-B.02 What Opinion Must Address, Continued

Opinion is Conditional

When the attorney's opinion is conditional, that is based on unrecorded documents, including plats, the recorded documents **must** be submitted to VA prior to the guaranty of the first VA loan, along with a certification from the attorney giving the original opinion. The certification (on the letterhead of the attorney's firm, signed and dated, giving the attorney's name and title) must either

- state that the recorded documents are the same as those on which the original opinion was based, or
 - specifically address any change in the recorded documents and the effect of the change(s) on the previous opinion.
-

16-B.03 Assumptions That Opinion May Include**Documents are Complete and Accurate**

In each instance, at or prior to the execution of each document, all blanks appearing therein were properly completed with the appropriate information, all signatures and seals were duly made and affixed, and all exhibits were properly completed and attached.

The legal descriptions attached as exhibits to, or incorporated in, the Declaration accurately and completely describe the property subjected, or to be subjected, to the Declaration.

Documents are Authorized

Each party to the documents had, at all material times, full and unconditional power, authority, capacity and legal right to execute and deliver the documents, and to consummate the transaction contemplated thereby, without notice to, or the consent of, any person or entity not a party to the documents.

The documents were duly and validly authorized, executed, acknowledged and delivered by the respective parties. The individuals and entities who executed each of the documents on behalf of an entity or on behalf of any other person were, at all material times, duly authorized to do so and, in each instance, were legally competent.

No Violations

No provision of any document or any transaction contemplated thereby violates any contract, corporate charter, corporate bylaw, corporate resolution, partnership agreement, trust agreement, document, instrument or any other agreement which is or was binding upon any party to the documents or any beneficiary thereof. No provision of any document or any transaction contemplated thereby violates any judicial or administrative order or decision binding upon a party to any document or rendered in a matter in which such party was a party to the proceedings.

Qualified Parties

Each entity (including the declarant) which is a party to any of the documents or which executed any of the documents on behalf of a party was, and at all material times will be, duly organized, effectively registered, validly existing, in good standing under the laws of the jurisdiction in which such entity was formed, and qualified to do business in the jurisdiction in which the project is located.

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16-B.03 Assumptions That Opinion May Include, Continued**No Waivers or Limitations**

There is no oral or written modification of or amendment to the documents reviewed, and there has been no waiver of any of the provisions of the documents, by actions, by conduct of the parties or otherwise. None of the parties to any of the documents have entered into or will enter into any other agreement, or take any other action, which is inconsistent with, or serves to limit or amend, any provision of any of the documents.

Documents Not Subject to Rescission or Reformation

None of the documents are subject to rescission or reformation for fraud, duress, lack of consideration, mistake, or any other factor affecting its execution.

Recording of Documents

The Declaration (or other recorded covenants) has been, and at all material times shall be duly filed, indexed, and recorded among the Land Records of the jurisdiction in which the project is located.

The Articles of Incorporation (or other governing documents) have been, and at all material times shall be duly filed, indexed, and recorded with all applicable state and local governmental agencies.

In each instance, all applicable recording fees, charges and taxes have been paid.

Authenticity

All documents submitted to the attorney as originals are authentic; all documents submitted to the attorney as certified or photostatic copies conform to the original documents; all signatures on all documents submitted to the attorney for examination are genuine; and all public records reviewed are accurate and complete.

Accuracy

Each statement and representation contained in the documents is accurate and contains all statements of material fact necessary to prevent them, and the documents generally, from being misleading.

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16-B.03 Assumptions That Opinion May Include, Continued**Correct and Complete Copies**

The Articles of *Incorporation* and *Bylaws* (or other governing documents) of the association, as submitted to the attorney, are true, correct, and complete copies thereof, and have not been amended, modified or canceled and are in full force and effect as of the date of the opinion. Other than the Articles of *Incorporation*, *Declaration* and *Bylaws* (or other governing documents) of the association, there are no other agreements or documents governing the organization or operation of the association.

Other Assumptions

The attorney must identify any other assumptions included in the opinion. They will be reviewed by VA and may be allowed on a case-by-case basis.

16-B.04 Qualifications or Limitations that Opinion May Include

Subjective Factual Standards

No opinion is given regarding compliance with any subjective factual standards contained in these requirements.

Example: The attorney is not required to judge whether specific document provisions are “reasonable” or “equitable”.

Zoning Requirements

No opinion is given as to whether the project complies with zoning laws and ordinances, height restrictions, setback requirements, environmental requirements, or other similar requirements applicable to the project, or as to the effect of any such requirement on the operation of the project.

Subdivision Requirements

No opinion is given as to whether the project complies with the applicable subdivision laws or requirements.

Building Requirements

No opinion is given as to whether the project complies with

- applicable building code
- other similar building laws or requirements
- applicable health, or
- safety laws or requirements.

No opinion is given as to whether the declarant obtained any building permits, or approvals or occupancy certificates, approvals, licenses or permits with respect to all or any portion the project, or any expansion or the development thereof, necessary or required as of the date of creation of the project.

Operation

No opinion is given as to whether the project is being operated or administered in accordance with the provisions of the governing documents and/or applicable law.

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16-B.04 Qualifications or Limitations that Opinion May Include, Continued

Applicability of Laws	No opinion is given as to the applicability or effect of any laws other than those of the jurisdiction in which the project is located. No opinion is given with respect to the tax or securities laws of the jurisdiction in which the project is located (or of the United States of America).
Title	<p>No opinion is given with respect to title to the lots, common area or other property subjected, or to be subjected, to the Declaration, including without limitation</p> <ul style="list-style-type: none">• the ownership of, or legal equitable interests in, such lots, common area or property• the priority of the interests of the respective owners, vis-à-vis any other rights, titles, interests or estates in or to such lots, common area or property, or• any encumbrances, liens, covenants, rights-of-way, restrictions, declarations, or other instruments which would affect such lots, common area, or property, or the use thereof. <p>The conclusions stated by the attorney are subject in each instance to the operation and effect of any such matters.</p> <p>The attorney may assume that the declarant has, and had at all material times, all requisite legal and equitable title to the property subjected and to be subjected to the Declaration of record and in fact.</p>
Inference	No inference is to be drawn beyond the strict scope of the opinion as expressed by the attorney.
Dated Opinion	The opinion is based upon the status of the documents, and matters pertaining thereto, as of the date the opinion is given. The attorney assumes no obligation to supplement the opinion if any applicable laws change, or if the attorney becomes aware of any facts that might change the opinion after the date the opinion is given.

Exhibit A: Other VA Requirements

(A) **Declaration**

1. Contains, within its body or incorporated by reference, a legal description of the real estate which is currently subject to the Declaration.
2. Contains within its body, or an exhibit incorporated by reference, or a supplementary declaration, a description of the common area(s) to be legally subjected with the first phase or phases being submitted for acceptance.
3. Contains provisions requiring each unit owner, or in certain instances, the subassociation representing such owners (the attorney must provide an explanation describing the membership structure and rationale for subassociation representation), to be a member of the association.
4. Contains provisions establishing and describing the voting rights of each member consistent with the articles of incorporation and as follows:
 - (a) If there are different types of development (i.e., single family attached or detached, other residential or commercial uses), the voting class structure and basis for voting rights allocating voting power among the members must be fully described, including provisions allowing for representation or protection of minority interests.
 - (b) The declarant's voting rights are not weighted beyond 3 to 1 in the declarant's favor (based on the total number of units planned). The declarant control period does not extend beyond 120 days after the date 75 percent of the total number of units planned are conveyed to unit owners other than the declarant. (There is also an outside time limit on the declarant control period of no later than 7 years from the date of recordation of the declaration or, if a phased project, 5 years after recordation of the most recently recorded annexation document.)
5. Contains provisions for the election (or appointment by declarant during the declarant control period), removal and replacement of members of the board of directors of the association. These provisions may also be placed in the articles of incorporation.

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Exhibit A: Other VA Requirements, Continued

(A) **Declaration** (continued)

6. Contains provisions for amendment. Material amendments or extraordinary actions must be approved by members entitled to cast at least 67 percent of the votes of members present, in person or by proxy, and voting at any meeting of the association held in accordance with subparagraph d. below, such vote including at least a majority of the votes of all members present, in person or by proxy, and voting at any meeting of the association other than the declarant, or 67 percent of the total authorized votes of all members of the association, such vote including the vote of a majority of all of the members other than the declarant. Notwithstanding the foregoing, the declarant may reserve the right to make changes or revisions to comply with the requirements of HUD, Fannie Mae, Freddie Mac or VA.

a. **Note 1:** A material amendment includes adding, deleting or modifying any provision regarding the following:

- (1) Assessment basis or assessment liens;
- (2) Any method of imposing or determining any charges to be levied against individual unit owners;
- (3) Reserves for maintenance, repair or replacement of common area improvements;
- (4) Maintenance obligations;
- (5) Allocation of rights to use common areas;
- (6) Any scheme of regulation or enforcement of standards for maintenance, architectural design or exterior appearance of improvements on units;
- (7) Reduction of insurance requirements;
- (8) Restoration or repair of common area improvements;
- (9) The addition, annexation or withdrawal of land to or from the project;

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Exhibit A: Other VA Requirements, Continued

(A) **Declaration** (continued)

a. **Note 1** (continued)

- (10) Voting rights;
- (11) Restrictions affecting leasing or sale of a unit; or
- (12) Any provision which is for the express benefit of mortgagees.

b. **Note 2:** An extraordinary action includes:

- (1) Merging or consolidating the association (other than with another non-profit entity formed for purposes similar to the subject association);
- (2) Determining not to require professional management if that management has been required by the association documents, a majority of eligible mortgagees or a majority vote of the members;
- (3) Expanding the association to include land not previously described as additional land which increases the overall land area of the project or number of units by more than 10 percent;
- (4) Abandoning, partitioning, encumbering, mortgaging, conveying selling or otherwise transferring or relocating the boundaries of common areas (except for (i) granting easements which are not inconsistent with or which do not interfere with the intended common area use; (ii) dedicating common area as required by a public authority; (iii) limited boundary-line adjustments made in accordance with the provisions of the declaration or (iv) transferring common area pursuant to a merger or consolidation with a non-profit entity formed for purposes similar to the subject association);
- (5) Using insurance proceeds for purposes other than construction or repair of the insured improvements; or
- (6) Making capital expenditures (other than for repair or replacement of existing improvements) during any period of 12 consecutive months costing more than 20 percent of the annual operating budget.)

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)**6. Contains provisions for amendment** (continued)

c. Contains the following provisions for meetings of the membership to approve a material amendment or extraordinary action: (i) at least 25 days advance notice to all members is required (at least 7 days notice is required in the case of a meeting for other purposes); (ii) the notice states the purpose of the meeting and contains a summary of any material amendments or extraordinary actions proposed; (iii) the notice contains a copy of the proxy that can be cast in lieu of attendance at the meeting; and (iv) if the association has, or is planned to have, 250 members or less - the quorum is at least 20 percent of the total number of votes; (v) if the association has, or is planned to have, more than 250 members but less than 1,000 members - the quorum is at least 10 percent; and (vi) if the association has, or is planned to have, more than 1,000 members, - the quorum is at least five percent.

d. Provides that any material amendment which changes the rights of any specific class of members must also be approved by members entitled to cast at least 51 percent of the votes of all members of such class present, in person or by proxy, and voting at any meeting of the association held in accordance with subparagraph c. above, or at least 51 percent of the total authorized votes of all members of such class.

e. Provides that the following material amendments and extraordinary actions must be approved by members entitled to cast at least 67 percent of the total authorized votes of all members of the association, including at least a majority of the total authorized votes entitled to be cast by members other than the declarant:

- (1) Termination of the declaration or other termination of the planned unit development;
- (2) Dissolution of the association except pursuant to a consolidation or merger; and
- (3) Conveyance of all common areas.

f. Provides that during the declarant control period all material amendments and extraordinary actions must have the approval of VA, if VA has guaranteed any loans secured by units in the project.

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Exhibit A: Other VA Requirements, Continued

(A) **Declaration** (continued)

6. **Contains provisions for amendment**, (continued)

g. Provides that all other amendments (other than material amendments or extraordinary actions) must be approved by at least a majority of the votes entitled to be cast by all members present, in person or by proxy, and voting at any meeting of the association at which a quorum is present (see subparagraph (4)(b)2 below (Bylaws)), or in writing by members entitled to cast at least a majority of the total authorized votes of all members of the association.

7. Grants each owner a non-exclusive easement of use and enjoyment in the common areas which is appurtenant to and passes with title to each unit. Each owner also has a non-exclusive easement for egress and ingress over the common areas, to the extent necessary to provide access to the unit and for utilities serving that unit. The right of access for necessary ingress and egress to the unit and utility services cannot be suspended by the board of directors for violations of the covenants or nonpayment of assessments. The owner's easement rights may be subject to certain limitations (other limitations must be separately described by the attorney) as follows:

a. Right of the association, acting through the board of directors, to mortgage the common areas subject to such member, mortgagee and agency approvals as may be provided in the declaration. (A lender's rights, in the event of default upon any mortgage or deed of trust on the common areas, are limited to, after taking possession of such common areas, charging reasonable admission and other fees as a condition of continued enjoyment by members, and, if necessary, to a wider range of users. Upon satisfaction of the mortgage or deed of trust, such common areas are returned to the association with full restoration of members' rights);

b. Right of the association, acting through the board of directors to convey or transfer all or any part of the common areas, subject to such member, mortgagee and agency approvals as may be provided in the declaration;

c. Right of the association, acting through the board of directors, without member, mortgagee and agency approvals unless provided otherwise in the declaration, to grant easements across the common areas for any purpose not inconsistent with the use of those areas by members;

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Exhibit A: Other VA Requirements, Continued

(A) **Declaration** (continued)

7. **Non-exclusive easement**, (continued)

d. Right of the association, acting through the board of directors, without member, mortgagee and agency approvals unless provided otherwise in the declaration, to adopt regulations governing the use of common areas and the personal conduct of owners, occupants and guests thereon;

e. Right of the association, acting through the board of directors, without member, mortgagee and agency approvals unless otherwise provided in the declaration, to charge reasonable admission or other fees for special or extraordinary uses of the common areas;

f. Right of the association, acting through the board of directors, without member, mortgagee or agency approvals unless otherwise provided in the declaration, and consistent with existing local jurisdiction's zoning and subdivision ordinances, to transfer part of the common areas for the purpose of adjusting lot lines in accordance with reasonably stated provisions (i.e., does not reduce total open space area below zoning requirements, does not materially affect development plan on file with an agency, and all units previously adjacent to common areas - remain so located, unless the owners of the units approve the boundary line adjustment);

g. Right of the board of directors without member, mortgagee or agency approvals unless otherwise provided in the declaration, to suspend the right of any member, and the rights of such member's household, tenants, guests and invitees to use recreational facilities or other common areas (to the extent that access and utility service are not impaired) for a period not to exceed 60 days, unless such rights are suspended for failure to pay assessments, in which case such rights may be suspended until the assessments are fully paid; or

h. Special declarant rights reserved by the declarant, (i) such as: right to use portions of the common areas for sales and marketing purposes; (ii) reservation of easements across the common areas for development purposes; (iii) right to grant, terminate or vacate easements across common areas for limited purposes such as installation and maintenance of utilities, storm water management or provision of services to units.

8. Contains provisions for maintaining the common areas. If the association maintains areas it does not own (such as within a public right-of way for landscaping or signage or storm water management), the attorney must provide an explanation which describes the arrangement and discusses the rationale.

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)

9. Contains provisions for the adoption of an annual operating budget and imposition and collection of assessments to meet the expenses of the association. The board of directors has the power on behalf of the association to levy both annual and additional assessments.

a. Units of a similar nature, receiving similar services, are assessed on a uniform basis except for the reduced assessment permitted for unoccupied units owned by the declarant or a builder. If a different basis is used which allocates assessment liability among unit based on different services provided to the units or the different nature of the units, the rationale for that basis must be fully explained.

b. If the declarant furnishes a multi-year feasibility budget, the declarant and/or a builder may pay a reduced annual assessment on unoccupied lots only provided that such reduced assessment is not less than 25% of the full annual assessment. Alternatively, the declarant or builder may pay a one-time assessment equal to 25 percent of the applicable annual assessment per lot based upon the first year budget at maximum build-out (or 5 years out for projects involving 250 or more lots/units). The lots for which the one-time assessment has been paid may be exempt from further assessment until the earlier of: (i) initial occupancy or (ii) two fiscal years after submission to the declaration. If unoccupied units are receiving the benefit of the reduced or one-time assessment, the documents provide that the declarant, or builder(s) as appropriate, must provide for or pay for all maintenance to such units and shall fund all operating budget deficits incurred during the declarant control period, including reserves based upon expected lives of items for which reserved, but not including shortfalls caused by nonpayment of assessments by other members or extraordinary expenditures (e.g., expenses caused by natural catastrophes or environmental hazards). A unit initially occupied or conveyed to a unit owner other than the declarant or a builder is fully assessed. The obligation to fund budget deficits is a lien against all the land owned by the declarant (or the declarant and builders) in the planned unit development.

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)

10. If a maximum annual assessment is stated, the maximum may increase automatically by the greater of ten percent or based upon a Consumer Price Index, such as the U.S. Department of Urban Price Index - All Urban Consumers (1982-84=100) or other comparable index reflecting the association's cost increase experience each year. The maximum may also be increased by a majority vote of the members obligated to pay such assessment or with the written approval of members entitled to cast a majority of the total number of authorized votes of members obligated to pay such assessment (in both cases excluding the declarant during the declarant control period). Increases in certain fixed costs for insurance, taxes, recycling or waste disposal may be passed through to the members, by permitting an automatic increase in the maximum assessment which reflects those increases. If no maximum assessment is set forth, a vote of the members must be required to approve capital expenditures, other than for repair and replacement, during a fiscal year of more than 20 percent of the budget for common expenses for that fiscal year.
11. Contains provisions for a lien-supported assessment. The assessment lien of any assessment levied by the association is subordinate to the lien of a first mortgage (Title 38, USC, section 3703(d)(3)). Subordination to other security interests or liens is acceptable if permitted by applicable law. The sale or transfer of any unit pursuant to mortgage foreclosure of a first mortgage or any proceeding in lieu thereof extinguishes the lien of such assessments as to payments which became due prior to such sale or transfer. No sale or transfer relieves such unit from liability for any assessments thereafter becoming due or from the lien thereof. (NOTE: VA will not recognize any limited priority that common expense assessments may have over the first mortgage lien. Mortgage holders should be aware that no VA claim payment will be made to holders for any payments they may have made to clear prior liens for delinquent and unpaid association assessments).

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)

12. Contains provisions for collection of assessments. The interest rate permitted to be charged by the association is uniform, reasonable and non-usurious. The method of determining the interest rate is set forth. A rate not to exceed that charged by the Internal Revenue Service on delinquent taxes is considered reasonable. The association has the power both to foreclose the association's lien and to bring a legal action against the member personally obligated to pay the assessment. The documents may provide that a successor in title is entitled to obtain an association disclosure statement or estoppel certificate with respect to common expense assessments, in which case an owner's personal obligation to pay assessments is assumed by successors in title unless the successor in title acquired title through foreclosure, or any proceeding in lieu thereof, of a first mortgage. (NOTE: Units which will be subject to a VA-guaranteed loan will not be subject to delinquent assessments in excess of 6 months in any case in which the association has not brought enforcement action against the current unit owner.)
13. Contains provisions for enforcement of the association documents. If owners are held liable for costs and expenses incurred by the association as a result of acts or omissions of such owner or such owner's tenants, agents, employees, invitees, guests and household members in failing to comply with the association documents or rules or regulations of the association, regardless of negligence or culpability, then the Public Offering Statement and or Information Brochure must describe this matter.
14. Contains provisions requiring appropriate types of insurance. The board of directors, on behalf of the association, has the authority to and is required to obtain coverages in the areas of property damage, liability, and personnel. Owners may be required to maintain certain types of insurance coverages and, if the owner fails to purchase that insurance, the board may obtain those coverages at the owner's expense. All hazard and flood insurance policies which include any units, must also have the standard mortgagee clause and provide for notice to the mortgagee at least ten days before lapse, material modification or cancellation of the policy.
15. Contains provisions for reconstruction of the common areas after condemnation or casualty loss.

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)

16. Contains provisions governing parking, if parking is not included within each unit. If vehicular parking is on the common areas: (i) the association documents must: (a) permanently assign a parking space on the common area to each unit; (b) assign a specific parking area to a specific group of units or (c) make other provisions assuring parking in compliance with local ordinances; or (ii) the declarant must provide other evidence of parking in compliance with local ordinances.
17. Contains provisions guaranteeing mortgagees (may be limited to eligible mortgagees, as defined below) and agencies notice of amendments. During the declarant control period: (i) the declarant must provide a copy of all amendments to VA; and (ii) the association may not make any material amendments or take any extraordinary actions as described in subparagraph 6 above without the approval of VA. The declaration may provide that certain rights and protections (including notice and approval rights) are granted to only those mortgagees who have provided notice to the board of directors of their interest and requested all rights under the association documents "eligible mortgagees." Rights granted to eligible mortgagees should include the following:
 - a. Right to inspect association documents and records on the same terms as the members;
 - b. Notice of all material amendments to the association documents;
 - c. Notice of any extraordinary actions of the association;
 - d. Notice of any property loss, condemnation or eminent domain proceeding affecting the common areas resulting in losses greater than 10 percent of the annual budget or any unit insured by the association in which the mortgagee has an interest;
 - e. Notice of any termination, lapse or material modification of an insurance policy held by the association;
 - f. Notice of any default by an owner of a unit subject to a mortgage held by the eligible mortgagee in paying assessments or charges to the association which remains uncured for sixty consecutive days;

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Exhibit A: Other VA Requirements, Continued

(A) Declaration (continued)**17. Provisions guaranteeing mortgagees** (continued)

g. Notice of any proposal to terminate the declaration or dissolve the association at least 30 days before any action is taken;

h. Right of a majority of the eligible mortgagees to demand professional management; and

i. Right of a majority of the eligible mortgagees to demand an audit of the association's financial records.

18. Contains provisions for party walls, if a townhouse planned community. The association documents or law of the jurisdiction must provide for the maintenance, repair and reconstruction of party walls and allocate the costs among the owners served by a party wall.

19. Contains provisions for expansion or annexation in a phased development. The declaration must, in addition to submitting at least 1 phase to the covenants and restrictions: (i) describe the additional land proposed to be submitted in the future in a sufficient manner to locate the property; (ii) grant the declarant the right to submit the described additional land; (iii) describe the method of submitting additional land; d describe the basis of voting rights and assessment obligations of units added in relation to the voting rights and assessment obligations of units already subject to the declaration or provide that such rights for future phases will be the same as for phases already submitted; and establish a reasonable time limit for submitting additional land. A reasonable time limit will depend on the size of the development, but generally annexation made within the later of 7 years after recordation of the Declaration or 5 years after the most recent recordation of an annexation document is considered reasonable. The additional land must be contiguous, adjacent or across a public right-of-way. If the additional land is not so located, there must be a clear statement of that fact and a discussion of the rationale for its potential inclusion. The declaration may reserve the right to the declarant to submit a limited amount of undescribed adjacent additional land, increasing the total size of the planned community by up to 10 percent both in land size and number of additional units, or such undescribed additional land may be added by the association with a majority vote of the members at a duly held meeting at which a quorum is present or the written consent of members entitled to cast a majority of the total number of votes, in both cases excluding the votes of the declarant during the declarant control period.

20. Contains provisions for termination.

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Exhibit A: Other VA Requirements, Continued

(B) Bylaws

1. Contains provisions for holding meetings of the board of directors, including the required quorum.
2. Contains quorum provisions for holding meetings of the members (including voting by proxy). If the association has, or is planned to have, 250 members or less, the quorum is at least 20 percent. If the association has, or is planned to have, more than 250 members but not 1,000 members, the quorum is at least 10 percent. If the association has, or is planned to have, more than 1,000 members, the quorum is at least 5 percent. The quorum is not a quorum of each class except when a vote of a particular class is required on a specific issue.
3. Contains provisions for holding a meeting. Membership meetings are required at least annually after there are members other than the declarant. Special meetings are required upon the written request of a percentage of the owners other than the declarant. Members can vote by proxy and may be allowed to vote by mail if permitted by state law.
4. Contains provisions granting the board of directors the various powers necessary to conduct the affairs of the association.
5. Contains provisions placing on the board of directors the duties necessary to fulfill the purposes of the association.
6. Contains provisions for electing, removing and replacing directors and officers (if not addressed in the articles of incorporation).
7. Contains provisions governing notices to members. Members are given advance notice of meetings of members (of no less than seven days unless for a special meeting to approve an extraordinary action or material amendment in which case at least 25 days notice is required).

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Exhibit A: Other VA Requirements, Continued

(B) **Bylaws** (continued)

8. Contains provisions regarding maintenance and availability of the association documents and the association records. The association is required to keep records of: (i) its governing documents (i.e., association documents, rules and regulations and design standards); (ii) its actions (board resolutions, meeting minutes, etc.); and (iii) its financial condition (receipts and expenditures affecting the finances, operation and administration of the association, budget, financial statements, etc.) Notwithstanding the foregoing, the association is not required to maintain records in excess of three years; unless otherwise required under applicable law. The association documents and all books and records kept on behalf of the association are available for examination and copying by a member or such member's authorized agent during normal business hours and upon reasonable notice to the association and for a reasonable charge, except for privileged or confidential information.
9. Contains provisions for amendment by the members.

(C) **Articles of Incorporation**

1. Contains a statement of the purposes of the association.
2. Contains provisions requiring that each owner of a unit in the development or a subassociation representing owners of such units be a member of the association.
3. Contains provisions establishing and describing the voting rights of each member.
4. Contains provisions for election (or appointment by the declarant during the declarant control period), removal and replacement of members of the board of directors unless provided for in the Bylaws.
5. Contains provisions for amendment by the members.
6. Contains provisions for dissolution by the members.

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Exhibit A: Other VA Requirements, Continued

(D) Other Considerations

1. Information Brochure (Public Offering Statement). There is an information brochure or public offering statement which provides general information which is to be provided to home buyers informing them about the project, the association and the rights and obligations of lot owners. If part of an umbrella or master association, there is a discussion of that organization, as appropriate, in the areas noted below. The following information is provided at a minimum:
 - a. Organizational structure of the association;
 - b. Membership and voting rights of members and the declarant, including a description of the declarant control period;
 - c. The general development plan for the project including requirements for expansion, phasing, merger and dissolution, an explanation that the total membership of the association may be increased, and a disclosure whether or not there will be any requirements to build a similar product in additional phases;
 - d. The initial amount of assessments, the assessment lien, and the method of enforcement;
 - e. A projected budget for the community of at least 1 year at full build-out showing projected future assessments and any declarant deficit funding contributions, and a component for reserves and replacements, if appropriate. If the project is phased, in excess of 200 units, or includes significant common area improvements, there is a multi-year feasibility budget with reserve tables;
 - f. Method of changing the assessment;
 - g. Description of types of user fees, if any;
 - h. General description of common areas, including improvements;

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Exhibit A: Other VA Requirements, Continued

(D) Other Considerations (continued)

(1) (continued)

- i. Services provided by the association;
- j. Maintenance requirements;
- k. Architectural controls;
- l. Declarant's retained rights;
- m. Minimum requirements for insurance to be purchased by unit owners;
- n. Insurance maintained by the association;
- o. Availability of parking;
- p. Owners' liability for acts of others for violation of covenants and damage to common areas;
- q. Association's ability to levy individual assessments; and
- r. Affiliation of the managing agent to the declarant, if any.

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Exhibit A: Other VA Requirements, Continued

(D) Other Considerations (continued)

2. Reserved Rights. The declarant, its affiliates, the sponsor of the project, or other party, has not reserved any of the following rights (unless such reserved rights have been reviewed by the field office or VA central office and determined reasonable. In such instances, the previous case or decision must be specifically referenced):
 - a. Lease of the common area to the association or accepting leases from the association, except in connection with development-related offices such as marketing, sales or construction office for the project;
 - b. Accepting franchises or licenses from the association for the provision of central television antenna service, cable television or like services;
 - c. Retaining the right, by virtue of continued association control or otherwise, to veto acts of the association, except to the extent declarant's development rights are affected or to enter into management agreements or other contracts which extend beyond the declarant control period, unless those contracts are (i) limited to 2 years or (ii) permit the owner-controlled board to terminate the contract; or
 - d. Reserving an unlimited right to amend the covenants or to replat lots not owned by the declarant or common areas.
 3. Restrictions on Alienation. The following restrictions are not present (VA Regulation 36.4350 ([38 CFR 36.4350](#)):
 - a. Right of first refusal;
 - b. Right of prior approval of either a prospective purchaser or tenant;
 - c. Leasing restrictions which amount to unreasonable restrictions on use and occupancy of a unit; or
 - d. Any minimum lease term in excess of 1 year.
-

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Exhibit B: Condominium Regulations

Location of the Regulations

To access the information about Condominium Regulations, go to
<http://www.homeloans.va.gov/regs.htm>.

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- Actual Opinion. *See* Section 16-B.02
- Applicability of Laws, 16-11
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- Authenticity, 16-8
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- Basic VA Requirements. *See* Section 16-A
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Chapter 17

VA Sanctions Against Program Participants

Overview

Introduction

VA is authorized to impose sanctions against persons or entities who take actions which are detrimental to the VA loan guaranty program. The type and severity of the sanction imposed is based on

- the type of participant (for example, lender, builder, management broker, etc.), and
- the nature of the actions (for example, fraud, significant deficiencies in performance, ongoing disregard for VA requirements, and so on).

Sanctions may be imposed in the form of

- civil money penalties, and/or
- the participant's full or partial exclusion from participation in the VA loan guaranty program for a certain period of time.

Appeal Rights

VA provides appeal rights to all program participants against whom sanctions are imposed. The notice informing the participant that sanctions will be or are imposed explains what the participant must do to appeal VA's decision.

In this Chapter

This chapter contains the following topics.

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17.01 Program Participants

**Program
Participants**

Any person or entity conducting business related to the VA loan guaranty program is considered a program participant. This includes, but is not limited to

- lenders
- employees of lenders
- loan holders
- loan servicers
- builders
- real estate brokers or agents
- management brokers
- repair contractors
- compliance inspectors
- fee appraisers
- salespersons, and
- manufactured home manufacturers, dealers or park operators.

Note: A person is **not** considered a program participant just because he or she obtains a VA loan.

**Program
Participant
Also A Veteran**

VA may impose sanctions against a program participant who is also a veteran eligible for loan guaranty benefits. This does not preclude the veteran from using his or her entitlement to obtain a VA-guaranteed loan.

Continued on next page

17.01 Program Participants, Continued

Full Exclusion

A participant who is fully excluded may not

- conduct any type of VA loan guaranty business, or
 - have another party conduct such business on his or her behalf.
-

Partial Exclusion

Partial exclusion may involve limitations on

- the role the participant may play, or
 - how the participant conducts VA loan guaranty business.
-

Program Participants and Excluded Parties

Program participants may not

- do VA business with an excluded party if the type of transaction involved is prohibited by the terms of the party's exclusion, or
- allow an employed excluded party to perform prohibited duties.

Violation of the above restrictions may result in VA sanctions against the program participant doing business with (or employing) the excluded party.

Identifying Excluded Parties

Participants may check the *List of Parties Excluded From Federal Procurement and Nonprocurement Programs* published by the U.S. General Services Administration (GSA).

The list can be obtained

- in hard copy by subscription through the Superintendent of Documents, U.S. Government Printing Office, Washington, DC 20402, and
- electronically, via the Internet at www.epls.arnet@gsa.gov.

Note: Contact GSA at (202)501-4740, or, online at epls.support@gsa.gov for details.

Continued on next page

17.01 Program Participants, Continued

Nature of Exclusion

Some of the parties on this list may be excluded from

- participation in the programs of all Federal agencies, including VA, or
 - a specific program of a specific Federal agency.
-

Cause and Treatment Codes

The cause and treatment codes provide information on the nature of the exclusion. These codes are described in the document and at the GSA website, above.

Obtaining Information on Excluded Party

Call the contact person for the agency that placed the excluded party on the list if

- more detail is necessary to confirm the identity of a party on the list, or
 - to clarify the nature or length of the sanction.
-

Non-procurement List

For parties placed on the non-procurement list by VA (indicated by the code “VA”), obtain any necessary clarifying information from the local VA office with jurisdiction over the city and state listed in the excluded party’s address.

Parties Not on GSA List

Some of the VA sanctioned parties may not appear on the GSA list. Information on such parties can be obtained by contacting the local VA office.

Continued on next page

17.01 Program Participants, Continued

**Lender Check
On Excluded
Parties**

Lenders and other parties may want to check whether a program participant has been excluded prior to

- employing the program participant, or
- participating in a VA loan guaranty-related transaction, if the program participant is also a party to the transaction.

Note: This does not refer to a veteran using entitlement to obtain a VA loan.

**Reasons For
Lender Check**

The following illustrates some of the reasons why a lender/other party would want to check on a participant's exclusion.

- A lender hiring an underwriter for its VA lending activities may want to verify that the underwriter is not an excluded party.
 - A lender making a loan to a veteran for new construction is told by another lender that the builder has had problems with some of its HUD/FHA transactions. The lender may want to verify that the builder is not an excluded party.
 - A management broker establishing a panel of contractors to do repairs to VA-owned properties must ensure that none of the panel members are excluded parties.
-

17.02 False Lender Certification

Lender Certification

A lender must submit a signed certification with each loan submission indicating that in processing and underwriting the loan, the lender has complied with

- VA requirements
- regulations, and
- the law.

The specific language required in the certification is found in Step 7 of “Lender Procedures” in Section 4.01.

False Lender Certification

Any lender who knowingly and willfully makes a false certification may be subject to civil money penalties equal to the greater of

- two times the amount of the Government’s loss on the loan involved, or
- another appropriate amount, not to exceed \$10,000.

In addition to monetary penalties, VA may impose other sanctions including, but not limited to

- debarment and suspension, and
 - loss of automatic authority.
-

Lenders Assessed Monetary Penalty

Lenders assessed civil money penalties for a false certification do not appear in *GSA’s List of Parties Excluded From Federal Procurement and Nonprocurement Programs*. Other program participants may still transact VA business with these lenders.

Exception: Lenders may appear on the GSA list if another sanction is imposed against them in conjunction with the civil money penalty. In such cases, other program participants may be prohibited from transacting business with them.

17.03 Withdrawal of Automatic Authority

Withdrawal For Proper Cause

VA can withdraw a lender's automatic authority for proper cause, after giving the lender 30 days' notice. This applies to both

- supervised, and
 - nonsupervised lenders.
-

Submitting Loans for Prior Approval

The lender may continue processing loans on a prior approval basis after automatic authority has been withdrawn.

Note: It is the lender's responsibility to submit all loans for prior approval as long as automatic authority is withdrawn.

VA Business With Other Participants

Lenders with their automatic authority withdrawn do not appear in GSA's *List of Parties Excluded From Federal Procurement and Nonprocurement Programs*. Other program participants may still transact VA business with these lenders.

Exception: Lenders may appear on the GSA list if another sanction is imposed against them. In such cases, other program participants may be prohibited from transacting business with them.

Withdrawal for an Indefinite Period

Withdrawal for an indefinite period can be based on

- failure to continue meeting basic qualifying criteria
 - for supervised lenders this includes loss of status as an entity subject to examination and supervision by a Federal or state regulatory agency
 - for nonsupervised lenders this includes no approved underwriter, failure to maintain \$50,000 working capital, and/or failure to file the required financial statements
- any of the causes for debarment set forth in [38 CFR 44.305](#), or
- poor underwriting or consistently careless processing during the probationary period for newly-approved nonsupervised automatic lenders.

[38 CFR 44.305]

Continued on next page

17.03 Withdrawal of Automatic Authority, Continued

**Withdrawal
Time Periods**

Refer to the following table for information on withdrawal time periods.

**Withdrawal
Period: 60
Days**

A withdrawal period of 60 days can be based on any of the following situations:

- Loan submissions show deficiencies in credit underwriting after repeatedly being called to the lender's attention.
 - Use of unstable sources of income to qualify borrower or ignoring significant adverse credit items affecting applicant's creditworthiness.
 - Employment or deposit verifications are hand-carried by applicants or otherwise improperly permitted to pass through the hands of a third party.
 - Loan submissions are consistently incomplete after repeatedly being called to the lender's attention
 - There are continued instances of disregard of VA requirements after repeatedly being called to the lender's attention.
-

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17.03 Withdrawal of Automatic Authority, Continued

**Withdrawal
Period: 180
Days**

A withdrawal period of 180 days can be based on any of the following situations:

- Loans conflict with VA credit standards and would not have been made by a lender acting prudently.
- Failure to disclose to VA significant obligations or other information which affects the veteran's ability to repay the loan, and which results in undue risk to the Government.
- Employment or deposit verifications are handcarried by the applicant or otherwise mishandled, resulting in submission of significant misinformation to VA.
- Substantiated complaints are received that the lender misrepresented VA requirements to veterans to the detriment of their interests.

Example

The veteran was dissuaded from seeking a lower interest rate based on the lender's incorrect advice that such options were excluded by VA requirements.

- Closing documents show instances of improper charges to veteran after the impropriety of such charges are called to lender's attention by VA, or the lender refuses to refund such charges after notification by VA.
- Deliberate delays in scheduling loan closings.

Continued on next page

17.03 Withdrawal of Automatic Authority, Continued

**Withdrawal
Period: 1-3
Years**

A withdrawal period of 1-3 years can be based on any of the situations described in the table below.

Situation	Example
Failure to properly disburse loans	Loan disbursement checks are returned due to insufficient funds.
Involvement by the lender in the improper use of a veteran's entitlement	Knowingly permitting the veteran to violate occupancy requirements, or lender involvement in the veteran's sale of entitlement to a third party.
	Lender makes the loan with the knowledge that the veteran is not purchasing the property to be his or her home. Instead, the veteran intends to transfer title to a third party who assumes the loan shortly after closing.

17.04 Withdrawal of LAPP Authority

LAPP is a Privilege	The authority to determine value under LAPP is a privilege delegated to lenders at VA's discretion. Lenders maintain this privilege by complying with all applicable LAPP-related VA requirements.
Withdrawal or Amendment for Proper Cause	VA can amend or withdraw the special privilege of LAPP authority from a lender for proper cause. This applies to both supervised and nonsupervised lenders with automatic authority that have been granted LAPP authority.
Withdrawal Time Period	LAPP authority can be withdrawn for a specific or indefinite period of time.

Continued on next page

17.04 Withdrawal of LAPP Authority, Continued

**Examples of
Withdrawal for
Proper Cause**

The following is a non-inclusive list of examples of proper cause that can form a basis for withdrawal of LAPP authority.

Technical incompetence

Conduct demonstrating insufficient knowledge of industry-accepted appraisal principles, techniques and practices and/or the inability to adequately apply them in reviewing appraisal reports and making value determinations for VA purposes.

Substantive or repetitive errors

A substantive error is one which significantly involves the value determination or condition of the property. In the aggregate, nonsubstantive errors which are frequently repeated may also indicate that LAPP case reviews are being performed in a careless or negligent manner.

Disregard for VA requirements

Continued disregard for the VA requirements and procedures outlined in VA regulations, guidelines, instructions or applicable laws, after the problem has been brought to the lender's attention.

Failure to meet qualification requirements

The lender or the lender's staff appraisal reviewer (SAR) no longer meets the basic LAPP qualification requirements (see Chapter 15).

Civil judgments and convictions

Continued on next page

17.04 Withdrawal of LAPP Authority, Continued

Notice of Sanction

Generally, VA will provide written notice at least 30 days prior to imposition of the sanction to

- the lender's staff appraisal reviewer (SAR)
- the lending officer responsible for the quality of the SAR's work, and
- any other appropriate official(s).

Note: VA's notice provides the basis for the sanction and information on how to exercise appeal rights.

Government at Immediate Risk

VA is not required to give 30 days' notice if the Government's interests are exposed to immediate risk from the lender's activities. The withdrawal is effective immediately in such cases.

Determining Reasonable Value and Issuing CRVs

Once LAPP authority is withdrawn, VA must

- make all determinations of reasonable value for the lender, and
- issue the Certificates of Reasonable Value (CRVs).

Note: For any withdrawal longer than 90 days, the lender must reapply to VA to participate in LAPP.

Imposition of Probationary Period

As an alternative, VA may impose a probationary period for a specified period to further evaluate LAPP-related performance. During that period, the VA office, at its discretion, may require

- VA review of appraisal reports and lender notices of value
 - VA staff issuance of the lender's VA value notices
 - increased VA quality control review of the lender's LAPP cases, or
 - other measures designed to monitor and improve performance.
-

Continued on next page

17.04 Withdrawal of LAPP Authority, Continued

Other Sanctions

Withdrawal or amendment of a lender's LAPP authority does not preclude VA from

- also withdrawing automatic processing authority, or
 - taking debarment or suspension action against the lender for the same cause.
-

Relationship With Other Program Participants

Lenders with their LAPP authority withdrawn do not appear in GSA's *List of Parties Excluded From Federal Procurement and Nonprocurement Programs*.

Other program participants may still transact VA business with these lenders.

Exception: Lenders may appear on the GSA list if another sanction is imposed against them. In such cases, other program participants may be prohibited from transacting business with them.

Responsibilities of Lender

As long as LAPP authority is withdrawn, it is the lender's responsibility to ensure that VA, and not the lender

- makes all determinations of reasonable value, and
 - issues CRVs on its loans.
-

17.05 Debarment and Suspension

Debarment	<p>Debarment is a sanction that in most cases excludes the program participant from any participation in the nonprocurement programs of any Federal agency, including VA's loan guaranty program.</p> <p><i>Note:</i> Occasionally debarment is used to exclude the participant from only certain types of transactions.</p>
Debarment Time Period	<p>Debarment is effective for a period appropriate to the seriousness of the cause. Often a period of 3 years is deemed appropriate.</p>
Suspension	<p>Suspension has the same impact as debarment, but is imposed on a temporary basis, pending the outcome of</p> <ul style="list-style-type: none">• investigative• legal, or• debarment proceedings. <p><i>Note:</i> Suspension can be followed by debarment if the results of the proceedings warrant.</p>
Suspension Time Period	<p>Suspension generally does not exceed 18 months. It is imposed for a temporary period pending</p> <ul style="list-style-type: none">• investigative• legal, or• debarment proceedings. <p><i>Note:</i> An additional period of debarment may follow.</p>

Continued on next page

17.05 Debarment and Suspension, Continued

Geographic Scope of Exclusion	The debarred or suspended participant is excluded from targeted activities in all locations.
Debarred Loan Guaranty Participants	<p>All loan guaranty program participants debarred by VA are listed in GSA's <i>List of Parties Excluded From Federal Nonprocurement Programs</i>. Most of these debarments are Government-wide.</p> <p>The GSA list contains government-wide debarments of parties who cannot participate in the nonprocurement programs of any Federal agency.</p>
Participant is an Entity	<p>Any program participant (individual or entity) and/or affiliate can be debarred or suspended. If the participant is an entity, the sanction can be imposed against the</p> <ul style="list-style-type: none"> • entire organization • a certain part of the organization, or • only certain individuals.
VA Regulations	<p>VA can impose debarments or suspensions based on any of a multitude of causes outlined in VA regulations</p> <ul style="list-style-type: none"> • 38 CFR 44.305, and • 38 CFR.44.405. <p style="text-align: right;"> [38 CFR 44.305] [38 CFR 44.405] </p>

Continued on next page

17.05 Debarment and Suspension, Continued

**Causes for
Debarment or
Suspension**

The regulations authorize VA to debar or suspend participants for “Any other cause of so serious or compelling a nature that it affects the present responsibility of a person.” These causes include, but are not limited to

- conviction of, or civil judgment for, fraud, embezzlement, theft, forgery, falsification or destruction of records, commission of an offense evidencing serious lack of integrity
- violation of the terms of a public agreement or transaction so serious as to affect the integrity of an agency program
- knowingly doing business with a debarred, suspended, ineligible, or voluntarily excluded person, or
- failure to pay debts owed to the Federal Government.

[\[38 CFR 44.305\]](#)

[\[38 CFR 44.405\]](#)

17.06 Limited Denial of Participation (LDP)

Introduction

A Limited Denial of Participation (LDP)

- is a sanction imposed by a local VA office limiting a program participant's activities within that local VA office's jurisdiction
- can either exclude the program participant from participation in any VA loan guaranty activities in the geographic area or just certain types of loan guaranty activities in the geographic area, and
- can be the sole sanction against a participant, or a means to immediately end unacceptable conduct while more severe sanctions are considered.

Note: An LDP may prohibit the participant from performing VA appraisals, but not from acting as a management broker or in another role.

Participant is an Entity

If the participant is an entity, the sanction can be imposed against

- the entire organization
 - a certain part of the organization, or
 - only certain individuals.
-

LDP Exceptions

An LDP can be imposed against any program participant (individual or entity) and/or affiliate except

- lenders
 - employees of lenders, and
 - manufactured home manufacturers.
-

Continued on next page

17.06 Limited Denial of Participation (LDP), Continued

Causes for LDP VA can impose LDPs based on any of a multitude of causes outlined in VA regulations [38 CFR 44.705](#). These causes include, but are not limited to

- irregularities in a participant's or contractor's performance in the VA loan guaranty program
- failure to satisfy contractual obligations or to proceed in accordance with contract specifications
- construction deficiencies deemed by VA to be the participant's responsibility, and
- failure to proceed in accordance with VA requirements or to comply with VA regulations.

[[38 CFR 44.705](#)]

**LDP as
Reciprocal
Action**

A local VA office may also impose an LDP as a reciprocal action because an LDP or other sanction was imposed upon the participant by

- another VA office, or
- an office of another Federal agency, such as HUD or USDA.

A VA office may also notify local offices of another Federal agency that the LDP action has been taken.

**Jurisdiction
Restrictions**

The participant is excluded from targeted activities only within the jurisdiction of the VA office imposing the sanction. If other VA offices impose a reciprocal LDP, the exclusion applies within their jurisdictions also.

Continued on next page

17.06 Limited Denial of Participation (LDP), Continued

Appeal Rights	No additional appeal rights are provided to the participant for reciprocal LDPs. The participant is provided appeal rights with the original LDP only, and may choose to exercise them at that time.
----------------------	--

LDP Time Period	LDPs can be imposed for a specified period up to 12 months.
------------------------	---

Builders With Unresolved Deficiencies	<p>In the case of builders with unresolved construction deficiencies, the LDP may be for</p> <ul style="list-style-type: none">• an indefinite period pending correction of the construction deficiencies, or• a specified period up to 12 months.
--	---

Obtaining LDP Party Information	LDP parties are not listed in GSA's <i>List of Parties Excluded From Federal Procurement and Nonprocurement Programs</i> . Therefore, information must be obtained from the local VA office.
--	--

17.07 Unfair Contract Provisions or Marketing Practices

Introduction

VA may impose sanctions, such as debarment, suspension, or LDP against participants who use contracts of sale, or methods or practices in the marketing of properties, which are unfair or prejudicial to veteran-purchasers. Unethical practices based upon experience and standards generally observed by reputable homebuilders and other reputable program participants are

- barred by VA, and
- grounds for sanctions.

Note: Chapter 9 provides examples of unfair contractual provisions or features.

Continued on next page

17.07 Unfair Contract Provisions or Marketing Practices, Continued

Unfair Marketing Practices

Unfair marketing practices include, but are not limited to

- enforcement of unfair contractual provisions
- requiring purchasers to execute so-called “contracts” which legally bind the purchasers but do not bind the seller to deliver the property when completed to the purchasers

Example: limiting a seller’s liability to the refund of the earnest money deposit

- advertising that a property or project is “VA guaranteed” or “VA approved” or “VA inspected” in such a way as to lead veterans to believe that VA guarantees the construction and workmanship

Note: “VA financing available,” “Eligible for VA financing,” or similar advertising is acceptable.

- delaying tactics on the part of the builder to postpone completion of the property or the closing of the sale after completion in an effort to induce the veteran to agree to a modification of a firm contract such as
 - the substitution of inferior materials
 - the omission of appliances, or
 - an increase in price.
- failure of the seller or agent of the seller of proposed or newly constructed property to place deposits or downpayments received from veteran-purchasers in a special trust account , as required by 38 U.S.C. 3706
 - failure to place downpayments or earnest money deposits in a trust fund or in escrow when required by law or by local practice on existing properties, or
 - failure or inability of the seller to return the deposit when and if required under the contract when it is not required or not customary for these deposits to be “isolated,” and

[38 U.S.C. 3706]

- failure of the seller of proposed or newly constructed property to state in the sales agreement, when applicable, that the property was or will be constructed under FHA compliance inspection procedures pursuant to *section 203(i) or 221(d)(2) of the National Housing Act.*

17.08 Violations of Equal Housing Opportunity Laws

Introduction

VA may impose sanctions, such as debarment, suspension, or LDP against participants who violate statutory provisions and regulations governing equal opportunity in housing. These laws and regulations include

- Equal Credit Opportunity Act (ECOA)
- The Fair Housing Act
- Section 527 of the National Housing Act, and
- VA Regulations at [38 CFR 36.4363](#)

[38 CFR 36.4363]

Based on these provisions and VA's policy on unfair marketing practices, VA may impose sanctions if any party involved or financially interested in the construction or sale of property has declined to sell property to an eligible veteran because of

- race
- color
- sex
- handicap
- familial status
- religion, or
- national origin.

Continued on next page

17.08 Violations of Equal Housing Opportunity Laws, Continued

Equal Housing Certification

This regulation requires a certification by builders or other parties requesting the following types of VA appraisals

- a Master Certificate of Reasonable Value on proposed or existing housing, or
- an individual appraisal of existing housing that was not previously occupied.

The certification provides that the builder or other party will not decline to sell the appraised property to a prospective purchaser because of his or her

- race
- color
- religion
- sex, or
- national origin.

Note: This requirement is satisfied by completion of VA Form 26-8791, *VA Affirmative Marketing Certification*.

Veteran Equal Housing Certification

Any veteran obtaining a VA-guaranteed loan is also required to certify that he or she will not decline to sell the home in the future based on these discriminatory factors. The certification is found in the *Veteran's Certifications* on [VA Form 26-1820](#), Report and Certification of Loan Disbursement.

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Chapter 18. Servicer Appraisal Processing Program (SAPP)

Overview

In this chapter This chapter contains the following topics.

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1	Purpose and Eligibility Requirements	18-2
2	Applying for Authority	18-4
3	Training and Initial Test Case Reviews	18-5
4	Servicer Responsibilities	18-7
5	Processing Procedures	18-8
6	Servicer Quality Control System Requirements	18-10

1. Purpose and Eligibility Requirements

a. Purpose of SAPP

Servicers of Department of Veterans Affairs (VA) guaranteed loans may be granted authority, under Servicer Appraisal Processing Program (SAPP), to review liquidation appraisals, and issue the Notice of Value (NOV) without VA involvement. The servicer exercises its SAPP authority through an employee who is VA-approved as a SAPP Staff Appraisal Reviewer (SAR). Once a SAR has satisfied the SAPP training and initial case review requirements (see section 3 of this chapter), their SAPP authority may be used for eligible properties (those secured by VA-guaranteed loans) in any location within the United States and its territories. The purpose of SAPP is to reduce the time required for servicers of VA loans to receive the NOV.

Important: It is the SAR's responsibility to stay informed about any local VA processing requirements unique to the VA jurisdiction in which a property is located.

b. Servicer Eligibility Requirements

To be granted SAPP authority, the servicer must have:

- a VA servicer identification number (ID),
- an association with a single lender having a VA lender ID, and
- an effective quality control (QC) system that ensures the adequacy and quality of its SARs. (See section 6 of this chapter.)

Note: Under SAPP, a servicer may only have an association with a single lender.

c. SAR Eligibility Requirements

The servicer exercises its SAPP authority through an employee who is a VA-approved SAR. A SAR must:

- be a full-time salaried employee of the lender/servicer, and
 - have at least three years of work experience that qualifies him or her to competently perform administrative appraisal reviews.
-

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1. Purpose and Eligibility Requirements, Continued

**c. SAR
Eligibility
Requirements
(continued)**

The SAR's work experience must indicate that he or she has:

- general knowledge of the principles, methods, practices, and techniques of appraising and the ability to apply that knowledge,
- the ability to review the work of others and recognize deviations from accepted appraisal principles and practices,
- the ability to detect errors in computations, and
- the ability to detect conclusions that are not supported.

It is also desirable for the SAR to have knowledge of general realty practices and principles related to real property valuation, skill in collecting and assembling data, and the ability to prepare clear and concise reports.

Note: Three years experience related to the Housing and Urban Development (HUD) Direct Endorsement (DE) program satisfies the experience requirement, provided all other application requirements are satisfied.

**d. SAR
Conflicts of
Interest**

There must be no conflict of interest between the SAR's role and any other activities that he or she conducts. Examples of other activities that would constitute a conflict of interest include, but are not limited to:

- the SAR being on the VA fee appraisal panel, or
 - the SAR being employed by or performing appraisal review services for another lender/servicer.
-

2. Applying for Authority

a. Application and Fees

The nominating senior officer of the servicer and the nominee must jointly complete the Staff Appraisal Reviewer (SAR) application.

SAR applicants must attach a resume showing they possess the three years requisite experience outlined in section 1 of this chapter.

A \$100 processing fee must accompany the application package.

b. Notification of VA Decision

Department of Veterans Affairs (VA) Central Office will review the application and send a letter of preliminary approval or rejection. In some cases, VA will need to request additional information from both the nominee and the senior officer in order to make a determination.

Receipt of a letter of preliminary approval will authorize the nominee to schedule Servicer Appraisal Processing Program (SAPP) SAR training.

c. SAR ID Number

VA will issue a permanent identification (ID) number for each SAR approved. The SAR always retains the same ID number, even when employed by a different servicer.

When a SAR already has a Lender Appraisal Processing Program (LAPP) SAR ID number, the number will also be used as the SAPP SAR ID.

d. SAR Employed By New Servicer

If a SAR begins work for a new servicer, the SAR's SAPP authority automatically ceases and does not transfer to the new servicer. To reinstate the SAR's SAPP authority, the new servicer employer must promptly submit to VA:

- a new SAPP application, and
- a \$100 processing fee.

The servicer may request a waiver for the training and case review requirements for that SAR by including:

- the SAR's VA-issued ID number on the application, and
 - a statement that the SAR has processed SAPP cases within the last year.
-

3. Training and Initial Test Case Reviews

a. Requirements Staff Appraisal Reviewers (SARs) with preliminary approval may not independently review liquidation appraisal reports and issue liquidation Notice of Values (NOVs), without the involvement of Department of Veterans Affairs (VA), until they receive final approval. To obtain final approval, the SAR must complete the following:

- attend Servicer Appraisal Processing Program (SAPP) SAR training, and
- successfully complete five initial test cases to demonstrate comprehension of VA liquidation appraisal review requirements to VA's satisfaction.

VA Central Office staff will provide SAPP SAR training at the request of the servicer and VA Regional Loan Center (RLC) staff will conduct the initial test case reviews.

b. Test Case Procedures

Upon completion of SAR training, SARs may begin submitting their test cases in The Appraisal System (TAS) for VA review. Only one test case should be pending at any time; SARs should not submit an additional test case until the results of a previously submitted test case are known. RLC staff will notify the SAR about the results of the review. The RLC staff performing the review of test cases must complete the liquidation appraisal review and issue the NOV within five workdays from the date the case is submitted by the SAR.

The following table outlines the steps for processing SAPP SAR test cases. Please note that these are the same steps for processing any SAPP cases, except for the requirement of VA involvement.

Step	Description
1	SAR accesses the VA E-Appraisal application in the Veterans Information Portal (VIP or Portal) and retrieves a SAPP appraisal. (Only SAPP appraisals associated with the SAR's company may be retrieved.)
2	<p>SAR reviews the appraisal report for completeness and conformity with industry-accepted appraisal practices and techniques, and for compliance with applicable VA directives and general and liquidation appraisal requirements in chapter 11.</p> <p>The SAR must resolve any concerns with the appraiser. (Report any contact with the appraiser and the results in "Processing Notes" when issuing the NOV.)</p>

Continued on next page

3. Training and Initial Test Case Reviews, Continued

b. Test Case Procedures (continued)

Step	Description
3	SAR determines the as-is value of the property, which must be supported by the reviewed appraisal report. (Make entries in “Processing Notes” to clarify or justify actions that are not self-explanatory.)
4	<p>SAR accesses TAS in VIP, selects “Issue Liquidation NOV,” and inputs the required data to generate an NOV. (TAS will not allow SARs with preliminary approval to issue NOVs; they may only be saved as NOV test cases awaiting review by the RLC. (Upon receipt of SAR final approval, TAS will allow issuance of the NOV without VA involvement.)</p> <p>Note: The SAR must notify the RLC of jurisdiction when a test case has been submitted in TAS.</p>
5	<p>VA RLC staff will review the following for all test cases and a percentage of subsequent cases:</p> <ul style="list-style-type: none"> • appraisal report, • any related documents, • the saved test case NOV, and • processing notes, for any contacts with the appraiser, processing delays and clarification and/or justification of processing actions.
6	VA staff will issue the NOV. The SAR will be notified of the result(s) of the VA test case review and the SAR’s performance file will be documented.

c. Continuing Education by VA

As needed, VA will notify SAPP SARs of supplemental training opportunities or additional training requirements.

4. Servicer Responsibilities

a. SAPP Privilege

Servicer Appraisal Processing Program (SAPP) authority is a privilege delegated to servicers at VA's discretion. Servicers maintain this privilege by complying with all applicable SAPP-related requirements, including:

- Department of Veterans Affairs (VA) policies and procedures,
- VA regulations, and
- statutory requirements.

Furthermore, servicers are expected to exercise due diligence in processing SAPP cases. VA considers due diligence to be care that is properly expected from, and ordinarily exercised by, a reasonable and prudent servicer that is entirely dependent on the subject property as a security to protect its investment.

If VA finds proper cause, the privilege extended to servicers under SAPP may be:

- amended,
- suspended, or
- withdrawn.

Reference: For more information, refer to [chapter 17](#).

b. Servicer and SAR Changes

The servicer must notify VA Central Office if:

- there is a change in ownership, merger, or acquisition, or
 - a SAR is no longer employed or is no longer functioning as a SAR for the servicer. (In such cases, the SAR's SAPP authority automatically ceases and the servicer's eligibility to participate in SAPP is terminated if that individual was the servicer's only SAR on staff.)
-

5. Processing Procedures

a. Property Eligibility

The subject property must be secured by a Department of Veterans Affairs (VA) guaranteed loan that is proceeding toward liquidation.

b. Appraisal Request

Servicers will request the appraisal in The Appraisal System (TAS) by completing [VA Form 26-1805](#), VA Request for Determination of Reasonable Value. TAS will automatically notify the assigned appraiser via e-mail when the liquidation appraisal assignment is made.

Servicers may authorize parties to order appraisals on their behalf (i.e., law firms). Those parties must register in the Veterans Information Portal (VIP) under their own name as an “Other Requestor.”

If the agent...	Then...
is acting on behalf of an approved Servicer Appraisal Processing Program (SAPP) servicer and is authorized by that servicer,	he or she may request VA SAPP appraisals.
requests an appraisal,	he or she must use his or her own log-in identification (ID) to request appraisals. An appraisal cannot be requested unless the sponsoring servicer is known at the time of the request. Note: In requesting an appraisal, the authorized agent is making the required certifications on behalf of the sponsoring servicer.
receives notification the completed liquidation appraisal report has been uploaded in E-Appraisal,	he or she must notify the sponsoring servicer or their Staff Appraisal Reviewer (SAR) that the appraisal was uploaded in E-Appraisal.

Note: When making the request, be sure to provide accurate information on the location of the keys to a vacant property in item 24 of [VA Form 26-1805](#), VA Request for Determination of Reasonable Value, as well as the telephone number of the party requesting the liquidation appraisal in item 40. This may require additional instructions from servicers when referring cases to foreclosing attorneys, if the attorneys are the parties ordering the liquidation appraisals.

Continued on next page

5. Processing Procedures, Continued

c. Access to Property by Appraiser

VA requires fee appraisers to gain access to vacant properties when performing VA liquidation appraisals in order to determine accurate values. If the fee appraiser is unable to gain access to a vacant property, the appraiser should use the contact information provided in item 40 of [VA Form 26-1805](#), VA Request for Determination of Reasonable Value. Servicers' timely responses to any telephone inquiries help to limit delays in completion of appraisals for those cases where an appraiser encounters problems accessing the vacant property.

If the appraiser still cannot gain access, he or she must document the actions taken to obtain access to the subject vacant property in an e-mail to the Construction & Valuation (C&V) section of jurisdiction. C&V will then forward the appraiser's email to the Regional Loan Center's Loan Administration Officer, who will forward it to the appropriate servicer personnel.

Time delays caused by an appraiser's inability to access a property can result in postponed liquidation sales. Because such delays are beyond the control of the appraiser, C&V "stops the clock" on the appraiser's timeliness requirements until access is obtained. However, in most cases, VA does not view delays as beyond the control of the servicer, and therefore the servicer may suffer curtailment of interest on the loan if a sale cannot be completed timely due to delays in the appraiser obtaining access to a property.

d. Liquidation Appraisal Requirements

For details about VA liquidation appraisal requirements, see section 13 of [chapter 11](#).

e. Submitting Cases to VA for Processing

If a SAR is reluctant to issue the Notice of Value (NOV) due to the difficulty or complexity of the case, the SAR may request that the VA Regional Loan Center (RLC) of jurisdiction issue the NOV.

6. Servicer Quality Control System Requirements

a. Introduction To qualify for Servicer Appraisal Processing Program (SAPP) authority, the servicer must have an effective quality control (QC) system that ensures the adequacy and quality of its staff appraisal reviews. This QC system must be independent of the servicer's loan servicing operation.

Upon request, the servicer must agree to furnish Department of Veterans Affairs (VA) with findings and information about the system. The senior officer must certify on each Staff Appraisal Reviewer (SAR) application that the QC system meets the requirements detailed in this section.

b. QC Reviewers Reviews of the SAR's work may be performed by an independent party or independent internal audit division that reports directly to the servicer's chief executive officer. QC personnel should possess:

- a basic familiarity with appraisal theory and techniques, and
- the ability to prescribe appropriate corrective actions when problems in the appraisal review process are identified.

c. Frequency and Scope of Reviews Perform desk reviews of each SAR's appraisal reviews on a monthly basis. The sample size should be no less than:

- five percent of the SAR's SAPP cases processed monthly, or
- a minimum number of cases per month (for example, five cases).

There must be a procedure for expanding the scope of the reviews if a pattern of deficiencies is identified.

d. QC Review Criteria QC reviews should consider:

- the overall quality of the SAR's appraisal review, and
- the appropriateness of the reasonable value determination.

e. Maintenance of VA Publications The QC system must provide assurance that all current VA regulations, directives, and other releases are maintained and immediately available to the QC personnel and SARs.

Continued on next page

6. Servicer Quality Control System Requirements, Continued

f. Management Notification and Corrective Action

The QC system must provide for written notification of deficiencies cited as a result of audits on quarterly reviews to:

- the servicer's senior management, or
- the chief executive officer.

The QC system must require senior management to:

- promptly initiate and document actions to correct deficiencies, and
 - provide SARs with corrective instructions.
-

g. Review of VA Fee Panel Appraisals

In addition to reviews of the SAR's work, random field reviews of VA fee panel appraisals should be performed. These reviews can be done by:

- the SAR, or
- an independent appraiser on a contract basis.

Note: Any substantive negative findings should be formally reported to the VA Regional Loan Center (RLC) where the appraiser is a member of the fee panel.

Appendix A: Listing of VA Offices

Overview

In this chapter This appendix contains the following topics.

Topic	Topic Name	See Page
1	How to Use this Appendix	A-2
2	Table of VA Offices	A-3

1. How to Use This Appendix

Change Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - This section has been changed to add a title to this section.
 - This section has been changed to revise the reference to [Chapter 2](#).
-

**a. How to Use
this Appendix**

This appendix provides VA office mail, telephone and website (where available) contact points.

If the contact involves a particular loan, find the location of the property securing the loan in the “Jurisdiction” column and contact the office listed next to it in the “VA Office” column.

Note: For issues involving VA Home Loan Eligibility, please reference [section 3 of chapter 2](#).

Continued on next page

2. Appendix A: Listing of VA Offices

Change Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. List of VA Offices The table blow lists contact information for VA offices with Loan Guaranty Service functions.

VA Office	Jurisdiction	Address and Website	Phone numbers
Atlanta	Georgia, North Carolina, South Carolina, Tennessee	Department of Veterans Affairs Regional Loan Center 1700 Clairmont Rd. PO Box 100023 Decatur, GA 30031-7023 http://www.vba.va.gov/ro/atlanta/rlc/index.htm	888-768-2132
Cleveland	Delaware, Indiana, Michigan, New Jersey, Ohio, Pennsylvania	Department of Veterans Affairs Cleveland Regional Loan Center 1240 East Ninth Street Cleveland, OH 44199 http://www.vba.va.gov/ro/central/cleve/index1.htm	800-729-5772
Denver	Alaska, Colorado, Idaho, Montana, New Mexico, Oregon, Utah, Washington, Wyoming	Department of Veterans Affairs VA Regional Loan Center Box 25126 Denver, CO 80225 www.vba.va.gov/ro/denver/loan/lgy.htm	888-349-7541
Honolulu	Hawaii, the Pacific Islands of American Samoa, Guam, Wake, and Midway, and the Commonwealth of the Northern Mariana Islands	Spark M. Matsunaga Bldg. VA Medical and Regional Office Center Loan Guaranty Office 459 Patterson Road Honolulu, HI 96819-1522 e-mail address: lgytsero@vba.va.gov	808-433-0480
Houston	Arkansas, Louisiana, Oklahoma, Texas	Department of Veterans Affairs VA Regional Loan Center 6900 Almeda Road Houston, TX 77030 www.vahouston.com	888-232-2571

Continued on next page

2. Appendix A: Listing of VA Offices, Continued

a. List of VA Offices (continued)

VA Office	Jurisdiction	Address and Website	Phone numbers
Manchester	Connecticut, Massachusetts, Maine, New Hampshire, New York, Rhode Island, Vermont	Department of Veterans Affairs VA Regional Loan Center 275 Chestnut Street Manchester, NH 03101 http://www.vba.va.gov/ro/manchester/lgy/main/loans.html	800-827-6311
Phoenix	Arizona, California, Nevada	Department of Veterans Affairs Phoenix Regional Loan Center 3333 N. Central Avenue Phoenix, AZ 85012-2402 www.vba.va.gov/ro/phoenixlgy/index.htm	888-869-0194
Roanoke	District of Columbia, Kentucky, Maryland, Virginia, West Virginia	Department of Veterans Affairs Roanoke Regional Loan Center 210 Franklin Road SW Roanoke, VA 24011 www.vba-roanoke.com/rlc	800-933-5499
St. Paul	Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota, Wisconsin	Department of Veterans Affairs VA Regional Loan Center Fort Snelling 1 Federal Drive St. Paul, MN 55111-4050 http://www.vba.va.gov/ro/central/stpau/pages/homeloans.html	800-827-0611
St. Petersburg	Alabama, Florida, Mississippi	Department of Veterans Affairs VA Regional Loan Center PO Box 1437 St. Petersburg, FL 33731-1437 http://www.vba.va.gov/ro/south/spete/rlc/cv.htm	888-611-5916 (out of state) 800-827-1000 (in FL)
San Juan	Puerto Rico, US Virgin Islands	VA Regional Office PO Box 364867 San Juan, PR 00936	787-772-7312 or 787-772-7314 or 787-772-7311

Current Issues

Overview

In this chapter This chapter contains the following topics.

Topic	Topic Name	See Page
1	Electronic Publication of Lender's Handbook	CI-2
2	Misleading Advertisements	CI-3
3	Automated Underwriting	CI-5
4	Home Mortgage Disclosure Act (HMDA)	CI-6
5	VA Restructuring of the Loan Processing Function	CI-10
6	Modified Guaranty Submission Procedure	CI-11
7	Electronic Data Interchange	CI-13

1. Electronic Publication of Lender's Handbook

Changed Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Which Publications Are Available Electronically? VA Pamphlet 26-7, VA Lender's Handbook, along with H26-94-1, VA Servicing Guide, are now available electronically on the Internet. Changes to the handbook and Servicing Guide will be available on the Internet when signed. Lenders are strongly encouraged to begin accessing these publications electronically.

Excerpts from certain [Loan Guaranty circulars](#) beginning in 1996 are also available electronically. Circulars contain information about changes to VA policies and/or procedures and information that regional offices are required to release to lenders and/or servicers in their area. Circulars, which only discuss internal VA procedures, are not included.

b. Internet Address The Internet address is: http://www.warms.vba.va.gov/pam26_7.html.

c. Commercial Services There are also commercial services distributing VA documents electronically. For example, the Mortgage Resource Center (800-848-4904) offers them on diskettes for those without access to the Internet as well as over the Internet (<http://www.allregs.com>). They can notify lenders by electronic mail when lender's handbook changes or circulars are issued.

2. Misleading Advertisements

Changed Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Policy The Department of Veterans Affairs always strives to provide all veterans the most up-to-date and pertinent information about their benefits. Toward that end, all appropriate efforts by lenders to further educate or remind veterans about their home loan benefit and the lender's availability to assist the veteran in obtaining the benefit is appreciated. However, it is inappropriate to direct any information about benefits to veterans which is in any way misleading.

It must be clearly understood that VA has a very specific mission to serve veterans, who are declared by Congress to be a "special class of citizen," and veterans rely on VA to provide dependable service and reliable information concerning their benefits.

Any action on the part of lenders or other program participants which jeopardizes VA's credibility with veterans or induces veterans to obtain loans which are clearly not in their best interests would be viewed by VA as actions which are detrimental to the best interests of veterans. If such a determination is made, grounds for suspension from participation in the VA Loan Guaranty Program could be established.

b. Examples *Example 1:*

In increasing numbers, VA has been receiving inquiries and complaints from veterans concerning advertisements and solicitations they have received from lenders which state that VA has a new program to refinance their VA loan and lower their interest rate, an Interest Rate Reduction Refinancing Loan (IRRRL).

The IRRRL program has been available to veterans since the enactment of The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 ([Public Law 96-385](#)).

In addition, many of these solicitations suggest that the lender has some special relationship with VA that enables **only** them to offer this loan opportunity. Some even clearly attempts to give the impression that the "letter" the veteran received came from VA.

Continued on next page

2. Misleading Advertisements, Continued

b. Examples (continued)

Example 2:

Another unacceptable advertising approach that some lenders have been using is to invite veterans to “skip” payments and refinance their loan. It generally gives the appearance that VA condones skipping payments and rolling them into the new IRRRL. This is not the case.

It is irresponsible to suggest to any mortgagor that this program encourages skipping payments, or that this is an appropriate means of getting around the prohibition against receiving cash from the transaction.

Any advertising that promotes skipping payments as a means of obtaining cash for other purposes is unacceptable.

c. Lender Responsibility

VA encourages all lenders to continue offering VA financing to all eligible and qualified veterans, and it is recognized that mortgage lending is a competitive industry. However, VA insists that lenders refrain from any and all practices which might mislead veterans into actions which are contrary to their own best interests.

If your firm has been engaging in such advertising, or is considering doing so, VA strongly recommends that anything in your promotional material which is in any way inaccurate or misleading be deleted. If there is uncertainty about the accuracy or propriety of the advertisement or solicitation, please consult with the appropriate local VA office or the Loan Policy staff at VA Central Office at (202) 273-7368.

d. Sanctions

Sanctions of program participants for violations of regulations are set forth in [38 CFR part 44](#). Refer to [Chapter 17](#) for additional information on sanctions of program participants.

[\[Public Law 96-385\]](#)

3. Automated Underwriting

Changed Date	<p>September 15, 2004, Change 4</p> <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection a has been changed to add a reference to the Zippy program.• Subsection c's reference to Fannie Mae and Freddie Mac's automated underwriting systems has been changed to "provider of these systems." This change is due to the increase in the number of approved systems.
a. General	<p>VA has approved the use of several automated underwriting systems. The systems are</p> <ul style="list-style-type: none">• Freddie Mac's Loan Prospector,• Fannie Mae's DU,• Countrywide's CLUES System, and• Chase's Zippy <p>Note: The Chase and Countrywide systems may only be used in connection with their loans.</p> <p>The systems are only for use by VA automatic lenders, and only on loans eligible for automatic processing.</p> <p>These systems assign a risk classification which determines the level of underwriting and documentation needed.</p>
b. Lender Responsibility	<p>The automated systems do not approve or disapprove loans. They merely determine a risk classification. It is still the lender's decision whether or not to approve the loan.</p> <p>Lenders are still responsible for meeting all VA requirements for all loans; however they may take advantage of certain documentation waivers based on the risk classification.</p>
c. VA's Role	<p>Although VA has approved the use of these systems, we are not the vendor. The terms and conditions of use must be negotiated directly with the provider of these systems.</p>

4. Home Mortgage Disclosure Act (HMDA)

Changed Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a.
**Compatibility
of VA Program
with HMDA**

As a result of releases of [Home Mortgage Disclosure Act](#) (HMDA) data, many lenders are increasingly concerned that they are taking all appropriate measures to assure access by minorities and lower income households to home mortgage loans. VA believes that it is important for lenders to be aware of how effectively the VA Home Loan Program can assist them in meeting this goal.

The no down payment feature is, of course, a primary advantage for individuals with low-to-moderate incomes. However, lenders should not overlook other aspects of the VA program that will help in underwriting loans for such applicants. The “VA Credit Standards” are written as guidelines and are meant to be interpreted and used just that way, taking into consideration all of an individual loan applicant’s financial, employment and family circumstances.

This topic provides guidance on areas of underwriting that may be of particular concern when processing applications for low-to-moderate income borrowers. Many of the concepts are discussed in [Chapter 4](#), Credit Underwriting, but are repeated here to emphasize their importance and applicability to underwriting loans to minority and low-to-moderate income applicants.

b. Purpose

This topic in the “VA Lender's Handbook” is intended to encourage underwriters to find ways to approve loan applications which ought to be approved but may not appear approvable upon direct application of the credit standards. The examples discussed are certainly not all inclusive, but they should help the underwriter recognize that there are those whose lifestyle, minority status, or location require consideration of extraordinary, yet valid, factors in the underwriting process in order to find a basis for correctly making an approval decision.

Underwriters are encouraged to give consideration to every possible appropriate factor in seeking a proper basis for approving loan applications for every qualified veteran.

Continued on next page

4. Home Mortgage Disclosure Act (HMDA), Continued

c. Use of VA Prior Approval Procedure

Although lenders that have automatic authority should use that authority to the maximum extent possible, another important tool available to lenders seeking to increase credit access by minority and lower income borrowers is the optional use of VA's prior-approval processing.

Loan applications that may not be clearly approvable under VA's published credit standards but which, in the lender's view, contain compensating strengths, may be sent to VA on the prior-approval basis. Lenders should submit an explanation as to why the loan was not closed automatically and point out the reasons why they believe the loan may be approvable.

d. Employment and Income Stability

A borrower's employment and income stability are vital to the underwriting of a loan. There are characteristics that should be considered when underwriting loans for low-to-moderate income borrowers when evaluating acceptable employment and income.

Changing of Jobs

It is possible to establish stable and reliable income without having established a stable employment history in one position or job. It is not unusual for some borrowers to change jobs frequently, even changing lines of work. The borrower may be simply going where there is available work. To establish stability and continuance of income, the borrower must demonstrate the ability to maintain an income at a constant level over the recent 2-year period even if he or she has worked for a variety of employers.

Part-Time Employment

It is not uncommon for people with limited income from their primary employment to take on part-time jobs to supplement their incomes. Ideally the borrower should show a two-year history, but one year may be considered for an otherwise strong borrower. Underwriters must review such income for probable continuance and try to assure that the part-time employment is reasonable and sustainable.

Continued on next page

4. Home Mortgage Disclosure Act (HMDA), Continued

**d. Employment
and Income
Stability
(continued)**

Periods of Unemployment

In parts of the country, it is not unusual for some individuals to work for certain times of the year and draw unemployment for the remainder of the year (such as field workers). A period or periods of unemployment will not automatically be considered unfavorably, provided the unemployment is regular and seasonal, or is a limited occurrence between jobs, and unemployment compensation has been received during those periods. If the applicant has a history of such an income pattern, unemployment compensation as well as income received during periods of employment may be used when calculating an individual's income for loan approval purposes.

**e. Source of
Funds to Close**

Another area where low-to-moderate income borrowers sometimes differ from others is the source of funds to close loans. It is not unusual or unacceptable for some borrowers to save money at home versus using depositories. In order to be acceptable, a reasonable explanation of how the borrower saved the funds should be provided.

**f. Credit
History**

In the area of credit, the lack of an established credit history should not be a deterrent to loan approval. As provided in the credit standards, a satisfactory payment history on items such as rent, utilities, phone bills, etc., may be used to establish a satisfactory credit history.

Continued on next page

4. Home Mortgage Disclosure Act (HMDA), Continued

g. Consider All Factors

As stated in the credit standards, no single factor is a determinant in any applicant's qualification for a VA-guaranteed loan.

- A veteran who has maintained an excellent credit history, (such as satisfactory payment of a shelter expense comparable to the proposed shelter expense) may be approvable in spite of shortfall in the residual income. In such an instance, it might be appropriate to consider that the veteran has established a lifestyle which is substantially different from the average used in establishing the residual income tables in the credit standards.
 - A veteran with a good credit record who meets the residual income guideline (without exceeding it by 20 percent) may be approvable in spite of a high debt-to-income ratio if the proposed shelter expense is not significantly greater than the amount the veteran has been accustomed to paying.
-

h. Compensating Factors

The use of compensating factors is encouraged for marginally approvable VA loans, and a detailed explanation of their use in underwriting loans is provided in the credit standards.

A compensating factor that has come into play quite recently is the numerous financial and homeownership counseling programs being provided by a variety of sources including banks, mortgage lenders, and community groups. These counseling programs are designed to help applicants work out payment plans for old debts, design savings plans, and teach basic budgeting skills. Programs often include homebuyer education lessons and post-closing counseling to assist the new homeowners once the loan is made. Participation by an applicant in such a counseling program can be viewed as a strong compensating factor for a case in which it is otherwise difficult to conclude that a borrower is qualified under a traditional interpretation of the credit standards.

5. VA Restructuring of the Loan Processing Function

Changed Date

September 15, 2004, Change 4

- This section has been changed to create subsection lettering.
 - Subsection a has been created by combining the two previous subsections into one. This new subsection encourages lenders to use their automatic authority in every possible instance before submitting a loan to VA for underwriting.
-

a. Use of Prior Approval Processing by Automatic Lenders

Lenders with automatic authority must use their automatic authority in every possible instance before submitting a loan to VA for underwriting on the prior approval basis.

Except for cases specifically precluded from automatic processing, such as joint loans, the **only** cases lenders should consider submitting to VA for prior approval are those in which the underwriter firmly believes approval can be justified. However, the specific facts of the case appear to preclude approval. In such instances, the underwriter must include:

- a detailed explanation of why the loan should be approved by VA, plus
- a thorough justification for not approving the loan on the automatic basis.

It will **not** be sufficient to justify submitting the loan to VA solely to comply with the veteran's or the real estate agent's request to do so.

6. Modified Guaranty Submission Procedure

Changed Date	<p>September 15, 2004, Change 4</p> <ul style="list-style-type: none">• This section has been changed to create subsection lettering.• Subsection a added a reference to the Automated Certificate of Eligibility, deleted references to obsolete funding fee forms and updated the “Certificate of Reasonable Value” to ‘Notice of Value.’”• Subsections a and b have been changed to correct typographical and grammatical errors. Changes have been highlighted.• Subsection c has been changed to provide the subsection reference.
a. What must Lenders Submit?	<p>Lenders must submit copies (except for the COE, which must be an original) of the items below in the order listed, to VA when requesting guaranty for all loans except Interest Rate Reduction Refinancing Loans (IRRRLs). There are no changes to IRRRL procedures for requesting guaranty.</p> <ol style="list-style-type: none">1. VA Form 26-0286, Loan Summary Sheet2. Certificate of Eligibility (VA Form 26-8320, VA Form 26-8320a, or Automated Certificate of Eligibility), if not previously submitted in connection with a prior approval loan application3. Funding Fee receipt []4. Notice of Value or copy of Master Certificate of Reasonable Value with front page and options pages highlighted to pertain to the specific property []5. VA Form 26-1820, Report and Certification of Loan Disbursement6. HUD 1 Settlement Statement7. Name and mailing address to be used in requesting file for full review or post audit8. E-mail address, if available, which may be used to request file in lieu of letter.

Continued on next page

6. Modified Guaranty Submission Procedure, Continued

b. VA will select cases for full review

VA field stations will identify cases selected for full review or other audit purposes at **least** weekly within 30 days of receipt by VA. Lenders will then be notified of selected cases by letter or e-mail. Lenders must forward the complete origination package to the requesting VA office within 15 days of receiving notification from VA.

c. How will this work

1. Lender processes loan and gets all documentation needed to process the loan.
 2. Lender submits only the items identified in **subsection a of this section** when requesting guaranty.
 3. Lender will be notified by letter, or e-mail, from VA identifying which cases must be submitted to VA for full review/audit purposes.
 4. Lender submits copy of origination package to VA.
-

d. Termination of Lender's participation in the modified guaranty submission

VA field stations may, at their discretion, terminate a lender's participation in this modified guaranty submission procedure if that lender demonstrates an ongoing inability or unwillingness to be timely in responding to requests from VA.

7. Electronic Data Interchange

Changed Date September 15, 2004, Change 4
This section has been changed to create subsection lettering.

a. Paperless Guaranty Processing Electronic Data Interchange (EDI) enables participating lenders to electronically submit a loan to VA for guaranty **AND** receive an electronically generated Loan Guaranty Certificate (LGC).

Lenders benefit from this type of processing in many ways, including:

- Quicker receipt of the LGC (48 hour turn around)
- No need to mail a paper package (unless selected for an audit review)
- Ability to submit loans for guaranty virtually anytime
- No need to complete the VA Form 26-0286, Loan Summary Sheet
- Ability to deliver final documents to investors quickly, enabling investors to purchase pool loans faster which reduces costs of carrying the loan.

b. Electronic Data Interchange for Small and Medium Sized Lenders C.C. Pace Systems, a technology consulting firm specializing in business solutions for the mortgage industry collaborated with VA to develop Loan Guaranty Express (LGXpress).

LGXpress is easy to implement and can offer time-saving and money-saving process improvements for some small to medium sized lenders.

c. Getting Started To take advantage of EDI, please contact Mr. Steve Varlas at lgysvarl2@vba.va.gov.

To obtain more information on LGYXpress, please contact C.C. Pace LGXpress Coordinator at cpichette@ccpace.com. Additional information is also available on the C.C. Pace website at www.ccpace.com

To: Lenders and Other Participants in the VA Loan Guaranty Program

Subject: Transmittal of Change 1 to VA Pamphlet 26-7, Revised, VA Lender's Handbook

Purpose

Enclosed is Change 1 to VA Pamphlet 26-7, Revised, VA Lender's Handbook, Guaranty of Loans to Veterans. The material that has been added, revised, moved or otherwise changed is highlighted. The Handbook pages affected are: 10-5, 10-6, 10-8, 10-9 (**material deleted**), 10-18, 10-19, 10-20, 10-21, 11-22, 13-14, 13-21, 15-4, and 16-A-2.

Changes

Chapter 10

- Section 10.04 is changed to mention (under "Procedure") that more detailed guidance for requesting an appraisal is now provided in Figure 2. Also, information regarding cases in which the veteran is acting as the general contractor has been moved from Section 10.08 to "Step 3".
- Section 10.05 is changed to provide an overview of "Proposed or Under Construction" cases. Details about such cases have been moved to Section 10.09.
- Section 10.08 is changed to reorganize and revise the information under "Construction Exhibits and Inspections" and "Construction Warranty" for better clarity. Also, a limited exception is now provided to the requirement for either a one-year VA builder's warranty or a ten-year insured protection plan.
- Section 10.09 is changed to provide information only about "Proposed or Under Construction" cases and to revise that information for better clarity. Information about ten-year protection plans is now found both in Section 10.09 and in Section 10.08 ("New Construction").
- Figure 2 ("VA Appraisal Request Checklist") is added to provide more detailed guidance.

Chapter 11

- Section 11.12 is changed (under "Properties Subject to Flooding") to reflect the fact that, although fee appraisers are not responsible for determining if the elevation of the lowest floor is below the 100 year flood level or if the property is subject to regular flooding, they must notify VA and the lender if there is an indication that such a problem exists.

Continued on next page

**Changes
(continued)**

Chapter 13

- Section 13.06 is changed to delete references to planned unit developments under “NOV Item – PUD Condominium Requirements”, since this requirement applies only to condominiums. “NOV Item – Water/Sewer System Acceptability” is changed to clarify requirements for individual septic systems (including pit privies), as well as address spring or cistern water supplies and include additional references. “NOV Item – Construction Warranty” is revised for better clarity and to provide a reference for cases involving a ten-year protection plan.

Chapter 15

- Section 15.01 is changed (under “Location of SAR”) to eliminate any restriction on the location of the lender’s staff appraisal reviewer.

Chapter 16

- Section 16-A.01 is changed by adding an “Introduction” to clarify VA requirements with regard to properties located in condominiums and other planned unit developments. Typographical errors are corrected under “Acceptable Title”.

**Additional
Copies**

Additional copies may be downloaded off the Internet (see section CI.01).

**VA
Lender’s
Handbook
Changes**

VA Pamphlet 26-7, “VA Lender’s Handbook, Revised” is changed as follows:

- **Pages 10-5 through 10-10:** Remove these pages and substitute pages 10-5 through 10-10 attached.
- **Pages 10-17 through 10-22:** Remove these pages and substitute pages 10-17 through 10-22 attached.
- **Page 10-31:** Remove this page and substitute pages 10-31 through 10-33 attached.
- **Pages 11-21 and 11-22:** Remove these pages and substitute pages 11-21 and 11-22 attached.
- **Pages 13-13 and 13-14:** Remove these pages and substitute pages 13-13 and 13-14 attached.
- **Pages 13-21 and 13-22:** Remove these pages and substitute pages 13-21 and 13-22 attached.
- **Pages 15-3 and 15-4:** Remove these pages and substitute pages 15-3 and 15-4 attached.
- **Pages 16-A-1 and 16-A-2** Remove these pages and substitute pages 16-A-1 and 16-A-2 attached.

Keith Pedigo, Director
Loan Guaranty Service

To: Lenders and Other Participants in the VA Loan Guaranty Program

Subject: Transmittal of Change 2 to VA Pamphlet 26-7, Revised, VA Lender's Handbook

Purpose

Enclosed is Change 2 to VA Pamphlet 26-7, Revised, VA Lender's Handbook, Guaranty of Loans to Veterans. The material that has been added, revised, moved or otherwise changed is highlighted. The Handbook pages affected are: 1-23, 1-48 (**material deleted**), 3-13 (**material deleted**), 3-14, 4-8, 4-9, 4-15, 4-16, 4-19, 4-50 through 4-69, 5-16, 6-14 and Appendix A (replaced).

Changes

Chapter 1

- Section 1.07 adds general information on available web based underwriter training. The current address for web based training has also been added.
- Section 1.14, an incorrect reference to training software has been deleted and a new section on Internet Training has been added incorporating Circular 26-01-03.

Chapter 3

- Section 3.05 deletes the overseas/remote duty station reference from the spousal occupancy requirement. Occupancy by a spouse can meet the requirement regardless of where the active duty veteran is stationed.
- Section 3.05 clarifies occupancy issues with respect to deployed active duty service members.

Chapter 4

- Section 4.02 adds a reference to the new E/MSS (Employee Member Self Service) payroll system which may be used to obtain a verification of employment.
- Section 4.02 adds reference to income determinations for Reserve and National Guard servicemembers who are subject to mobilization and whose loans are in process or ready to close. Lenders will be required to ascertain whether or not the veteran-applicant is a member of a Reserve or Guard unit subject to mobilization.
- Section 4.08 adds reference to the importance of Data Integrity on Automated Underwriting cases receiving an "Accept" or "Approve" rating. It notes that inaccurate or unverified data will result in an invalidation of the risk classification.
- Section 4.08 updates the documentation matrix for Automated Underwriting cases.
- Section 4.09 establishes a standard figure of 14¢ per square foot for maintenance and utilities costs to be used on the Loan Analysis.

Continued on next page

**VA Lender's
Handbook
Changes,
(continued)**

- **Page 6-13 through 6-20:** Remove these pages and substitute pages 6-13 through 6-19 attached.
- **Page 7-5 through 7-10:** Remove these pages and substitute pages 7-5 through 7-10 attached.
- **Page 7-13 and 7-14:** Remove these pages and substitute pages 7-13 and 7-14 attached.
- **Page 9-1 and 9-2:** Remove these pages and substitute pages 9-1 and 9-2 attached.
- **Page 10-1 through 10-33:** Remove these pages and substitute pages 10-1 through 10-32 attached.
- **Page 11-1 through 11-4:** Remove these pages and substitute pages 11-1 through 11-4 attached.
- **Page 11-7 through 11-10:** Remove these pages and substitute pages 11-7 through 11-10 attached.
- **Page 11-13 through 11-16:** Remove these pages and substitute pages 11-13 through 11-16 attached.
- **Page 12-3 and 12-4:** Remove these pages and substitute pages 12-3 and 12-4 attached.
- **Page 12-7 and 12-8:** Remove these pages and substitute pages 12-7 and 12-18 attached.
- **Page 12-15 and 12-16:** Remove these pages and substitute pages 12-15 and 12-16 attached.
- **Page 12-21 and 12-22:** Remove these pages and substitute pages 12-21 and 12-22 attached.
- **Page 13-1 and 13-2:** Remove these pages and substitute pages 13-1 and 13-2 attached.
- **Page 13-5 and 13-6:** Remove these pages and substitute pages 13-5 and 13-6 attached.
- **Page 13-9 through 13-12:** Remove these pages and substitute pages 13-9 through 13-12 attached.

Continued on next page

Changes
(continued)

Chapter 5

- Section 5.05 updates language on late reporting to clarify that the lender must also certify the loan is current.

Chapter 6

- Section 6.02 reference to "...application and at time of..." in number 12 has been deleted. Specifies that lender must certify that loan was current at time of closing. Language in number 13 on late reporting has been changed to note that lender must certify loan is current.

Appendix A

- Appendix A is replaced with an updated address and telephone list of the Regional Offices and Loan Centers.
-

**Loan
Analysis**

VA Form 26-6393, Loan Analysis, will be updated in the near future to incorporate these changes. No changes will be made to this form through this change to the Lender's Handbook.

**Additional
Copies**

Additional copies may be downloaded off the Internet (see section CI.01).

Continued on next page

**VA
Lender's
Handbook
Changes**

VA Pamphlet 26-7, "VA Lender's Handbook, Revised" is changed as follows:

- **Pages 1-23 and 1-24:** Remove these pages and substitute pages 1-23 and 1-24 attached.
 - **Pages 1-47 and 1-48:** Remove these pages and substitute pages 1-47 and 1-48 attached.
 - **Pages 3-13 and 3-14:** Remove these pages and substitute pages 3-13 and 3-14 attached.
 - **Pages 4-7 through 4-10:** Remove these pages and substitute pages 4-7 through 4-10 attached.
 - **Pages 4-15 and 4-16:** Remove these pages and substitute pages 4-15 and 4-16 attached.
 - **Pages 4-19 and 4-20:** Remove these pages and substitute pages 4-19 and 4-20 attached.
 - **Pages 4-49 through 4-71:** Remove these pages and substitute pages 4-49 through 4-69 attached.
 - **Pages 5-15 and 5-16:** Remove these pages and substitute pages 5-15 and 5-16 attached.
 - **Page 6-13 and 6-14:** Remove these pages and substitute pages 6-13 and 6-14 attached.
 - **Pages A-1 through A-12** Remove these pages and substitute pages A-1 through A-11 attached.
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Keith Pedigo, Director
Loan Guaranty Service

To: Lenders and Other Participants in the VA Loan Guaranty Program

Subject: Transmittal of Change 3 to VA Pamphlet 26-7, Revised, VA Lender's Handbook

Purpose Enclosed is Change 3 to VA Pamphlet 26-7, Revised, VA Lender's Handbook, Guaranty of Loans to Veterans. Changes to Current Issues, Chapters 1, 2, 3, 4, 5, 6, 7, 9, 10, 11, 12, 13, 14, 15, 16 and Appendices A and C are described below. The material that has been added, revised, moved or otherwise changed is highlighted.

Changes

Current Issues

- Section CI.02 adds the regulatory reference for program participant sanctions based on misleading advertisements.
- Section CI.07 has been added to provide general information on Electronic Data Interchange (EDI). This new section provides information on the benefits of EDI, different available EDI technology and how to start using EDI.

Chapter 1

- Section 1.05 clarifies the approval of automatic authority for non-supervised lenders, eliminating requirements for lenders to maintain a presence in states where they close VA loans.

Chapter 2

- Overview has been changed to update page numbers
- Section 2.01 has been changed to include a reference to the Automated Certificate of Eligibility (ACE).
- Section 2.02 updates the amount of additional entitlement from \$14,750 to \$24,000 and a reference to the ACE system has been added.
- Section 2.03, a typographical error referring to the name for VA Form 26-1880, Request for a Certificate of Eligibility, and part D of that form have been corrected. General information about Internet availability of the ACE system has been added.

Chapter 3

- Section 3.01 updates the amount of additional entitlement from \$14,750 to \$24,000 with maximum available entitlement of \$60,000.
- Section 3.02 has been changed to rearrange the format of the first paragraph.

Continued on next page

Changes (continued)

Chapter 3, continued

- Section 3.03 has been changed to remove the reference to GNMA VA loan limitations. This section has been further modified to remove the reference to Certificate of Reasonable Value.
- Section 3.04 updates the amount of additional entitlement from \$14,750 to \$24,000 with maximum available entitlement of \$60,000.
- Section 3.05 includes additional language regarding spousal occupancy.
- Section 3.11 adds reference to use of EDI.



Chapter 4

- Overview has been changed to correct page numbers.
- Section 4.02 adds reference to acceptance of faxed and Internet documents for verification of employment.
- Section 4.04 adds reference to acceptance of faxed and Internet documents for verification of assets.
- Section 4.05 adds reference to deferred student loans.
- Section 4.08 changes the documentation guideline for automated underwriting cases requiring direct verification of mortgage debts on refer loans and requiring pay stubs covering 1 full month of employment. This section has been further modified to remove an incorrect section reference.

Chapter 5

- Exhibits 5-A and 5-B have been removed. These forms are available at <http://www.vba.va.gov/pubs/homeloanforms.htm>.

Chapter 6

- Section 6.01 has been changed to correct a typographical error referring to the name of VA Form 26-1880. The reference to “date of application” has been removed; this reference was missed in the previous handbook change.
- Section 6.02 has been changed to correct a typographical error referring to the name for VA Form 26-1880.

Chapter 7

- Section 7.01 updates the amount of additional entitlement from \$14,750 to \$24,000 and the maximum guaranteed loan amount from \$203,000 to \$240,000.
- Section 7.02 has been changed to permit lenders to offer “floating” interest rates on construction to permanent home loans.

Continued on next page

Changes
(continued)

Chapter 9

- Section 9.01 has been changed to incorporate a change in the law affecting the substantial wording of the assumption clause.

Chapter 10

- Overview has been updated to change the title of sections 10.03 and 10.09 to “The Appraisal System,” and “Proposed or Under Construction.” Page numbers have also been changed to correct a formatting error.
- Section 10.03 has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS)”.
- Section 10.04 has been changed to incorporate a note for LAPP lenders to process all appraisal requests using LAPP. This section has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS)”. This section has been changed to incorporate information for LAPP lenders to provide their e-mail address in Item 5 of the appraisal request in order to receive the report e-mailed to them. This section has also had a number of syntax and typographical errors corrected.
- Section 10.09 has been changed to include a table for determination of required warranty for properties that are proposed or under construction.
- Section 10.10 has been changed to include a note describing the acceptability of HUD Form 92541. This section has also been updated to correct typographical and reference errors as well as an error of omission in the Geological and Soil Stability subparagraph.
- Section 10.12 has been changed to address problems with payment of appraisal fees and assessed late charges and increased allowable compliance inspection fee from \$65 to \$100.

Chapter 11

- Section 11.01 has been updated to reference “Notices of Value” based on the creation of The Appraisal System (TAS).
- Section 11.03 has been changed to reference timeliness of liquidation appraisals and how a fee appraiser should approach a property that does not appear to be eligible for the VA home loan program.
- Section 11.04 has been changed to address the electronic submission of appraisal photographs.
- Section 11.05 has been updated to explain how appraisers should submit appraisal reports using electronic media and how to submit files when the appraiser has been exempted from use of electronic media requirements.
- Section 11.07 has been changed to delete the requirement for a time adjustment explanation.
- Section 11.08 has been changed to delete the requirement for the time adjustment addendum in the sales comparison analysis section.

Continued on next page

Changes
(continued)

Chapter 11, continued

- Section 11.09 has been updated to address requirements for potential environmental problems.
- Section 11.10 has been changed to address placing the estimate of a condominium's remaining economic life in the "Comments" Section of FNMA Form 1073.

Chapter 12

- Section 12.01 has been changed to add the word "and" for exemption of Minimum Property Requirements.
- Section 12.03 has been changed to correct a grammatical error.
- Section 12.08 has been changed to include the permissibility of springs or cisterns where such facilities are customary and the only feasible means of water supply.
- Section 12.09 has been changed to rearrange the format of the Trust Deed subparagraph.
- Section 12.10 has been changed to permit anchoring straps and cables for manufactured homes classified as real estate to be affixed to ground anchors where allowed by local building authorities.

Chapter 13

- Overview has been updated to change the titles of sections 13.04 and 13.09 to "LAPP-Issuing a NOV Other Than the Appraiser's Value Estimate," and "Requesting Changes to the NOV," respectively. Overview has also been changed to include a reference for Lender Appraisal Processing Program (LAPP) lenders to encourage use of LAPP.
- Section 13.02 has been changed to add a reference for timeliness of Staff Appraisal Reviewers. This section is further updated to reflect the posting of local conditions to Regional Loan Centers' web page.
- Section 13.04 has been changed from "Lapp- Related Changes to Appraiser's Value Estimate" to now read "Lapp-Issuing a NOV at Other Than the Appraiser's Value Estimate." This section is changed to increase the variance of the change from 2 percent to 5 percent provided the change is clearly warranted and fully documented. A new subsection has been added to detail "Other Changes."
- Section 13.05 has been changed to add references to TAS when completing and generating a Notice of Value (NOV).
- Section 13.06 has been changed to update where to locate information on the Energy Efficient Mortgage program. This section is additionally changed to incorporate avenues for resolution to disagreements with the fee appraiser over repair recommendations. Additionally, errors in references to sections and exhibits have been updated.
- Section 13.07 has been updated to change references from "CRV" to "NOV," based on the creation of TAS.

Continued on next page

Changes (continued)

Chapter 13, continued

- Section 13.09 has been updated to change the title of this section to “Requesting Changes to the NOV”. Changes have also been made in the following subparagraphs: “How to Request a Change”, “Submission of Real Estate Market Data”, “Processing Change of NOV Request”, “Appraiser’s Role”, “VA’s Role” and “Lender’s Role.”

Chapter 14

- Section 14.01 has been changed to add subparagraph “Inspection Report Form.”
- Section 14.06 subparagraphs have been renamed: “Receipt of Inspection Reports”, “Use of Inspection Reports”, and “Retention of Inspection Reports.” The first subparagraph has been created to provide the compliance inspector direction on where to submit an inspection report.
- Section 14.07 has been changed to add the form name for VAF 26-1844. This section has been changed to provide for VA approval of changes made on VAF 26-1844 by issuing an amended NOV. Also changes have been made to notification process of the amended NOV.

Chapter 15

- Overview has been changed to correct page numbers.
- Section 15.07 has been updated to change “CRV” to “NOV”. This section has also been changed to require LAPP lenders to supply a detailed explanation when an eligible property is not processed by the lender.
- Section 15.08 has been changed to correct section references.

Chapter 16

- Overview has been changed to update references from “The VA Assignment System” to “The Appraisal System (TAS).”
- Section 16-A.03 has been changed to add a reference to Section 16-A.02.

Appendix A

- Appendix A has been updated to reflect recent VA office changes due to consolidation.

Appendix C

- Appendix C has been removed. Please use <https://www.pay.gov/va/> to access the new Internet based Funding Fee System and system guide.

Additional Copies

Additional copies may be downloaded from the Internet (see section CI.01).

Continued on next page

**VA Lender's
Handbook
Changes**

VA Pamphlet 26-7, "VA Lender's Handbook, Revised" is changed as follows:

- **Pages CI-1 through CI-4:** Remove these pages and substitute pages CI-1 through CI-4 attached.
- **Pages CI-13:** Add page CI-13 attached.
- **Pages 1-17 and 1-18:** Remove these pages and substitute pages 1-17 and 1-18 attached.
- **Pages 2-1 through 2-22:** Remove these pages and substitute pages 2-1 through 2-24 attached.
- **Pages 3-1 and 3-2:** Remove these pages and substitute pages 3-1 and 3-2 attached.
- **Pages 3-5 through 3-8:** Remove these pages and substitute pages 3-5 through 3-8 attached.
- **Pages 3-11 through 3-14:** Remove these pages and substitute pages 3-11 through 3-14 attached.
- **Page 3-25 and 3-26:** Remove these pages and substitute pages 3-25 and 3-26 attached.
- **Page 4-1 and 4-2:** Remove these pages and substitute pages 4-1 and 4-2 attached.
- **Page 4-9 and 4-10:** Remove these pages and substitute pages 4-9 and 4-10 attached.
- **Page 4-29 and 4-30:** Remove these pages and substitute pages 4-29 and 4-30 attached.
- **Page 4-35 and 4-36:** Remove these pages and substitute pages 4-35 and 4-36 attached.
- **Page 4-51 through 4-54:** Remove these pages and substitute pages 4-51 through 4-54 attached.
- **Page 5-23 and 5-24:** Remove these pages. There is no replacement.

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**VA Lender's
Handbook
Changes,
(continued)**

- **Page 13-15 through 13-18:** Remove these pages and substitute pages 13-15 through 13-18 attached
 - **Page 13-23 through 13-28:** Remove these pages and substitute pages 13-23 through 13-28 attached
 - **Page 14-3 and 14-4:** Remove these pages and substitute pages 14-3 and 14-4 attached.
 - **Page 14-13 through 14-17:** Remove these pages and substitute pages 14-13 through 14-17 attached.
 - **Page 15-1 and 15-2:** Remove these pages and substitute pages 15-1 and 15-2 attached.
 - **Page 15-15 through 15-20:** Remove these pages and substitute pages 15-15 through 15-21 attached.
 - **Page 16-1 and 16-2:** Remove these pages and substitute pages 16-1 and 16-2 attached.
 - **Page 16-A-9 and 16-A-10:** Remove these pages and substitute pages 16-A-9 and 16-A-10 attached.
 - **Page A-1 through A-11:** Remove these pages and substitute pages A-1 through A-3 attached.
 - **Pages C-1 through C-23:** Remove these pages. There is no replacement.
-

Keith Pedigo, Director
Loan Guaranty Service

To: Lenders and Other Participants in the VA Loan Guaranty Program

**Subject: Transmittal of Change 4 to VA Pamphlet 26-7, Revised,
VA Lender's Handbook**

**Lender's
Handbook**

Electronically attached are revisions of Chapters 1 through 9 as well as Current Issues and Appendix A of VA Pamphlet 26-7, VA Lender's Handbook, Guaranty of Loans to Veterans.

Changes

This newly formatted version generally contains the same information as the previous version. Most changes are relatively minor in nature (i.e., CRV to NOV), however, we have made a few significant modifications:

- ? A "Change Date" area has been added to each section and includes information about changes to that specific chapter's sections.
- ? Subsection lettering has been added.
- ? All document formatting has been adjusted to accommodate future releases.
- ? We have added active hyperlinks to chapters in the handbook, web pages and necessary loan application forms.

Wherever material has been changed, the change has been highlighted and when something has been deleted **[]** appears in the subsection.

**Removal of
Appendix B**

Due to Internet advances, Appendix B of the Lender's Handbook will no longer be available. For a list of all VA forms used in connection with a VA loan, lenders may use:

- ? <http://www.vba.va.gov/pubs/homeloanforms.htm>
 - ? <http://www.va.gov/vaforms/>
-

**Use of this
handbook**

This handbook change incorporates hyperlinks to MS Word® documents as well as current VA forms, HUD forms and third party forms, where available. Please report broken links to lgykburg2@vba.va.gov.

Continued on next page

**Additional
Copies**

Additional copies may be downloaded from the VA [Home Loans](http://www.homeloans.va.gov) website (<http://www.homeloans.va.gov>).

Rescissions

This new version of Chapter 6 incorporates circular 26-03-4

This new version of Chapter 8 rescinds circular 26-02-6.

This new version rescinds all previous versions of Chapters 1 through 9, Current Issues, Appendix A and Appendix B.

/s/Keith Pedigo
Director, Loan Guaranty Service

**Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420**

**VA Pamphlet 26-7, Revised
Change 5
July 20, 2007**

To: Lenders and Other Participants in the VA Loan Guaranty Program

**Subject: Transmittal of Change 5 to VA Pamphlet 26-7, Revised, VA
Lender's Handbook**

**Lender's
Handbook**

Electronically attached are revisions of Chapters 1, 3, 4 and Chapters 6 through 9 and chapter 11 of VA Pamphlet 26-7, VA Lender's Handbook, Guaranty of Loans to Veterans.

Changes

Change 5 incorporates Loan Guaranty portions of the Veteran's Benefits Improvement Act of 2004. Please note that all changes are listed within each document under the "Change Date" area of each section. Each "Change Date" provides specific information about changes made in those sections.

Unchanged sections will show the latest "Change Date" information including specific changes made on that date and the number for that change.

**Use of this
handbook**

This handbook change incorporates hyperlinks to MS Word® documents as well as current VA forms available in PDF from Adobe Acrobat®, HUD forms and other third party forms and sites, where available.

**Additional
Copies**

Additional copies may be downloaded from the VA [Home Loans](http://www.homeloans.va.gov) website (<http://www.homeloans.va.gov>).

Keith Pedigo
Director, Loan Guaranty Service

**Veterans Benefits Administration
Department of Veterans Affairs
Washington, D.C. 20420**

**VA Pamphlet 26-7, Revised
Change 6
August, 22 2008**

To: Lenders and Other Participants in the VA Loan Guaranty Program

**Subject: Transmittal of Change 6 to VA Pamphlet 26-7, Revised, VA
Lender's Handbook**

**Lender's
Handbook**

Attached is the new Chapter 18, Servicer Appraisal Processing Program (SAPP), of VA Pamphlet 26-7, VA Lender's Handbook, Guaranty of Loans to Veterans.

Changes

Change 6 adds chapter 18, which discusses the Servicer Appraisal Processing Program. The purpose of SAPP is to expedite the time required to service an account by allowing VA-authorized servicers to obtain completed liquidation appraisal reports directly from the E-Appraisal application on the Veterans Information Portal (VIP) and process them without VA involvement.

Because the information provided in Chapter 18 is new information, no change dates appear within the chapter.

**Additional
Copies**

Additional copies may be downloaded from the [VA Home Loans](http://www.homeloans.va.gov) website at <http://www.homeloans.va.gov>.

Judith A. Caden
Director, Loan Guaranty Service

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