CHAPTER 2: VETERAN'S ELIGIBILITY AND ENTITLEMENT

Overview

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

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

a. What is Eligibility

Eligibility means the Veteran meets the basic criteria of length of service (LOS) and character of service (COS) for the home loan benefit. Entitlement is the amount a Veteran has available for a guaranty on a loan. An eligible Veteran must still meet credit and income standards in order to qualify for a VA-guaranteed loan.

b. The Lender's Role

The Certificate of Eligibility (COE) issued in WebLGY is the proof of eligibility for the lender.

The lender must ensure the applicant is an eligible Veteran before an appraisal is ordered, the loan cannot be processed or closed. Lenders should never close a loan before they establish eligibility. VA cannot guarantee a loan for an ineligible Veteran.

Once a COE is issued there may be conditions on the COE which must be met in order to receive a guaranty. The conditions that could appear on the COE are:

- Active Duty Service Member (ADSM) - Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of date of note is required. This COE is not valid if the ADSM was discharged after the date of the certificate. In this instance, a new COE must be obtained.
- Funding Fee – Please fax a copy of VA Form 26-8937 to the Regional Loan Center (RLC) of Jurisdiction. Please have the lender contact the RLC for loan processing.
- Funding Fee – Veteran is not exempt from funding fee due to non service-connected pension. Loan application will require prior approval processing by VA.
- Reserve or National Guard Member – Valid unless discharged or released subsequent to the date of this certificate. A certification of continuous service in the Selected Reserve or National Guard as of the date of the note is required.
- Reserve/National Guard Funding Fee – Entitlement is based on service in the Selected Reserve and/or National Guard so an increased funding fee is required.
- Refinance Restoration – Restored entitlement previously used or charged for a VA Loan Identification Number (LIN) as shown here is available only for use in connection with the property which secured that loan.
- One-Time Restoration – Entitlement previously used for a VA LIN has been restored without disposal of the property, under provision of 38 U.S.C. 3702 (b)(4). Any future restoration requires disposal of all property obtained with a VA loan.
- Subsequent Use Funding Fee – Entitlement code of "5" indicates previously used entitlement has been restored. The Veteran must pay a subsequent use funding fee on any future loan unless the Veteran is exempt.

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Topic 1: How to Establish the Applicant's Eligibility for a VA Loan, continued

b. The Lender's Role, continued

- Surviving Spouse – Eligibility of the surviving spouse and the validity of guaranty entitlement hereby evidenced will be null and void if any change in marital status occurs, subsequent to the date of this COE and prior to the date a loan to the widow or widower is closed, unless the lender making the loan was not aware of any change in marital status and obtained on the date the loan closed an affidavit from the surviving spouse in the form prescribed by the Secretary.
- Prisoner of War/Missing in Action (POW/MIA) – This certificate evidences eligibility under 38 U.S.C 3701 (b)(3) of the individual named as the spouse of a Servicemember missing in action or prisoner of war. Any unused entitlement will terminate automatically upon the receipt of official notice that the Servicemember is no longer in a category specified in 38 U.S.C. 3701 (b)(3) or upon dissolution of marriage.
- Paid-in-Full Loan – Entitlement charged on a paid-in-full loan cannot be restored until the Veteran applies for restoration of entitlement. The lender shall submit the application electronically through VA's Automated Certificate of Eligibility (ACE) online application.
- Foreclosed Loan – Entitlement charged on a foreclosed loan cannot be restored until VA's loss on the loan has been fully repaid. Information about repayment of the loss may be obtained by contacting an RLC.

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. Appendix 1-A at the end of this chapter provides a quick reference and overview of basic eligibility criteria.

Lenders must use VA's ACE online application to obtain the COE. Go to VA's Information Portal (VIP) and select WebLGY from the applications toolbar; then select Eligibility and follow the prompts. In many cases, a COE can be generated in seconds. If not, lenders should select the link to submit an electronic application. This method allows lenders to upload supporting documentation and submit an application electronically to be processed by one of the RLCs.

A Veteran can apply for a COE through eBenefits at http://www.ebenefits.va.gov or, if necessary, by completing VA Form 26-1880, Request for a Certificate of Eligibility and mailing it to the listed RLC. Simultaneous applications may delay COE processing. To ensure quicker responses, it is preferable to apply online.

c. IRRRL Eligibility Determination

VA systems will not generate a VA case number for an Interest Rate Reduction Refinancing Loan (IRRRL) if there is no record of an active VA loan. This means if a lender successfully obtains a case number for an IRRRL, a COE is not required.

Topic 2: What the Certificate of Eligibility Tells the Lender

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

a. Eligibility

The lender may rely on a COE as proof the Veteran is eligible for the home loan benefit. Although eligible for the home loan benefit, Veterans must still qualify based on income and credit before loan approval is granted.

b. Amount of Entitlement

Entitlement is the amount available for use on a loan. The amount of basic entitlement is $36,000. This may be reduced if a Veteran has used entitlement before which has not been restored. The amount of basic entitlement will be displayed near the center of the COE. For example it may say:

> "THIS VETERAN'S BASIC ENTITLEMENT IS $_____. TOTAL ENTITLEMENT CHARGED TO PREVIOUS VA LOANS IS $_____."

For loans greater than $144,000, bonus entitlement may be available. For loans greater than $144,000, but less than $484,350, the entitlement is 25 percent. For loans greater than $484,350, the maximum entitlement is 25 percent of the loan limit, which can vary by county. For a list of loan limits by county, visit http://www.benefits.va.gov/homeloans/lenders.asp. Please note county limits can change yearly. VA will post the limits for each year on our website as they change.

The Veteran may have entitlement for loans greater than $144,000, the COE does not reflect the bonus entitlement. Instead, an asterisk by the word "available" refers to a note, which explains the possibility of additional entitlement.

If 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 three 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, or
- The Veteran may provide a downpayment in conjunction with their remaining entitlement.

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Topic 2: What the Certificate of Eligibility Tells the Lender, continued

c. Funding Fee Field and Conditions on the COE

The "funding fee" field appears near the top of the COE. The exemption status, either "exempt", "non-exempt" or "contact RLC" will appear to the right of this field:

- Exempt status indicates a Veteran is exempt from paying the funding fee.
- Non-exempt status indicates a Veteran is not exempt from paying the funding fee.
- Contact RLC indicates a system-generated determination is not available, or any loan may need to be submitted to VA as prior approval.

Lenders must be sure to comply with all "conditions" appearing near the middle portion of the COE:

- For COEs with "exempt" status, the following "conditions" may appear:
  - ☐ Funding Fee – Veteran is exempt from the funding fee due to receipt of service-connected disability compensation of $_____monthly.
  - ☐ Funding Fee – Veteran is exempt from the funding fee due to receipt of service-connected disability compensation. Monthly compensation rate has not been determined to date.
  - ☐ Funding Fee – Please fax a copy of VA Form 26-8937 to the VA RLC of jurisdiction.
  - ☐ Funding Fee – Please have the lender contact the VA RLC for loan processing. Please fax a copy of VA Form 26-8937 to the RLC of jurisdiction.
- For COEs with a "non-exempt" status, the following "conditions" may appear:
  - ☐ Funding Fee – Veteran is not exempt from the funding fee.
  - ☐ Funding Fee – Veteran is not exempt from the funding fee due to receipt of non-service-connected pension. Loan application will require prior approval processing by VA.
- For COEs with "contact RLC" status, the following "condition" will appear:
  - ☐ Funding Fee – Please fax a copy of VA Form 26-8937 to the RLC of jurisdiction of where the property is located.

d. IRRRL Exemption Status

The funding fee exemption status on IRRRLs is displayed in WebLGY at the time the case number is ordered.

e. Exempt Status and Verified Income

Lenders may rely on the "exempt" status appearing next to the "funding fee" field for verification of the funding fee exemption. If the dollar amount is different than what is shown on the COE, use the most recent bank statement or award disability award letter for verification. Additionally, on COEs with an "exempt" status, lenders may treat any service-connected disability income amount appearing in the "condition" section of the COE as verified income. There is no need to fax in VA Form 26-8937 to confirm the status or amount showing on the COE.

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f. Additional Conditions Listed on Some COE Forms

Additional conditions that the lender and Veteran must comply with are listed on the COE, under the conditions heading. The following table provides the actions a lender should take for each condition, if applicable:

Table 1: Additional COE Conditions

Condition	What to Do
Valid unless discharged or released subsequent to the 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 COE and do not close the loan until received.
Excluded entitlement previously used for a VA LIN as shown herein is available only for use in connection with the property that 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. (Cash-out refinance on a prior VA loan.)
Entitlement previously used for a VA LIN has been restored without disposal of the property, under provision of 38 U.S.C. 3702(b)(4). Any future restoration requires disposal of all property or properties obtained with a VA loan.	The Veteran must have proof that all properties with VA-guaranteed loans have been disposed.
The Veteran is not exempt from the funding fee due to receipt of non service-connected pension. Loan application will require prior approval processing by VA.	Non service-connected pension must be submitted to VA for prior approval. Concurrence is required from Pension Service, so allow extra time for processing.
Funding Fee – Please fax a copy of VA Form 26-8937 to the RLC of jurisdiction. Please have the lender contact the RLC for loan processing.	The Veteran has a fiduciary and the loan must be submitted to VA for prior approval. Concurrence is required from Fiduciary Service, so allow extra time for processing.

g. The "Subsequent Use Funding Fee" Condition

The "Subsequent Use Funding Fee" indicates the Veteran has used their home loan benefit before, so a higher funding fee is required.

Topic 3: How to Apply for a Certificate of Eligibility

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

a. Procedures

Lenders must first attempt to obtain a COE through the ACE application, which can be accessed through the VIP.

If a COE cannot be obtained immediately, lenders should select the electronic application link that permits them to submit an electronic application. If the COE is issued with reduced entitlement and restoration is needed, use the "Correct COE" function to request an updated COE.

The WebLGY system allows lenders to upload documentation, such as discharge papers or evidence to support restoration (Closing Disclosure, HUD-1 etc.), along with the electronic application. Lenders should not upload scanned documents without first completing an electronic application. Using this feature, rather than mail, is the preferred method, as it greatly reduces processing time.

- Inability to obtain a COE in WebLGY does not mean the Veteran is ineligible, only that the system does not have sufficient information to make an automatic determination. Lenders should always continue the application process as described in the preceding paragraph.
- Application for an Unmarried Surviving Spouses. A surviving spouse of a Veteran, who dies on active duty or from service-connected causes, may still be eligible for a COE. If the surviving spouse is remarried on or after age 57, and on or after December 16, 2003, they still may be eligible. Eligibility may also be granted to the spouse of an active duty member who is listed as MIA or POW for at least 90 days. Eligibility under this MIA/POW provision is limited to one-time use only.
  - □ Surviving spouses of Veterans who died from non service-connected causes may also be eligible if any of the following conditions are met: (1) the Veteran was rated totally disabled for 10 years or more immediately preceding death; or (2) was rated totally disabled for not less than 5 years from date of discharge or release from active duty to date of death, or (3) the Veteran was a former POW who died after September 30, 1999, and was rated totally disabled for not less than 1 year immediately preceding death. The above eligibility requirements are determined by VA Compensation Department. Once completed, they will determine if the surviving spouse is eligible for qualifying Dependency Indemnity Compensation (DIC).
  - □ If applying for the first time, surviving spouses must complete VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility-Unmarried Surviving Spouses, instead of VA Form 26- 1880.
  - □ Both the VA Form 26-1817 and WebLGY should be completed by using the name of the surviving spouse, date of birth, social security number, and then upload the VA Form 26-1817 in WebLGY.

Topic 4: Proof of Service Requirements

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

a. Discharged Veterans (Regular Military)

The DD214 Form, *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 on active duty of a regular component of the Armed Forces. The regular Armed Forces include active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard.

- VA will accept legible copies of the DD214 Form.
- Veterans separated after October 1, 1979, should furnish Member Copy 2, 4, 8, or any copy of a DD214 Form that includes the COS and the narrative reason for separation. Veterans separated from military service after January 1, 1950, should have received DD214 Form. Veterans separated from active duty before January 1, 1950, received documentation other than DD214 Form. To be acceptable, it should indicate:
  - □ LOS, and
  - □ COS

b. Veterans Still on Active Duty

Proof of service for Veterans on active duty is a Statement of Service (SOS) 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 unique form used by the military for an SOS. While an SOS is typically on military letterhead, it may also be electronic and both are acceptable. The SOS must clearly show the:

- Veteran's full name,
- social Security Number (SSN) or the last 4 digits of the SSN,
- entry date on active duty,
- duration of lost time, if any, and
- name and point of contact for the command or unit.

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Topic 4: Proof of Service Requirements, continued

c. Discharged Reserve/Guard Members

There is no one form used by the Reserves or National Guard that is similar to DD214 Form. Selected Reserve describes a member or unit with the Ready Reserve designated by their respective services and approved by the Joint Chiefs of Staff as so essential to initial wartime missions that they have priority over all other reserves.

The National Guard is a unique element of the U.S. Military that serves both community and country. Any state governor or the President of the United States can call on the Guard in a moment's notice.

Discharged members of the Army or Air National Guard may submit NGB Form 22, Report of Separation and Record of Service, and NGB Form 23B, Retirement Points Summary Statement, with the COS document. Members of the Reserves should submit their points statement with COS.

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 retirement point statement received, along with evidence of honorable service.

VA will accept legible copies.

d. Current Reserve/Guard Members

Individuals who are still members of the Reserves/National Guard must provide an SOS 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 an SOS. While an SOS is typically on military letterhead, some may be electronic and both are acceptable.

The statement of service must clearly show the:

- Veteran's full name,
- the SSN or the last 4 digits of the SSN,
- entry date of the applicant's Reserve/Guard duty, and
- the unit must state the creditable (actually drilled) years served in the Reserves or the National Guard.

If called to active duty, a copy of the orders must accompany the SOS with the name and point of contact for the command or unit.

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

If Veterans cannot locate proof of service, they can request military documents either through the National Archives, http://www.ebenefits.va.gov/, or by completing SF- 180, Request Pertaining to Military Records. The completed form should be submitted to the appropriate address shown. It should not be sent to VA.

In many cases, VA internal systems will have sufficient information to make the eligibility determination for those who served on active duty. Lenders and Veterans should not delay requesting a COE pending receipt of requested military documents.

Topic 5: Basic Eligibility Requirements

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

a. General Rule for Eligibility

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:

- 90 days or more, any part of which occurred during wartime, or
- 181 continuous days or more (peacetime).

b. The 2-Year Requirement

A greater length of service is required for Veterans who:

- enlisted (and service began) after September 7, 1980, or
- entered service as an officer after October 16, 1981

These Veterans must have completed either:

- 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).

Cases involving other than honorable discharges will usually require further development by the VA Compensation Department. This is necessary to determine if the service was under other than dishonorable conditions.

c. Wartime and Peacetime Refer to the Following Periods of Service

Table 2: Wartime and Peacetime Eras

Wartime	Peacetime
World War II 9/16/1940 - 7/25/1947	Post World War II period 7/26/1947 - 6/26/1950
Korean conflict 6/27/1950 - 1/31/1955	Post Korean period 2/1/1955 - 8/4/1964
Vietnam era 8/5/64 - 5/7/1975 (The Vietnam era begins 2/28/1961 for those individuals who served in the Republic of Vietnam.)	Post Vietnam period 5/8/1975 - 8/1/1990
Persian Gulf War 8/2/1990 - date to be determined	

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Topic 5: Basic Eligibility Requirements, continued

d. 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 of service in an active or drilling status in the Reserves or Guard (unless released earlier specifically for a service-connected disability). The applicant must have received an honorable character of discharge. A general or under honorable conditions discharge is not a qualifying or acceptable character of discharge. Service in the Individual Ready Reserve or Control Group (inactive status) is not qualifying length of service for the home loan program.

e. Basic Eligibility Table

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

f. 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,
- surviving spouse of a Veteran who dies on active duty or from service-connected causes, who remarries on or after age 57 and on or after December 16, 2003, and
- spouse of an active duty member who is listed as MIA or a POW for at least 90 days. Eligibility under this MIA/POW provision is limited to one-time use only.
- surviving spouses of Veterans who died from non service-connected causes may also be eligible if certain conditions are met. Those conditions are found in Topic 3, subsection b(1), of this chapter.
- surviving spouse who is eligible for or in receipt of certain types of Dependency Indemnity Compensation (DIC).

g. Additional Eligibility

The table below provides a quick reference to some additional types of eligible Veterans. This table is not exhaustive. A Veteran's eligibility for home loan benefits may only be determined by VA.

h. Other Qualifying Service

Congress has periodically granted Veteran status to groups other than members of the Army, Air Force, Navy, Marine Corps, and Coast Guard, such as certain members of the Public Health Service, and cadets at the service academies. Lenders should contact one of the RLCs for assistance when one of these unique cases is encountered.

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i. Exceptions to LOS

There are numerous exceptions to the LOS requirements outlined in this section. For example, 1 day of service is sufficient for an individual who is discharged or released from service (regular active duty or Reserve/National Guard) due to a service-connected disability which would be listed on the discharge paperwork. Because of the complexity and number of exceptions, this chapter does not attempt to cover all of them. Because there are exceptions, lenders should not assume a Veteran is not eligible. Instead, they should create an application and allow VA to make a formal determination of eligibility.

j. When a COE is Denied

The table below provides a quick reference to some additional types of eligible Veterans. This table is not exhaustive. A Veteran's eligibility for home loan benefits may only be determined by VA.

Topic 6: Restoration of Previously Used Entitlement

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

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:

- property which secured the VA-guaranteed loan has been sold, and the loan has been paid in full; or
- 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, substituting his/her entitlement, must also meet occupancy, income, and credit requirements. This should be completed before requesting the Loan Guaranty Certificate in WebLGY, on the new loan.

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:

- Regular "cash-out" refinance where the prior VA loan has been paid in full and the Veteran has made application for a refinance loan to be secured by the same property which secured the prior VA loan. 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

- One –time restoration where 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 used, the Veteran's COE will indicate the one-time restoration. The COE will also advise that any future restoration (purchase or cash-out refinance) will require disposal of all property or properties obtained with a VA loan.

Example. A Veteran used all his entitlement to purchase a home for $453,100 in a non-high cost county in Maryland. Prior to job relocation to GA, he refinanced the loan to a non-VA loan. The loan was paid in full; however, he still owned the property. He now wants to purchase a home in GA and applies for a one-time restoration. This is possible. If the Veteran wants to use the benefit in the future for another purchase or regular "cash- out" refinancing, both properties would have to be disposed of before entitlement can be restored.

Topic 7: Misuse of Veteran's Entitlement

Change Date: March 28, 2019

- This chapter has been revised in its entirety.

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 RLC with jurisdiction over the property for advice regarding any case in which there may be a question regarding the legality of entitlement use.

CHAPTER 3: The VA Loan and Guaranty

Overview

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Topic 1: Basic Elements of a VA-Guaranteed Loan

Change Date: May 14, 2024

- This topic was updated to remove a hyperlink and make minor grammatical edits.
- The Funding Fee subject on Table 1 has been updated to include a note that for cash-out refinances, the loan amount, including the funding fee, may not exceed 100% of the reasonable value as determined by VA.

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 that addresses each subject is provided.

Table 1: General Rules Regarding VA-Guaranteed Loans

Subject	Explanation	Section
Maximum Loan Amount	VA has no specified dollar amount(s) for the "maximum loan." The maximum loan amount depends upon: • the reasonable value of the property indicated on the Notice of Value (NOV), and • the lender's 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, • the loan is a Graduated Payment Mortgage (GPM), and • is necessary to meet secondary market requirements.	3 of this chapter
Amount of Guaranty	Guaranty is the amount VA may pay a lender in the event of loss due to foreclosure.	4 of this chapter
Occupancy	The Veteran must certify that they intend to personally occupy the property as their home.	5 of this chapter
Interest Rate and Points	Interest rate and points are negotiated between the lender and Veteran. Points requirements: • the Veteran and seller may negotiate for the seller to pay all or some of the points, • they must be reasonable, and • they 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

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Topic 1: Basic Elements of a VA-Guaranteed Loan, continued

a. General Rules, continued

Table 1: General Rules Regarding VA-Guaranteed Loans, continued

Subject	Explanation	Section
Underwriting	Flexible standards. The Veteran must have: • satisfactory credit, and • satisfactory repayment ability □ 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 (ratios exceeding 41% requires closer scrutiny and compensating factors).	Chapter 4
IRRRL (Streamline Refinancing Loans)	Used to refinance an existing VA loan at a lower interest rate. • no appraisal or underwriting is required, • closing costs may be financed in the loan, • reasonable discount points can be charged, but only two discount points can be financed in the loan, and • no cash to the borrower. ***Note***: A fixed rate loan to refinance a VA Adjustable Rate Mortgage (ARM) may be at a higher interest rate.	Chapter 6
Funding Fee	The Veteran, unless exempt, must pay a funding fee to help defray costs of the VA Home Loan program. • find the percentage appropriate to the Veteran's particular circumstances on the funding fee table, and • apply this percentage to the loan amount to arrive at the funding fee. The funding fee may always be financed in the loan. **Note**: for cash-out refinance loans, the loan amount, including the funding fee, may not exceed 100% of the reasonable value as determined by VA.	Chapter 8
Closing Costs	Those payable by the Veteran are limited by regulation to a specific list of items plus a one percent flat charge by the lender. • Any other party, including the seller, can pay any costs on behalf of the Veteran. (Subject to concession limits). • Closing costs cannot be financed in the loan except on certain refinancing loans. (See chapter 8.)	Chapter 8
Security Instruments	The lender may use any note or mortgage forms they wish as long as they contain certain VA-required clauses.	Chapter 9

Topic 2: Eligible Loan Purposes

Change Date: May 14, 2024

- This topic has been updated to make minor grammatical edits.
- Section a has been updated to include an eligible loan purpose: refinancing of contracts for deed.
- Section c has been updated to indicate that Veterans may receive cash back for amounts credited for prorated taxes paid in arrears.

a. List of Eligible Loan Purposes

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

- Purchase or construct a residence, including a condominium unit 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 Chapter 7 for this exception.)
- Refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- 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. (VA Cash-Out Refinance)
- Refinance a contract for deed. If the Veteran is the titled owner of the property, VA Cash-Out Refinance guidelines apply. If the Veteran is not the titled owner of the property, maximum loan amount considerations apply – see Topic 3.
- Repair, alter, or improve a residence owned by the Veteran and occupied as a home.
- Simultaneously purchase and improve a home.
- 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.
- Purchase a one-family residential unit in a condominium housing development approved by VA.
- 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 chapter 11).

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Topic 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 Chapter 6.
- For cash-out refinancing loans, see Chapter 6.

For other types of refinancing loans and all purchase/acquisition loans, the Veteran generally cannot receive cash from loan proceeds. The only exceptions are:

- The refund of items for which the Veteran paid cash, which were subsequently included in the loan amount.
- Amounts credited for prorated taxes paid in arrears.

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

Topic 3: Maximum Loan Amount

Change Date: May 14, 2024

- The *VA Maximum Loan Amount Exceptions* table has been renamed *VA Maximum Loan Amount Table*, and now provides more detail on determining the maximum loan amount by loan type.
- Section c has been updated to remove the "rule of thumb" lenders should employ when determining the down payment amount.
- This topic has been updated to remove hyperlinks and make minor grammatical edits.

a. Does VA have Maximum Loan Amounts?

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 secondary market participants.
2. VA limits the amount of the loan as prescribed by the following table:

Table 2: VA Maximum Loan Amount Table

Loan Type	Maximum Loan
Loans to Purchase[1] (not including construction loans):	The lesser of: (1) VA reasonable value, or (2) purchase price plus the cost of any energy efficiency improvements up to $6,000[2]. (+) plus, the VA funding fee[3] (unless the borrower is exempt).
One-Time Closing Construction Loans (Construction loans that provide for both the interim construction and permanent financing.)	The lesser of: (1) VA reasonable value, or (2) acquisition cost (contract to build plus the balance owed on land, interest reserve, contingency reserve, and permits – if the amounts were not included in the contract to build). (+) plus, the VA funding fee (unless the borrower is exempt). *See Chapter 7 for additional information on Construction Loans.*

Continued on next page

[1] 38 CFR § 36.4339(a)(2)
[2] 38 USC § 3710(d)(2)
[3] 38 USC § 3729

Topic 3: Maximum Loan Amount, continued

Table 2: VA Maximum Loan Amount Table, continued

Loan Type	Maximum Loan
Two-Time Closing Construction Loans (Loans to refinance interim construction loans. Does not include refinancing of constructions loans that provide for permanent financing.)	The lesser of: (1) VA reasonable value, or (2) sum of the outstanding balance of the interim construction loan plus the balance on any lot liens. (+) plus, the VA funding fee (unless the borrower is exempt). *See Chapter 7 for additional information on Construction Loans.*
Regular refinancing loan (cash-out)	100 percent of the VA reasonable value[4] **Note**: the funding fee may be included in the new loan amount, except that any portion of the funding fee that would cause the new loan amount to exceed 100 percent of the reasonable value of the property must be paid at closing.
IRRRLs[5]	Existing VA loan balance (+) plus the cost of any energy efficiency improvements up to $6,000, (+) plus allowable fees and charges, (+) plus up to two discount points, (+) plus the VA funding fee (unless the borrower is exempt). *(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)*
Loans to refinance a contract for deed when the Veteran is not the titled owner of the property.	The lesser of: (1) VA reasonable value, or (2) outstanding balance of the contract for deed, plus allowable closing costs, plus the cost of any energy efficiency improvements up to $6,000[6]. (+) Plus, the VA funding fee[7] (unless the borrower is exempt).

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[4] 38 USC § 3710(b)(8)
[5] 38 USC § 3710(e)(1)(C)
[6] 38 USC § 3710(d)(2)
[7] 38 USC § 3729

Table 2: VA Maximum Loan Amount Table, continued

Exception	Maximum Loan
Other loans to refinance: • 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: (1) VA reasonable value, or (2) the sum of the outstanding balance of the loan plus allowable closing costs and discounts plus the cost of any energy efficiency improvements up to $6,000. (+) plus the VA funding fee (unless the borrower is exempt).
Graduated Payment Mortgage (GPM) loan on existing property.	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 (unless the borrower is exempt). *See chapter 7 for additional information.*
GPM loan on new home	97.5 percent lesser of: (1) the VA reasonable value, or (2) the purchase price plus the cost of any energy efficiency improvements up to $6,000. (+) plus the VA funding fee. *See chapter 7 for additional information.*

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[8], and
- VA requires a downpayment on all GPMs[9].

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. Lenders should consult with their investor to determine the amount of coverage required and down payment necessary to meet these requirements.

[8] 38 CFR 36.4339(a)(3), 36.4340(h)
[9] 38 CFR 36.4310(e)(2)(i)

Topic 4: Maximum Guaranty on VA Loans

Change Date: May 14, 2024

- This topic has been updated to reflect the implementation of P.L. 116-23 Blue Water Navy Vietnam Veterans Act of 2019.
- Section b was added to provide additional information on calculating remaining entitlement for Veterans with partial, or encumbered, entitlement.

a. Maximum Guaranty Table

Public Law 116-23, the Blue Water Navy Vietnam Veterans Act of 2019 increased the maximum guaranty available on loans closed after January 1, 2020, for Veterans with full entitlement.

For Veterans with full entitlement, the maximum amount of guaranty entitlement available to the Veteran, for a loan amount above $144,000 is 25 percent of the loan amount[10].

In general, maximum guaranty, assuming the Veteran has full entitlement, is as shown in the table below.

Table 3: Maximum Potential Guaranty by Loan Amount

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to $45,000	50 percent of the loan amount.	Minimum guaranty of 25 percent on IRRRLs.
$45,001 to $56,250	$22,500	Minimum guaranty of 25 percent on IRRRLs
$56,251 to $144,000	40 percent of the loan amount, with a maximum of $36,000	Minimum guaranty of 25 percent on IRRRLs
$144,001 to $417,000	25 percent of the loan amount	Minimum guaranty of 25 percent on IRRRLs
Greater than $417,000	The lesser of: • 25 percent of the VA county loan limit, or • 25 percent of the loan amount	Minimum guaranty of 25 percent on IRRRLs

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, subject to maximum loan limitations in Topic 3 of this chapter.

For the maximum guaranty on joint loans made to a Veteran and a non-Veteran to whom they are not married, refer to Chapter 7.

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.

Continued on next page

[10] 38 USC § 3703(a)(1)(A)(i)(IV)

b. Veterans with Partial Entitlement

Maximum loan amount calculations in Topic 3 of this chapter notwithstanding, VA does not set specific maximum loan amount limits for Veterans with partial or unrestored entitlement. For Veterans with partial or unrestored entitlement, their maximum available guaranty entitlement is reduced by the amount of the Veteran's unrestored entitlement, which may impact the maximum potential guaranty a lender would receive on a concurrent loan made to the Veteran. The calculation is as follows:

For proposed loan amounts over $144,000[11]: the maximum amount of guaranty entitlement available is 25% of the single-unit Freddie Mac Conforming Loan Limit (CLL) for the county where the proposed subject property is located reduced by the amount of unrestored entitlement.

Example: A Veteran with an existing VA-guaranteed loan using $55,000 of their guaranty entitlement is moving to another state and wishes to purchase a new home. The Veteran has opted to retain their existing VA-guaranteed loan; therefore, the entitlement used on that loan cannot be restored. The total loan amount for the new home is above $144,000. The single-unit CLL in the county where the new subject property is located, on the anticipated date of closing is $650,000.

Maximum Entitlement Amount Calculation: $650,000 x 25% = $162,500 - $55,000 (unrestored entitlement) = $107,500

The maximum guaranty available to the lender for this loan is $107,500.

For proposed loan amounts less than or equal to $144,000[12]: the maximum amount of guaranty entitlement is $36,000 reduced by the amount of unrestored entitlement. VA refers to the first $36,000 of a Veteran's entitlement as their "basic" entitlement.

Example: A Veteran with an existing VA-guaranteed loan using $55,000 of their guaranty entitlement is moving to another state and wishes to purchase a new home. The Veteran has opted to retain their existing VA-guaranteed loan; therefore, the entitlement used on that loan cannot be restored. The total loan amount for the new home is less than $144,000.

Maximum Entitlement Amount Calculation: $36,000 - $55,000 = $0 (rounded to the nearest positive number).

No guaranty entitlement is available for this loan.

As the amount of available remaining basic entitlement is $0, the Veteran cannot use their VA home loan benefit to guaranty the new loan without obtaining restoration of entitlement for their current VA-guaranteed loan. See Chapter 2 for more information on restorations of entitlement.

[11] 38 USC § 3703(a)(1)(C)(ii)
[12] 38 USC § 3703(a)(1)(B)

Topic 5: Occupancy

Change Date: May 14, 2024

- This section has been updated to make minor grammatical edits and add footnotes.
- References to the Regional Loan Center (RLC) have been removed from this section.
- Section i has been updated to remove the reference to VA Form 26-1802a as the form was discontinued.

a. The Law on Occupancy

The law requires a Veteran obtaining a VA-guaranteed loan to certify that they intend to personally occupy the property as their home. As of the date of certification, the Veteran must either:

- personally live in the property as their 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[13].

The above requirement applies to all types of VA-guaranteed loans except IRRRLs. For IRRRLs, the Veteran need only certify that they previously occupied the property as their home[14].

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. They may refinance the VA loan with an IRRRL based on previous occupancy of the home.

b. What is a "Reasonable Time?"

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:

- the Veteran certifies that they will personally occupy the property as their 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 their home on a specific future date.

Occupancy at a date beyond 12 months after loan closing generally cannot be considered reasonable by VA.

Continued on next page

[13] 38 U.S. Code § 3704(c)(1)
[14] 38 U.S. Code § 3710(e)(1)(F)

c. Occupancy by Veteran's Spouse or Dependent Child

Occupancy (or intent to occupy) by the spouse or dependent child satisfies the occupancy requirement for a Veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the Veteran's attorney-in-fact or legal guardian of the dependent child must make the certification[15] and sign VA Form 26-1820, *Report and Certification of Loan Disbursement*.

Occupancy by the spouse may also 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, contact VA to determine if this type of occupancy meets VA requirements. Contact information is available in Appendix A.

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

For an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy the requirement.

d. Occupancy Requirements for Deployed Active-Duty Service members

Single or married Service members, while deployed from their permanent duty station, are in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether 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 they 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.
  - ☐ Include a copy of the Veteran's application for retirement submitted to their 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.

f. Delayed Occupancy Due to Property Repairs or Improvements

Home improvements or refinancing loans 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 they intend to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

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[15] 38 U.S. Code § 3704(c)(2)

Topic 5: Occupancy, continued

g. Intermittent Occupancy

The Veteran need not maintain a physical presence at the property daily. 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 VA. Contact information is available in Appendix A.

i. The Certification

The Veteran certifies that the occupancy requirement is met by properly executing 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 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 VA if the lender cannot resolve issues involving the veteran's intent by applying this test. Contact information is available in Appendix A.

Topic 6: Interest Rates

Change Date: May 14, 2024

- This section has been updated to make minor grammatical edits.
- Section b has been updated to ensure borrowers receive updated disclosures, as applicable, when the agreed upon interest rate changes.

a. Requirement

VA does not prescribe 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.

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, if no lender/borrower agreements are violated, and the borrower receives any necessary updated disclosures (such as the Loan Estimate and VA Refinancing Disclosures) reflecting the change in interest rate. The following procedure applies in such cases.

Any increase in the interest rate of more than one 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 chapter 5.

Topic 7: Discount Points

Change Date: November 12, 2012

- This section has been updated to make minor grammatical edits.

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.

b. When Can Points be Included in the Loan?

Discount points may be rolled into the loan only in the case of refinancing loans, subject to the following limitations:

Interest Rate Reduction Refinancing Loans

A maximum of two discount points can be rolled into the loan.

If the borrower pays more than two points, the remainder must be paid in **cash**.

Refinancing of Construction Loans, etc.

Loans to refinance are:

- 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.

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.

Reference: See the maximum loan limitations in section 3 of this chapter.

Cash-out Refinancing Loans

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.

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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 chapter 5.

Topic 8: Maturity

Change Date: April 10, 2009

- This section has been updated to correct hyperlinks and make minor grammatical edits.

a. Maximum Maturity

- Amortized loans: 30 years and 32 days,
- Nonamortized loans: 5 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 that 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 that violates this provision may desire to correct the situation through means which are legally proper in the jurisdiction.

Topic 9: Amortization

Change Date: November 8, 2012

- This section has been updated to correct hyperlinks and make minor grammatical edits.

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 5 years are considered term loans and need not be amortized.

Generally, for amortized VA loans:

- 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 chapter 7,
- Growing Equity Mortgages (GEMs) – See 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 subsection 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:

- 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: GPMs and GEMs.

c. Special Provisions for Construction Loans

See "Amortization" in chapter 7.

d. Standard and Springfield Plans

The Standard and Springfield plans satisfy 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.

Topic 10: Eligible Geographic Locations for the Secured Property

Change Date: April 10, 2009

- This section has been updated to correct hyperlinks and make minor grammatical edits.

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).

Topic 11: What Does a VA Guaranty Mean to the Lender?

Change Date: November 8, 2012

- This section has been updated to make minor grammatical edits.

a. Protection Against Loss

VA guarantees a portion of the loan, identified on the VA Loan Guaranty Certificate (LGC) by percentage and dollar amounts. If a loss ultimately occurs on the loan, VA will reimburse the loan holder for all or part of such loss:

- 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.

b. Lender Responsibility

It is the lender's responsibility to comply with all laws and regulations related to the VA Home Loan 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:

- 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.

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:

- a supervised or a non-supervised lender with automatic authority, and
- the lender complied with applicable law and regulations.

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:

- the closed loan matches the proposed loan upon which the Certificate of Commitment was based, and
- the lender complied with applicable law and regulations.

Continued on next page

Topic 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, which is generated electronically via VA's webLGY application. The LGC represents 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.

The LGC also has an audit indicator that, if noted Yes, lets the lender know the case has been identified for full review. In these instances, the lender then needs to submit a complete loan origination package to the appropriate VA office for review. Packages should be submitted within 15 days of the LGC being generated.

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

Topic 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 laws 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.

Topic 12: Post-Guaranty Issues

Change Date: November 8, 2012

- This section has been changed to include hyperlinks.

a. Corrections to LGCs

LGCs are generated using data entered from several sources, including the VA Funding Fee Payment System (VA FFPS) https://www.ffps.vba.va.gov/. If a lender discovers an error in reported data, such as date of loan closing, before they have generated the LGC, they must access the VA FFPS system to make the correction. This will then result in the correct closing date being shown when the LGC is obtained.

If the error is discovered **after** the LGC has been generated, lenders will need to contact the appropriate VA RLC for assistance. An LGC with minor typographical errors that do not compromise accurate identification of the loan is valid.

b. Replacement of Missing LGC with Duplicate

A lender may obtain duplicate LGCs at any time simply by accessing the system and reprinting the LGC.

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).

e. Paid-in-Full Loans

Holders of VA-guaranteed loans are required to electronically report the date the loan was paid-in-full in the VA Loan Electronic Reporting Interface (VALERI) system. Lenders are required to report paid-in-full loans to VA upon full satisfaction of the loan by payment or otherwise.

Lenders/servicers are not required to mail LGCs to VA when a loan is terminated. Since this information will now be reported through VALERI, there is no need to have the actual LGC returned to VA upon termination of the loan.

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f. Maintenance of Loan Records

Lenders must maintain copies of all loan origination records on VA-guaranteed home loans for at least 2 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

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Topic 1: General Underwriting Information

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. Underwriting Information

VA Underwriting Standards require lenders to always utilize the following guidance when underwriting VA-guaranteed loans:

Lenders are encouraged to make VA loans to all qualified Veterans who apply. VA's underwriting standards are intended to provide guidelines for underwriters. Decisions must be based on sound application of the standards, and underwriters are expected to use good judgment and flexibility in applying underwriting guidelines. Not all possible circumstances are addressed therefore, underwriters must apply reasonable judgment and flexibility in administering this important Veterans' benefit.

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 or verified anticipated income that bears a proper relation to the anticipated terms of repayment.

VA's underwriting standards are incorporated into VA regulations at 38 C.F.R. 36.4340 and explained in this chapter. This chapter addresses the procedures for verifications and analysis involved in underwriting a VA-guaranteed loan. In the event the lender fails to perform their responsibilities, VA may take administrative actions including removal of authority to underwrite and close VA loans.

c. Lender's 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.

Continued on next page

Topic 1: General Underwriting Information, continued

d. Lender's Procedures

Digital signatures can be accepted as an original signature or wet signature as defined by the Electronic Signatures in Global and National Commerce Act, commonly referred to as the E-sign Act.

The procedures on the table below address only the credit underwriting of the loan. Chapter 5 of this handbook provides all procedures that must be completed when making a VA loan.

Table 1: Lender's Credit Underwriting Procedures

Step	Action
1	Initiate the VA and Credit Alert Interactive Voice Response System (CAIVRS) inquiries described in Topic 4, Subsection c of this chapter.
2	Obtain all necessary verifications. The borrower's authorization can be obtained separately for the lender's required verifications, or on one blanket authorization form. The Certificate of Eligibility (COE) obtained from WebLGY provides verification of the amount of the Veteran's available entitlement, verification of exempt/non-exempt from the VA Funding Fee, and the amount of VA monthly service connected disability compensation. Order the COE before ordering the VA appraisal. The tri-merged 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. VA only permits the Veteran to pay for the credit report invoiced amount, not any additional costs that the lender may incur through other parties for obtaining the credit report.
3	Complete VA Form 26-6393, *Loan Analysis*, in conjunction with a careful review of the loan application and supporting documentation. Provide any explanations in Item 47-Remarks. The form is not required for Interest Rate Reduction Refinancing Loans (IRRRL) except IRRRLs to refinance delinquent VA loans.
4	Indicate the loan decision in Item 51 of the VA Form 26-6393, *Loan Analysis*, after ensuring that the treatment of income, debts, and credit is compliant with VA underwriting standards.

Continued on next page

e. Underwriting Special Types of Loans

The underwriting standards and procedures explained in this chapter generally apply to purchase and regular "cash-out" refinance loans. However, some special underwriting considerations also apply and can be found in Chapter 7 of this handbook.

f. Refinancing Loans

The underwriting standards detailed in this chapter apply to purchases and regular "cash-out" refinances. IRRRLs generally do not require any underwriting unless the loan is delinquent. IRRRLs made to refinance VA loans 30 days or more past due must be submitted to VA for prior approval underwriting. The underwriter must have concluded that:

- the circumstances that caused the delinquency have been corrected, and
- the Veteran can successfully maintain the new loan.
- Refer to Chapter 6 of this handbook for details on all types of refinancing loans.

Topic 2: Income – Required Documentation and Analysis

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. Underwriter's Objectives

It is the underwriter's objective to identify and verify income available to meet:

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

b. Effective Income

Income is considered effective when it is determined to be verifiable, stable and reliable, and anticipated to continue for the foreseeable future. Income analysis is not an exact science. It requires the lender to underwrite each loan on a case-by-case basis, using good judgement and flexibility when warranted.

To determine whether income is stable and reliable, the probability of continued employment must be determined through examination of the:

- borrower's past employment record,
- borrower's training, education, and qualifications for his or her current position, and/or
- type of employment.
- Only verified income can be considered in the repayment calculation.

c. Spousal Income

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as you would the income of a Veteran borrower that will be obligated on the loan. However, to ensure compliance with the Equal Credit Opportunity Act (ECOA), do not ask questions about the income of the borrower's spouse unless the:

- spouse will be contractually liable,
- borrower is relying on the spouse's income to qualify,
- borrower is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse, or
- borrower resides and/or the property is in a community property state.

In community property states, information concerning a spouse may be requested and considered in the same manner as for the borrower, even if the spouse will not be contractually obligated on the loan. See Topic 5, subsection a, of this chapter for additional guidelines for community property states when considering a spouse's debts and credit history.

The non-purchasing spouse's (NPS) credit history does not need to be considered; however, the NPS' liabilities must be considered to determine the extent of the household liabilities.

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d. ECOA Considerations

Always inform the borrower (and spouse, if applicable) that they do not have to divulge information on the receipt of child support, alimony, or separate maintenance. However, 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.

e. Income from Non-Military Employment

Verify a minimum of 2 years of employment. Generally, in the borrower's current position, 2 years of employment is a positive indicator of continued employment.

If the borrower has been employed by the present employer less than 2 years:

- verify prior employment, plus present employment covering a total of 2 years, or
- provide an explanation of why 2 years of employment could not be verified,
- compare any different types of employment verifications obtained (such as Verification of Employment (VOE), paystub(s), W2s, and tax returns) for consistency, and
- clarify any substantial differences in the data that would have a bearing on the qualification of the borrower(s).

Use of Employment Verification Services

Lenders may use any employment verification service that provides the same information as the "full" verification generated through the "Work Number" for all applicants. Generally, this will include the following information:

- the current date,
- employer name and address,
- Veteran's full legal name, social security number (complete or truncated) and job title,
- employment status (Active or Inactive),
- length of employment and start date,
- salary rate and pay frequency,
- average hours per pay period,
- summary of year to date information including base pay, overtime, commissions and bonuses, and reference number for the verification.

A current paystub is not required with an automated employment verification service.

Additionally, any VA Form 26-8497, Request for Verification of Employment (VOE) may be an original, faxed, or emailed copy of the original. Previously, VA required an original VA Form 26-8497. The requirements for obtaining a paystub have not changed. Hence, the paystub may be an original or a copy certified by the lender to be a true copy of the original.

The lender may not charge a fee to obtain the employment verification information.

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Topic 2: Income – Required Documentation and Analysis, continued

e. Income from Non-Military Employment, continued

Verification with VA 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:

- paystub(s) covering the most recent 30-day period with year-to-date information, if the employer normally provides a pay stub(s) to the borrower.
- 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 paystub(s) must be no more than 120 days old (180 days for new construction) from the closing date.

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

The VOE must be an original document or an electronic copy. The paystub(s) may be an original, electronic, or a copy certified by the lender to be a true copy of the original document.

Additional documentation for a borrower(s) employed in building trades or other seasonal or climate-dependent work must provide, in addition to the standard documentation (VOE and pay stub(s)), the following:

- Documentation of the borrower's total earnings year-to-date,
- Signed and dated individual income tax returns for the previous 2 years, and
- If the borrower works out of a union, evidence of the union's history with the borrower.

Alternative Verification Documentation

Alternative documentation may be submitted in place of a VOE if the lender concludes that the borrower's income is stable, reliable, and anticipated to continue for the foreseeable future; that is, if the borrower's income qualifies as effective income. Two years of employment with the same employer is not required to reach this conclusion.

Alternative documentation consists of:

- paystub(s) covering at least the most recent 30-day period with year-to date information,
- W-2 Forms for the most recent 2 years, and/or
- telephone verification of the borrower's current employment.

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e. Income from Non-Military Employment, continued

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

If the employer is not willing to give telephone verification of the borrower's employment or if verification is in any way questionable, use standard documentation. Alternative documentation cannot be used.

Paystub(s) and W-2 forms may be originals, electronic, or copies certified by the lender to be true copies of the originals.

f. Borrower Employed for Less than 12 Months

Generally, employment less than 12 months is not considered stable and reliable. However, the lender may consider the employment stable and reliable if the facts and documentation warrant such a conclusion.

Determine whether the borrower's past employment, training, and/or education equipped him or her with particular skills that relate directly to the duties of their current position.

If the probability of continued employment is high based on these factors, then the lender may consider including the income in the total effective income.

An explanation of why income of less than 12 months duration was used must be documented on the VA 26-6393, *Loan Analysis*.

If the probability of continued employment is good, but not well supported, the lender may utilize the income if the borrower has been employed at 12 months, to partially offset debts of 6 to 24 months duration. An explanation of why income was used to offset debts must be documented on the VA 26-6393, *Loan Analysis*.

A borrower may have a valid offer of employment which will begin at or after the anticipated date of closing which can be verified. All data pertinent to underwriting procedures should be considered. However, a paystub(s) may not be available.

g. 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.

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 borrower and/or changes from one line of work to another.

If the lender includes the borrower's income, an explanation of why income of short-term employment was used, must be documented on VA Form 26-6393, *Loan Analysis*.

Continued on next page

Topic 2: Income – Required Documentation and Analysis, continued

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 2 years. To include income from these sources as income:

- the income must be consistent,
- 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 borrower's primary job and,
- how long the borrower has been employed under such an arrangement.

The lender may use this income, if not eligible for inclusion in income, but verified for at least 12 months, to offset debts of 6 to 24 months duration. An explanation of why the income was used to offset must be documented on VA Form 26-6393, *Loan Analysis*.

i. Income from Commissions

Verify commission income by obtaining the VOE or other written verification which provides the following:

- the actual amount of commissions paid year-to-date,
- the basis for payments (salary plus commission, straight commission, or draws against commission, or other), and
- when commissions are paid bi-weekly, monthly, quarterly, semiannually, annually, or other.
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).

Analyze Income Derived from Commissions

Generally, income from commissions is considered stable when the borrower has obtained such income for at least 2 years. Employment for less than 2 years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Employment of less than 1 year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less than 1 year cases.

For a borrower who will qualify using commission income of less than 25 percent of the total annual employment income, IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106. Additionally, the expenses are not required to be added as a monthly liability for the borrower.

For a borrower earning commission income that is 25 percent or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.

One exception is an automobile lease or loan payment. An automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debts/obligations in Section D on VA Form 26-6393, *Loan Analysis*.

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j. Self-Employment Income Analysis Guidelines

Obtain a current financial statement in an industry recognized accounting format including:

- Year-To-Date Profit and Loss statement (if the most recent year's tax return has not yet been prepared, provide a profit and loss statement for that year),
- current Balance Sheet, and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).
- If the business is a corporation or partnership, include copies of the signed federal business income tax returns for the previous 2 years with all applicable schedules, and a list of all stockholders or partners showing the interest each holds in the business.

The financial statements must be sufficient for an underwriter to determine the necessary information for loan approval.

Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income.

The lender may require an accountant or Certified Public Accountant-prepared financial statements if needed to make such a determination due to the nature of the business or the content of the financial statements

Analyze Income Derived from Self-Employment

Generally, income from self-employment is considered stable when the borrower has obtained such income for at least 2 years. Less-than-2-years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Less-than-1-year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less-than-1-year cases.

Determine whether the business can be expected to generate sufficient income for the borrower'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 it is difficult to determine the probability of continued operation, obtain documentation on the viability and potential future earnings, and an explanation of the function and financial operations of the business from a qualified party.

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Topic 2: Income – Required Documentation and Analysis, continued

j. Self-Employment Income Analysis Guidelines, continued

Deductions and Expenses Claimed on Tax Returns

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

Business or roll over losses must be considered from all tax returns.

What is reported to the IRS on a joint return must be used when applying for a federally guaranteed loan.

On a joint tax return, the loss must be deducted from the borrower's income in both community and non-community property states.

On a joint tax return, when a borrower and co-borrower have been faced with business losses, the Veteran/borrower and his/her spouse may want to consider both being on the loan in order to potentially qualify. The credit of both borrowers will be considered.

k. Active Military Borrower's Income

For active-duty military borrowers, a Leave and Earnings Statement (LES) is required instead of a VOE. The LES must be an original, electronic, or a copy certified by the lender to be a true copy of the original.

The LES must furnish the same information as a VOE and must be no more than 120 days old (180 days for new construction), from the date of closing.

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).

In addition, identify servicemembers who are within 12 months of release from active duty or the end of their contract term. For an enlisted servicemember, find the date of expiration (ETS) of the borrower's current contract for active service on the LES. For National Guard or Reserve members, find the ETS of the borrower's current contract on the LES. Also, if a National Guard or Reserve member is currently serving on active duty, also identify the expiration date of the current active-duty tour. If the date is within 12 months of the projected date that the loan will close, the loan package must also include one of the following items, or combinations of items, to be acceptable:

- documentation that the servicemember 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
- documentation that the servicemember has already re-enlisted or extended his/her period of active-duty service to a date beyond the 12-month period following the projected closing of the loan, or

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k. Active Military Borrower's Income, continued

- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- a statement from the servicemember that he/she intends to re-enlist or extend his/her period of active-duty service to a date beyond the 12- month period, plus (1) a statement from the servicemember's commanding officer confirming that the servicemember is eligible to re-enlist or extend his/her active-duty service as indicated, and (2) the commanding officer has no reason to believe that such re-enlistment or extension of active-duty service will not be granted, or
- documentation of other unusual strong positive underwriting factors, such as a downpayment of at least 10 percent from the borrower's own assets (not a gift), a minimum of 6 months PITI, in cash, after the downpayment from the borrower's own assets (not a gift) or clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active-duty servicemember is needed to qualify.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

Example: An Active Duty Veteran's LES indicates her ETS date listed on her LES is 171031 (October 31, 2017) and the projected date of closing is October 1, 2017. Therefore, one of the above items is needed to verify future income since her ETS date is less than 12 months from the projected date of closing.

Example: A member of the Reserves has been called to Active Duty. The ETS date on his LES indicates 181031 (October 31, 2018); however, his active duty orders indicate his active duty tour will not exceed the next 60 days.

Therefore, since he will be leaving active duty before 12 months of the projected closing date, the active-duty income cannot be considered, and his civilian employment and drill duty will need to be considered.

Example: An Active Duty Veteran's LES indicates his ETS date is less than 1 month from the anticipated date of closing, and he indicates he will be receiving military retirement and has accepted civilian employment. Verify his future retirement income from the Department of Defense and verify future civilian employment with the Veteran's new employer.

Analysis of Base Pay

Consider the borrower's base pay as stable and reliable unless the borrower is within 12 months of release from active-duty service. Analyze the additional documentation submitted. If the borrower will not be re-enlisting, determine whether the borrower's anticipated source of income is stable and reliable, and/or unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

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Topic 2: Income – Required Documentation and Analysis, continued

k. Active Military Borrower's Income, continued

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

Analysis of Military Quarters Allowance/ Basic Allowance for Housing (BAH)

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. The lender must verify the amount of BAH the Veteran will receive. The BAH amount will change from one duty station to another.

Ensure that the borrower meets the occupancy requirements set forth in Chapter 3 of this handbook.

Verification and Analysis of Basic Allowance for Subsistence (BAS) and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES. The lender may include verified allowances in effective income. These allowances are not taxable income. The clothing allowance generally appears on the LES as an annual amount. Convert the annual amount to a monthly amount for the Loan Analysis.

Verification and Analysis of Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, how long the borrower has received it and the continuance into the foreseeable future.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the borrower's assigned duties. Such allowances include, but are not limited to:

- proficiency pay, such as linguistic, parachute, scuba, flight or hazard pay, and
- overseas or combat pay (sea pay, submarine, etc.)

All types of allowances above are subject to periodic review and/or testing of the recipient to ascertain whether eligibility for such pay will continue. Only if it can be shown that such pay has continued for a prolonged period and can be expected to continue because of the nature of the recipient's assigned duties, should the income be added to base pay. Contact the borrower's chain of command if there are questions regarding the continuance of the income.

If the duration of the military allowance cannot be determined, this source of income may still be used to offset short term obligations of 6 to 24 months duration.

Consult the IRS to determine if any allowances for pay are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

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l. Income and Analysis of Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be used if the borrower has served in such capacity for a period of time sufficient to indicate a good probability that such income will continue beyond 12 months. The total period of active-duty and reserve service may be helpful in this regard. Otherwise, this income may be used to offset obligations of 6 to 24 months duration.

Income from Recently Activated Members of the Reserve or National Guard

Lenders must consider if a borrower, whose income is being used to qualify for a loan, may have a change in income due to participation in a Reserves/National Guard unit subject to activation.

If an activated Reserves/National Guard member applies for a loan, they must present orders indicating their current active duty tour is not to exceed 12 months.

Example: The borrower's full-time civilian employment is $3,000 per month. The borrower's current income from the Reserves due to activation is $3,500 per month and orders are for 12 months. Since the borrower's full-time civilian employment is only $3,000 per month, the $3,000 should be used to qualify the borrower.

There are not any 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, and make the best decision for each loan regarding the use of income in qualifying for the loan.

It is very important that loan files be carefully and thoroughly documented, including any reasons for using or not using Reserve/National Guard income in these situations.

As a lender, the goal is to provide the Veteran their benefit without placing him/her in a financial hardship.

m. Verification and Analysis of Income of Recently Discharged Veterans or Veterans to be Discharged from the Military

See the Income from Non-Military Employment in Topic 2, subsection e of this chapter for verification requirements.

Obtain verification that any of the following income types apply:

- employment income,
- retirement income, and/or
- VA disability income.

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance.

Continued on next page

Topic 2: Income – Required Documentation and Analysis, continued

m. Verification and Analysis of Income of Recently Discharged Veterans or Veterans to be Discharged from the Military, continued

VA disability income verification will be placed on the COE. However, there are some instances where this income is not placed on the COE which may include if the Veteran:

- will be discharging within the next 6 months from the military and has completed a Physical Exam Board (PEB) or Medical Review Board (MEB) and will be filing for VA disability while still on active duty,
- has recently filed for VA disability and VA's Compensation Service has not yet made a determination and would be entitled to receive 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 is eligible for or receiving qualifying Disability and Indemnity Compensation (DIC), or
- is in receipt of a VA nonservice connected pension, or
- has a VA-appointed Fiduciary to handle financial matters.

If the Veteran falls under one of the above categories, perform the following:

- Submit by fax VA Form 26-8937, Verification of VA Benefits, to the VA Regional Loan Center (RLC) where the subject property is located. VA will complete and return the form to the lender by return fax.
- Provide any supporting documents, including the COE, if it states to send VA Form 26-8937, Verification of Benefits to VA, to verify a Veteran's monthly income from VA.

Please note that if VA's Compensation Service has not yet issued a memo rating and/or completed a claim for a Veteran, then the amount the Veteran may receive in the future cannot be determined until the claim has been completed.

Until the Veteran begins receiving the monthly award, the amount cannot be placed on the COE. A VA awards letter can be used to verify the amount and date a future monthly VA compensation award will begin. However, the COE may be updated to reflect if the Veteran is exempt from paying the VA funding fee on a future disability award. See Chapter 8 of this handbook for funding fee exemptions.

The loan cannot be submitted for prior approval, or approved under the automatic procedure, until the lender obtains the completed form from VA when the Veteran or surviving spouse is under one of the above categories in subsection m of this topic. The lender must maintain the completed form with the loan package.

If the form indicates that the borrower receives a non service-connected pension or has a VA Fiduciary, the loan cannot be closed automatically. The loan must be uploaded in WebLGY for prior approval. See Chapter 5 of this handbook for the necessary documentation that must be submitted to VA.

VA must review, underwrite, and issue a Certificate of Commitment before the loan can close. See Chapter 5 of this handbook for prior approval procedures.

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m. Verification and Analysis of Income of Recently Discharged Veterans or Veterans to be Discharged from the Military, continued

VA's Pension Service may also have to review and/or approve the application in addition to Loan Production. The VA RLC will coordinate with the Pension Service upon receipt of the underwriting package.

Allow for additional processing time of a prior approval loan application when Compensation and/or Pension Service must also review.

Analysis of Prospects for Continued Employment

Cases involving recently discharged Veterans often require the underwriter to exercise a great deal of judgment and flexibility 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. If the duties the borrower 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.

Most cases fall somewhere between these extremes. Fully develop the facts of each case to make a determination. The guidelines under Self-Employment Income in Topic 2, subsection j of this chapter provide guidance for a recently discharged Veteran who is self-employed.

n. Rental Income

When all or a portion of the borrower's income is derived from rental income, documentation and verification of the income are necessary to determine the likelihood of continuance.

Verification of Rental Offset of the Property Occupied Prior to the New Home

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

Analysis using Rental Offset of the Property 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 not an 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 not a lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes. Provide a justification on VA Form 26-6393, *Loan Analysis.*

Reserves are not needed to offset the mortgage payment on the property the Veteran occupies prior to the new loan.

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Topic 2: Income – Required Documentation and Analysis, continued

n. Rental Income, continued

Example [Rental Offset of the Property Occupied Prior to the New Loan]: The Veteran's current home has a VA mortgage with a monthly PITI payment of $1,000. Bonus entitlement is being used to purchase a new primary residence and the Veteran will rent the previous home for $1,200 monthly upon closing of the new home. The payment of $1,200 can be used to offset the existing mortgage payment, if all the above conditions are met. The additional rent received in excess of the mortgage payment cannot be used as effective income.

Verification of Rental Property Income

Obtain the following:

- documentation of cash reserves totaling at least 3 months mortgage payments (PITI), and
- individual income tax returns, signed and dated or lender obtained tax transcripts, plus all applicable schedules for the previous 2 years, which show rental income generated by the property.

If the borrower has multiple properties, the borrower must have 3 months PITI documented for each property to consider the rental income.

If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, hazard insurance, flood insurance, homeowner's association fees, and any other recurring fees should be documented for the property(ies).

Equity in the property cannot be used as reserves.

Cash proceeds from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

Gift funds cannot be used to meet reserve requirements.

Analysis of Rental Property Income

Each property(ies) must have a 2-year rental history itemized on the borrower's tax return.

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

If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income.

If rental income will not, or cannot be used, then the full mortgage payment should be considered and reserves do not need to be considered.

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n. Rental Income, continued

Verification of Multi-Unit Property Securing the VA loan

The Veteran/borrower must occupy one unit as his/her residence.

For purposes of determining the VA guaranty, lenders are instructed to reference only the One-Unit Limit column in the FHFA Table "Fannie Mae and Freddie Mac Maximum Loan Limits for Mortgages, located at https://www.fhfa.gov/DataTools/Downloads.

Verify cash reserves totaling at least 6 months mortgage payments (PITI), and documentation of the borrower's prior experience managing rental units and/or use of a property management company to oversee the property.

Analysis of Multi-Unit Property Securing the VA loan (Veteran will occupy one unit as his/her residence)

Include the prospective rental income in effective income only if:

- the borrower has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least 6 months mortgage payments (PITI).

If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit.

Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower's own funds, not a gift.

Cash proceeds from a VA regular "Cash-Out" refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the lease or rental agreement unless a greater percentage can be documented (existing property).

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the appraiser's opinion of the property's fair monthly rental (proposed construction).

Continued on next page

Topic 2: Income – Required Documentation and Analysis, continued

o. Temporary Boarder Rental Income Single Family Residence

The verification of temporary boarder rental income requires the following:

- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and
- the rental cannot impair the residential character of the property and cannot exceed 25 percent of the total floor area.

Analysis of Temporary Boarder Rental Income

Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide a justification on VA Form 26-6393, *Loan Analysis*.

PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

p. Alimony, Child Support, and Maintenance Payments

Verify the income if the borrower wants it to be considered. The payments must be likely to continue for at least 3 years from the anticipated closing date 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.

See "ECOA Considerations" in Topic 2, subsection d of this chapter.

q. Automobile or Similar Allowances

Generally, automobile allowances are paid to cover specific expenses related to a borrower's employment, and it is appropriate to use such income to offset a corresponding car payment. However, if the borrower reports an allowance as part of monthly qualifying income, it must be determined if the automobile expense reported on IRS Form 2106 should be deducted from income or treated as a liability.

If the reported expense is less than the automobile allowance, the amount can be treated as income and added to borrower's monthly income.

If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on VA Form 26-6393, *Loan Analysis*.

Likewise, any other similar type of allowance received by the borrower should be considered with regards to the tax returns for determination of an offset of the corresponding obligation, as income, or as an expense.

Continued on next page

r. Other Types of Income

While not all types of income can be listed, documentation of income must support the history of receipt and the likelihood or continuance of the income for at least 3 years from the anticipated closing date to include in effective income. Otherwise, consider whether it is reasonable to use the income to offsets short term obligations of 6 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 or other,
- interest from bonds, savings accounts, or others,
- royalties,
- notes receivable, and
- trusts

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance. A COE will generally have the amount of VA disability income listed, however, see Topic 2, subsection m of this chapter for exceptions.

A VA award letter or bank statement may also verify the current monthly amount received.

The lender may include verified income from public assistance programs in effective income if evidence indicates it will likely continue for 3 years or more.

The lender may include workers' compensation income that will continue for at least 3 years from the anticipated closing date if the borrower chooses to reveal it.

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

Example: The borrower(s) receive a stipend paid by the county or State for two foster children living in the residence. Instead of considering a family size of four, a family size of two should be used to determine the residual income requirement.

Do not include temporary income items such as VA educational allowances (including the Post 9/11 GI Bill benefit) and unemployment compensation in effective income.

Exception: If unemployment compensation is a regular part of a borrower's income due to the nature of his/her employment (for example, seasonal work), it may be included.

Continued on next page

Topic 2: Income – Required Documentation and Analysis, continued

r. Other Types of Income, continued

A borrower in receipt of VA Pension or Disability benefits with Aid and Attendance should be discussed with the VA Pension Service, VA Compensation Service, or the VA Hospital where the property is located, to determine if the income is likely to continue for the foreseeable future.

If a borrower has a contract for employment in a foreign country (whether or not the employer is a US company or corporation), the income can be used if it is verified, stable, and reliable. While some contracts are renewed yearly, consider the borrower's past employment history and the likelihood of the contract being extended.

Income that is paid by a foreign employer or government in foreign currency should be converted to US dollars.

Topic 3: Income Taxes and Other Deductions

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

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 (IRS).

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

The income tax should be based upon the borrower's residence and what is documented in the guide to the IRS, and not solely the amount claimed on the paystub.

An active-duty servicemember's LES may have a different state tax deduction than the state where the active-duty servicemember will be purchasing a residence or refinancing. Select the state listed on the LES for the state taxes to be considered in state tax deductions.

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

- determine what the borrower's withholding allowance 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 on VA Form 26-6393, *Loan Analysis*, then
- document the change in deductions in Item 47, Remarks, on VA Form 26-6393, *Loan Analysis*.

b. Income Tax Credits from Mortgage Credit Certificates (MCC)

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:

- documentation verifying any expenses charged by the local government entity for the program which is listed on the Closing Disclosure Statement, and

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

There is an IRS annual limit on the tax credit equal to the lesser of the borrower's maximum tax liability or $2,000. Calculate the tax credit by applying the specified percentage to the interest paid on the certified indebtedness. Then apply the annual limit.

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Topic 3: Income Taxes and Other Deductions, continued

b. Income Tax Credits from Mortgage Credit Certificates (MCC), continued

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

Table 2: MCC Calculation

Step	Procedure
1	30 percent of $8,000 = $2,400
2	Apply the IRS annual $2,000 limit
3	The tax credit will be $2,000

This allows use of $167 (one twelfth of $2,000) as income to qualify the borrower.

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.

Since these programs are offered by state and local government(s), pre- approval by VA is not required for the borrower to participate in the program. The lender is responsible to determine all eligibility requirements are met by the borrower to participate in the program.

c. Other Deductions from Income

Include any costs for job-related expenses, child care, significant commuting costs, and any other direct or incidental costs associated with the borrower's or spouse's employment.

For children up to the age of 12 years, the lender is responsible for determining if there are any child care expenses for the borrower(s).

Topic 4: Assets and Closing Requirements

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. Assets and Amount of Cash Required for Closing

The borrower(s) must have sufficient cash assets to cover:

- any closing costs, pre-paids, or discount points which are the borrower's responsibility and are not financed into the loan, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA (i.e. negative equity).

VA does **not** require the borrower(s) to have additional cash to cover a certain number of mortgage payments, unplanned expenses or other contingencies on the residence, or refinance of the Veteran's residence.

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

Reserves are required for borrowers using rental income to qualify. See Topic 2, subsection n of this chapter for more information.

A rental offset does not require additional assets to cover PITI. See Topic 2, subsection n of this chapter for more information.

The assets securing a loan(s) against deposited funds (signature loans, cash value life insurance policies, 401(k) loans, other) may not be included as an asset on the VA Form 26-6393, Loan Analysis. See Topic 5 of this chapter for more information.

b. Verification of Assets and Cash to Close Requirements

Verify all liquid assets owned by the borrower(s) 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 (significant assets). Use VA Form 26-8497a, Request for Verification of Deposit, or electronic, or certified copies of the borrower's last two bank statements.

Verifications must be no more 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).

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).

Continued on next page

Topic 4: Assets and Closing Requirements, continued

c. Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of borrowers are needed to qualify for the loan depends upon the sale of presently the borrower's owned real property.

The sale proceeds may be necessary to:

- clear the outstanding mortgage(s) against the property,
- pay outstanding consumer obligations,
- make a downpayment or pay closing costs on the VA loan, and/or
- restore previously used VA entitlement.

Evidence the sale has been completed should be included in the closing package to verify proceeds from the sale.

As an alternative, the Veteran may sell the property with the buyer assuming the outstanding mortgage obligation. See Chapter 6 of this handbook for assumptions (Release of Liability) with a Substitution of Entitlement to restore previously used entitlement.

See Chapter 5 of this handbook for prior approval loans, which depend upon the sale of property for the borrower to qualify.

See Chapter 5 of this handbook for all required loan closing documents.

d. Gift Funds

A gift can be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. A gift letter must:

- specify the dollar amount of the gift,
- include the donor's statement that no repayment is expected, and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

The lender must verify that sufficient funds to cover the gift have been transferred to the borrower's account, or will be documented as received by the closing agent at the time of closing.

Acceptable documentation includes the following:

- evidence of the borrower's deposit,
- a copy of the donor's funds by check/electronic transfer to the closing agent, or
- the CD showing receipt of the donor's funds.

Topic 5: Debts and Obligations

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. Verification Requirements for Debts and Obligations

All debts and obligations of the borrowers' must be verified and rated. Obtain a credit report with all information for all credit bureaus. See Topic 7, subsection a 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 payment history showing the obligation or other written verification directly from the creditor, including the payment amount and outstanding balance.

The lender must also separately verify accounts listed as "will rate by mail only" or "need written authorization."

When a pay stub(s) or LES indicates an allotment, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt or other obligation(s). Examples may include 401K obligation or repayment, child care, child support, or other.

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 prior to closing. If the credit report, deposit verification, bank statement, or pay stub(s) reveals any debts or obligations which were not divulged by the borrowers):

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

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 history and liability information of a spouse who will not be contractually obligated on the loan, except:

- if the borrower(s) is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.

Continued on next page

Topic 5: Debts and Obligations, continued

a. Verification Requirements for Debts and Obligations, continued

If either of these situations is applicable, the lender must:

- Obtain a credit report on the non-purchasing spouse in addition to the Veteran's credit report.
- Consider the spouse's credit history in reaching a determination. A Veteran borrower with a satisfactory credit history may be considered a satisfactory risk even though the non-purchasing spouse's credit may be unsatisfactory.
- Include the monthly payment of the non-purchasing spouse's debts on the VA Form 26-6393, Loan Analysis. For debts such as judgments and unpaid collection accounts, lenders should consider the Veteran's capacity to address the debt(s).
- Develop the facts surrounding any unsatisfied judgments on the spouse's credit report, such as where the judgment was filed and whether the parties were married to one another at the time, and secure a competent legal opinion whether the judgment may become a lien against the property.
- Exclude the monthly payment on the spouse's debts from the loan analysis when a reliable source of income for the spouse is verified to reach such a conclusion which is voluntarily provided.
- Document VA Form 26-6393, Loan Analysis, with an explanation of facts and determination when concluding credit worthiness of the Veteran or excluding obligations of the non-purchasing spouse.

b. Verification of Alimony and Child Support Obligations

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

Do not request documentation of a borrower's divorce unless it is necessary to verify the amount of any alimony or child support liability indicated by the borrower. 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, they should make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

Spousal support may be treated as a reduction in income on VA Form 26-6393, Loan Analysis.

Child support payment is treated as a liability on VA Form 26-6393, Loan Analysis.

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c. Analysis of Debts and Obligations

Significant debts and obligations include:

- debts and obligations with a remaining term of 10 months or more; that is, long-term obligations, and
- accounts with a term of less than 10 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 or lease with a remaining balance of $1,500, even though it should be paid out in 5 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 borrower'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. See Topic 2, subsection c of this chapter.

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

d. Borrower as Co-obligor/Co-Signor on a Loan or Obligation

The borrower(s) may have a contingent liability based on co-signing a loan. The lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis if:

- there is evidence that the loan payments are being made by someone else and the obligation is current, and
- there is not a reason to believe that the borrower will have to participate in repayment of the loan.

e. Pending Sale of Real Estate

A borrower(s) may have a current home and the sale of the real property is needed to complete the transaction. 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. See Topic 4, subsection c of this chapter for necessary documents.

Continued on next page

Topic 5: Debts and Obligations, continued

f. Secondary Borrowing

If the borrower(s) plans to obtain a second mortgage simultaneously with the VA-guaranteed loan, include the second mortgage payment as a significant debt. 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. See Chapter 9 of this handbook for VA limitations on secondary borrowing.

If the borrower(s) provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

If a student loan is in repayment, or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established by calculating each loan at a rate of five percent of the outstanding balance divided by 12 months.

Example: A borrower has a $25,000 student loan balance and you multiple it by 5%, which equals $1,250. This amount ($1,250) is divided by 12 months to equal a monthly payment of $104.17.

If the payment(s) reported on the credit report for each student loan(s) is greater than the threshold payment calculation above in a above, the lender **must** use the payment recorded on the credit report.

If the payment(s) reported on the credit report is less than the threshold payment calculation above, in order to count the lower payment, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s).

The statement(s) must be dated within 60 days of VA loan closing, and may be an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer.

It is the lender's discretion as to whether the credit report should be supplemented with this information.

g. Loans Secured by Deposited Funds

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

The assets required to secure a loan(s) may not be included as an asset on the VA Form 26-6393, *Loan Analysis*.

Use the current balance times 60 percent minus the loan balance to equal the usable amount to consider as an asset.

A statement would only be necessary to verify the amount used as an asset.

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h. Open 30-Day Charge Accounts

An open 30-day charge account is defined as an account in which the borrower(s) must pay off the outstanding balance on the account every month.

For open 30-day charge accounts, determine if the borrower(s) pays the balance in full each month, and has verified funds to cover the account balance in addition to any funds required for closing costs.

- If there are sufficient funds, the payment does not need to be included in Section D of the VA Form 26-6393, Loan Analysis, but the obligation should continue to be listed.
- If there are not sufficient funds, a minimum payment of 5 percent of the balance should be considered included in Section D of the VA Form 26-6393, Loan Analysis.

Topic 6: Debts Owed to the Federal Government

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. Title Search Requirements

The lender is responsible for obtaining the necessary title search to ensure there are no encumbrances that would preclude the borrower from obtaining a loan.

b. VA Form 26-8937, Verification of Benefits

The lender is responsible for obtaining the necessary title search to ensure there are no encumbrances that would preclude the borrower from obtaining a loan.

Generally, VA Form 26-8937, Verification of VA Benefits, is not needed unless the COE or new IRRRL case number indicates to submit the form to VA before closing. However, ask the Veteran and any Veteran co-obligors (including spouse if a Veteran) if he or she:

- will be discharging within the next 6 months from the military and has completed a PEB or MEB and will be filing for VA disability while still on active duty,
- has recently filed for VA disability and compensation, or VA pension, and VA has not yet made a determination,
- would be entitled to receive VA disability benefits, but in receipt of retirement pay,
- has received VA disability benefits in the past, or
- is an unmarried surviving spouse of a Veteran (has applied and/or in receipt of DIC 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 in Topic 2, subsection m of this chapter.

When VA returns the form to the lender and the form indicates that the borrower has any of the following:

- an outstanding indebtedness of VA 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 VA home loan, or
- a repayment plan for any of these debts that is current,

Then one of the following must accompany the loan package:

- evidence of payment in full of the debt, or
- evidence of a current payment plan acceptable to VA and evidence that the Veteran executed a promissory note for the entire debt balance.

Continued on next page

b. VA Form 26-8937, Verification of 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 1 year), or
- the case involves unusually meritorious circumstances.

Examples

Consideration would be given to a Veteran with an outstanding/excellent credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to 2 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 the Credit Alert Verification Reporting System (CAIVRS)

CAIVRS is a Department of Housing and Urban Development (HUD) maintained computer information system which enables participating lenders to learn when a borrower has previously defaulted on a federally-assisted loan. More information can be found at: http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/sfh/caivrs

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 which resulted in a debt of the government (Generally type 2 VA loans).

CAIVRS Procedures

A CAIVRS inquiry must be performed for all borrowers and co-borrowers (Veteran or non-Veteran) on all VA loans, including IRRRLs. The one exception to this policy is that CAIVRS is not required for non-purchasing spouses in community property states.

VA assigns a 10-digit VA lender identification number (ID) to each new lender, then automatically forwards the ID number to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS usually between 7 to 10 business days after receiving its VA ID number assignment.

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Topic 6: Debts Owed to the Federal Government, continued

c. What is the Credit Alert Verification Reporting System (CAIVRS), continued

To register for CAIVRS access for first time users, please use the following link: https://entp.hud.gov/idapp/html/f57register.cfm.

Please direct questions concerning problems encountered with accessing CAIVRS to caivrs_admin@hud.gov.

If the borrower(s) is found to have a delinquent federal debt through CAIVRS, the validity and delinquency status of the debt should be verified by contacting the creditor agency using the contact phone number and case number reflected on the borrower's CAIVRS report.

The creditor agency that is owed the debt can verify that the debt has been resolved. Documentation should be included in the loan file and an explanation must be provided on VA Form 26-6393, *Loan Analysis*. It is not necessary for CAIVRS to update the number if documentation is included in the loan file.

Once screening is complete, enter the CAIVRS confirmation code on VA Form 26-6393, *Loan Analysis*, in the space to the right of the "no" block in item 46 for purchase and refinances.

For IRRRLs, enter the code on VA Form 26-8923, *IRRRL Worksheet,* in the Notes section.

d. Borrower with Presently Delinquent Federal Debts

When CAIVRS or another source indicates that the borrower has a delinquent Federal debt, the following steps must be taken:

- Suspend processing of the loan application to determine the reason for the non "A" number.
- Give full consideration to the CAIVRS information, and any subsequent clarifying information or documentation provided, in applying VA credit standards. Any non "A" number received does not automatically disqualify a Veteran from using their home loan benefit; however, the lender must document and justify the approval. See Topic 7, subsection b of this chapter for documentation and explanation requirements.
- If a previous VA loan is involved that resulted in a debt to the government (due to foreclosures, short sale, deed in lieu, or other), the borrower may contact the VA Debt Management Center at 1-800-827- 0648 or at dmc.ops@va.gov to make arrangements to repay the debt.

Generally, only type 2 VA loans (fifth digit of the VA loan number) result in a debt to VA and are reported. The Veteran's entitlement cannot be restored until the debt to VA is paid in full.

If the fifth digit of the previous loan number is a type 6 VA loan, there is generally a loss to the government and the loss is not reported to CAVIRS. A loss to VA does not need to be repaid; however, the Veteran's previously used entitlement to guaranty the previous VA loan is not restored until the loss is paid in full.

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d. Borrower with Presently Delinquent Federal Debts, continued

Each agency has their timeliness requirements before removing a non "A" CAVIRS finding. This does not preclude the Veteran or borrower from receiving a VA loan if credit standards are met for VA loans. See Topic 4.07b (13 and 14) of this Chapter for guidelines after a bankruptcy or foreclosure.

Example: A borrower suffered a loss on a FHA loan home loan 2 years ago. While HUD has not removed the CAIVRS finding as the 3-year waiting period has not passed for FHA, the lender is eligible to continue processing a VA loan without an "A" CAIVRS finding due to the borrower(s) meeting VA credit guidelines for foreclosures and documented in the loan file.

CAIVRS information is only for the lender's and borrower's use in processing the loan application. Only those persons having responsibility for screening borrowers and/or co-borrowers may use CAIVRS. Any other use is unauthorized.

e. Treatment of Federal Debts

A borrower(s) 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 arrangement have been made between the borrower and the Federal agency.

Example: A borrower has delinquent taxes and payments have not been made for several years. The establishment of a payment plan after the CAVIRS finding has been addressed may not be sufficient to show a satisfactory payment arrangement to repay the obligation.

A borrower(s) 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.

Topic 7: Credit History – Required Documentation and Analysis

Change Date: July 27, 2023

- Subsection b has been updated to include guidance regarding medical collections and medical charge offs.
- Subsection b has been updated to provide clarity regarding the monthly payment consideration for unpaid medical collection accounts.

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 and prior approval loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).

If an RMCR is used, the standards applicable to a 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 2 years (separate repository inquiries are required for any co-borrowers with individual credit records).

The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act (15 U.S.C. § 1681) such as bankruptcies, judgments, law suits, foreclosures and tax liens.

The RMCR must be an original or electronic report, with no erasures, whiteouts, or alterations.

The report must contain a 24-month employment and residency history.

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

If possible, the cost of the credit report must be listed on the credit report. If not possible, an itemized invoice identifying the borrower(s) is required to verify the cost on the Closing Disclosure Statement (CD) when charging the borrower for the credit report.

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b. How to Analyze Credit

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

VA does not have a minimum credit score requirement.

Rent and Mortgage Payment History

The borrower's most recent 24-month rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated. Housing expense payment history is often a primary indicator of how motivated the borrower is to make timely mortgage payments in the future.

Absence of Credit History

For borrower(s) with no established credit history, base the determination on the borrower's payment record on alternative or nontraditional credit directly from the borrower or creditor in which a payment history can be verified.

Absence of a credit history is not generally considered an adverse factor.

It may result when:

- borrower(s) has not yet developed a credit history,
- borrower(s) has routinely used cash rather than credit, and/or
- borrower(s) has not used since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling.

Accounts in the Spouse's Name

See Topic 2, subsection c in this chapter for ECOA and consideration of the spouse's credit history.

Adverse Credit Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be re-established after the borrower(s), have made satisfactory payments for 12 months after the date the last derogatory credit item was satisfied. If a credit report reveals numerous unpaid collections and/or accounts that are not being paid timely, including some which have been outstanding for many years, then once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is considered re-established.

Continued on next page

Topic 7: Credit History – Required Documentation and Analysis, continued

b. How to Analyze Credit, continued

Medical Collection and Charge-off Accounts

Identifiable medical collections are collection accounts that are established when an overdue medical bill is referred to a collection agency. Charge-offs may occur when a creditor is no longer pursuing repayment of the medical debt. Lenders may disregard all identifiable medical collections, including charge-off accounts, that have not been reduced to a judgment or lien.

Identifiable medical collection accounts that have not been reduced to a judgment or lien do not have to be paid off as a condition for loan approval and should not impact the overall acceptability of a borrower's credit.

Lenders do not need to obtain explanations for medical collections or charge-offs and do not need to otherwise address such accounts.

Non-medical Collection Accounts

Isolated non-medical collection accounts do not necessarily have to be paid off as a condition for loan approval. A credit report may show numerous satisfactory accounts and one or two unpaid collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval.

However, non-medical collection accounts must be considered part of the borrower’s overall credit history and such accounts should be considered open, recent credit. These unpaid accounts must therefore be considered in the debt-to- income ratio and residual income calculation on VA Form 26-6393, Loan Analysis, and when using an Automated Underwriting System (AUS). If such accounts are listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.

Non-medical collection accounts without established payment arrangements are to be included with a calculated monthly payment using 5% of the outstanding balance of the collection. Borrowers with a history of such accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.

While VA does not require such accounts be paid-off prior to closing if the borrower’s overall credit is acceptable, an underwriter must address the existence of the account(s) with an explanation on VA Form 26- 6393, Loan Analysis, and justify why positive factors outweigh the negative credit history such accounts represent.

Charge -off Accounts

These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s). This does not apply to identifiable medical charge-offs, as described above.

Continued on next page

b. How to Analyze Credit, continued

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.

The underwriter should document the reason(s) for not considering an account on VA Form 26-6393, *Loan Analysis*.

Judgments

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.

A history of timely payments would be generally considered as making 12 payments to reestablish credit.

However, in certain cases when a judgment has only been in place for a few months, an underwriter could justify on VA Form 26-6393, *Loan Analysis*, a shorter repayment history if the documentation indicates the borrower immediately addressed the judgment after it was filed and began a repayment plan.

Payoff of Unpaid or Untimely Debts

For unpaid or debts that have not been paid timely, pay-off of these debts after the acceptability of a borrower's credit is questioned does not alter the unsatisfactory record of payment. A period of making timely payments on subsequent obligations for at least 12 months, then satisfactory credit is considered re-established.

Consumer Credit Counseling Plan

If a borrower(s) has 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 borrower(s) has 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 borrower entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

Bankruptcy

The fact that a bankruptcy exists in a borrower (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.

Continued on next page

Topic 7: Credit History – Required Documentation and Analysis, continued

b. How to Analyze Credit, continued

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law (Petition under Chapter 7 of the Bankruptcy Code):

- If the bankruptcy was discharged more than 2 years ago from the date of closing for purchases and refinances, it may be disregarded.
- If the bankruptcy was discharged within the last 1 to 2 years, it is probably not possible to determine that the borrower or spouse is a satisfactory credit risk unless both of the following requirements are met:

Table 3: Requirements for Bankruptcies Discharged within the last 1 to 2 years

Requirement	Explanation
1	The borrower(s) had obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period.
2	The bankruptcy was caused by circumstances beyond the control of the borrower 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 discharged within the past 12 months, it will generally not be possible to determine that the borrower(s) is a satisfactory credit risk.

If the bankruptcy was caused by failure of the business of a self-employed borrower, it may be possible to determine that the borrower is a satisfactory credit risk if all four of the following are met:

Table 4: Requirements for Bankruptcies Caused by the Failure of a Self-Employed Borrower's Business

Requirement	Explanation
1	The borrower obtained a permanent position after the business failed.
2	There is not any derogatory credit information prior to the self-employment.
3	There is not any derogatory credit information subsequent to the bankruptcy.
4	Failure of the business was not due to the borrower's misconduct.

Continued on next page

b. How to Analyze Credit, continued

Bankruptcy 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 2 to 3-year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the borrower(s) has finished making all payments satisfactorily, the lender may conclude that the borrower has re-established satisfactory credit.

If the borrowers) 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.

Foreclosures

The fact that a home loan foreclosure (or deed-in-lieu or short sale in lieu of foreclosure) exists in a borrower(s) history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the foreclosure.

You may disregard a foreclosure finalized more than 2 years from the date of closing. If the foreclosure was finalized within the last 1 to 2 years from the date of closing, it is probably not possible to determine that the borrower(s) is a satisfactory credit risk unless both of the following requirements are met:

The borrower (s) has obtained consumer items on credit subsequent to the foreclosure and has satisfactorily made the payments over a continued period, and

The foreclosure was caused by circumstances beyond the control of the borrower (s) such as unemployment; prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified.

If a foreclosure, deed in lieu, or short sale process is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. If there is a significant delay in the transfer of title, the lender should contact the RLC of jurisdiction for guidance.

Deed in lieu or short sale

For a deed in lieu or short sale, develop complete information on the facts and circumstances in which the borrowers) voluntarily surrendered the property. If the borrower's payment history on the property was not affected before the short sale or deed in lieu and was voluntarily communicating with the servicer or holder, then a waiting period from the date transfer of the property may not be necessary.

If the foreclosure, deed and lieu or short sale was on a VA-guaranteed loan, then a borrower may not have full entitlement available for the new VA loan. Ensure that the borrower's COE reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

Topic 8: Automated Underwriting Cases (AUS)

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. General AUS Information

VA has approved Freddie Mac's Loan Prospector, Fannie Mae's Desktop Underwriter, and VA approved proprietary lender AUS systems to 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 AUS. The level of reduced documentation depends on the risk classification assigned. The systems use 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.

The automated systems do not approve or disapprove loans. They merely determine a risk classification. It is still the lenders underwriter's decision whether or not to approve the loan.

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.

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 AUS 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 signature on VA Form 26-6393, Loan Analysis (items 49 through 53). However, the file must still contain the Lender's Certification referenced in Chapter 5 of the VA Lender's Handbook.

Continued on next page

c. Documentation Guidelines for Credit History

Refer to the following table for documentation guidelines for credit history:

Table 5: Documentation Guidelines for Credit History

Subject and Reference	Documentation Guidelines and Reductions for Refer	Documentation Reductions for Accept/Approve
Types of credit reports used in reconciliation (Topic 7 of this chapter)	Use any of the following if ≤120 or 180-days old (existing/new constructions): All in-file reports, Selected in-file reports, Merged credit report, or RMCR	Same as Refer.
Explanation of discrepancies in reported debt (Topic 5 of this chapter)	No explanation is required.	Same as Refer.
Rental payment history (Topic 7 of this chapter)	Provide a 24 month rental history directly from the landlord, through information shown on credit report or by cancelled checks	No verification of rent is required.
Verification of significant non-mortgage debt (Topic 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 percent of the stable monthly income for all borrowers.	Same as Refer. **Note**: Perform manual downgrade to Refer if direct verification reveals more than 1 by 30 day late payment in the past 12 months for any of the omitted debts.

Continued on next page

Topic 8: Automated Underwriting Cases (AUS), continued

c. Documentation Guidelines for Credit History, continued

Table 5: Documentation Guidelines for Credit History, continued

Subject and Reference	Documentation Guidelines and Reductions for Refer	Documentation Reductions for Accept/Approve
Mortgage payment history (Topic 7 of this chapter)	Obtain direct verification when ratings are not available on mortgages that are any of the following: • Outstanding, • Assumed, or • Recently retired. A written explanation of mortgage payment history is required for borrowers with more than 1 by 30 day late payment for all mortgages for the past 12 months.	Perform manual downgrade to Refer for any mortgage debt with more than 1 by 30 day late payment in the past 12 months.
Account balances (Topic 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 past due debt.	Same as Refer, however if rating is currently ≥90 days past due, manually downgrade to **Refer.**
Derogatory credit information (Topic 7 of this chapter)	Obtain explanation for derogatory credit. Explain assessment of creditworthiness on *VA Form 26-6393*, Loan *Analysis*	No determination of creditworthiness is required.
Alimony and/or child support payments (Topic 2 of this chapter)	Provide the following: • Proof of deposits on bank statements for 3 months, and • Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance.	Same as Refer.

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d. Documentation Guidelines for Borrower(s) Not Self-Employed

Refer to the following table for documentation guidelines for employment/income for borrower(s) who are ***not*** self-employed:

Table 6: Documentation Guidelines for Borrower(s) Not Self-Employed

Subject and Reference	Documentation Guidelines and Reductions for Refer	Documentation Reductions for Accept/Approve
Employment gaps (Topic 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 (Topic 2 of this chapter)	Document telephone contact verifying borrower's current employer. Use pay stubs covering at least 1 full month of employment and contains the following: • Year-to-Date (YTD) information, • Bonus information, and • Overtime information.	Same as Refer.

Continued on next page

Topic 8: Automated Underwriting Cases (AUS), continued

d. Documentation Guidelines for Borrower(s) Not Self-Employed, continued

Table 6: Documentation Guidelines for Borrower(s) Not Self-Employed, continued

Subject and Reference	Documentation Guidelines and Reductions for Refer	Documentation Reductions for Accept/Approve
Verifying previous employment (Topic 2 of this chapter)	Use a VOE or any of the following, covering the 2-year period prior to closing: • W-2 Forms, or • Income information obtained from the IRS via one of the following forms: ☐ Form 8821, Tax Information Authorization, (or alternate form acceptable to the IRS that collects comparable information) or ☐ Form 4506, Request for Copy of Tax Return, (or alternate form acceptable to the IRS that collects comparable information). • No VOE or W-2 Forms are required for a borrower on active duty. • The Leave and Earning Statement (LES) should be used.	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. 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: • Borrower is with the same employer >2 years • Employer phone contact verifies the length of employment and current status (still employed) • Borrower is not self-employed or commissioned • Bonus, overtime, or secondary income is not needed to qualify • Stable monthly income is 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: ☐ Form 8821, and ☐ Form 4506.

Continued on next page

e. Documentation Guidelines for Borrower(s) Self-Employed

Refer to the following table for documentation guidelines for employment/income for borrower(s) who are self-employed:

Table 7: Documentation Guidelines for Borrower(s) who are Self-Employed

Subject and Reference	Documentation Guidelines and Reductions for Refer	Documentation Reductions for Accept/Approve
Individual tax returns for self- employed borrowers (Topic 2 of this chapter)	Provide one of the following, with all line items captured: • signed copies of individual tax returns for the most recent 2- year period or tax transcripts, or • individual income information obtained from the IRS via one of the following forms: □ 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 (Topic 2 of this chapter).	No balance sheet or YTD Profit and Loss (YTD P&L) is required if origination date is < 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

Topic 8: Automated Underwriting Cases (AUS), continued

e. Documentation Guidelines for Borrower(s) Self-Employed, continued

Table 7: Documentation Guidelines for Borrower(s) who are Self-Employed, continued

Subject and Reference	**Documentation Guidelines and Reductions for Refer**	**Documentation Reductions for Accept/Approve**
Business tax returns for self-employed borrowers (Topic 2 of this chapter)	Provide one of the following, with all line items captured: • 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: □ 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).	No business tax returns are required if all of the following conditions are met: • 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 downpayment or closing costs are not from the business.
Verify assets to close in the borrower's name (Topic 4 of this chapter)	Provide bank/asset statements covering the most recent 2-month period in lieu of a Verification of Deposit (VOD).	Provide bank/asset statements covering most recent 1- month period in lieu of a VOD.

Topic 9: How to Complete VA Form 26-6393 Loan Analysis

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

a. General

In order to properly enter information on VA Form 26-6393, *Loan Analysis*, the underwriter must understand and apply the guidelines provided in the preceding sections of this chapter.

b. Estimated Monthly Shelter Expense

Special instructions are listed in the following table:

Table 8: Estimated Monthly Shelter Expenses

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 for the gross living area as per the appraisal. **Example**: A 1,500 square foot home with a 1,500 square foot unfished basement would have a combined maintenance and utility cost of $210 (1,500sq 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.

c. Debts and Obligations

List all known debts and obligations of the borrower and spouse including any alimony and/or child support payments. Spousal support or alimony may be treated as a reduction in income; however, child support is to be treated as a liability.

Place a check mark in the (3) column next to any "significant" debt or obligation. See the topic "Analysis of Debts and Obligations" in Topic 4.05c of this chapter, for an explanation of "significant."

Job Related Expense – Section D line 29.

Include any costs for child care, significant commuting costs, and any other direct or incidental costs associated with the borrower's (or spouse's) employment. Check this item if total job-related expenses are significant.

Up to age 12, the lender is responsible for determining if there are any child care expenses for the borrower(s).

Continued on next page

Topic 9: How to Complete VA Form 26-6393, Loan Analysis, continued

d. Federal Income Tax – Item 32

Enter the borrower's estimated monthly Federal income tax, based upon IRS tax tables. If the borrower has a MCC, reduce the Federal income tax by the estimated tax credit. See Topic 3, subsection b of this chapter for MCC.

e. Balance Available for Family Support – Item 43

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.

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.

Residual Tables. A key to the geographic regions is listed in the following tables:

Table 9: 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

For Family Size Over 5: Add $75 for each additional member up to a family of seven.

Table 10: 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	$1,062	$1,039	$1,039	$1,158

For Family Size Over 5: Add $80 for each additional member up to a family of seven.

Continued on next page

e. Balance Available for Family Support – Item 43, continued

Table 11: Key to Geographic Regions Used on the Preceding Tables (Tables 6 and 7)

Geographic Region	States
Northeast	Connecticut, Maine, Massachusetts, New Hampshire, Vermont, New Jersey, New York, Pennsylvania, Rhode Island
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

Examples

A Veteran has a family size of 3 purchasing a home in Arizona with a loan amount of $400,000. The residual figure will be $990.

A Veteran has a family size of 8 purchasing a home in Georgia with a loan amount of $150,000. The residual figure will be $1,199 (family size of 5 which is $1,039 adding $80 for each additional family member up to a family size of 7). The eighth person will not be considered in the calculation.

Special Instructions

Count all members of the household (without regard to the nature of the relationship) when determining "family size," including:

- A borrower's spouse who is not joining in title or on the note, and
- Any other individuals who depend on the borrower for support.

If a dependent is claimed on the Federal Tax Returns, then the dependent must be considered as a member of the household, to calculate residual income.

Examples

- Children from a spouse's prior marriage who are not the borrower's legal dependents.
- A dependent parent.

Continued on next page

Topic 9: How to Complete VA Form 26-6393, Loan Analysis, continued

e. Balance Available for Family Support – Item 43, continued

Exceptions for Considering All Members of the Household

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.

Examples

- a spouse not obligated on the title or on the note that has stable and reliable income sufficient to support his or her living expenses.
- a child for whom sufficient foster care payments or child support is received regularly, or
- a parent who has sufficient stable and reliable non-taxable income.

Reducing the Residual Income Figures

Reduce the residual income figure (from the above tables) by five percent if:

- the borrower(s) is an active duty or retired serviceperson, or
- there is a clear indication that a borrower will receive the benefits resulting from use of military-based facilities located near the property. Examples include Guard and Reserve military retirees, 100 percent disabled Veterans and their family members, or Medal of Honor recipients.

f. Debt-to-Income Ratio – Item 44

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. The following steps are required to determine the debt-to-income ratio:

Table 12: Steps to Determine the Debt-to-Income Ratio

Step	Description
1	Add: Items 15+16+17+18+20+40 = Debt
2	Add: Items 31+38 = Income
3	Divide: Debt ÷ Income = Debt-to-Income Ratio
4	Round: To the nearest two digits

The "Debt-to-Income Ratio" heading in Topic 10, subsection b of this chapter contains special procedures to apply if the ratio exceeds 41 percent.

Only the borrower's actual income may be used to calculate the residual income.

Care should be exercised to ensure that the income considered tax-exempt is likely to continue and remain untaxed.

Continued on next page

b. Debt-to-Income Ratio – Item 44, continued

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."

Tax-free income may be "grossed up" for purposes of calculating the debt-to- income ratio only.

- This is a tool that may be used to lower the debt ratio for borrowers 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 IRS and state income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Use a figure of 125 percent of the borrower's non- taxable income when "grossing up."
- Do not add non-taxable income to taxable income before "grossing up."
- If "grossing up" is used, indicate such and provide the "grossed up" ratio of 125 percent in item 47, "Remarks." The actual amounts of the borrower's non-taxable income should not be adjusted in in line 38.

c. Past Credit Record – Item 45

Indicate whether the borrower (and spouse, if applicable) is a satisfactory or unsatisfactory credit risk based on a complete analysis of credit data.

Topic 10: How to Analyze the Information on VA Form 26-6393, Loan Analysis

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

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.

However, an inadequate residual income alone can be a basis for disapproving a loan.

If residual income is marginal, look to other indicators such as the borrower's credit history, and in particular, whether and how the borrower has previously handled similar housing expense.

Consider the ages of the borrower's dependents in determining the adequacy of residual income.

b. Debt-to-Income Ratio

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and other obligations listed in section D of VA Form 26-6393, *Loan Analysis*, 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 unless it is larger due solely to the existence of tax-free income which should be noted in the loan file), the loan may be approved with justification, by the underwriter's supervisor, or
- residual income exceeds the guideline by at least 20 percent.

Loans closed automatically with a debt-to-income 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 include the reason(s) for approving the loan and 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 factors such as residual income.

Continued on next page

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 strengths rather than mere satisfaction of basic program requirements. For example, the fact that a borrower 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 downpayment,
- 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.

e. Compare Previous and Proposed Shelter Expenses

Closely scrutinize a case in which the borrower will be paying significantly higher shelter expenses than he or she currently pays.

Consider the:

- ability of the borrower to accumulate liquid assets, and
- amount of debts incurred while paying a less amount for shelter.

If a borrower's application shows little or no reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in shelter expenses can be absorbed.

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Topic 10: How to Analyze the Information on VA Form 26-6393, Loan Analysis, continued

f. Home Mortgage Disclosure Act (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.

Compatibility of VA Program with HMDA

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 borrowers. 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 borrower's financial, employment and family circumstances.

Purpose of HMDA

VA encourages 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.

Underwriters are encouraged to give consideration to every possible appropriate factor in seeking a proper basis for approving loan applications for every qualified Veteran.

CHAPTER 5: HOW TO PROCESS VA LOANS AND SUBMIT THEM TO VA

Overview

Topic	Title	Page
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Topic 1: Processing Procedures

Change Date: May 14, 2024

- Section a, *Order of Completion*, has been updated to add a step for submission of VA Form 26-8937, *Verification of VA Benefits,* if the Veteran indicates they have a pre-discharge disability claim pending with VA.
- Section b, *How to Obtain a Certificate of Eligibility*, has been updated to replace references to e-benefits with va.gov.
- Section f, *Requirements for Active-Duty Service members*, has been updated with information on pre-discharge claim information.
- This topic has been updated to replace references to the Regional Loan Center (RLC) with VA.

a. Order of Completion

The COE must be ordered prior to requesting an appraisal. The procedures discussed in this topic must be initiated and may be completed in any feasible order, with the exception of the Certificate of Eligibility (COE), 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:

- obtain a COE, unless the loan is an Interest Rate Reduction Refinancing Loan (IRRRL),
- if the Veteran is an active-duty Service member and indicates they have a pre-discharge claim pending, complete and submit VA Form 26-8937, *Verification of VA Benefits,* (see section f),
- request a VA appraisal or IRRRL case assignment in VA's web-based loan guaranty system (WebLGY), (see Chapter 10 of this handbook for the steps to request an appraisal),
- initiate the Credit Alert Verification Report System (CAIVRS) (see Chapter 4 of the Lender's Handbook) and,
- request a credit report and verifications, if required (see Chapter 4 of this handbook).

Continued on next page

Topic 1: Processing Procedures, continued

b. How to Obtain a Certificate of Eligibility

Verify the Veteran's or surviving spouse's eligibility for home loan benefits and amount of available entitlement by obtaining a COE in WebLGY. It is highly suggested that lenders obtain a COE online through WebLGY for the most efficient processing times. Veterans may also apply online through www.va.gov.

- A COE obtained by the borrower on www.va.gov will be in WebLGY.
- This COE can be accessed by the lender using at the Veteran's social security number and date of birth.
- An additional or updated COE does not need to be obtained or updated unless a change needs to be made to the COE.
- Please examine and understand the conditions of the COE.
- Failure to comply with the COE conditions may result in an ineligible loan (see Chapter 2 of this handbook).

c. Establish Reasonable Value of the Property

After requesting an appraisal in WebLGY, the appraisal report is uploaded into WebLGY. The Staff Appraisal Reviewer (SAR) will review the appraisal and issue the Notice of Value (NOV). A copy of the NOV is available in WebLGY. The lender must obtain evidence of compliance with any NOV requirements.

d. Determine if VA's Occupancy Requirement is Met

Determine whether the Veteran meets VA's occupancy requirement. The loan cannot be closed as a VA loan unless the requirement is met (see Chapter 3 of this handbook for occupancy requirements).

e. Underwrite the Loan

Complete the procedures, verifications, and VA Form 26-6393, *Loan Analysis*, described in Chapter 4 of this handbook. Compare information received from different sources and resolve any discrepancies. Examples may include, but not limited to:

- resolving differences in the number of dependents, and
- resolving credit history or employment stability/reliability discrepancies, and
- resolving the amount or status of monthly obligation(s).

The final signed Uniform Residential Loan Application (URLA), VA Form 26-6393, *Loan Analysis*, and final Automated System Feedback, if applicable, should all reflect the same information.

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f. Requirements for Active Duty Service members

Funding Fee Exemption Status: Lenders will ask active duty Service members if they have a pre-discharge disability claim pending with VA. If the COE funding fee status shows Non-Exempt, the lender will submit VA Form 26-8937, *Verification of VA Benefits*. If a proposed or memorandum rating is not obtained and a closing takes place, the Service member is not eligible for a funding fee refund exemption and will not be entitled to a refund from VA.

VA Form 26-8937 should be uploaded to the existing COE record by completing a "New Application" under "Electronic Application" in WebLGY. When submitting the application, the form should be uploaded as the document type "Form 26-8937".

The time required to issue a memorandum rating varies. If the Service member has any questions related to a pre-discharge claim, they should contact VA at 1-800-827-1000.

See Chapter 8 for additional information on the VA Funding Fee.

Eligibility Conditions: Ensure the Veteran, eligible as an active-duty member, is still on active duty at the time of closing if the COE 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*." The Veteran certifies their continuous active duty service on VA Form 26-1820, *Report and Certification of Loan Disbursement*. 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 as follows:

- A Veteran released from active duty must have a DD Form 214, *Certificate of Release or Discharge from Active Duty*, with time served, Character of Service Discharge, and reason for the discharge listed. It must be uploaded into WebLGY for the issuance of a new COE.
- A Veteran released from the National Guard or Reserves must have evidence of time served and an Honorable discharge. This must be uploaded into WebLGY for the issuance of a new COE.
- If a COE was issued based upon active-duty service and the Veteran has been separated, eligibility must be re-determined based upon their length of service and character of service.

Counseling Checklist: Ensure every Service member who applies for a loan while still in service is counseled with VA Form 26-0592, *Counseling Checklist for Military Homebuyers*, as early as possible in the transaction.

The active duty Veteran's and lender's signature on the form signifies counseling has been completed.

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Topic 1: Processing Procedures, continued

g. Obtain a Certificate of Commitment on Prior Approval Loans

If the loan requires prior approval, upload the loan file to WebLGY for review (see Topic 3 of this chapter).

If the prior approval loan is approved by VA, a VA Certificate of Commitment will be issued by VA to the lender. Ensure compliance with any conditions listed on the Certificate of Commitment before closing the loan.

To obtain the loan guaranty certificate, the closing package must be uploaded into WebLGY, for VA's final review.

Topic 2: How to Submit Loan Documents to VA

Change Date: May 14, 2024

- Section a has been updated to replace the reference to the Veterans Information Portal and now refers lenders to Appendix B for information on submitting documents to VA.

a. Where and When to Submit Documents

Generally, lenders only need to submit documents to VA when the loan requires prior approval or VA requests copies of the origination package for a Full File Loan Review (FFLR). *Appendix B* provides process specific stacking orders and information on how a lender should submit the requested documents to VA.

b. VA Loan Number

A 12-digit VA Loan Identification Number (LIN) is assigned to each loan by VA at the time the appraisal or Interest Rate Reduction Refinancing Loan (IRRRL) is requested. Use this number electronically in VA systems or where requested on VA forms and other documents. Submitting an incorrect VA loan number can delay processing of the guaranty.

c. Who Can Sign Documents for the Lender?

Under certain circumstances, VA requires specific parties to execute documents. For example:

- a VA-approved credit underwriter must approve or disapprove a loan for a non-supervised automatic lender (note: the SAR designation does not automatically confer credit underwriting authority),
- an officer of the company must sign the Lender's Loan Quality Certification.

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.

d. Use of Electronic Documents

When submitting loan documents to VA, lenders may use electronic documents. Lenders must be able to provide VA's audit team members with printed, digital, or on-line access to records.

Lenders are expected to continually monitor the integrity of their electronic system to ensure consistent quality and to prevent unauthorized alternation or destruction of records.

Topic 3: Prior Approval Loan Procedures

Change Date: May 14, 2024

- This topic has been updated to replace references to the RLC with VA.
- References to processing requirements involving a VA-appointed fiduciary have also been removed from this Topic.
- Section a, *Loans to be Submitted for Prior Approval*, has been updated to remove the prior approval requirement for loans involving a VA-appointed fiduciary, and to further clarify which types of loans are required to be submitted for prior approval.
- Section c, *How to Request Prior Approval*, which previously provided the stacking order for prior approval requests for purchase/cash-out refinance loans, has been renamed and updated to refer lenders to the updated stacking orders provided in Appendix B, Topic 2.
- Previous section e, *Documentation Required for an IRRRL Prior Approval Package*, has been removed from this Topic and moved to Appendix B Topic 2. All subsequent sections were re-lettered and references updated.
- Previous section h, *Changes Occurring After Issuance of the Certificate of Commitment*, including Tables 3, has been updated.
- Previous section i, *Conditional Certificates of Commitment*, Table 4, has been updated to remove the conditional commitment condition for loans to be made to a Veteran and fiancé(e) who intend to marry prior to closing and who will hold title as Veteran and spouse.
- Previous section k, *How to Report Loan Closing and Request Guaranty*, which previously provided the stacking order for reporting a closed prior approval loan, has been updated to refer lenders to the updated stacking orders provided in Appendix B.
- Previous section k, *How to Report Loan Closing and Request Guaranty*, has been updated with additional information related to the late reporting certification required if the loan is not reported in a timely manner.
- Minor grammatical changes were also made throughout the topic.

a. Loans to be Submitted for Prior Approval

Lenders without automatic authority are strongly encouraged to enter into a sponsor/agent relationship with a VA-approved automatic lender to expedite VA loan processing and underwriting. If a lender does not have a sponsor, then they must submit an application to VA for prior approval lending. Those without sponsors or automatic authority must upload all loans into WebLGY for prior approval, except IRRRLs made to refinance loans that are not delinquent (see Chapter 1 of this handbook).

Continued on next page

Topic 3: Prior Approval Loan Procedures, continued

a. Loans to be Submitted for Prior Approval, continued

Lenders must upload all prior approval documents into WebLGY, for VA review **prior** to closing the loan (see Appendix B Topic 2 for the prior approval stacking order). The loan may not close until VA issues a Certificate of Commitment.

All lenders, whether or not they have automatic authority, must submit the following types of loans to VA for prior approval:

- Joint loans, to a Veteran and one or more non-spouse, non-Veterans (see Chapter 7)
- Joint loans, to a Veteran and one or more non-spouse Veterans who will not be using entitlement (see Chapter 7)
- Loans to Veterans in receipt of VA non-service-connected pension. This is not the same as VA service-connected disability compensation.
- IRRRLs made to refinance delinquent loans (See Chapter 6 of this handbook)
- Manufactured home loans (home is not titled as real-estate)
- Unsecured loans or loans not secured by a first lien; and
- Supplemental loans

Note: COEs may indicate required submission of VA Form 26-8937, *Verification of VA Benefits*, if VA is unable to issue the COE with appropriate conditions. In these cases, the form should be submitted prior to close as it may indicate the loan requires prior approval.

Lenders are not required to obtain prior approval for a loan where the application was taken for a Veteran and fiancé(e) who will marry **prior** to loan closing and who will hold title jointly as Veteran and spouse. A copy of the borrowers' marriage certificate or other proof of marriage showing the marriage preceded loan closing must be retained in the loan file. A marriage license is inadequate. Prior approval **is** required if the marriage will not take place prior to loan closing.

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

This provision **may not** be used to shift the burden of loan denial to VA. Additionally, VA cannot address overlays established by a company or investor and the loan should not be submitted as a prior approval for the lender to overcome any company or investor requirements.

Before submitting such a loan, the underwriter **must** first attempt to contact VA to discuss the circumstances with a Loan Specialist. While VA cannot make the final underwriting determination without reviewing the loan, VA can discuss VA guidelines to assist the underwriter in making a determination.

If, after contacting VA, the underwriter is unable to make a determination, the loan may be submitted for prior approval. The submission **must** include a cover letter from the underwriter that states the reason(s) for the prior approval submission, explains the unique circumstances, and provides the underwriter's phone number and e-mail address.

Continued on next page

Topic 3: Prior Approval Loan Procedures, continued

b. Before Requesting Prior Approval

The lender must perform the following steps prior to submitting a loan package for prior approval:

- obtain a COE, and, if the Veteran is an active-duty Service member who indicates they have a pre-discharge claim pending, complete and submit VA Form 26-8937, *Verification of VA Benefits,* (see Topic 1, section f),
- establish the reasonable value of the property with the issuance of an NOV,
- underwrite the loan and complete VA Form 26-6393, *Loan Analysis*, and
- ensure Service members receive counseling using VA Form 26-0592, *Counseling Checklist for Military Homebuyers*.

The prior approval loan review will be suspended and processing will be delayed if all documents are not submitted with the original upload.

c. How to Request Prior Approval

The stacking order for requesting prior approval and reporting loan closing are provided in Appendix B, Topic 2.

The files should be uploaded as a single-file Portable Document Format (PDF) into VA's electronic loan system (WebLGY or subsequent system) to the correspondence section of the loan record as a 'Prior Approval Loan Package'. If the file size exceeds VA's limit, it is permissible to split the file, but it should still follow the stacking order.

Failure to provide necessary documents or conditions may result in delays in issuing the Certificate of Commitment.

A user's guide for uploading prior approval loans is available online at: https://www.benefits.va.gov/HOMELOANS/documents/docs/prior_approval_LP_lenders.pdf

d. Prior Approval on IRRRLs

An IRRRL made to refinance a loan that will be 30 or more days 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
- the Veteran is able to make the proposed loan payments.

The stacking order for requesting prior approval and reporting loan closing are provided in Appendix B, Topic 2.

Continued on next page

Topic 3: Prior Approval Loan Procedures, continued

e. VA Processing of a Prior Approval Application

VA will review the documents submitted and complete one of the following:

- suspend processing and request additional information from the lender, or
- send a notice of denial to the lender and borrower, or
- issue VA's certificate of commitment to the lender, which is evidence of VA's approval of the loan to close and willingness to guaranty the loan.

Loans submitted on the prior approval basis have a 10-business day timeliness requirement by VA.

The processing time may be extended for loans involving the receipt of VA pension income. The VA Pension Management Center may need to complete a review of a loan file in addition to the Loan Guaranty review.

f. Certificate of Commitment

VA's certificate of commitment must be obtained **prior** to closing and is the lender's evidence of VA's willingness to guaranty the loan. 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. Additionally, all conditions of the certificate of commitment must be met.

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 and reviewed again by VA.

VA may cancel a commitment if the validity period of the certificate of commitment has expired (after 180 days), and there is no reasonable expectation that the loan will be reported for guaranty.

A commitment may be extended under certain circumstances. Contact VA for a review of the prior approval commitment.

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Topic 3: Prior Approval Loan Procedures, continued

g. Changes Occurring After Issuance of the Certificate of Commitment

Table 1: Changes Occurring After Issuance of the Certificate of Commitment

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,	VA approval **is not** 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 remaining economic life of the property as provided by the NOV, and there is **no** increase in the monthly mortgage payments,	VA approval **is not** needed. Include an explanation of the change with the closing package.
The maturity of the loan is decreased, and there **is** an increase in the monthly mortgage payments,	VA approval **is** needed. Upload a new Loan Estimate (LE), URLA signed and dated by the applicant, and an updated VA Loan Analysis, to WebLGY.
The loan amount is increased to cover the cost of energy efficiency improvements up to $6,000,	VA approval **is** needed. See Chapter 7 of the Lender's Handbook for special underwriting requirements and documentation required with the updated prior approval package. A revised loan analysis must be provided to show the borrower still qualifies with the higher loan amount and payment.
Any increase in the amount of discount points to be paid by the applicant above the points indicated on the certificate of commitment,	VA approval **is** needed. Include with the updated prior approval package: • 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.

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g. Changes Occurring After Issuance of the Certificate of Commitment, continued

Table 1: Changes Occurring After Issuance of the Certificate of Commitment, continued

If…	**Then…**
The loan is to be closed at an interest rate more than 0.25 percent greater than the rate indicated on the certificate of commitment,	VA approval **is** needed. Upload a new LE, URLA signed and dated by the applicant, and an updated VA Loan Analysis, to WebLGY.
A borrower changes jobs or suffers a reduction in income.	VA approval **is** needed. Upload an updated VA Loan Analysis, income verification documentation, and an updated URLA to WebLGY
There is an increase in liabilities that reduces the residual income by 5 percent or more, or increases the debt-to-income (DTI) ratio by 2 percent, or increases the DTI to a percentage above 45%.	VA approval **is** needed. Upload an updated VA Loan Analysis, credit documentation, and an updated URLA to WebLGY.

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Topic 3: Prior Approval Loan Procedures, continued

h. Conditional Certificates of Commitment

There are circumstances when VA issues a prior approval commitment with special conditions. The table below lists circumstances and conditions that warrant special instructions and documentation before closing a loan that has been underwritten by VA.

Table 2: Conditional Certificates of Commitment

Case	Condition/Notation on Certificate
Loan is to the spouse of a serviceperson missing in action or prisoner of war (MIA/POW)	Prior to closing the subject loan, the lender should obtain certification from the 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. See Chapter 2 for required documentation.
Loan is to an eligible surviving spouse of a deceased Veteran.	"Conditioned on certification of status as a surviving spouse." *What this means*: Conditioned on the borrower's certification that their status as an eligible surviving spouse has not changed since the COE was issued. See Chapter 2 for required documentation.
Loan is to an active-duty service person who has not been discharged and must certify to continuous active duty.	Certification of active-duty status as of date of note required. To ensure compliance, the active-duty Service member should 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 on the date of closing.
Loan involves use of an attorney-in-fact.	"Conditioned on proof Veteran was alive and not MIA." *What this means*: 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.

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h. Conditional Certificates of Commitment, continued

Table 2: Conditional Certificates of Commitment, continued

Case	Condition/Notation on Certificate
Veteran intends to sell the property on which he/she has an existing VA loan prior to closing on the new VA loan, in order to have entitlement restored	"Conditioned on restoration of entitlement." *What this means*: 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 their entitlement for that used by the original Veteran.
Veteran intends to sell property now owned in order to have sufficient income, eligibility and/or assets to qualify for the loan	"Commitment conditioned on disposal of the property." *What this means*: This commitment is conditioned upon the completion of the sale of residential real property now owned by the Veteran, as proposed in the loan application.
Notice of Value (NOV) conditions that were not satisfied prior to the commitment	The commitment is conditioned upon the completion and all required NOV conditions.

Failure to document these conditions with the closing package can result in a delay of the guaranty, affect the percentage of guaranty, and/or affect the ability of VA to issue the Loan Guaranty Certificate (LGC).

i. Before Closing a Prior Approval Loan

Complete all applicable procedures in Topics 1 and 2 of this chapter.

j. How to Report Loan Closing and Request Guaranty

A loan must be reported to VA within 60 calendar days of closing. A lender that fails to report the loan within 60 calendar days of closing must provide a written explanation signed by an officer of the company that includes the following:

- The reason for the delay in reporting the loan for guaranty, and
- Certification that the loan is not 30 or more days past due, and
- Certification that the loan otherwise conforms with standards established under chapter 37 of Title 38 U.S.C. and 38 C.F.R. part 36.

The stacking order for reporting loan closing is provided in Appendix B, Topic 2.

The file should be uploaded as a single-file Portable Document Format (PDF) into VA's electronic loan system (WebLGY or subsequent system) to the correspondence section of the loan record as a 'Prior Approval Loan Package'. If the file size exceeds VA's limit, it is permissible to split the file, but it should still follow the stacking order.

Failure to provide any of the necessary documents or conditions can result in a delaying of issuing the LGC, affect the percentage of guaranty, and/or affect the ability to issue the LGC.

Topic 4: Automatically Closed Loan Procedures

Change Date: May 14, 2024

- This topic has been edited to make minor grammatical changes.
- Section a, *How to Request Guaranty*, has been updated with additional information related to the late reporting certification required if the loan is not reported in a timely manner.
- Section b, *Documents Required if the Lender is Unable to Obtain an Electronic LGC*, has been updated to remove the stacking order for manual guaranty requests and to direct the lender to the updated stacking order in Appendix B, Topic 1.
- Section c, *FFLR Procedures*, has been updated to remove the stacking orders for VA FFLR requests and to direct the lender to the updated stacking orders in Appendix B.

a. How to Request Guaranty

The LGC is the lender's evidence that VA has guaranteed the loan. See Chapter 3 of this handbook for an explanation of what evidence of guaranty means to the lender.

Loans must be reported to VA within 60 calendar days of closing[1] except construction and alteration/repair loans which must be reported within 60 calendar days of completion of the construction or improvements in accordance with the plans and specifications as evidenced by the post construction inspection report. A lender that fails to report the loan in a timely manner must provide a written explanation signed by an officer of the company that includes the following:

- The reason for the delay in reporting the loan for guaranty, and
- Certification that the loan is not 30 or more days past due, and
- Certification that the loan otherwise conforms with standards established under chapter 37 of Title 38 U.S.C. and 38 C.F.R. part 36.

Note: failure to report a loan for guaranty in a timely manner may result in the automatic selection of the loan for VA FFLR.

Lenders must use WebLGY to obtain electronic LGCs for loans closed on the automatic basis. Exceptions to an automatically issued LGC in WebLGY include, but are not limited to:

- Loans that were underwritten as a prior approval and VA issued a certificate of commitment in WebLGY, and
- Veteran/Veteran joint loans where two or more Veterans are splitting entitlement.

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[1] 38 C.F.R. § 36.4303(a)

b. Documents Required if the Lender is Unable to Obtain an Electronic LGC

If a lender is unable to obtain an electronic LGC, the lender may request VA's assistance by uploading a manual guaranty package to the loan record in WebLGY.

The stacking order for manual guaranty requests is provided in Appendix B, Topic 1.

The file should be uploaded as a single-file PDF into VA's electronic loan system (WebLGY or subsequent system) to the correspondence section of the loan record as a 'Prior Approval Loan Package'. If the file size exceeds VA's limit, it is permissible to split the file, but it should still follow the stacking order.

VA will then issue the LGC or notify the lender of additional information needed for LGC issuance.

c. FFLR Procedures

VA requires lenders to maintain loan origination records and make them available to VA for oversight and audit purposes[2].

Lenders will be notified, either immediately by WebLGY or in writing by VA offices, when a loan has been selected for FFLR. Lenders must upload the complete loan file in the proper stacking order to WebLGY within 15-calendar days of receiving notification from VA.

The loan origination file should be uploaded as a single-file PDF into VA's electronic loan system (WebLGY or subsequent system). If the file size exceeds VA's limit, it is permissible to split the file, but it should still follow the stacking order.

The Uniform Loan Application Dataset (ULAD) and Uniform Closing Dataset (UCD) are to be uploaded as separate files, in ".xml" format only.

The stacking order for FFLR of Purchase and Cash-Out Refinances is provided in Appendix B, Topic 3.

The stacking order for FFLR of IRRRLs is provided in Appendix B, Topic 4.

If VA finds significant deficiencies in a loan submission, the lender will be notified.

Lenders must upload a response to WebLGY within 30-calendar days of receipt of any deficiency letter requesting clarification or additional documentation.

Failure to respond to VA's requests for additional documentation can lead to non-compliance with VA guidelines which can affect a lender's ability to maintain automatic authority.

[2] 38 CFR § 36.4333

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan

Change Date: April 1, 2019

- This chapter has been revised in its entirety.

a. General Information

If you are not the loan servicer or holder of the current VA loan, please refer the borrower or purchaser to the servicer or holder of the current VA loan for processing. Assumptions can only be processed and closed by loan holders and services with VA automatic authority that are holding or servicing the current VA loan.

Loan holders or servicers holding the loan without VA automatic authority that are holding or servicing the current VA loan, may submit a prior approval package to the VA RLC of jurisdiction of where the property is located. See Topic 1 of this chapter.

A VA assumption is also considered a Release of Liability (ROL).

Properties that are security for VA-guaranteed loans may be disposed or transferred even though the loans are not paid in full. Veterans who dispose or transfer their properties under these conditions remain liable to VA for any loss that may occur as a result of a future default and subsequent claim payment, unless the property is transferred to a creditworthy purchaser who agrees to assume the payment obligation. The servicer initially determines the purchaser's creditworthiness.

Any purchaser may qualify to assume a VA loan; however, for a Veteran's entitlement to be restored, a Veteran purchaser with sufficient entitlement must complete a Substitution of Entitlement (SOE) when the ROL is closed.

The Veteran's entitlement is not restored unless the Veteran purchaser, in addition to assuming the payment obligation, also agrees and is eligible to substitute their entitlement for the Veteran seller's entitlement. It is important for the servicer as soon as possible in the assumption process to obtain COEs for both the Veteran assumer and Veteran seller to determine if there is sufficient entitlement in which to substitute. See chapter 3 of this handbook.

Unless the ROL is an unrestricted transfer, a closing disclosure is required.

An ROL or SOE does not affect the original issuance of the LGC.

b. Who Can Process Loan Assumptions?

While procedures for processing requests for assumption approvals previously depended on the date of loan (commitment made on or after March 1, 1988), the VA Loan Electronic Reporting Interface (VALERI) regulations authorize loan holders or servicers with automatic authority that are holding or servicing the current VA loan to be transferred to determine creditworthiness on all assumption approval requests processed by their servicers.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

c. Servicers with Automatic Authority

Servicers with automatic authority are authorized to process and determine creditworthiness on assumption approval requests on behalf of VA. Servicers must follow VA underwriting guidelines (see chapter 4 of this handbook) when processing and determining creditworthiness on these cases.

Servicers must notify VA electronically of authorized ownership transfers and approved ROLs in VALERI. Additional information on the reporting process is available online at http://www.benefits.va.gov/homeloans/valeri.asp.

An underwriting and closing package must be uploaded into WebLGY, for the existing VA loan number.

d. Servicers without Automatic Authority

Servicers without automatic authority that are servicing loans for holders with automatic authority must advise the holders of any assumption approval requests, and the holders will be responsible for determining creditworthiness.

When neither the servicer nor the holder has automatic authority, the servicer must develop a complete credit package and submit it, along with a copy of the purchase contract and the status of the loan to the Loan Production section at the VA RLC where the property is located.

The package should contain a cover letter indicating prior approval underwriting is required as both the servicer and the holder do not have VA automatic authority.

See Topic 4, subsection c, of this chapter for the stacking order.

e. Transfers of Ownership on Properties with Loan Commitments after March 1, 1988

Transfers of ownership on properties securing loans for which commitments were made on or after March 1, 1988, must have the prior approval of the loan holder or its authorized servicing agent if either of them have automatic authority.

If neither the holder nor the servicer has automatic authority, the servicer must submit a credit package to VA for underwriting.

A seller must apply for approval of the transfer prior to completing the sale.

Servicers and holders with automatic authority must examine the application to assess compliance with the provisions of 38 U.S.C. 3714. VA will make the determination in a case where neither the servicer nor the holder has automatic authority, following receipt of a complete application package from the servicer or holder.

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Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

f. Approval Requirements

To approve the transfer of ownership:

- the loan must be current or will be brought current at the closing of the sales transaction,
- the prospective purchaser of the property is creditworthy, as determined in accordance with 38 C.F.R. 36.4340 and Chapter 4 of the Lender's Handbook, and
- the prospective purchaser has agreed to assume all of the loan obligations, including the obligation to indemnify VA if a claim is paid.

A processing fee may be collected in advance, including a reasonable estimate for the cost of the credit report. The maximum fee for processing a request for assumption approval and changing the loan records is the lesser of:

- automatic authority – $300 plus the actual cost of a credit report; or
- no automatic authority – $250 plus the actual cost of a credit report; or
- any maximum prescribed by applicable state law.

VA does not specifically regulate when the processing fee may be assessed. However, when the processing fee is collected prior to signing the sales contract, the portion of the fee attributable to changing the servicer's records (usually $50) must be returned to the seller if the application is denied or the process is not completed. Therefore, VA recommends that the processing charge accompany the complete package.

g. Processing Time Guidelines

Automatic Authority: Servicers or holders with automatic authority must complete the underwriting and notify the seller of the decision within 30 calendar days after receiving a complete ownership transfer approval application package.

Without Automatic Authority: Servicers without automatic authority (where the holder also does not have automatic authority) must submit documents to VA within 21 days after receiving a complete application package.

VA Review: VA has 10 business days to complete its underwriting review and notify the servicer of its decision. Servicers have 7-calendar days to notify all parties of VA's decision.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

h. Decision Notices

Approvals: If the application for ownership transfer is approved, the servicer must notify the seller and include instructions for the assumption of liability by the purchaser, the amount of funding fee that must be paid, and documentation needed to complete the process.

Disapprovals: If the application is disapproved, the seller and purchaser must be notified. The disapproval notice must include:

- the reason(s) for the decision and a notice that the decision may be appealed to VA within 30 calendar days,
- contact information of the servicer including address, phone number, and e-mail of the servicer for VA to request the underwriting package if appealed,
- if the application was disapproved for credit reasons, the purchaser must be informed of the basis on which the adverse decision was made in accordance with the Fair Credit Reporting Act.

If the application remains disapproved after 45 calendar days (to allow time for an appeal and review by VA), the $50 fee for changing the account records, if previously collected, must be refunded.

i. VA Appeals

The seller or the purchaser may appeal a disapproval decision to the VA RLC with jurisdiction over where the property is located within 30 calendar days from the notification of disapproval.

When the VA RLC receives an appeal of a denied request, VA will request that the servicer send a copy of the application package used in making the decision.

The loan package must be provided to the VA office of jurisdiction of where the property is located within 7 calendar days.

The VA RLC of jurisdiction of where the property is located will review and either approve the assumption on appeal or uphold the decision to deny the application.

If approved, the servicer should close the assumption within 30 calendar days of VA's approval and submit a closing package to the VA RLC of jurisdiction of where the property is located.

If the appeal is not approved, VA's notice will advise the seller of the right to request a special approval within 15 calendar days of receipt of the disapproval notice.

Special Approval: Following an appeal to VA, the seller may request special approval within 15 calendar days of receipt of the disapproval notice.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

i. VA Appeals, continued

VA's special approval does not release any obligor from liability. VA may determine that special approval of the assumption is in the best interest of the government if:

- the seller agrees to remain secondarily liable on the loan following assumption,
- the seller is unable to otherwise continue payments on the loan, and reasonable efforts have been made to find a creditworthy borrower for the property, or
- if an obligor is released without proper approval, VA may be released from further liability on the guaranty.

VA has 7 calendar days from receipt of the seller's request to make this determination.

If approved, the VA RLC will notify the servicer and seller that the assumption has been approved and that the seller will not be released from liability to VA; however, the property can be transferred to the purchaser(s). The servicer should close the assumption with 30 days of VA's special approval.

If disapproved, the VA RLC will notify the seller and lender that the assumption has not been approved, that the seller will not be released from liability, and the property cannot be transferred.

j. Steps After Approval

Once approved, the servicer will complete the transfer with a loan closing that meets all federal and any state and local regulations and requirements.

k. Assumption Clause

The VA-approved assumption clause must be included in the deed conveying the property to the purchaser. The VA RLC of jurisdiction of where the property is located has an example(s) of assumption clauses that are both acceptable to VA and compliant with state and local requirements.

Servicers should contact the RLC of jurisdiction of where the property is located to obtain sample language and/or documents.

The servicer is responsible for reviewing the document to establish that it contains the approved assumption clause and recording data and that it has the legal effect intended.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

l. Agreement Creating Liability

If the seller and purchaser have satisfied all the requirements of 38 U.S.C. 3714(a)(1), but the transfer deed containing an acceptable assumption clause was not included, the servicer must prepare an "Agreement Creating Liability to Holder and to United States" to execute the release.

The servicer must prepare an Agreement Creating Liability to Holder and to "United States" to execute the release.

Three copies are needed for execution and must be signed by the:

- seller,
- purchaser, and
- servicer as agent for the Department of Veteran Affairs.

The VA RLC of jurisdiction of where the property is located has examples of agreements that are both acceptable to VA and compliant with state and local requirements.

Servicers should contact the VA RLC of jurisdiction of where the property is located to obtain sample language and/or documents.

Once received, the servicer is responsible for reviewing the document to establish that it was properly completed and that it has the legal effect intended.

The holder or its authorized servicing agent will then execute the release portion of the form.

In those states where recording the assumption and/or the release instrument is necessary, the Veteran may be asked to pay the recording fees.

m. Funding Fee

At loan transfer, the purchaser is required to pay a funding fee to the servicer equal to one-half of one percent of the loan balance as of the date of transfer.

See Chapter 8 of this handbook for information on other exemptions from the funding fee and how to verify exemption status.

When the transfer is a result of an unrestricted transfer, a funding fee is not required.

The fee must be paid to VA within 15 calendar days of the date of assumption using the VA Funding Fee Payment System – VA FFPS .

The VA funding fee cannot be financed into the loan being assumed. It must be paid in cash at the time of transfer.

n. Notification to VA

Servicers must notify VA after ownership has been transferred and release of liability has been granted. Additional information can be found at: http://www.benefits.va.gov/homeloans/valeri.asp.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

n. Notification to VA, continued,

Servicers must also submit a completed closing package to the VA RLC of jurisdiction of the property after ownership has been transferred and an ROL has been granted. The package should contain documentation in the following stacking order:

Table 3: Assumption Stacking Order

Order	Document
1	Lender's cover or transmittal letter, including the reason for submission.
2	If Substitution of Entitlement, then Certificate of Eligibility for both Veteran seller and assumer and signed VA Form 26-8106, *Statement of Veteran Assuming GI Loan*
3	Copy of quit claim deed or other recorded document with transfer of ownership with VA clause or if not included, signed assumption agreement by all parties (seller, assumer, and servicer/holder)
4	Evidence loan current and the time of the transfer
5	VA Form 26-8937, *Verification of VA Benefits* (if applicable)
6	URLA with revised VA Form 26-1802a, *Department of Housing and Urban Development (HUD)/VA Addendum to URLA*. These final forms must be properly completed and legible. Forms may be signed and dated anytime from the date of initial application to the date of loan closing.
7	*Closing Disclosure Statement* (CD)
8	VA Form 26-8497, *Request for Verification of Employment* or alternative verification of employment (VOE), and other verifications of income such as pay stubs and tax returns.
9	CAIVRS, borrower/co-borrower
10	All credit reports obtained in connection with the loan and any related documentation such as explanations for adverse credit, if required.
11	VA Form 26-8497a, *Request for Verification of Deposit* or alternative VOD, and other related documents
12	For automated underwriting cases: feedback certificate and underwriter's certification
13	VA Form 26-6393, *Loan Analysis*, completed and legibly signed
14	If a loan is submitted more than 60 days after loan closing, a statement signed by a corporate officer of the lender that identifies the loan, provides the specific reasons for late reporting and certifies that the loan is current.
15	VA Form 26-0592, *Counseling Checklist for Military Homebuyers*, if the applicant is on active duty

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

n. Notification to VA, continued,

Table 3: Assumption Stacking Order, continued

Order	Document
16	Purchase/Assumption/earnest money contract
17	Other necessary documents (for example – but not limited to, a POA if used, lenders loan quality certification)
18	Copt of the original note and all riders

Servicers are required to retain the supporting documentation for all transfers, assumptions, and an ROL for at least 3 years from approval or denial.

o. Assumptions without Prior Approval

Servicers must notify VA's Loan Production Department at the RLC of jurisdiction of where the property is located (in addition to the VALERI system) within 60 days after learning of a transfer that did not receive prior approval by the servicer or VA.

The notice must advise VA whether the servicer intends to exercise the option to immediately refer the case to foreclosure or to give the transferor and transferee the opportunity to apply for "retroactive approval" of the assumption.

Upon learning of an unapproved transfer, the servicer may decide to demand immediate payment of the one-half of one percent VA funding fee and request a copy of the instrument of transfer to determine the liability of the purchaser.

Loans for which a commitment was made prior to March 1, 1988, are commonly known as freely assumable loans. Owners have the right to sell the property securing these loans under any terms; servicers may not impose a restriction, charge, or fee that would limit or nullify this right. A funding fee is not assessed on assumptions of loans where the commitment was made prior to March 1, 1988.

Liability assumed. The purchaser should be afforded an opportunity for retroactive approval of the transfer if:

- the purchaser pays the funding fee,
- the purchaser has assumed all of the seller's obligations in the transfer deed,
- the assumption language is legally binding, and
- it appears that the purchaser intends to satisfy those obligations.

When these conditions have been met, then the Veteran and transferee must specifically apply for an ROL under 38 U.S.C. 3713. See subsection a of this topic.

An ROL does not restore the original Veteran's VA home loan entitlement and does not affect the guaranty on the loan.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

o. Assumptions without Prior Approval, continued

After the completion of an ROL, a Veteran purchaser can apply for a *Substitution of Entitlement* to restore the Veteran seller's entitlement (see subsection r of this topic).

Liability not assumed. If prior approval of a transfer was not obtained and the title was transferred "subject to" the mortgage or deed of trust, then the purchaser usually has no liability on the loan and no liability for the funding fee. In this instance, the purchaser may have no incentive to maintain the payments.

The original Veteran seller is still liable if the home subsequently defaults and VA pays a claim based on the Veteran's entitlement used to guaranty the loan.

It may still be advisable to extend the opportunity to apply for retroactive approval of the transfer, with the expectation that the purchaser will assume liability for repayment of the loan.

The original mortgagor remains liable on the loan unless he or she is released from personal liability with a qualifying assumption. The Veteran and transferee must specifically apply for an ROL under 38 U.S.C. 3713. See subsection a of this topic.

An ROL does not restore the original Veteran's VA home loan entitlement and does not affect the guaranty on the loan. The LGC remains in the original Veteran's name.

After the completion of an ROL, a Veteran purchaser can apply for an SOE to restore the Veteran seller's entitlement. See subsection r of this topic.

An exception applies when the loan was made by a state, territorial, or local governmental agency and the law requires acceleration of the maturity of the loan upon sale or transfer of the property to a person not eligible for assistance under the special program. VA has approved due-on-sale clauses to allow Veterans to participate in these programs and take advantage of below-market interest rates and benefits.

Process for Retroactive Approval. If the Veteran and current owner will be permitted to apply for retroactive approval, the assumption process should be completed in the same manner as if the application had been received prior to the transfer. This includes the right of appeal to VA, if the request is denied.

Should a purchaser fail to cooperate in the retroactive approval process, a servicer has the option of accelerating the loan.

When making this decision, the servicer should consider the implications of state law when delaying acceleration as compared to the prospect of accelerating a current loan that has the potential for future timely payments.

Any decision must be reported to the VA RLC of jurisdiction of the property and in VALERI.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

p. General Release of Liability Procedures

VA-guaranteed loans dated prior to March 1, 1988, can be transferred without VA's prior approval, borrowers and transferees may apply for an ROL before or after the closing of the transaction.

Servicers with automatic authority must process an ROL when the borrower and transferee specifically apply for a release.

Servicers without automatic authority that are servicing loans for holders with automatic authority must advise the holders of any assumption approval requests, and the holders will be responsible for determining creditworthiness.

A processing charge may be assessed for reviewing a request for an ROL just as on a request for approval of ownership change on a later loan.

When a borrower sells his or her home to transfer ownership without requesting an ROL, the servicer may charge up to $50 for amending its records to reflect a change in ownership, if the parties involved agree and it is permissible under the loan agreement.

No funding fee may be assessed on assumptions of loans where the commitment was made prior to March 1, 1988.

q. Release of Liability Procedures for Divorce

A Veteran may seek release from personal liability when his or her former spouse acquires the property as the outcome of a legally binding separation agreement or divorce proceedings and the ex-spouse was jointly liable on the loan with the Veteran prior to the divorce.

Servicers may process requests for an ROL from divorced Veterans using the same general procedures outlined in subsection a of this topic.

When processing an ROL in divorce cases in which the Veteran's former spouse receives the property, the servicer is authorized to charge the normal processing fee to complete the credit underwriting. A funding fee may not be assessed.

The following requirements must be met:

- the divorce is final and absolute and it is determined no appeal will be taken, or
- a signed separation agreement by all parties based on local laws and available documents with reasons why a separation agreement is used in lieu of a final decree of divorce, and
- the entire estate encumbered for the VA-guaranteed loan has become vested in the name of the Veteran's former spouse, and
- there is not any knowledge of any property settlement that would make the Veteran liable between the parties to pay the guaranteed loan.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

q. Release of Liability Procedures for Divorce, continued

Some states require a specific amount of time between a legal separation and a divorce (up to one year). With proper documentation, do not delay the request for an ROL, if the divorce is not final, but a legal separation agreement is in effect.

In some instances, the ex-spouse may also be a Veteran; however, for VA purposes, only the applicant who used their entitlement to guaranty the loan is considered a Veteran.

For example, John and Mary Doe are divorcing and both have obtained a COE; however, only John's COE was used to guarantee the loan. Since Mary's COE was not used to guarantee the home, only John is considered the Veteran. If Mary wishes to assume the loan, a credit qualifying package is required for an ROL and Mary can substitute her entitlement with the assumption.

When the Veteran is awarded the property, the ex-spouse may seek an ROL.

Requests for an ROL from an ex-spouse in cases where the Veteran retains the property should be referred to the VA RLC of jurisdiction over the state where the property is located, to process a Non-Veteran Spouse (NVS) ROL.

The servicer will be provided a with an NVS letter indicating VA has released the non-Veteran spouse of liability.

The servicer may only charge a fee of $50 for amending its records to reflect the change.

It is not necessary for the servicer to complete an ROL.

For example, Mary and Jon Smith divorced after they purchased a home using Mary's COE. She obtains the home per the divorce decree. Since she is the Veteran and will be retaining the property, she will contact the VA RLC of jurisdiction of where the property is located to process the NVS.

r. Substitution of Entitlement

A Veteran may allow an assumption/ROL of his or her VA-guaranteed loan with the expectation of being able to have his or her entitlement restored. A restoration may be needed to obtain another VA-guaranteed loan in the future by restoring the previously used entitlement for full entitlement benefits. Entitlement cannot be restored until VA makes a determination of eligibility for the Veteran assumer and Veteran seller and processes the SOE. VA completes the SOE process after a servicer closes the assumption and issues an ROL. Questions about an SOE should be directed to the VA RLC with jurisdiction where the property is located.

It is important for the servicer to obtain a COE as soon as possible in the assumption process to determine if there is sufficient entitlement for the Veteran assumer to complete the SOE for the Veteran seller. Entitlement must be of equal amounts to substitute. See Chapter 3 of this handbook for determination of home loan eligibility.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

r. Substitution of Entitlement, continued

When a Veteran requests approval for a transfer of ownership, he or she may request to have entitlement restored for use on another VA loan. For VA to approve such a request:

- the assumption (ROL) must be completed and closed by the lender;
- the purchaser must be an eligible Veteran who has sufficient entitlement to substitute for that of the original Veteran;
- the purchaser must certify that the property securing the loan will be occupied as his or her residence;
- the purchasing Veteran must agree to the SOE; and
- there must be equal available entitlement from the assuming Veteran in order to substitute his or her entitlement with the Veteran being released of their entitlement.

The assumption (ROL) must be completed and closed by the lender.

The purchaser must be an eligible Veteran who has sufficient entitlement to substitute for that of the original Veteran.

The purchaser must certify that the property securing the loan will be occupied as his or her residence.

The purchasing Veteran must agree to the SOE, and there must be equal available entitlement from the assuming Veteran in order to substitute his or her entitlement with the Veteran being released of their entitlement.

Whenever two Veterans intend to follow the SOE process, the servicer should have the Veteran purchaser complete VA Form 26-8106, *Statement of Veteran Assuming GI Loan*, (Substitution of entitlement). It should be included in the closing package submitted to VA.

A COE for each Veteran should accompany the credit package used to approve the ROL.

It is important to verify the purchasing Veteran has sufficient entitlement, is willing to substitute their entitlement, and will meet occupancy requirements to substitute before the closing of the ROL to meet the requirements of an SOE.

s. Unrestricted Transfers

Certain transfers of ownership, otherwise subject to 38 U.S.C. 3714, do not require prior approval by a holder or VA. Loans may not be accelerated due to these types of transfers.

An ROL will not be processed.

Processing charges and funding fees may not be assessed.

It is permissible to charge a reasonable fee up to $50 for changing the account records, provided that there is an agreement with the borrower and it is permissible under the loan agreement.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

s. Unrestricted Transfers, continued

Servicers must report unrestricted transfers to VA through VALERI as authorized transfers of ownership, which will typically be handled automatically by their servicing systems.

Unrestricted transfers of ownership include:

- the creation of a lien or other encumbrance subordinate to the lender's security instrument that does not relate to a transfer of rights of occupancy in the property;
- the creation of a purchase money security interest for household appliances;
- a transfer by devise, descent, or operation of law on the death of a joint tenant or tenant by the entirety;
- the granting of a leasehold interest of 3 years or less not containing an option to purchase;
- a transfer to a relative resulting from the death of a borrower;
- a transfer when the spouse or child of the borrower becomes a joint owner of the property with the borrower,
- a transfer into an inter-vivos trust in which the borrower is and remains a beneficiary and which does not relate to a transfer of rights of occupancy in the property; and
- a transfer resulting from a decree to dissolve a marriage, legal separation agreement, or from an incidental property settlement agreement by which the spouse of the borrower becomes the sole owner of the property.

VA does not consider a sale on an installment contract, contract for deed, or similar arrangement in which title is not transferred from the seller to the buyer, to be a "disposition" of property as sale agreements are not subject to 38 U.S.C. 3714.

These sale agreements do not require prior approval from the servicer or VA.

Borrowers inquiring should be cautioned that any borrower considering a sale in this manner would remain liable for repayment of the loan under such an arrangement.

Continued on next page

Topic 5: Processing Loan Assumptions by the Current Servicer or Holder of the VA Loan, continued

t. Documentation Requirements

VA does not require a servicer to change records, even if the agreement calls for the contract purchaser to make payments directly to that servicer. The contract seller is responsible for forwarding payment coupons and other information to the contract purchaser. Depending on the circumstances of a case, servicers may agree to change the account address to read "in care of" the contract purchaser, although the contract seller must promptly advise the servicer of any change in his or her address.

Sales by installment contracts typically call for transfer of title after a certain period of time.

If the contract calls for title to transfer prior to payment in full of the VA loan, VA requires assumption approval according to the procedures previously discussed.

Processing charges and VA funding fees will be applicable upon transfer.

As one of the conditions of the contract, servicers should advise the borrower that the language stating an application for assumption approval will be made, and approval secured, prior to the completion of title transfer.

The contract should address the options of both parties if the request for assumption approval is denied.

Servicers are required to retain the supporting documentation for all transfers, assumptions, and releases of liability for at least 3 years from approval or denial.

An assumption package should be submitted to the RLC of jurisdiction of where the property is located.

CHAPTER 6: REFINANCING LOANS

Overview

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Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs)

Change Date: April 10, 2009

- This section has been changed to update hyperlinks and to make minor grammatical edits.

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 Adjustable Rate Mortgage (ARM) or traditional ARM) must bear a lower interest rate than the loan it is refinancing unless the loan it is refinancing is an 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.

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.

Continued on next page

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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: Sample VA Rate Reduction Certification.

e. What Closing Costs 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.

Limitation on closing costs that can be included:

- 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.

Continued on next page

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.

Note: Use of loan proceeds for energy efficiency improvements not involving cash reimbursement of the Veteran is also an option. See 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.

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.

Continued on next page

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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.

Table 1: How to Calculate the Guaranty on an IRRRL by Loan Amount

Loan Amount	How to calculate the amount of guaranty on an IRRRL
Up to $45,000	First, calculate the lesser of: • 50 percent of the IRRRL loan amount, or • the amount of guaranty used on the VA loan being refinanced. The amount of guaranty is the greater of: • the above result, or • 25 percent of the IRRRL loan amount.
$45,001 - $56,250	First, calculate the lesser of: • $22,500, or • the amount of guaranty used on the VA loan being refinanced. The amount of guaranty is the greater of: • the above result, or • 25 percent of the IRRRL loan amount.
$56,251 - $144,000	First, calculate the lesser of: • 40 percent of the IRRRL loan amount, or • the amount of guaranty used on the VA loan being refinanced. The amount of guaranty is the greater of: • the above result, or • 25 percent of the IRRRL loan amount.
Greater than $144,000	Guaranty on these is always 25 percent of the IRRRL loan amount.

Continued on next page

i. Maximum Loan Term

The maximum loan term is the original term of the VA loan being refinanced plus 10 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 lienholder would have to agree to a subordinate to the first lienholder.

- 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.

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.

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.

Continued on next page

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

k. Who Can an IRRRL be Made to?, continued

Table 2: IRRRL Scenarios

Scenario	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 Obligors 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.

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 servicemember 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.

Continued on next page

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

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 Topic 2, subsection a of this chapter).

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 Topic 2, subsection c of this chapter.

Note: Prior approval for IRRRLs **is not required** for Veterans 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 Topic 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.

Continued on next page

Topic 1: Interest Rate Reduction Refinancing Loans (IRRRLs), continued

q. Procedures for Automatic Processing of IRRRLs, continued

Table 3: IRRRL Reporting Documentation Requirements

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.
5	Statement signed by the Veteran acknowledging the effect of the refinancing loan on the Veteran's loan payments and interest rate. The statement must include: • The interest rate and monthly payments for the new loan versus that for the old loan, and • 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. ***Reference:*** See chapter 7
14	Any other necessary documents (see chapter 5).

Topic 2: IRRRL Made to Refinance a Delinquent Loan

Change Date: April 10, 2009

- This section has been changed to update hyperlinks and to make minor grammatical edits.

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
- the Veteran is willing and able to make the proposed loan payments.

Submit a written proposal to VA which contains the following information:

Table 4: IRRRL Prior Approval Documentation

Order	Document
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. • 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).
7	The appropriate certification concerning occupancy signed by the Veteran or the spouse of an active duty servicemember. One of the following must be signed. • "I have previously occupied the property securing this loan as my home.", • "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."
8	VA Form 26-8923, *Interest Rate Reduction Refinancing Loan Worksheet.*
9	VA Form 26-8937, *Verification of VA Benefits* (if applicable).

Continued on next page

Topic 2: IRRRL Made to Refinance a Delinquent Loan, continued

a. Prior Approval Submission, continued

Table 4: IRRRL Prior Approval Documentation, continued

Order	Document
10	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*.
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 Topic 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.

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 chapter 5 for further information on the Certificate of Commitment.

Continued on next page

Topic 2: IRRRL Made to Refinance a Delinquent Loan, continued

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.

Table 5: IRRRL Closing Documentation

Order	Document
1	Lender's cover or transmittal letter (if used).
2	VA Form 26-0286, *VA Loan Summary Sheet*
3	Funding fee receipt. Reference: See 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 mor 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).

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.

Topic 3: Cash-Out Refinancing Loans

Change Date: October 30, 2024

- This topic has been updated in its entirety.
- Public Law 115-174, *The Economic Growth, Regulatory Relief, and Consumer Protection Act*, set different requirements for cash-out refinancing loans based on the payoff amounts of the loan being refinanced. Therefore, VA has categorized cash-out refinancing loans as Type I and Type II. VA has promulgated regulations for cash-out refinancing loans at 38 C.F.R. § 36.4306.

a. What is a VA Cash-Out Refinancing Loan?

A VA cash-out refinancing loan is a refinance of any existing mortgage(s) and/or other indebtedness secured by a lien(s) of record. Refinancing loans made on properties without an existing mortgage or lien of record are **not** eligible for guarantee by VA. A cash-out refinance may also be made to refinance the following:

- an interim construction loan (a construction loan that does not provide for permanent financing), regardless of whether there is a change in the original loan amount,
- the balance of the purchase of land on which new construction is to be financed through the proceeds of the refinancing loan[1],
- the balance of an existing land sale contract relating to the Veteran's home or farm residence (see Chapter 7 for farm residence details)[2],
- a loan for the purchase of, and is secured by, a manufactured home in order to purchase the lot on which the manufactured home is or will be permanently affixed. (see Chapter 7 for manufactured home detail)[3], and
- a refinance of any other recorded lien against the property such as, but not limited to a mechanics lien, second mortgage, etc.[4]

There are two types of VA cash-out refinancing loans, Type I and Type II. The type of cash-out refinancing loan is determined by the payoff amount of the loan being refinanced compared to the principal amount of the new loan.

The lien to be paid off is not required to be in the Veteran's name. For instance, it could be in the spouse's name, provided at the time of the new loan closing the Veteran is an owner.

VA does not prescribe limitations for how the Veteran may use cash received from the refinancing loan. Loan proceeds beyond the amount needed to pay off the existing mortgage(s) and/or other lien(s) of record being refinanced may be taken as cash by the Veteran for any purpose. As such, VA does not require a letter of explanation detailing how the Veteran proposes to use the loan proceeds.

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[1] 38 U.S.C. § 3710(b)(7)
[2] 38 C.F.R. § 36.4306(f)
[3] 38 C.F.R. § 36.4306(g)
[4] 38 U.S. C. § 3710(a)(5), 38 C.F.R. 36.4301 "Lien"

b. What is a Type I Cash-Out Refinance Loan?

A Type I cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) does not exceed the payoff amount of the loan being refinanced[5]. A Type I cash-out refinance is distinct from an IRRRL on the basis that it may be a VA-guaranteed loan or a non-VA loan that is being paid off through the refinance.

c. What is a Type II Cash-Out Refinance Loan?

A Type II cash-out refinance is a refinancing loan in which the new loan amount (including the VA funding fee) exceeds the payoff amount of the loan and/or lien(s) of record being refinanced. In a Type II cash-out, the Veteran may remove equity from the subject property.

d. Lien Position Requirement

The refinancing loan must be secured by first lien position on the property. All other lien holders must agree to subordinate to the VA refinancing loan. Copies of any subordination agreements must be included in the loan file for VA audit review.[6]

e. Ownership Requirement

The Veteran must have ownership/title of the property securing the loan before, or at the time of closing. There is not a required length of time that the Veteran must have been on title prior to loan closing.

f. Maximum Loan Term

The maximum loan term of the refinancing loan may not exceed the lesser of:

- 30-years and 32-days[7], or
- The economic life of the property securing the loan[8].

g. Maximum Loan Amount

The maximum loan amount may not exceed 100 percent of the reasonable value[9] (as determined by VA) of the property securing the loan. The inclusion of energy efficiency improvements up to $6,000[10] and/or the VA funding fee, in part or whole, must not cause the loan to exceed 100 percent of the reasonable value.

For Type I refinances: If the loan being refinanced has a fixed interest rate and the Type I cash-out refinancing loan will have an adjustable interest rate **and** more than one discount point is charged, the loan-to-value ratio (LTV) is limited to 90 percent of the reasonable value[11]. See chapter 3 for additional information on maximum loan amounts.

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[5] 38 U.S. Code § 3709(d)(1)
[6] 38 U.S.C. § 3703(d)(3)
[7] 38 U.S.C. § 3703 (d)(1)
[8] 38 CFR § 36.4310(c)
[9] 38 U.S.C. § 3710(b)(7))
[10] 38 U.S.C. § 3710(d)(2)
[11] 38 CFR 36.4306(b)(4)(ii)

Topic 3: Cash-Out Refinancing Loans, continued

h. Maximum Guaranty

For Veterans with full entitlement, the maximum amount of guaranty entitlement available to the Veteran, for a loan amount above $144,000 is 25 percent of the loan amount[12].

For Veterans with partial entitlement, the maximum guaranty will be based on the total loan amount, the amount of entitlement available to the Veteran, and the one-unit Freddie Mac Conforming Loan Limit[13] if the Veteran has partial entitlement (see Chapter 3 for additional information on calculating the maximum guaranty).

i. Veteran's Entitlement

The Veteran must have entitlement available for the loan (see Chapter 3 for examples on calculating remaining entitlement for Veterans with partial entitlement).

If the loan being refinanced is a VA-guaranteed loan, or if the Veteran has unrestored entitlement for a previous VA-guaranteed loan on the subject property, the entitlement charged to that VA-guaranteed loan may be restored for purposes of obtaining the refinancing loan. Except in cases where the Veteran has obtained a one-time restoration, which is addressed in the next paragraph.

If the Veteran obtained a one-time restoration, all properties obtained using the Veteran's entitlement must be disposed of prior to the cash-out refinance. That is, the property with the one-time restoration applied and all other properties obtained with a VA loan must be satisfied and sold for any restoration to occur, including a cash-out restoration. In these cases, if the Veteran has not sold all of the properties, they may still obtain a cash-out refinance loan; however, the amount of entitlement will be limited to the amount remaining without restoration. This **includes** instances where the Veteran is obtaining a cash-out refinance on the property obtained with the one-time restoration[14].

Transfer of the property on which a one-time restoration was applied to a spouse (to whom the Veteran is still married) or to a Limited Liability Corporation where the Veteran is a member (owner), does not meet the sale requirement for restoration.

An Energy Efficient Mortgage (EEM) may be added to any cash-out loan provided it meets the program requirements without regards to entitlement availability. The EEM portion of the loan does not increase the entitlement charged to the Veteran[15].

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[12] 38 USC § 3703(a)(1)(A)(i)(IV)
[13] 38 U.S. C. § 3703(a)(1)(C)(ii)
[14] 38 U.S.C. § 3702(b)(1)
[15] 38 U.S.C. § 3710(d), 38 C.F.R. 36.4302(c)

Topic 3: Cash-Out Refinancing Loans, continued

j. Underwriting

Full credit underwriting is required for all cash-out refinancing loan types. The underwriter must follow VA credit underwriting guidelines to ensure all borrowers are a satisfactory credit risk and have stable/reliable income for the repayment of the loan[16] (see Chapter 4 for VA credit underwriting guidelines).

Only lenders granted VA automatic authority by VA may close cash-out refinancing loans automatically. Lenders without VA automatic authority may close loans through the use of an agent-sponsor relationship or submit the loan to VA for underwriting and approval prior to loan closing[17] (see Chapter 5 for information on how to submit a request for prior approval).

For non-supervised lenders with automatic authority, only VA-approved credit underwriters may make credit-underwriting decision on VA loans. The lender must certify[18] that all underwriting decisions to approve or deny a VA loan will be made by a VA-approved underwriter. The name of the VA-approved underwriter and their underwriter ID must be provided on VA Forms 26-6393, *Loan Analysis,* and 26-1820*, Report and Certification of Loan Disbursement*.

k. Occupancy Requirement

The Veteran must meet the occupancy requirement outlined in Chapter 3.[19]

l. Fees and Charges

Refer to Chapter 8 for information on permissible fees and charges. Closing costs, including the VA funding fee, may be paid from loan proceeds but the loan amount may not exceed the maximum loan amount outlined in section g.

Note: For Type I cash-out refinances that result in an increased principal and interest payment, the lender may not charge the Veteran loan fees, closing costs, or expenses other than taxes, amounts held in escrow, and the VA funding fee.

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[16] 38 C.F.R. § 36.4340, 38 U.S.C. § 3710(b)(3)
[17] 38 U.S.C. § 3702(d)(1)
[18] 38 C.F.R. § 363.4352(b)(3)
[19] 38 U.S.C. § 3704(c)

Topic 3: Cash-Out Refinancing Loans, continued

m. Fee Recoupment Requirement (VA-to-VA, Type I only)[20]

Fee recoupment is the length of time it will take the Veteran to recoup certain costs necessitated by the refinance. The fee recoupment period of certain loan fees, expenses, and closing costs must not exceed 36 months. This requirement applies to Type I cash-out refinancing loans[21], regardless of the interest rate and/or loan term of the new loan.

Fee Recoupment Calculation

The fee recoupment period is computed by dividing allowable loan fees, expenses, and closing costs, whether included in the loan amount or paid outside of closing, by the reduction of the monthly principal and interest (PI) payment. The fee recoupment period is not rounded.

Example: Acceptable Fee Recoupment

Description	Amount
Allowable loan fees/expenses/closing cost	$3,250
Divided by the Monthly PI payment reduction	÷ $200
Fee Recoupment Period =	16.25 months

Example: Unacceptable Fee Recoupment

Description	Amount
Allowable loan fees/expenses/closing cost	$3,250
Divided by the Monthly PI payment reduction	÷ $90
Fee Recoupment Period =	36.1 months

The VA Funding Fee, escrow, and prepaid expenses, such as insurance, taxes (including Mello-Roos), special assessments, and homeowner's association (HOA) fees, may be excluded from the calculations to meet the recoupment requirement. Lender credits and premium pricing may be used to offset allowable fees and charges. However, temporary buydown accounts and escrow accounts created to subsidize payments through an above market interest rate, or a combination of discount points and above market interest rate, are prohibited by VA. For VA purposes, such accounts are considered cash-advance on principal.

If the monthly PI payment changed due to a loan modification or ARM, the monthly PI payment reduction should be computed based on the PI payment at the time of the closing of the new refinancing loan. The monthly PI payment should only include the VA-guaranteed loan even if the refinance is made to consolidate multiple mortgages on the property securing the loan.

Note: If the monthly PI payment is not reduced as a result of the refinance, the lender may not charge the Veteran loan fees, closing costs, or expenses other than taxes, amounts held in escrow, and the VA funding fee. Lender credits may be subtracted from the charges made to the Veteran.

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[20] 38 C.F.R. §36.4306(b)(1)
[21] 38 CFR § 36.4306(b)(1)

m. Fee Recoupment Requirement (VA-to-VA, Type I only), continued

Lender's Certification

The lender must ensure and certify to VA that the fee recoupment period does not exceed 36 months from the first payment due date. The lender must make the certification before or upon requesting the VA Loan Guaranty Certificate (LGC).

n. Requirement to Reduce the Interest Rate (VA-to-VA, Type I only)

All cash-out refinancing loans must meet a net tangible benefit requirement as discussed in section o of this chapter. Additionally, if the loan is a Type I cash-out refinance made to refinance a fixed-rate loan, the new loan must have a lower interest rate as specified below.

Note for modified loans: If the interest rate on the VA-guaranteed loan being refinanced has changed due to a loan modification, the Type I cash-out refinance interest rate must be reduced based on the modified interest rate, appropriately.

Fixed – Fixed[22]:

If the existing VA-guaranteed loan being refinanced has a fixed interest rate and the Type I cash-out refinance will have a fixed interest rate, the interest rate of the cash-out refinance must be at least 0.5 percent (50 basis points) lower than the interest rate on the existing VA-guaranteed loan being refinanced.

Example 1: Fixed to Fixed

If the interest rate of the existing VA-guaranteed loan being refinanced is 3.75 percent (fixed), then the interest rate of the Type I cash-out refinance may not be greater than 3.25 percent (fixed).

Example 2: Fixed to Fixed

If the interest rate of the existing loan was modified from 3.5 percent (fixed) to 7.0 percent (fixed), then the interest rate of the Type I cash-out refinance may not be greater than 6.5 percent (fixed).

Fixed – ARM (or Hybrid ARM (h-ARM))[23]:

If the existing VA-guaranteed loan being refinanced has a fixed interest rate and the Type I cash-out refinancing loan will have an adjustable interest rate, the interest rate of the cash-out refinancing loan must be at least 2 percent (200 basis points) lower than the interest rate on the VA-guaranteed loan being refinanced. (fixed-to-ARM).

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[22] 38 C.F.R. § 36.4306(b)(3)
[23] 38 C.F.R. § 36.4306(b)(4)

Topic 3: Cash-Out Refinancing Loans, continued

n. Requirement to Reduce the Interest Rate (VA-to-VA, Type I only), continued

Example: Fixed to ARM

If the interest rate of the VA-guaranteed loan being refinanced is 3.75 percent (fixed), then the initial interest rate of the Type I cash-out refinance may not be greater than 1.75 percent (adjustable).

Note: The lower interest rate of the Type I cash-out refinancing loan may not result solely from discount points. When discount points greater than one discount point are included in the loan amount, the LTV ratio of the Type I refinancing loan (fixed-to-ARM) may not exceed of 90 percent of the reasonable value of the property.

ARM (or h-ARM)[24] – Fixed:

If the VA-guaranteed loan being refinanced has an ARM and the Type I cash-out refinancing loan will have a fixed rate, there is not a requirement to reduce the interest rate. Therefore, the interest rate may increase on these transactions.

o. Net Tangible Benefit (NTB) Requirement[25] (Type I & Type II)

The lender must provide the Veteran a NTB test demonstrating how the Veteran will benefit from the refinance. A loan that provides a NTB means that it is in the financial interest of the Veteran. Each cash-out refinancing loan must provide at least one NTB to the Veteran:

- If the loan being refinanced has been modified, the modified terms should be used to evaluate the NTB.
- If the loan being refinanced is an ARM, the interest rate and PI payment at the time of the new loan closing should be used to evaluate the NTB.
- If the loan being refinanced has a temporary buydown, the note interest rate and full PI payment should be used to evaluate the NTB.

<u>The NTB requirement is met if the loan satisfies at least one of the following:</u>

- The refinance will eliminate monthly mortgage insurance, this includes the elimination of the United States Department of Agriculture Rural Development annual fee, (current mortgage statement or other document reflecting monthly mortgage insurance is required), or
- The loan term of the new refinancing loan is less than the loan term of the loan being refinanced (the note or other document reflecting the current loan term is required), or
- The interest rate of the new refinancing loan is less than the interest rate of the loan being refinanced (the note or other document reflecting the current loan term is required); or
- The new refinancing LTV ratio is equal to or less than 90 percent of the reasonable value of the home; or

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[24] 38 U.S.C. § 3710(e)(1)(A)
[25] 38 C.F.R. § 36.4306(a)(3)

o. Net Tangible Benefit (NTB) Requirement[26] (Type I & Type II), continued

- The monthly principal and interest (PI) payment of the new refinancing loan is less than the monthly PI payment of the loan being refinanced. If the monthly PI payment changed due to a loan modification or adjustable-rate mortgage, the monthly PI payment reduction should be computed based on the current monthly PI payment. The monthly PI payment should only include the first lien mortgage even if the refinance is made to consolidate multiple mortgages on the property securing the loan; or
- The Veteran's monthly residual income is higher as a result of the new refinancing loan. If this NTB is utilized, the lender should compare the residual income based on the proposed loan terms with the residual income that would exist if the refinance was not completed.
- The refinancing of an interim loan to construct, alter, or repair the Veteran's primary home (interim loans to construct do not include one-time construction to permanent loans that provided for permanent financing); or
- The Veteran's monthly residual income is higher as a result of the new refinancing loan. If this NTB is utilized, the lender should compare the residual income based on the proposed loan terms with the residual income that would exist if the refinance was not completed.

  Example of Residual Income Calculation:

Factor	Without-Refinance	After-Refinance
Net Income*	$5,750	$5,750
Debts (-)	($1,630)	($1,630)
Mortgage Payment** (-)	($2,320)	($2,100)
Residual Income	$1,800	$2,020

  * Net income is gross income net of applicable deductions. (Line 39 on VA Form 26-6393, Loan Analysis)

  **Monthly principal, interest, taxes, insurance, and mortgage insurance, if applicable

  Note: If the monthly PI payment is scheduled to change on the loan being refinanced, due to an ARM, on or before the closing date of the proposed refinance transaction, the adjusted PI amount for the loan being refinanced must be used to determine the pre-refinance residual income.

- Refinance of an ARM (including h-ARM) to a fixed-rate mortgage (ARM-to-fixed) (the note or other document reflecting the amortization type is required).
  Note: Loans with a temporary interest buydown are not treated as ARMs for the purpose of this NTB.

Continued on next page

[26] 38 C.F.R. § 36.4306(a)(3)

Topic 3: Cash-Out Refinancing Loans, continued

p. Loan Seasoning Requirement (VA-to-VA only)

Loan seasoning refers to the age of the existing VA-guaranteed loan being refinanced. It applies to all cash-out refinancing loan types made to refinance a VA-guaranteed loan (VA-to-VA). For VA purposes, the loan seasoning requirement does not apply to cash-out refinancing loans made to refinance non-VA guaranteed loans and/or other indebtedness secured by liens of record.

For existing VA-guaranteed loans refinanced within 1-year from the date of closing, lenders must obtain and include in the loan file a payment history/ledger documenting all payments, or a credit bureau supplement clearly identifying all payments made on the existing VA-guaranteed loan being refinanced.

Lender's Certification

The lender must certify when requesting the VA LGC that six or more consecutive payments have been made on the VA-guaranteed loan being refinanced.

Type I Seasoning[27]

The VA-guaranteed loan being refinanced must be seasoned on or before the note date of the new loan. The loan is considered seasoned when both conditions below are met:

- the **first monthly payment due date** of the VA-guaranteed loan being refinanced is 210 days or more prior to the note date of the Type I cash-out refinancing loan; and
- six consecutive (uninterrupted) monthly payments have been made on the VA-guaranteed loan being refinanced.

To meet the six consecutive monthly payment requirement, six individual monthly payments must be made, in full, in the month in which it is due, in each of six successive months. Once the loan is seasoned, it does not need to be re-seasoned after a subsequent delinquency.

Example 1: Type I Seasoning – 210 days

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. If six consecutive monthly payments have been made on the loan, the loan is considered seasoned on November 27, 2023.

Example 2: Type I Seasoning – 6 consecutive payments

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. The Veteran made arrangements to pay the mortgage by submitting payments on a quarterly basis. The servicer applied the payments on a monthly basis. Even if the payments are applied in each of six simultaneous months, the Veteran does not meet the consecutive monthly payment requirement since the payments were made quarterly and not monthly.

Continued on next page

[27] 38 U.S.C. § 3709(c)

p. Loan Seasoning Requirements (VA-to-VA only), continued

Example 3: Type I Seasoning – 6 consecutive payments

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was due May 1, 2023. The Veteran made the May and June payments in the respective month, then missed the July payment. In August, the Veteran made both the July and August payments. The Veteran then paid the September and October payments in the respective month. Although six payments have been made, and the loan is current, the loan does not meet the seasoning requirements since six payments were not submitted in six consecutive months.

Type II Seasoning[28]

The VA-guaranteed loan being refinanced must be seasoned on or before the note date of the new loan. The loan is considered seasoned when both conditions below are met:

- the date the **first monthly payment was made** on the VA-guaranteed loan being refinanced is 210 days or more prior to the closing date of the Type II cash-out refinancing loan; and
- six monthly payments have been made on the VA-guaranteed loan being refinanced (the payments do not need to be consecutive).

Example: Type II Seasoning

The VA-guaranteed loan being refinanced closed on March 8, 2023. The first payment was made May 7, 2023. If six monthly payments have been made on the loan, the loan is considered seasoned on December 3, 2023.

q. Loan Comparison Disclosure Requirement

The lender must provide an initial and final loan comparison disclosure to the Veteran[29]. The Veteran must certify receipt of both disclosures (i.e. signature, e-signature, email from the Veteran certifying receipt, email read receipts, system time/date stamp where the Veteran certified receipt, etc.). The loan comparison statements must be provided to VA at the time the lender requests the LGC from VA.

For the purpose of completing the loan comparison disclosures, the lender should use the current terms of the loan. For example, if the existing loan was modified, the current terms of the modified loan should be reflected on the loan comparison disclosures.

Continued on next page

[28] 38 C.F.R. § 36.4306(c)(2)
[29] 38 C.F.R. §§ 36.4306(a)(3)(ii)-(iv)

Topic 3: Cash-Out Refinancing Loans, continued

q. Loan Comparison Disclosure Requirement, continued

Both loan comparison disclosures must include the following comparisons of the loan(s) and/or lien(s) being refinanced to the cash-out refinancing loan:

- Payoff amount of exiting mortgage(s) and/or lien(s) being refinanced vs. refinancing loan amount,
- Current interest rate vs. refinancing loan interest rate,
- Current loan type (i.e., fixed, adjustable) vs. refinancing loan type,
- Remaining loan term of the existing mortgage(s) and/or lien(s) being refinanced vs. the refinancing loan term,
- Total the Veteran would have paid after making all scheduled monthly principal, interest, and mortgage insurance (if applicable) payments on the exiting mortgage(s) and/or lien(s) being refinanced vs. total the Veteran will pay after making all scheduled monthly principal and interest payments on the refinancing loan, and
- Present combined LTV of the existing mortgage(s) and/or lien(s) being refinanced vs. LTV of the refinancing loan.

Initial Loan Comparison Disclosure

This disclosure must be provided to the Veteran within three (3) business days from the initial loan application date. Reasonable estimates may be obtained from documents, such as, monthly mortgage statements, closing documents, online property valuation tools, and manual calculations. The terms on the initial loan comparison disclosure should match the loan estimate disclosed at the time of loan application. Although the lender must provide the initial loan comparison to the Veteran within 3 business days from the initial loan application date, the Veteran may certify receipt of the disclosure at any time.

Lenders are encouraged to continually update the comparison disclosure as additional, and/or accurate information becomes available throughout the origination process. These updates should be done in the same manner they would for re-issuance of the loan estimate.

Example: Initial Loan Comparison Disclosure Timing

The Veteran completed/submitted the loan application to the lender on August 5, 2023. The lender must provide the initial comparison disclosure to the Veteran no later than August 8, 2023. The Veteran must certify no later than the date of closing that they received the initial comparison disclosure on or before August 8, 2023.

Final Loan Comparison Disclosure

This disclosure must be provided to the Veteran at loan closing. The final comparison disclosure must provide an accurate comparison of the loan/lien(s) being refinanced to the cash-out refinancing loan. The Veteran must certify receipt of the disclosure at loan closing.

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r. Home Equity Disclosure Requirements

The lender must provide a home equity disclosure[30] to the Veteran within 3 business days from the initial application date and at loan closing. The home equity disclosure must disclose the amount of home equity being removed from the home as a result of the refinance and explain how the removal of the home equity may affect the sale or refinance of the home in the future. This may be incorporated into the loan comparison disclosure.

VA defines home equity as the difference between the reasonable value of the home and the amount needed to **pay off all liens** of record secured by the property.

Example: Home Equity Disclosure

The reasonable value of the home is $250,000. The refinancing loan of $250,000 will be used to pay off the first mortgage $200,000, second mortgage $25,000, and a property tax lien $8,000. There are no other liens of record secured by the property.

Item	Description	Present	Proposed
A	Reasonable Value (NOV)	$250,000	$250,000
B	First Mortgage (-)	$200,000	$250,000
C	Other Recorded Liens (-)	$33,000	$0
D	Home Equity (A – B – C = D)	$17,000	$0

In this example, $17,000 of home equity is removed from the home as a result of the refinancing loan.

Home Equity Removed = Proposed Home Equity – Present Home Equity = $0 - $17,000 = ($17,000)

The Veteran must certify receipt of both disclosures (i.e. signature, e-signature, email from the Veteran certifying receipt, email read receipts, system time/date stamp where the Veteran certified receipt, etc.).

Continued on next page

[30] 38 C.F.R. § 36.4306(a)(3)(iii)

Topic 3: Cash-Out Refinancing Loans, continued

s. Cash-Out Refinancing Comparison Matrix

Definitions for Type I and Type II Cash-Out Refinancing Loans are provided in sections a and b of this topic.

Table 6: Cash-Out Refinancing Comparison

Item	Type I: VA-to-VA	Type I: Non-VA-to-VA	Type II: VA-to-VA	Type II: Non-VA-to- VA
Loan amount can exceed payoff (including funding fee). (Section b and c)	No	No	Yes	Yes
Veteran can remove equity from the property. (Section b and c)	No	No	Yes	Yes
Fee recoupment requirement. (Section m)	Yes	No	No	No
Requirement to reduce the interest rate. (Section n)	Yes	No	No	No
Discount point restrictions. (Section n)	Yes	No	No	No
Net Tangible Benefit (NTB) requirement. (Section o)	Yes	Yes	Yes	Yes
Loan seasoning. (Section p)	Yes	No	Yes	No
Initial and final loan comparison disclosures. (Section q)	Yes	Yes	Yes	Yes
Home equity disclosure. (Section r)	Yes	Yes	Yes	Yes

Topic 4: Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans

Change Date: April 10, 2009

- This section has been updated to remove references to a 90 percent limit and a maximum guaranty on refinancing loans, and to make minor grammatical edits.

a. Table IRRRL versus Cash-out

The following table provides a quick reference for IRRRL loans versus cash- out refinancing loans:

Table 7: IRRRL versus Cash-out Comparison

Feature	IRRRL	Cash-out Refinancing
Purpose	To refinance an existing VA loan at a 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 an ARM)	Any negotiated rate
Monthly Payment Amount	Payment must be lower than that on an existing VA loan (unless the ARM is being refinanced, a term is shortened, or energy efficiency improvements are being 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
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	100 percent 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	Guaranty is at least 25 percent in all cases (See Topic 1, subsection h of this chapter)	Maximum guaranty is the same as for purchases
Entitlement	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

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Topic 3: Quick Reference Table for IRRRLs Versus Cash-Out Refinancing Loans, continued

a. Table IRRRL versus Cash-out, continued

Table 7: IRRRL versus Cash-out Comparison, continued

Feature	IRRRL	Cash-out Refinancing
Fees and Charges in the Loan	All allowable fees and charges, including up to two discount points, may be included in the loan	Allowable fees and charges and points may be paid from the loan proceeds
Cash to Borrower	Not permitted	Borrower can receive cash for any purposes acceptable to the lender
Lien/Owner-ship	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 an active duty servicemember must certify to prior occupancy	Veteran or spouse of an active duty servicemember 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 the loan being 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)

Topic 5: Other Refinancing Loans

Change Date: April 10, 2009

- Subsection c has been updated to note that maximum guaranty on these types of refinancing loans is limited to $36,000.
- This section has been updated to make minor grammatical edits.

a. What Are They?

Other refinancing loans are:

- construction loans,
- installment land sale contracts, and
- loans assumed by Veterans at interest rates higher than that for the proposed refinance.

b. Maximum Loan

These loans may not exceed the lesser of:

- 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.

The cost of energy efficiency improvements can also be added to the loan.

c. Maximum Guaranty

The maximum guaranty for refinancing loans, noted in subsection a, is $36,000.

CHAPTER 7: LOANS REQUIRING SPECIAL UNDERWRITING, GUARANTY, AND OTHER CONSIDERATIONS

Overview

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Topic 1: Joint Loans

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

a. What is a VA Joint Loan?

"Joint loan" generally refers to a loan for which the:

- Veteran and other person(s) are liable, and
- Veteran and the other obligor(s) own the security.

A joint loan is a loan made to the:

- Veteran and one or more non-Veterans (not spouse),
- Veteran and one or more Veterans (not spouse) who will not be using their entitlement,
- Veteran and the Veteran's spouse who is also a Veteran, and both entitlement will be used; or
- 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
- 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. Regulations

The regulations in 38 C.F.R. 36.4307 address joint loans.

c. Terminology Used in This Section

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 a non-Veteran, but not a spouse).

Examples

- Three Veterans using entitlement and one non-Veteran
- One Veteran using entitlement and four non-Veterans
- Two Veterans using entitlement and two Veterans not using entitlement

Two Veterans Joint Loan: Commonly meaning a loan involving two Veterans who are not married to each other and both are using their entitlement.

Continued on next page

Topic 1: Joint Loans, continued

c. Terminology Used in This Section, continued

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.

This may also include loans to the following:

- The Veteran and the Veteran's spouse who is also a Veteran, if both entitlements will be used.
- Entitlement and funding fees are separate. Funding fees are always calculated equally by the number of people on the loan. It is based on each Veteran paying their equal share of the loan.
- On a Veteran/non-Veteran loan, the funding fee is based on half of the base loan amount, downpayment, and sales price for the correct funding fee charge.
- VA will only guarantee the Veteran's portion of the total loan amount.

d. Occupancy

The Veteran using entitlement on a joint loan must certify intent to personally occupy the property as his or her home.

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 unity 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 Veteran's spouse will hold title to the property: whether or not the spouse also uses entitlement, may be closed automatically by the lender with automatic authority. This type of joint loan does not have to be submitted for prior approval.

Continued on next page

Topic 1: Joint Loans, continued

g. How to Underwrite a Joint Loan

The following underwriting considerations apply:

Table 1: Underwriting Considerations for Joint Loans

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.
Veteran/Non-Veteran Joint Loan	Veteran's credit must be satisfactory, and the Veteran's income must be sufficient to repay that portion of the loan allocable to the Veteran. The credit of the non-Veteran must be satisfactory. However, the combined income of both borrowers can be considered in evaluating repayment ability. In other words: • income strength of the Veteran may compensate for income weakness of the non-Veteran, but • income strength of the non-Veteran 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/Non-Veteran Joint Loans

Guaranty is limited to that portion of the loan allocable to the Veteran's equal interest in the property.

Percentage of entitlement has no bearing on the amount of the funding fee to be paid. (See Chapter 8).

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

Topic 1: Joint Loans, continued

i. Procedure

Table 2: Procedure for Calculating Guaranty and Entitlement Use for Veteran/Non-Veteran Joint Loans

Step	Action
1	Divide the total loan amount by the number of borrowers.
2	Multiply the result by the number of Veteran-borrowers who will be using entitlement on the loan. There is usually only one Veteran borrower, in which case the result of this Step is the same as the result of Step 1.
3	Calculate the maximum potential guaranty on the portion of the loan arrived at in Step 2 (as if that portion was the total loan).
4	VA will guarantee the lesser of: • the maximum potential guaranty amount arrived at in Step 3, or • the combined available entitlement of all Veteran-borrowers.
5	VA makes a charge to the Veteran-borrower's available entitlement in the amount of the guaranty. 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.

Continued on next page

j. Examples

Veteran/Non-Veteran Loans

Table 3: Examples of Guaranty and Entitlement Use on Veteran/Non-Veteran Loans

Borrowers and Available Entitlement	Total Loan Amount	Veteran's Portion	Maximum Potential Guaranty on Veteran's Portion	Entitlement Charge T=Total
Veteran $36,000 Non-Veteran $0	$100,000	$50,000	$22,500	$22,500
Veteran $36,000 Non-Veteran $0	$290,000	$145,000	$36,250	$36,250
Veteran $27,500 Veteran $36,000 Non-Veteran $0	$108,000	Total for both Veterans $72,000	Total for both Veterans $28,800	$14,400 $14,400 T=$28,800
Veteran $25,000 Veteran $11,000 Non-Veteran $0	$201,000	Total for both Veterans $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.

Table 4: 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 Chapter 3 of this handbook.
4	VA will make a charge to entitlement up to the amount arrived at in Step 3. • 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 Veteran's entitlement.

Continued on next page

Topic 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.

l. Procedure

VA Calculates the maximum potential guaranty on the total loan amount.

Table 5 Procedure for Calculating Guaranty and Entitlement Use for Two Veteran Joint Loans

Step	Action
1	Calculate the maximum potential guaranty on the total loan amount. Use the maximum guaranty table in Chapter 3 of this Handbook.
2	VA will guarantee the lesser of: • the maximum potential guaranty amount arrived at in Step 1, or • the combined available entitlement of all Veteran-borrowers. If the loan amount is greater than $144,000, additional entitlement may be added to each Veteran's entitlement. If possible, VA will use this additional entitlement to arrive at equal entitlement charges for the Veterans involved.
3	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. 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. ***Exception***: VA will make the entitlement charge for husband and wife Veterans according to their preference.

Continued on next page

Topic 1: Joint Loans, continued

m. Examples of Two-Veteran Joint Loans

Table 6: Examples of Two-Veteran Joint Loans

Veterans and Available Entitlement	Total Loan Amount	Maximum Potential Guaranty	Entitlement Charge Per Veteran
Veteran 1 $36,000 Veteran 2 $36,000	$100,000	$36,000	$18,000 $18,000
Veteran 1 $25,500 Veteran 2 $8,500	$80,000	$32,000	$23,500 $8,500
Veteran 1 $36,000 Veteran 2 $36,000	$300,000	$75,000	$37,500 $37,500
Veteran 1 $15,000 Veteran 2 $20,000	$203,000	$50,750	$25,375 $25,375
Veteran 1 $0 Veteran 2 $0 Veteran 3 $6,500	$300,000	$75,000	$25,000 $25,000 $25,000

A written agreement from the Veterans is required whenever there is unequal entitlement usage.

o. Certificate of Commitment

For joint loans involving one or more non-Veterans the:

- loan amount shown on the commitment is limited to the Veteran's portion of the loan, and
- percentage 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 non-Veteran, and
- in the event of the foreclosure where a loss is sustained, the holder must absorb any loss attributable to the non-Veteran's portion of the loan.

Continued on next page

Topic 1: Joint Loans, continued

p. Loan Guaranty Certificate (LGC)

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.

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.

q. Equal Credit Opportunity Act Considerations (ECOA)

The applicability of the guaranty to only a portion of the loan in the case of a Veteran/non-Veteran joint loan may cause a lender to refuse to accept an application for such loan.

This may appear to conflict with the 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.

r. 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 Chapter 8.

Example. On a no-downpayment loan to two Veterans; on a first-time homebuyer; and on a subsequent user; the funding fee percentages of 2.15 percent and 3.3 percent respectively would each be applied to one-half of the loan amount.

No funding fee will be assessed on any portion of a joint loan allocable to a:

- Non-Veteran
- Veteran who did not use his or her entitlement, or
- Veteran who used his or her entitlement, but is exempt from the funding fee.

Downpayment. The actual loan amount is allocated equally between the borrowers for purposes of calculating the funding fee, whether or not a downpayment is made, and regardless of where the funds for such a downpayment come from.

Example. On a Veteran/non-Veteran loan, the non-Veteran makes a $5,000 (five percent) downpayment 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 1-877-827-3702 for assistance.

Topic 2: Construction/Permanent Loans

Change Date: June 5, 2024

- This topic has been revised in its entirety.

a. The Basics

VA may guarantee a loan for the construction[1] of a home to be owned and occupied by the Veteran. VA permits one-time and two-time construction loans. Construction loans (one-time or two-time) may also be refinanced under VA's cash-out refinance guidelines. This section specifically addresses construction loans and does not apply to the purchase of a newly built home financed by a builder (such as those commonly found in Planned Unit Development communities) or cash-out refinances.

All construction and cash-out refinancing loans are subject to VA's underwriting requirements[2] outlined in Chapter 4.

Once the VA construction loan type, one-time or two-time, is closed it cannot be modified into another loan type. **That is, a one-time close cannot be turned into (converted) a two-time close or vice versa.**

One-time and two-time construction loans may be considered purchases in VA's systems regardless of the category stated on the loan application, closing disclosure, or whether or not the borrower already owns the land. Note this is for VA purposes and may not match Real Estate Settlement Procedures Act requirements (RESPA).

One-Time Close Construction or VA Construction to Permanent Loans. These types of loans are used to close the construction financing and permanent financing at the same time. The permanent financing is established prior to construction, and the final terms are modified to the permanent terms at the conclusion of construction.

Two-Time Close Construction Loans. These types of loans involve an initial non-VA interim construction loan that closes prior to the commencement of construction and a second loan closing, where a VA-guaranteed loan is used to establish permanent financing by refinancing the interim construction loan.

Interim construction financing does not include Home Equity Lines of Credit (HELOCs) or loan vehicles that already provided for permanent financing such as a one-time construction loan.

Cash-Out Refinance Loans. These types of loans involve the refinancing of any existing lien indebtedness. Unlike the one-time or two-time construction loan, the Veteran may obtain cash-out through the transaction. These loans are subject to VA's Cash-Out Refinance Requirements[3] and may not exceed 100% of the VA reasonable value. Note that satisfaction of an interim construction loan is considered a net tangible benefit for the purpose of a cash-out refinance.

Continued on next page

[1] 38 USC § 3710(a)(1)(3)
[2] 38 CFR § 36.4340
[3] 38 CFR § 36.4309

Topic 2: Construction/Permanent Home Loans, continued

b. Builder Identification (ID) Number

The Veteran may choose their own builder and a VA Builder ID must be obtained prior to the issuance of the Notice of Value (NOV). The Veteran may act as their own contractor or builder, and VA Builder ID is not required in these cases.

Refer to Chapter 10 for additional information.

A list of registered VA builders is available for lenders in the VA LGY HUB https://lgy.va.gov/lgyhub/.

Information on obtaining a VA Builder ID number is available on our website: https://www.benefits.va.gov/HOMELOANS/appraiser_cv_builder_info.asp.

c. Property Eligibility and Appraisals

One-time construction loans: appraisals should be ordered before the completion of the foundation as a purchase, specifying the loan use as "Construction to Permanent" and building status as "Proposed". Construction exhibits, permitting, and materials specifications, should be provided to the appraiser at the time of the appraisal order for preparation of the appraisal report for valuation purposes. Appraisers will hold appraisal assignments until the appropriate exhibits are received.

Two-time construction loans:

(1) Appraisals should be ordered when the dwelling is 100% complete. The appraisal should be ordered as a purchase, specifying the building status as "New Construction".

(2) While VA prefers for the appraisal to be ordered after the dwelling is 100% complete, if the appraisal is being ordered prior to completion, the lender will need to order the appraisal as a purchase, specifying the loan use as "Construction to Permanent" and the building status as "Proposed." Construction exhibits, permitting, and materials specifications, should be provided to the appraiser at the time of the appraisal order to be utilized in the preparation of the appraisal report for valuation purposes. Appraisers will hold appraisal assignments until the appropriate exhibits are received.

Cash-Out Refinances: Transactions in which construction was completed and at least one year has passed, as evidenced by a Certificate of Occupancy (CO) or other evidence by the taxing authority, are treated as cash-out refinances if the Veteran already owns the property. The appraisal should be ordered as a "VA Cash-Out Refinance" in WebLGY. Construction exhibits such as plans, specifications, and contracts are not required.

d. Maximum Loan Amount

The maximum loan amount for construction (one-time and two-time) loans is limited to:

(1) the lesser of the VA reasonable value or the acquisition costs (described in section e), plus,
(2) the applicable VA funding fee.

Cash-Out Refinance Loans may not exceed the VA reasonable value.

See Chapter 3 for additional details on maximum loan amounts.

Continued on next page

e. Acquisition Costs

One-Time Close:

Acquisition costs on a one-time construction loan include the following, provided documentation is submitted to support the associated amount:

(1) the contract to build
(2) balance owed on the land
(3) interest reserve, if not included in the contract to build
(4) contingency reserve
(5) permits, if not included in the contract to build

If the Veteran acts as their own contractor, all labor and material costs must be documented by receipts, work orders, and/or contractual agreements to establish the contract price.

If no balance is owed on the land neither the original cost nor current value may be included in the acquisition cost.

Two-Time Close:

Acquisition costs on a two-time construction loan include the following, provided documentation is submitted to support the associated amount:

(1) balance of the interim construction loan, and
(2) balance owed on the land

If no balance is owed on the land neither the original cost nor current value may be included in the acquisition cost.

f. Loan Guaranty Certificate and Maximum Guaranty Amount

Although the loan will normally be considered guaranteed upon closing, the Loan Guaranty Certificate (LGC) on a construction/permanent home loan will not be issued until a clear post construction inspection report has been received by VA.

All NOV requirements, including the Post Construction Inspection by the appraiser must be met prior to the issuance of the LGC.

VA construction loans are eligible to receive the same guaranty amount and percentage as VA purchase loans.[4] See Chapter 3 for additional information.

Continued on next page

[4] 38 CFR 36.4302(a)

Topic 2: Construction/Permanent Home Loans, continued

g. Funding Fee and Loan Reporting

The funding fee is due and payable to VA within 15 days of loan closing[5]; this requirement is **not** tied to the commencement or completion of construction.

Although evidence of guaranty is not issued until construction is complete, VA will not approve a funding fee refund if the lender fails to obtain evidence of guaranty or for the fact that the Veteran sold the property before the completion of construction.

The loan must be guaranteed in WebLGY within 60 days[6] of receipt of the clear post construction inspection report and completion of all NOV requirements.

For one-time and two-time construction loans: In some instances, equity in the subject property may be considered as a downpayment for the purpose of reducing the funding fee.

(1) Equity in the secured property may be used as a down payment for calculating the funding fee, or

(2) In cases where the Veteran purchased the land within one year of VA loan closing, the greater of the amount paid to acquire the land or the value of the land (if the appraiser assigned value to the land on the appraisal) may be considered as a downpayment for the purpose of calculating the funding fee, or (Section u, Table 8)

(3) In cases where the Veteran purchased the land more than one year prior to the VA loan closing, the value of the land may be considered for the purpose of calculating the funding fee if the appraiser assigns value to the land on the appraisal. If the appraiser does not assign value to the land on the appraisal, equity in the subject property may be considered as a down payment for the purpose of calculating the funding fee, or (Section u, Table 9)

(4) In cases where the Veteran obtained the land as a gift, only equity in the subject property may be counted as a downpayment for the purpose of calculating the funding fee. (Section u, Table 10)

Detailed examples are provided in Section u.

Simple equity example: A borrower is using a VA (one-or two-time) construction loan to construct a dwelling on land owned for more than one year prior to the VA loan closing. The VA financing will close on March 15, 2023. The reasonable value is $400,000, and the loan amount is $350,000. The purchase price in the Funding Fee Payment System (FFPS) should be entered as $400,000 and the equity in the secured property, $50,000 ($400,000 - $350,000), should be entered as the down payment. FFPS will automatically calculate the required funding fee of $4,900 (1.40%).

Note: Equity in the secured property **cannot** be used as a down payment for VA cash-out refinance transactions.

See Chapter 8 for additional details on the VA Funding Fee.

Continued on next page

[5] 38 C.F.R. § 36.4313(e)(2)
[6] 38 C.F.R. §36.4303(a)(2)

h. Fees and Charges the Veteran Can Pay

Fees and charges the Veteran can pay are described in Chapter 8. Note that permissible fees differ for one-time and two-time construction loans, and that an increased flat fee may be charged on one-time construction loans where the lender supervised the progress of construction and/or makes advances to the Veteran during construction.

On one-time close construction loans, the Veteran may not pay any fees or charges that are the builder's responsibility.

The Veteran **may** pay for interest not included in the interest reserve, and/or interest due after the initial interest reserve is depleted to prevent loan default.

i. One-Time Construction Loan Process

This loan type may also be called a construction to permanent loan and closes prior to the start of construction simultaneously providing both the construction loan and permanent financing. Loan proceeds may be disbursed to cover the cost of, or balance owed on the land, with the remaining balance deposited into an escrow account, commonly referred to as a Draw or Loan in Process (LIP) account. Escrowed funds are then 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. The lender must also retain this in the loan file and provide to VA upon request.

Lenders should have the specialized experience to originate, process, underwrite), close, service and administer such loans. These types of loans and projects inherently have uncertain elements that require careful examination.

The following provides a general guide for lenders to follow when processing a VA one-time construction loan.

(1) Verify the Veteran's eligibility and entitlement. (Chapter 2)
(2) Order the appraisal as a purchase, specify the loan use as "Construction to Permanent" and the building status as "Proposed" and provide all necessary documentation. (Chapter 10)
(3) Issue the NOV. (Chapter 13)
(4) Underwrite the loan using VA's underwriting guidelines. (Chapter 4)
(5) Close the loan, disburse monies to cover the cost of the land and fund the construction escrow (LIP or Draw) account.
(6) Pay the VA Funding Fee within 15 days of loan closing. (Chapter 8)
(7) Construction takes place, disburse funds in accordance with any established draw schedule after obtaining the Veteran's written approval before making such a payment.
(8) The final inspection report signifies the end of the project.
(9) Modify the loan in accordance with the terms of the loan.
(10) Issue the Loan Guaranty Certificate after all NOV requirements are met. (Chapter 5).

Continued on next page

Topic 2: Construction/Permanent Home Loans, continued

j. Account Management and Contingency Reserve (one-time close)

Contingency reserve funds will be negotiated between the borrower and builder.

The lender is responsible for all aspects of establishing the account containing the construction funds. The lender should ensure that funds are accounted for and disbursed according to the progress completed. Escrowed funds will be used for their stated purpose.

Any funds remaining in the LIP account upon completion of construction should be disbursed according to the contract. Excess construction or reserve funds may be returned to the borrower up to the verified amount that has been paid in advance, otherwise, the funds should be applied to the loan balance.

Note: The application of excess funds to the loan balance does not impact calculation of the funding fee or final guaranty amount. The lender should retain evidence of the principal balance reduction in the loan file.

k. Amortization (one-time close)

The Veteran begins making payments on a one-time construction loan when construction is complete. Therefore, the initial payment on the principal may be postponed up to one year, if necessary. If construction cannot be completed within 12 months[7], payments may be delayed, on a monthly basis for up to an additional six months. The loan must be amortized to achieve full repayment within its remaining term. The lender must provide evidence of the amortization in the loan file.

The maximum term on a VA-guaranteed loan is 30 years and 32 days[8].

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.

VA requires amortization with approximately equal payments and the principal must be reduced at least once annually, this includes construction loans. However, the final installment may be for an amount up to five percent of the original principal amount of the loan[9].

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.

Continued on next page

[7] 38 CFR § 36.4300(b)(3)
[8] 38 USC § 3704(d)(1)
[9] 38 CFR § 36.4310(a)

Topic 2: Construction/Permanent Home Loans, continued

l. Change Orders (one-time close)

Change orders should be reviewed in advance by the appraiser to ensure no loss in value.

Change orders/upgrades made after the appraisal cannot be mortgaged into the loan unless an updated appraisal is obtained. The additional appraisal fee may come out of available contingency reserve funds, or borrowers are permitted to pay for upgrades out of pocket.

If an updated appraisal is required, the lender is responsible for contacting VA Construction and Valuation for assistance and for providing the documented change order(s). Requests should be made through the ServiceNow portal accessible at https://www.benefits.va.gov/HOMELOANS/contact.asp.

Note: lenders must maintain change orders and appraisal invoices in the loan file.

m. Inspections (one-time close)

NOV requirements for both Post Construction Inspections and Proposed Construction Inspections and Warranties must be met if conditioned on the NOV.

Proposed Construction Inspections: Construction should be completed according to local building codes. There are three options allowable to satisfy the proposed construction inspection requirement for cases ordered as "Proposed."

(1) If the local authority performs the required foundation, framing, and final inspections and issues a Certificate of Occupancy (CO) or equivalent, VA will accept the CO for the property as evidence of local authority inspections and satisfactory completion of construction. Please note that framing inspection is not required on manufactured or modular homes.
(2) If the local authority performs the required foundation, framing, and final inspections but does not issue a CO or equivalent, VA will accept copies of the inspection reports, which verify full compliance with local building codes, or a written statement from the local authority confirming that the required inspections were performed satisfactorily.
(3) If the local authority does not perform the required inspections, the property should be covered by a 10-year insured protection plan that is acceptable to the Department of Housing and Urban Development (HUD) and a 1-year VA builder's warranty.

Post-Construction Inspection. When the property is 100 percent complete, the lender will contact the original VA fee appraiser to complete the VA final inspection. If the original VA fee appraiser is not available, the lender must contact VA Construction and Valuation by submitting a request through the VA ServiceNow portal (link available in Appendix A) for another VA fee appraiser to complete the VA final inspection.

Continued on next page

Topic 2: Construction/Permanent Home Loans, continued

m. Inspections (one-time close), *continued*

The VA final inspection is to certify that all VA Minimum Property Requirements (MPR) are met, and the house was built to the original plans, specifications, and approved change orders, and that the as-completed value from the appraisal was maintained[10].

It is the lender's responsibility to negotiate an inspection schedule with the general contractor, and it is the lender's responsibility to ensure the schedule is followed.

Refer to Chapter 10 for additional information on post-construction inspection reports.

n. Interest Rate (one-time close)

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 and permit the borrower to lock-in at a lower rate based on market fluctuations. Lock-in agreements should be maintained in the loan file and provided to VA upon request.

The borrower(s) must qualify for the mortgage at the maximum rate.

o. Project Management (one-time close)

The lender is responsible for evaluating, monitoring, and managing the project.

It is the lender's responsibility to ensure that the project is completed per the plans, specifications, and /or contract documents, so that the value of the home is preserved.

p. Fees the Veteran Cannot Pay (one-time close)

On a one-time construction home loan, the builder is responsible for all fees normally paid by a builder who obtains an interim construction loan including, but not limited to:

(1) inspection fees
(2) title updates, and
(3) hazard insurance during construction.

Note: In the case of a two-time construction loan, the VA loan is not established prior to the commencement of construction, therefore the terms of the initial construction loan, and the fees to be paid by the builder, are subject to negotiation.

Continued on next page

[10] 38 U.S.C. § 3705(a)

q. What if Construction Is Not Fully Completed and Loan Proceeds are not Fully Disbursed? (one-time close)

If the construction is not fully completed and loan proceeds are not fully disbursed, the guaranty[11] will apply **only** to the proper pro rata part of the loan. To calculate the proper pro rata part of the loan:

(1) take loan proceeds disbursed for construction purposes,
(2) add any other payments made to the builder by or on behalf of the Veteran,
(3) take the lesser of the above total or 80 percent of the value of that portion of the construction completed, and
(4) add any loan disbursements made for the purchase of the land on which the construction is situated.

The lender must also certify that any amounts advanced for land is protected by title or lien and that no enforceable liens, for any work done or material furnished for that part of the construction completed and for which payment has been made out of proceeds of the loan exists or can come into exitance.

In the event circumstances make it impracticable to complete construction and fully disburse funds, the lender should contact VA for additional information on obtaining a partial guaranty.

r. Two-Time Construction Loan Process

This loan type involves the refinance of a non-VA interim construction loan with a VA-guaranteed loan. Interim construction loans are construction loans that do not provide for permanent financing.

The following provides a **general** guide for lenders to follow when processing a VA two-time construction loan. As VA prefers for the appraisal on a two-time construction loan to be ordered after the dwelling is 100% complete, this general guide does not address instances where the lender orders the appraisal prior to completion of the dwelling.

(1) Verify the Veteran's eligibility and entitlement. (Chapter 2)
(2) Close the non-VA interim construction loan.
(3) The construction takes place.
(4) Order the VA appraisal after construction is complete as "New Construction." (Chapter 10)
(5) Issue the NOV. (Chapter 13)
(6) Underwrite the loan using VA's underwriting guidelines. (Chapter 4)
(7) Close the loan after all NOV requirements are met. (Chapter 5)
(8) Pay the VA Funding Fee within 15 days of loan closing. (Chapter 8)
(9) Issue the Loan Guaranty Certificate. (Chapter 5)

Continued on next page

[11] 38 CFR 36.4305

Topic 2: Construction/Permanent Home Loans, continued

s. Construction Complaint Process

VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-year VA builder's warranty period.

t. Construction Loan Comparison

Table 7: Comparison of VA Construction Loan Types and Cash-Out Refinance Loans

Loan Feature	One-Time Close	Two-Time Close	Cash-Out Refinance
Appraisal Timing	Prior to Commencement of Construction	Preferred: After Dwelling is 100% Complete	Preferred: After Dwelling is 100% Complete
Purchase or Refinance for VA Purposes	Purchase	Purchase	Refinance
Appraisal Type	Proposed – Per Plans and Specs	Preferred: Built Less than One Year and Never Occupied	Refer to Chapter 10
Maximum Loan Amount	Lesser of: a. Acquisition Cost, or b. VA Reasonable Value. Plus, the applicable VA Funding Fee	Lesser of: a. Acquisition Cost, or b. VA Reasonable Value. Plus, the applicable VA Funding Fee	100% of the Reasonable Value
Cash to Veteran Acceptable?	No	No	Yes, the Veteran may receive proceeds from the loan and/or satisfy other debts
Can Equity be Considered for VA Funding Fee Rate Reduction?	Yes	Yes	No
Do VA's refinancing NTBs apply?	No	No	Yes (The refinance of an interim construction loan is an NTB.)

Continued on next page

Topic 2: Construction/Permanent Home Loans, continued

u. Funding Fee Downpayment Examples

This section provides examples of construction loan downpayment scenarios and the appropriate amount to enter into FFPS as the Purchase Price and the Downpayment amount.

Table 8: Construction Loans – Veteran Purchased the Land **Within One Year** of Close

Lenders should use this table in cases where the Veteran purchased the land within one year of closing of the VA-loan.

Item	Description	Example 1	Example 2	Example 3
A	Cost to Acquire Land	$100,000	$30,000	$100,000
B	Balance Owed on Land	$0	$20,000	$60,000
C	Contract to Construct + Permits and Reserves (if applicable)	$300,000	$300,000	$300,000
D	Acquisition Cost (B+C)	$300,000	$320,000	$360,000
E	Reasonable Value (Per NOV)	$350,000	$375,000	$500,000
F	Land Value (if given)	n/a	$80,000	n/a
G	Max Loan Amount (Lesser of D or E)	$300,000 + applicable FF	$320,000 + applicable FF	$360,000 + applicable FF
H	Purchase Price in FFPS (Greater of: E., (A+C), or (C+F))	$400,000	$380,000	$500,000
I	Downpayment in FFPS (H-G)	$100,000	$60,000	$140,000

Continued on next page

Topic 2: Construction/Permanent Home Loans, continued

u. Funding Fee Downpayment Examples, continued

Table 9: Construction Loans – Land Purchased **More than One Year** Before Close

Lenders should use this table in cases where the Veteran purchased the land more than one year prior to the closing of the VA-loan.

Item	Description	Example 1	Example 2	Example 3
A	Cost to Acquire Land	n/a	n/a	n/a
B	Balance Owed on Land	$0	$60,000	$0
C	Contract to Construct + Permits and Reserves (if applicable)	$300,000	$300,000	$300,000
D	Acquisition Cost (B+C)	$300,000	$360,000	$300,000
E	Reasonable Value (Per NOV)	$350,000	$350,000	$350,000
F	Land Value (if given)	Not Given	Not Given	$75,000
G	Max Loan Amount (Lesser of D or E)	$300,000 + applicable FF	$350,000 + applicable FF	$300,000 + applicable FF
H	Purchase Price in FFPS (Greater of D, E, or (C+F))	$350,000	$360,000	$375,000
I	Downpayment in FFPS (H-G)	$50,000	$10,000	$75,000

Table 10: Construction Loans – Land was Gifted

Lenders should use this table in cases where the land was gifted or inherited by the Veteran free of encumbrance.

Item	Description	Example 1	Example 2
A	Cost to Acquire Land	n/a	n/a
B	Balance Owed on Land	$0	$0
C	Contract to Construct + Permits and Reserves (if applicable)	$300,000	$300,000
D	Acquisition Cost (B+C)	$300,000	$300,000
E	Reasonable Value (Per NOV)	$350,000	$290,000
F	Land Value (if given)	Not Given	Not Given
G	Max Loan Amount (Lesser of D or E)	$300,000 + applicable FF	$290,000 + applicable FF
H	Purchase Price in FFPS (Greater of D or E)	$350,000	$300,000
I	Downpayment in FFPS (H-G)	$50,000	$10,000

Topic 3: Energy Efficient Mortgages

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

a. What are EEMs?

Energy Efficient Mortgages (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
- 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. Borrower Notice on the NOV

Information on EEMs is provided to a Veteran who applies for a loan which requires an NOV (a loan for a home purchase or regular "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."

Continued on next page

Topic 3: Energy Efficient Mortgages, continued

b. Borrower Notice on the NOV, continued

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
- VA does **not** permit EEMs more than $6,000 (38 U.S.C. §3710(d)).

c. 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, and must rely on locally available information provided by utility companies, municipalities, state agencies or other reliable sources, and document the determination.

Energy efficiency improvements in conjunction with an Interest Rate Reduction Refinancing Loan (IRRRL). If the monthly payment (Principal, Interest, Taxes, and Insurance (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.

d. 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.

IRRRL with significant increase in payments: If the cost of the improvements cause the new loan payment (PITI) to be 20 percent or 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.

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e. How to Calculate Guaranty and Entitlement Use?

Guaranty is calculated on an EEM as described in the following table.

Table 8: How to Calculate Guaranty and Entitlement Use for EEM

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; it 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.

f. 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

Topic 3: Energy Efficient Mortgages, continued

g. Improvements Not Completed Before Closing

If the energy efficiency improvements are not completed before closing, the lender may establish an escrow 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 6 months from the date of loan closing.

Provide written notification to VA when improvements are completed and the escrow funds are disbursed. Escrow requirements concerning completion of improvements are listed in Chapter 9 of this handbook.

- 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.

h. Reimbursement to the Veteran out of IRRRL Proceeds

The Veteran generally may not obtain cash proceeds from an IRRRL.

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.

Topic 4: Loans for Alteration and Repairs

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

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 or regular "Cash-Out" refinance of improved property to the extent that their value supports the loan amount.

Topic 5: What is a Supplemental Loan

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

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 non- fixtures or quasi-fixtures such as refrigeration, cooking, washing, and heating equipment. The equipment must be related to or supplement the principal alteration for which the loan is proposed.

b. Required Lien and Maximum Loan Term

It is the lender's responsibility to obtain an effective lien of the required dignity (lien position).

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.

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Topic 5: What is a Supplemental Loan, continued

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 is to be made by a lender that does not have authority to close loans on an automatic basis or
- 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.

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: an NOV and compliance inspections are required.

If the cost of the repairs, alterations, or improvements does not exceed $3,500: an 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,
- purchase price or cost of the work and material, and
- purchase price or cost does not exceed the reasonable value.

Continued on next page

Topic 5: What is a Supplemental Loan, continued

e. Procedures, continued

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."

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 LGC 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.

Continued on next page

Topic 5: What is a Supplemental Loan, continued

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.

Table 9: Supplemental Loan Procedure

Step	Action
1	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	Take the balance of the existing loan and add the amount of the supplemental loan.
4	Take the result of Step 1 above and add the result of Step 2 above.
5	Divide by the result of Step 3 above.

Topic 6: Adjustable-Rate Mortgages

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

a. General Information Concerning ARMs

An ARM loan offers adjustable 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 3, 5, 7, or 10 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 one percentage point. Additionally, interest rate increases are limited to a maximum of five percentage points over the life of the loan.

Hybrid ARMs: If the initial contract interest rate remains fixed for less than 5 years, the initial adjustment is limited to a maximum increase, or decrease of one percentage point and the interest rate increase over the life of the loan is limited to five percentage points.

If the initial contract interest rate remains fixed for 5 years or more, the initial adjustment will be limited to a maximum increase or decrease of two percentage points and the interest rate increase over the life of the loan will be limited to six percentage points.

c. Underwriting an ARM

ARM loans that may adjust after 1 year must be underwritten at one percentage point above the initial rate.

Hybrid ARMs with a fixed period of 3 or more years may be underwritten at the initial interest rate

Topic 7: Loans Involving Temporary Interest Buydowns

Change Date: July 27, 2023

- Subsection b. has been updated to clarify when a temporary buydown may be used in conjunction with a VA-guaranteed loan and how escrowed funds are to be held.
- Subsection c. has been updated to clarify buydown payment schedules.
- Subsection d. has been updated to clarify how to underwrite loans involving a temporary buydown.
- Subsection e. has been added to include information on when a temporary buydown is considered a seller concession.

a. Description

VA generally allows two types of temporary interest rate buydowns. One is a marketing tool, where builders, sellers, or lenders establish and fund escrows to temporarily reduce a borrower's loan payments during the initial years of the loan. A second is where a borrower funds an escrow account for herself/himself as a financial management tool. Lenders may not fund or establish a temporary buydown by charging an above market interest rate.

VA can guaranty loans involving temporary interest rate buydowns, provided that the loan meets all other applicable requirements.[12]

In VA's home loan programs, temporary interest rate buydowns can only be used in conjunction with fixed rate loans.

b. Escrow Agreement

Funds must be held in a segregated escrow account. The lender is responsible for ensuring that the escrowed funds are legally protected and used only for payments due under the note. The funds may not be used to pay past due monthly loan payments, or for any other purpose. If the loan is foreclosed or prepaid, the funds must be credited against the Veteran's indebtedness. The 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 borrower.

It is the lender's responsibility to review and determine the acceptability of the buydown and ensure that it complies with all applicable federal and state laws. Lenders must provide the Veteran with a clear, written explanation of the buydown agreement. A copy of the buydown and escrow agreements, signed by the Veteran, must be maintained in the lender's loan file.[13] Lenders must submit such agreements to VA if the loan is selected for review.

Continued on next page

[12] See 38 U.S. Code § 3703(c) (authorizing guaranteed loans with interest rates agreed upon by the Veteran and lender).
[13] 38 C.F.R. 36.4333.

Topic 7: Loans Involving Temporary Interest Buydowns, continued

c. Buydown Payment Schedule

The monthly buydown payments must run for a minimum of 1 year and cannot exceed a maximum of 3 years. Common frameworks for temporary buydowns are 3-2-1 (3 years) and 2-1 (2 years). Reductions in the buydown payments must be scheduled to occur annually, i.e., on the anniversary date of the first loan payment due date. A reduction in the buydown payment means the Veteran's monthly loan payment will increase. To avoid serious financial disruption, VA limits the increase in the Veteran's payment to an amount that corresponds to a one-percent interest rate increase (effective interest rate).

Annual increases can be rate-based or payment-based. If rate-based, the Veteran's payment increase can correspond to equal annual increases in the effective interest rate. If payment-based, the Veteran's monthly loan payments must increase in equal or approximately equal dollar amounts, year over year. Please see the examples below.

Example of equal interest rate increase: A Veteran obtains a $300,000, 30-year home loan, at an interest rate of 5%, with a two-year, 2-1 temporary buydown. The total monthly amount due under the note is $1,610. In year one, the Veteran's effective interest rate will be 3%, and in year two the Veteran's effective interest rate will be 4%. In year three, the buydown period is over and the Veteran will start making payments at the full interest rate of 5%. The Veteran's effective interest rate increased by the same amount, i.e., 1 percentage point, for each annual adjustment.

Table 10: Example of an Equal Interest Rate Increase

Year	Effective Interest Rate	Veteran Payment	Monthly Buydown Contribution	Total Payment
1	3%	$1,265	$345	$1,610
2	4%	$1,432	$178	$1,610
3-30	5%	$1,610	$0	$1,610

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c. Buydown Payment Schedule, continued

Example of equal monthly payment increase: A Veteran obtains the same loan described in the example above. In year one, the Veteran's monthly payment is $1,305 per month with $305 per month coming from the buydown escrow. In year two, the Veteran's monthly payment is $1,457 per month with $153 per month coming from the buydown escrow. In year three, the buydown period is over and the Veteran's monthly payment is $1,610. The Veteran's monthly payment increased by approximately the same amount, i.e., $153 per month, for each annual adjustment.

Table 11: Example of an Equal Monthly Payment Increase

Year	Effective Interest Rate	Veteran Payment	Monthly Buydown Contribution	Total Payment
1	3.25%	$1,305	$305	$1,610
2	4.14%	$1,457	$153	$1,610
3-30	5%	$1,610	$0	$1,610

d. Underwriting Considerations

The lender must underwrite the loan and determine that the Veteran can afford the full payment amount under the note, without considering the monthly buydown contributions being applied from escrow.

Nevertheless, the buydown arrangement can be considered a compensating factor for residual income and/or debt-to-income calculations. If these calculations produce marginal results, the buydown plan (which could be used, for example, to offset a short-term debt), along with other compensating factors, may support approval of the loan. See "Compensating Factors" in Chapter 4 of this Handbook.

A statement with the reasons for approval, signed by the underwriter, must be maintained in the lender's loan file. Lenders must submit the statement to VA if the loan is selected for review.

e. Seller Concessions

Temporary interest rate buydown funds provided by the builder or seller are considered seller concessions. See Chapter 8, Topic 5 of this handbook for more information.

Topic 8: Farm Residence Loans

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

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/borrower as a home is eligible for guaranty.

The loan cannot cover the:

- nonresidential value of farm land in excess of the home site,
- 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).

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 Chapter 4 apply generally. In addition, apply the following:

For new farmer or new farm operation, the lender must obtain the following:

- 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.
- 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 the 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 3 years (or additional periods if needed to demonstrate stability of Veteran's operation). Analyze the reasons for any build-up of operating debt.

Topic 9: Loans for Manufactured Homes Classified as Real Estate

Change Date: February 22, 2019

- This chapter has been revised in its entirety.

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 1-877-827-3702 and follow the instructions.

b. Allowable Loan Purposes and Calculation of the Maximum Loan Amount

Table 12: Table of Loan Purposes and Maximum Loan Amount Calculations

Allowable Loan Purpose	Maximum Loan
To purchase a manufactured home to be affixed to a lot already owned by the Veteran.	The lesser of: • the sum of the purchase price plus the cost of all other real property improvements, and the VA funding fee, or • the VA NOV for the property, plus the VA funding fee.
To purchase a manufactured home and a lot to which it will be affixed.	The lesser of: • the total purchase price of the manufactured home unit and the lot, plus the cost of all other real property improvements, plus the VA funding fee, 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, plus the VA funding fee.
To obtain a regular "Cash-Out" refinance for an existing loan on a manufactured home and purchase the lot to which the home will be affixed.	The lesser of: • 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 plus the VA funding fee, or • the total reasonable value of the unit, lot, and real property improvements, plus VA. funding fee.

Continued on next page

Topic 9: Loans for Manufactured Homes Classified as Real Estate, continued

b. Allowable Loan Purposes and Calculation of the Maximum Loan Amount, continued

Table 12: Table of Loan Purposes and Maximum Loan Amount Calculations, continued

Allowable Loan Purpose	Maximum Loan
An IRRRL to refinance an existing VA loan on a permanently affixed manufactured home and lot	The sum of: • the balance of the VA loan being refinanced, plus • allowable closing costs, plus • up to two discount points, plus • the VA funding fee. **Note**: The provisions applicable to IRRRLs apply (See Chapter 6 of this handbook).

Topic 10: Loans to Native American Veterans on Trust Lands

Change Date: March 11, 2019

- This chapter has been revised in its entirety.

a. General

VA does underwrite direct loans to Native American Veterans on trust land.

Native American Direct Loan information can be found at http://www.benefits.va.gov/HOMELOANS/nadl.asp. Lenders should advise interested Native American Veterans to contact the VA RLC that has jurisdiction over the state that the property is located for information on the direct loan.

CHAPTER 8: BORROWER FEES AND CHARGES AND THE VA FUNDING FEE

Overview

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Topic 1: VA Policy on Fees and Charges Paid by the Veteran Borrower

Change Date: November 8, 2012, Change 21

- This section has been updated to make minor grammatical edits.

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.

Topic 2: Fees and Charges the Veteran Borrower Can Pay

Change Date: November 8, 2012, Change 21

- This section has been updated to make minor grammatical edits.

a. VA Regulations

VA regulations in 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 one percent flat charge by the lender, plus
- reasonable discount points.

Note: Some special provisions apply to construction, alteration, improvement, and repair loans.

Reference: See subsection e, "Construction Loans," in Topic 2 of this chapter.

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:

Table 1: Itemized Fees and Charges

Charge	Description
Appraisal and Compliance Inspections	• 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.
Recording Fees	The veteran can pay for recording fees and recording taxes or other charges incident to recordation.
Credit Report	The veteran can pay for the credit report obtained by the lender. 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.

Continued on next page

Topic 2: Fees and Charges the Veteran Borrower Can Pay, continued

c. Itemized Fees and Charges, continued

Table 1: Itemized Fees and Charges, continued

Charge	Description
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	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. The veteran can pay a charge for a life-of-the-loan flood determination service purchased at the time of loan origination. A fee may **not** be charged for a flood zone determination made by the lender or a VA appraiser.
Survey	The veteran can pay a charge for a survey, if required by the lender or veteran. Any charge for a survey in connection with a condominium loan must have the prior approval of VA.
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, 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 Regional Loan Center for approval if the fee is normally paid by the borrower in a particular jurisdiction and considered reasonable and customary in the jurisdiction.

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Topic 2: Fees and Charges the Veteran Borrower Can Pay, continued

c. Itemized Fees and Charges, continued

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.

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.

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Topic 2: Fees and Charges the Veteran Borrower Can Pay, continued

d. Lenders One Percent Flat Charge

In addition to the "itemized fees and charges," the lender may charge the veteran a flat charge not to exceed one percent of the loan amount.

Calculate the one percent on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds (except Interest Rate Reduction Refinancing Loans (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."

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.

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Topic 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 two percent of the loan amount in addition to the lender's one percent flat charge.

Example: Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a three 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 one percent of the loan amount in addition to the lender's one percent flat charge.

Example: Total charges to the veteran in these cases would be, at a maximum, itemized fees and charges plus a two percent flat charge plus discount points.

This provision also applies to supplemental loans.

Topic 3: Fees and Charges the Veteran Borrower Cannot Pay

Change Date: November 8, 2010, Change 15

- This section has been updated to make minor grammatical edits.

a. Lender's Use of One Percent Flat Charge

The lender's maximum allowable flat charge of one 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).

Topic 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. However, reasonable fees for title examination work and title insurance can be paid by the borrower. They are allowable itemized fees and charges.

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.

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.

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Topic 3: Fees and Charges the Veteran Borrower Cannot Pay, continued

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 the Department of Housing and Urban Development (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.

Topic 4: Other Parties Fees and Charges for the Veteran Borrower

Change Date: November 8, 2010, Change 15

- This section has been updated to make minor grammatical edits.

a. Policy

The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower.

VA regulations limit charges "made against or paid by" the borrower. They do not limit the payment of fees and charges by other parties.

b. Exception

Excessive seller concessions are prohibited.

Reference: See Topic 5 of this chapter.

Topic 5: Seller Concessions

Change Date: November 8, 2010, Change 15

- This section has been updated to make minor grammatical edits.

a. Definition

For the 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.

b. Seller Concessions

Seller concessions include, but are not limited to, the following:

- 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.

Seller concessions do **not** include 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.

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.

d. The Four Percent Limit

Any seller concession or combination of concessions which exceeds four 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 four percent limit.

Topic 6: What Happens to Fees and Charges If the Loan Never Closes?

Change Date: November 8, 2010, Change 15

- This section has been updated to make minor grammatical edits.

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 One Percent Flat Fee

If the lender has already collected the one 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.

Topic 7: Fees and Charges That Can Be Included in the Loan Amount

Change Date: November 8, 2012, Change 21

- This section has been updated to make minor grammatical edits.

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 chapter 3.

b. "Cash-out" Refinancing Loans

For "cash-out" refinancing loans, allowable fees and charges and discount points (as discussed in Topic 2 of this chapter) may be paid from cash proceeds of the loan.

Only the VA funding fee (and the cost of any energy efficiency improvements) can be added to increase the loan amount.

c. IRRRLs

The following fees and charges may be included in an 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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Topic 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 Topic 2 of this chapter, and
- reasonable discount points.

Note: 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.

Topic 8: The VA Funding Fee

Change Date: November 8, 2012, Change 21

- Subsection b has been updated to note the expansion of eligibility for a funding fee waiver as a result of the Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012.

- Subsection h, Funding Fee Tables, has been updated to note that the present fee structure is extended through September 30, 2017, as a result of the law noted above.

- This section has been updated to make minor grammatical edits.

a. The Lender's Role

The lender must:

- 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 VA Funding Fee Payment System (FFPS) https://www.ffps.vba.va.gov/;
- 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.

Note: The funding fee may be paid from loan proceeds or cash from borrower.

b. Who is Exempt from Paying the Funding Fee?

The following persons are exempt from paying the funding fee:

- 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 or on the basis of a pre-discharge review of existing medical evidence (including service medical and treatment records) that results in issuance of a memorandum rating.
- Veterans entitled to receive compensation, but who are not presently in receipt because they are on active duty.
- 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).

Continued on next page

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 (COE) 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 servicemember 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.

e. If the 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.

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 subsection j, "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, IRRRL Worksheet.

Reference: For joint loans, see "Calculation of the Funding Fee" in chapter 7.

Continued on next page

Topic 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 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 five or ten percent?
  - □ Calculate what percentage of the sales price of the property the veteran is remitting as a downpayment.
  - □ The downpayment 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.

h. The Funding Fee Tables

Purchase And Construction Loans

Note: In 2011, funding fees were lower from October 1 through October 5, and November 18 through November 21. The enactment of Public Law 112- 56, signed November 21, 2011, established rates at the below levels through September 30, 2016. The Honoring America's Veterans and Caring for Camp Lejeune Families Act of 2012, signed August 6, 2012, further extended the rates through September 30, 2017.

Table 2: Purchase and Construction Loan Funding Fee Rates

Type of Veteran	Downpayment	Percentage for First time Use	Percentage for Subsequent Use
Regular Military	None	2.15%	3.3%*
Regular Military	5% or more	1.5%	1.5%
Regular Military	10% or more	1.25%	1.25%
Reserves/National Guard	None	2.4%	3.3%*
Reserves/National Guard	5% or more	1.75%	1.75%
Reserves/National Guard	10% or more	1.5%	1.5%

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h. The Funding Fee Tables, continued

Cash-Out Refinancing Loans:

Note: There are no reduced funding fees for regular refinances based on equity. Reduced fees only apply to purchase loans where a downpayment of at least 5 percent is made.

Table 3: Cash-Out Refinancing Funding Fee Rates

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.

Table 4: Other Loan Funding Fee Rates

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
IRRRLs	0.50%
Manufactured Home Loans (NOT permanently affixed)	1.00%
Loan Assumptions	0.50%

i. How and When to Remit the Funding Fee to VA

Lenders must remit the VA funding fee via the VA FFPS https://www.ffps.vba.va.gov/; within 15 calendar days of loan closing.

Lenders paying the fee more than 15 days after loan closing will automatically be assessed a four 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 https://www.ffps.vba.va.gov/, 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

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Topic 1: Security Instruments

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. Requirements

Department of Veterans Affairs (VA) does not have a specific note or mortgage form that lenders must use for VA-guaranteed loans. VA regulations at 38 C.F.R. 36.4337 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.

Lenders must ensure that the security instruments they use:

- 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:
  - ☐ assumption approval clause,
  - ☐ acceleration clause,
  - ☐ funding fee clause,
  - ☐ processing charge clause, and
  - ☐ indemnity liability assumption clause.

b. Assumption Approval Clause

The instruments evidencing the loan must read substantially as follows:

"THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE DEPARTMENT OF VETERANS AFFAIRS OR ITS AUTHORIZED AGENT."

The loan assumption notice must appear conspicuously on at least one of the security instruments for the loan.

Continued on next page

Topic 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 38 U.SC. 3714.

Funding Fee Clause

A fee equal to one-half of one 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 VA. 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 VA for a loan to which 38 U.S.C. 3714 applies.

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 VA to the extent of any claim payment arising from the guaranty or insurance of the indebtedness created by this instrument.

Topic 2: Escape Clause and Notice of Value (NOV)

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. Sales Contract

The Escape Clause must be contained in the sales contract for all VA- guaranteed loans. The lender is responsible for ensuring that the paragraph is in the sales contract prior to closing. In the event the clause is not in the sales contract, VA may not guaranty the loan.

b. Builders and Realtors

The builders/realtors that initiate contracts on new construction must ensure that the Escape Clause is in the contract and the contract is signed by the Veteran and seller.

c. Upgrades

Upgrades are not considered earnest money and the builder is not required to refund this money. When the NOV is below the sales contract price, this clause protects the Veteran with negotiation of the sales contract.

d. 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 (38 U.S.C. 501, 3703(c)(1))."

This clause may be found at 38 C.F.R. 36.4303(k)(4) in its entirety

Topic 3: Title Limitations

Change Date: September 29, 2022

- Subsection d has been revised to include Attorney Opinion Letters.

a. Estate if the Veteran in the Property

VA regulations at 38 C.F.R. 36.4354 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. For IRRRLs (see Chapter 6 of this handbook).

A beneficial interest in a revocable Family Living Trust that ensures that the Veteran, or Veteran and spouse, have an equitable life estate, provided the lien attaches to any remainder interest and the trust arrangement is valid under state law.

b. Estate Title

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.

c. Mortgage Note or Deed

VA does not allow an individual to take title to a property if that individual is not on either the mortgage note or a mortgage deed of trust. Accordingly, if a spouse or other owner does not want to sign a mortgage note and be obligated for a VA-guaranteed home loan that individual must sign a mortgage deed of trust.

d. Title Insurance

VA does not require a lender making a VA loan or the Veteran-borrower to obtain title insurance or, where appropriate for the jurisdiction, an Attorney Opinion Letter. 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.”

e. Restrictions on the Purchase or Resale of Properties

Restrictions on the purchase or resale of the property are unacceptable to VA, with certain exceptions. The lender must:

- ensure any restrictions fall within the exceptions provided by VA regulations at 38 C.F.R. 36.4308 and 38 C.F.R. 36.4354;
- consult VA where doubt exists;
- obtain VA approval where required; 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

Topic 3: Title Limitations, continued

f. 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 38 U.S.C. 3714, except that:

- Under 38 C.F.R. 36.4309(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 C.F.R. 36.4354(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 (38 U.S.C. 3704(c)).

VA may refuse to approve a property with an age restriction if its operation would create 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.

g. 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 (meeting minimum property standards), VA approval is required.

h. 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 C.F.R. 36.4325.

Topic 4: Land Sale Contracts and Option Contracts

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

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 Topic 1 of this chapter.
- The contract must be recorded.

b. Refinance Land Sale Contracts

Pursuant to Title 38 of the U.S.C., subchapter 3710(b)(7)(B), 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 mortgage note or bond secured by a mortgage or other acceptable form of security instrument other than the existing land sale contract.

c. 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.

Topic 5: Secondary Borrowing

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

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. This does not include HAPs (see Topic 9, Item 13 of this chapter).

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,
- the loan (in conjunction with the first mortgage) may not exceed the NOV, and
- the requirements detailed below are met.

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Topic 5: Secondary Borrowing, continued

c. Requirements

The second mortgage must meet the following requirements:

Table 1: Secondary Borrowing 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-borrowers.
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	Proceeds of the second mortgage **may** be used for a variety of purposes, including, but not limited to: • closing costs, or • a downpayment to meet secondary market requirement of the lender. But **may not** be used to cover any portion of a downpayment required by VA to cover the excess of the purchase price over VA's reasonable value.
Cash back	There can be no cash back to the Veteran from the VA first mortgage or a second mortgage obtained simultaneously, except any cash the Veteran paid in the transaction.
Underwriting	The Veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation.
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 purchaser(s).
Grace Period	There should be a reasonable grace period before. A late charge comes due, or commencement of foreclosure proceedings in the event of default.

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Topic 5: Secondary Borrowing, continued

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 individual,
- builders, or
- sellers.

e. VA Standards

Consult a VA RLC with jurisdiction over the state where the property is located 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.

Topic 6: Purchase of Property with Encumbrances

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. Policy

Pursuant to 38 U.S.C. § 3703(d)(3)(A), a VA-guaranteed loan must be secured by a first lien on the realty. Lenders are responsible for properly securing the first-lien position of a VA-guaranteed loan. Any existing liens on the property must be paid off or subordinated to the VA loan.

b. Eligibility

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.

Topic 7: Liens Covering Community-Type Services and Facilities

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. Policy

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 the Veterans or the Government.

b. Requirements

The lender must obtain VA prior 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.

c. VA Approval

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

Topic 7: Liens Covering Community Type Services and Facilities, continued

d. Examples

VA may find the following types of superior liens acceptable (38 C.F.R. 36.4356):

- 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, and
  - ☐ 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.

Topic 8: Power of Attorney (POA)

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

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 POA which is valid and legally adequate. The Veteran's attorney-in-fact (as specified in the POA) must use this POA to apply for a Certificate of Eligibility (COE) and initiate processing of a loan on behalf of the Veteran. A military POA is considered a general POA and is only valid during the Active Duty Servicemembers' (ADSM) period of deployment, not to exceed 1 year.

To complete the loan transaction using an attorney-in-fact, ensure that the general or specific POA 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 either through a general POA or a specific POA.

General POA - The Veteran's signature on both the sales contract and the Uniform Residential Loan Application, as long as the Veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents.

Specific POA. A specific power of attorney or other document(s) signed by the Veteran, which encompasses the elements below.

- 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 refinance.
- 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 or spouse and/or guardian for dependent child(ren)).

Continued on next page

Topic 8: Power of Attorney (POA), continued

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 an ADSM in the military. If on active military duty, the Veteran must not be missing in action (MIA).

The lender must make the following certification at the time of loan closing:

"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 on or subsequent (not prior) to the date the note and security instruments were executed on the Veteran's behalf by the attorney-in-fact."

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. Digital Signature

Digital signatures can be accepted as an original signature or wet signature as defined by the Electronic Signatures in Global and National Commerce Act, commonly referred to as the E-sign Act.

e. Prior Approval Loans

VA will issue a Certificate of Commitment only if the Veteran has executed a valid and legally adequate POA 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 POA cases contains the condition indicated under "Conditional Commitments" in Chapter 5 of the Lender's Handbook.

f. Hardship Exceptions

VA may consider 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 the VA RLC where the property is located for a determination.

Topic 9: Lender Review of Sales Contracts on Proposed Construction

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

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:

- is acceptable, and
- does not contain unfair contractual provisions.

b. Revisions

The lender must request revisions 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.

Continued on next page

Topic 9: Lender Review of Sales Contract on Proposed Construction, continued

c. Closing

The closing of the loan indicates that the lender has determined the contract is acceptable.

d. Examples of Unfair Contract Provisions or Features

Table 2: Description of Unfair Contract Provisions or Features

Example	Unfair Contract Provision or Features
1	Provisions allowing the downpayment 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 buyer/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 C.F.R. 36.4308(e) and 36.4354(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 C.F.R. 36.4354(b)(5).
4	A requirement that purchasers waive or release any claim or right for nonperformance by the builder under the contract. 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	Omission of an accurate property description.
6	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.
7	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.
8	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.

Topic 10: Escrow for Postponed Completion of Improvements

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. Policy

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, and
- garages.

b. Escrow of Funds to Complete Unfinished Work

VA may permit the escrow of funds necessary to complete the unfinished work later, and still issue evidence of guaranty. 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.

c. Establishing an Escrow Fund

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), and
- the amount escrowed must be at least 1 1/2 times an estimate of the amount needed to complete the work.

Lenders are not required to escrow funds when:

- the incomplete work is limited to the installation of landscaping features due to inclement weather (lawns, shrubbery, etc.),
- the estimate of the cost to complete the work is not greater than $2,500, and
- there is adequate assurance that the work will be completed timely and satisfactorily (usually 90 to 120 days).

Continued on next page

Topic 10: Escrow for Postponed Completion of Improvements, continued

d. 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.

Table 4: Procedures for Escrows for Postponed Completion of Improvements

Step	Action
1	Close loan and escrow the required funds.
2	Upload the closed loan package into WebLGY for issuance of guaranty with: • lender evidence of an escrow agreement, or • a completed VA Form 26-1849, *Escrow Agreement for Postponed Exterior Onsite Improvements*.
3	Release escrowed funds when work is satisfactorily completed, as evidenced by doing the following: • 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.

e. Letter 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 6 months beyond the date for completion of improvements, and
- 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.

Topic 11: Hazard Insurance

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. General Requirements

The lender is responsible for ensuring that hazard insurance is obtained prior to loan closing, 4and maintained for the term of the loan. It must be of an insurance 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 following flood insurance considerations may apply:

- 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

Topic 11: Hazard Insurance, continued

c. 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). The lender must determine the minimum insurance coverage needed to meet the requirements of 38 C.F.R. 36.4329 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.

d. 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.

Condominium HOAs may protect only the shell of the structure. These "studs out" policies do not cover:

- interior walls,
- flooring,
- plumbing or electrical fixtures,
- cabinets,
- heating, ventilation, and air conditioning (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.

Topic 12: Escrow for Taxes and Insurance

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

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. It is the lender's responsibility to ensure that property taxes and hazard insurance premiums 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).

Topic 13: Homebuyer Assistance Program (HAP)

Change Date: July 30, 2019

- This chapter has been revised in its entirety.

a. General Information

VA permits Veteran purchasers to utilize HAP services when obtaining a VA home loan. Both government and private entities administer HAPs.

- Lenders are not required to obtain VA approval of such programs before closing the loan. Homebuyer assistance programs that are administered by a state, county, or municipal government entity have blanket approval for use with VA loans. These state and local programs are not to be confused with the Department of Defense HAP.
- HAPs that do not fall under the blanket approval, should forward the documentation to the VA RLC with jurisdiction over property state.

b. Requirements

Lenders making VA loans involving HAPs must ensure the following:

- the borrower(s) meet(s) VA credit standards,
- the lender obtains a VA appraisal, and
- the property must meet VA minimum property standards.

If the sale price of the property exceeds the VA reasonable value of the property, VA will only allow HAP assistance in the form of a grant to pay the difference. Otherwise the Veteran must pay the difference of price over value from his or her own funds without borrowing.

HAPs often require buyers to occupy the property for a specified period of time. The lender must, at closing, obtain the borrower's acknowledgement of this requirement, and provide a copy of the signed acknowledgement if VA requests the loan file for review.

c. HAP Fees

Chapter 8 of this handbook lists closing charges that Veteran-borrowers are not allowed to pay when a one-percent loan origination fee is charged. Since HAPs are designed to assist low to moderate income buyers, lenders may not charge Veteran-borrowers unallowable fees and use HAP funds to offset these charges since this practice dilutes the assistance that the HAP was intended to provide.

Chapter 10 Appraisal Process

Overview

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1. Appraisal Process Summary

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Purpose	Appraisals are performed to protect the interests of Veterans, lenders, servicers and VA.
b. Appraisals Requested Online	Authorized requesters may order appraisals online in WebLGY only after a Certificate of Eligibility (COE) has been requested. In most cases, VA will automatically assign an appraiser on VA's fee appraiser panel to perform the appraisal.
c. Appraisal Guidelines	The fee appraiser will estimate the market value of the property in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and VA appraisal guidelines. The appraiser will note any readily apparent repairs needed for the property to meet VA's Minimum Property Requirements (MPRs).
d. Appraisal Review	The completed appraisal report will be uploaded into WebLGY and electronically scored by VA's Appraisal Management System (AMS). A Staff Appraisal Reviewer (SAR) employed by a lender or servicer, or VA staff, will review the appraisal and issue a Notice of Value (NOV) to the Veteran.
e. Oversight	VA staff performs oversight by conducting desk and field reviews of completed appraisals and NOVs.

2. Ordering an Appraisal

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Appraisals Requested in WebLGY	Lenders and servicers, as well as their authorized agents, may request appraisals in WebLGY, through the Veterans Information Portal (VIP). Detailed steps for placing an appraisal order are listed in Exhibit 1 at the end of this chapter. Lenders must ensure that agents requesting appraisals on their behalf are familiar with the requirements in this chapter.
b. Access to WebLGY	Requesters must obtain a "User Name" and "Password" for VIP at: https://vip.vba.va.gov. Users who are already registered may use the "Lost User Name" and "Lost Password" links on this page. Users must never share their password.
c. Privacy and Security Procedures	All users of VIP must protect the sensitive information contained in this system from unauthorized access. All VIP users must abide by the Privacy and Security procedures listed at: https://vip.vba.va.gov/portal/userprofiling/html/registration/privacy_security.html.
d. Appraisal Fee Payment Certification	When an appraisal is ordered, the requester must certify that: **On receipt of "Notice of Value" or upon advice from the Department of Veterans Affairs that a "Notice of Value" will not be issued, we agree to forward to the appraiser the approved fee which we are holding for this purpose.**

Continued on next page

2. Ordering an Appraisal, continued

e. Legal Description	For all appraisal types, if the legal description is lengthy and does not fit in the legal description block on the appraisal request, a copy of the complete legal description should be uploaded into WebLGY the same day the request is made. In order to avoid delays on appraisals, the appraiser may determine if sufficient information is provided to identify the property and proceed with the appraisal.
f. Sales Contract and Exhibits	If the Veteran is purchasing a home, the requester must upload a copy of the executed sales contract into WebLGY (see Topic 3 of this chapter). In addition, for proposed and under construction properties, construction exhibits must also be uploaded into WebLGY. These documents should be uploaded the same day the request is made. If these exhibits are of a size that is too large for uploading, the exhibits must be sent to the appraiser by overnight delivery.
g. Appraiser Assignment Questions	For questions related to the assignment of a fee appraiser, the Regional Loan Center (RLC) of jurisdiction should be contacted. RLC contact information is available at http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp or http://www.benefits.va.gov/HOMELOANS/contact_cv.asp.
h. Technical Questions	For technical questions concerning VIP or WebLGY, the VIP Help Desk may be contacted by email at vip@vba.va.gov.

3. Sales Contract

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. **Upload of Sales Contract into WebLGY**	If the Veteran is purchasing a property, the requester must upload a copy of the executed sales contract into WebLGY the same day the request is made. If the requester does not upload the sales contract, the appraiser must place the appraisal assignment on hold, notify the requester, and document the delay in WebLGY notes.
b. Appraiser's Analysis of the Contract	The appraiser must analyze all sales contracts, options, or listings of the subject property as of the effective date of the appraisal, if such information is available to the appraiser in the normal course of business. The appraiser will analyze the sales contract in estimating the reasonable value of the property and will also consider any effect on VA MPR repairs.
c. Appraiser's Access to the Contract	The appraiser must have access to the sales contract in order to consider financing data, sales concessions or other information included in the contract when estimating the reasonable value of the property.
d. Amendment to the Contract before the Appraisal is Completed	If the sales contract is amended during the appraisal process (prior to the effective date of the appraisal), the lender must provide the updated contract to the appraiser to ensure the appraiser considers the potential impact on value of any changes.

Continued on next page

3. Sales Contract, continued

e. Amendment to the Sales Contract after the Appraisal is Completed	If the sales contract is amended after the effective date of the appraisal, but prior to loan closing, the lender must use due diligence to determine whether the amendment(s) could reasonably be thought to affect the estimated value of the property. If so, the lender must forward the amended sales contract to the VA fee appraiser for consideration. The appraiser will be responsible for determining the impact of the amended sales contract and compliance with all provisions of USPAP in developing and reporting credible assignment results. Depending on the extent of any change to the originally considered sales contract, the appraiser may consider the change to constitute a new assignment under USPAP, warranting an additional fee, chargeable to the Veteran, up to the full amount of a new appraisal.
f. Due Diligence	If the lender fails to perform due diligence in reviewing any subsequent contract amendment(s), and/or fails to forward the contract amendment appropriately, the loan may be subject to review for indemnification, or any claim against the guaranty may be subject to adjustment.

4. Duplicate Appraisal Requests

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Cancelation of a Duplicate Request	Once an appraisal has been requested, no duplicate appraisal requests are authorized. If a lender requests more than one appraisal for the same Veteran on the same property, the lender must immediately cancel the additional request(s), following the procedures in Topic 5 of this chapter.
b. Fees for Duplicate Appraisals	If a lender fails to cancel duplicate appraisal requests and multiple appraisals are completed for the same Veteran on the same property, the lender will be responsible for the fees for all duplicate appraisals. The NOV will be issued based on the first appraisal requested.
c. No Duplicates during the NOV Validity Period	After the NOV has been issued, no duplicate appraisals may be requested for the same Veteran on the same property during the validity period of the NOV.

5. Canceling Appraisal Requests

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Cancelation Before the Appraisal is Completed

An appraisal request may be canceled before the appraisal is completed for a valid reason, for example, if the lender finds that the borrower will not qualify for the loan. The following steps must be followed to cancel an appraisal:

- Immediately notify the appraiser of the cancellation. The appraiser may charge a fee for any work performed prior to this notification which is chargeable to the Veteran.

- E-mail a request to the RLC to cancel the appraisal in WebLGY. The request should include the VA case number, the property address, the reason for the cancellation and confirmation that the appraisal fee, if charged for any work performed, will be paid.

b. Cancelation After the Appraisal is Completed

A case may be canceled after the appraisal has been completed, but before the NOV is issued for a valid reason, for example, if the sale falls through, by following the same steps. In this situation, the lender is not required to issue the NOV and upon cancellation, the case will be removed from the lender's list of appraisals pending review in WebLGY.

c. No Cancelations After the NOV is Issued

An appraisal request may **not** be cancelled after the NOV has been issued.

6. Customer Service Expectations

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Appraiser Expectations	Appraisers who are appointed to VA's fee appraiser panel are well qualified, experienced appraisers. Fee panel appraisers are entrusted with the responsibility of performing accurate and timely appraisals for VA's Home Loan Guaranty program. While VA fee panel appraisers are not VA employees, they are among the most visible participants in VA's Home Loan Guaranty program. Appraisers serving on VA's fee appraiser panel are expected to serve Veterans and their mortgage lenders in a professional manner at all times. VA is committed to providing the highest level of customer service to all Veterans.
b. Reassignments without Delay	If the VA fee appraiser finds that the appraisal request must be reassigned due to a conflict of interest or other valid reason, the appraiser must immediately notify the RLC to assign another appraiser.
c. Appraisal Status	Fee appraisers may be contacted by lender and servicer employees other than SARs inquiring about the **status** of the appraisal. Fee appraisers are expected to respond promptly, by the next business day at the latest, providing an update on when the appraisal report is expected to be completed.
d. Email Subject Line Timesaver	When communicating by email, place the VA Loan Identification Number (LIN) in the subject line. Do not include any other information such as the borrower's name or address due to privacy concerns. Also state the reason for the request.
e. Appraiser's Notification to a Lender	When preparing an origination appraisal for a purchase, if the estimated market value appears to be below the sales price, the appraiser must notify the lender regarding additional market data (see Topic 8 of this chapter).

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6. Customer Service Expectations, continued

f. Appraisal Clarifications	The appraiser may be contacted by the appraisal reviewer, either a lender's or servicer's SAR or VA staff, to discuss the appraisal report. Appraisers are required to respond by the next business day. If a correction or clarification is needed on the appraisal report, a complete, revised appraisal report must be uploaded into WebLGY.
g. Oversight	The work of each fee appraiser is subject to quality review. Every appraisal report is desk reviewed by a SAR or VA staff. VA takes appropriate action, up to removal from VA's fee appraiser panel, when appraisers fail to meet VA's expectations for customer service, accuracy, and timeliness.

7. Appraisal Timeliness

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Timeliness Expectations	VA establishes appraisal timeliness requirements based on customary timeframes for comparable conventional appraisals in the geographic area. VA monitors timeliness closely in order to provide service to Veterans that is as fast as or faster than conventional appraisals.
b. Access to Property	When ordering appraisals, lenders should provide contact information for the individual who will provide the appraiser with access to the property without having to make any additional calls.
c. Website for Timeliness Standards	Timeliness standards are developed by reviewing appraisal completion times in the market area for similar conventional appraisal products. Timeliness standards are available at http://www.benefits.va.gov/HOMELOANS/appraiser_fee_schedule.asp
d. Prompt Scheduling of Appointment	Appraisers must make contact to schedule an appointment within two business days of receiving an assignment, documenting the activity in WebLGY to help ensure that a mutually convenient appointment is scheduled and the appraisal is completed on time.
e. Any Delays Noted in WebLGY	The appraiser must place notes in WebLGY to inform the lender of any delays beyond the appraiser's control in obtaining access to view the interior of the property. A timeliness exception may be allowed when valid extenuating circumstances are documented in WebLGY. Lenders should check WebLGY for updates before contacting appraisers.
f. Appraisal Report Completion	If a delay noted in WebLGY extends the completion of the appraisal beyond the timeliness standard, the appraisal report must be uploaded no later than 3 business day after the appointment.
g. Additions to Fee Panel	RLCs will add appraisers to the fee panel in areas where it frequently takes longer to obtain a VA appraisal versus a comparable conventional appraisal.

8. Market Data Submitted During the Appraisal Process

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Notification from the Appraiser

During the appraisal process, fee appraisers are required to notify the requester before completing the appraisal when it appears that the estimated market value will be below the sales price. The appraiser will allow 2-business days for the requester, or any parties to the transaction contacted by the requester, to submit any additional sales data that they wish to have considered. This process is known as the "Tidewater Procedure" as VA first piloted this procedure in the Tidewater area of Virginia.

b. Comparable Sales Data

For each potential comparable sale submitted, the following information should be provided:

- street address,
- sales price,
- date of sale,
- gross living area,
- if the property was listed, a copy of the listing with details about the property, and
- any other information to assist the appraiser in determining whether the sale could be used as a comparable property. It is the responsibility of the requester to provide sufficient information for the appraiser to analyze.

c. Notation in the Appraisal

If market data is submitted, the appraiser will note in the appraisal that this procedure was followed and include the following information:

- street address of each sale submitted,
- whether or not each sale was considered and, if not, the reason, and
- the effect of the data, if any, on the opinion of value.

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8. Market Data Submitted During the Appraisal Process, continued

d. No Data Submitted	If no market data is submitted, after 2-business days, the appraiser will note in the appraisal that the Tidewater Procedure was followed and complete the appraisal report.
e. Process is for Sharing Market Data Only	This process is in no way to be considered as instruction to the appraiser to meet any preset value.

9. Properties Eligible for an Appraisal

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Lender's Responsibility

While only an extremely small number of residential properties are not eligible to be the security for a VA-guaranteed loan, it is the lenders responsibility to determine that the property is eligible. If the lender fails to exercise due diligence in determining eligibility, VA may deny or reduce payment on a future claim based on the ineligibility of the property. This topic covers properties that are eligible for an appraisal.

b. Existing Construction

Properties that have been complete for over 1 year based on the certificate of occupancy date, and properties that are less than 1-year old that have been previously occupied, are eligible for an appraisal.

c. New Construction

Properties that have not been previously occupied and are less than 1-year old based on the certificate of occupancy date, and properties which are complete except for customer preference items (floor coverings, interior finishings, appliances, fixtures or other equipment) are eligible for an appraisal.

d. Proposed Construction

Proposed and under construction properties are processed under the same procedures and include:

- properties appraised from plans and specifications (see Topic 12 of this chapter),
- properties appraised from a completed model home (see Topic 13 of this chapter), and
- manufactured homes to be placed on a permanent foundation (see Chapter 12, Topic 42 of this Handbook).

Continued on next page

9. Properties Eligible for an Appraisal, continued

e. Properties Sold by Lenders	Foreclosed or "Real Estate Owned" properties being sold by lenders may be eligible, however, properties must still meet VA MPRs. Lenders selling their own "Real Estate Owned" properties may not process these cases under the Lender Appraisal Processing Program (LAPP). These cases must be ordered and processed as Individual (IND) appraisals. A new construction property for which a lender acquired title due to a builder's bankruptcy or cessation of business may be eligible (see Topic 20 of this chapter).
f. Veteran Building Own Home	A fully completed home constructed by a Veteran acting as a general contractor for his/her own occupancy may be eligible (see Topic 18 of this chapter).
g. New Home Without a Warranty	A special exception may be granted by VA at the request of a Veteran who is purchasing a newly constructed home from a builder who is unwilling to provide the required construction warranty (see Topic 19 of this chapter).
h. Manufactured Home Classified as Real Estate	Manufactured homes that are classified as real estate may be eligible (see Chapter 12, Topic 41 of this Handbook).
i. Modular Homes	Modular homes, including modular on-frame housing, may be eligible (see Chapter 12, Topic 42 of this Handbook).
j. Condominium Units	Condominium units are eligible for appraisal. The development must be accepted by VA before the loan is guaranteed (see Chapter 11, Topic 12 of this Handbook).

Continued on next page

9. Properties Eligible for an Appraisal, continued

k. Leaseholds

A leasehold estate or any other property involving less than fee simple ownership is eligible for appraisal, but must be approved by VA before the NOV is issued. VA's legal staff will review the leasehold documents and the RLC will notify the requester of the results of the review. Copies of the following documents must be sent to the RLC in order for the leasehold to be reviewed for acceptability:

- lease identifying the property to be leased, the lessor, the lease term, and the rent,
- all preceding assignments that may have occurred prior to the current assignment,
- sales contract, and
- in cases of age or income restricted leasehold communities, the Veteran-lessee consent statement.

l. Properties in PUDs

Properties located in a Planned Unit Development (PUD) are eligible for an appraisal if the lender determines that the title meets the requirements specified in Chapter 16 of this Handbook. VA does not maintain a list of accepted PUDs.

m. Property to be Improved

A property to be altered, improved or repaired is eligible for an appraisal with the appraisal prepared "subject to" the satisfactory completion of the work. The appraiser must be provided with construction exhibits, or depending on the nature of the work involved, documentation clearly describing the full extent of all work to be completed. The appraiser will provide an "as repaired" value. Any work that must be inspected upon completion must be approved by the local building authority.

Continued on next page

9. Properties Eligible for an Appraisal, continued

n. Special Flood Hazard Areas

Properties located in a Federal Emergency Management Agency (FEMA) Special Flood Hazard Area (SFHA) are eligible for an appraisal if a flood insurance policy will be issued unless the area is subject to regular flooding (see Chapter 12, Topic 8 of this Handbook).

o. Security for an Existing VA-Guaranteed Loan

Properties that are the security for an existing VA-guaranteed loan are eligible for an appraisal for the following purposes:

- An appraisal may be requested for refinancing (see Chapter 6 of this Handbook).
- If the VA-guaranteed loan is in foreclosure, a liquidation appraisal should be requested at least 30 days prior to the estimated sale date. The servicer should confirm arrangements for interior access to the property before ordering the appraisal and provide contact information for the person who will provide access to the property on the appraisal request (see Chapter 11, Topic 20 of this Handbook).
- A partial release of security may be needed if the borrower requests to have some of the property released from the VA-guaranteed loan. VA will assign the appraisal as described in Chapter 11, Topic 21 of this Handbook.

10. Properties Not Eligible for an Appraisal

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Determination at Earliest Opportunity

Lenders must determine that a property is not eligible for an appraisal at the earliest possible opportunity. If an appraisal is requested and the appraiser finds that the property is not eligible, the appraiser should stop working on the appraisal and immediately notify the lender.

b. Properties Not Eligible for an Appraisal Due to Location

Properties in the following locations are **not** eligible for an appraisal:

- Airport Clear Zone (also known as a Runway Protection Zone), if the property is proposed construction (see Chapter 12, Topic 41 of this Handbook),
- Lava Flow Zones 1 and 2 (see Chapter 12, Topic 10 of this Handbook),
- Coastal Barrier Resources System (CBRS) area (see Chapter 12, Topic 9 of this Handbook),
- Special Flood Hazard Area (SFHA) if flood insurance is not available (see Chapter 12, Topic 8 of this Handbook),
- Area subject to regular flooding, whether or not it has been designated an SFHA (see Chapter 12, Topic 8 of this Handbook),
- Transmission line easement involving high-pressure gas, liquid petroleum (see Chapter 12, Topic 40 of this Handbook) or high voltage electricity if any part of the residential structure is within the easement (see Chapter 12, Topic 39 of this Handbook), and
- Area susceptible to geological or soil instability for new and proposed construction cases unless the builder provides evidence that the site is not affected or the instability has been addressed in the engineering design (see Chapter 12, Topic 7 of this Handbook).

Continued on next page

10. Properties Not Eligible for an Appraisal, continued

c. Property Types that are Not Eligible for an Appraisal

Properties in the following situations are **not** eligible for an appraisal:

- A property that does not comply with current zoning regulations, however, a "legal non-conforming" use is acceptable and should be described in the appraisal (see Chapter 12, Topic 12 of this Handbook).

- A property that is primarily non-residential is ineligible for VA loan guaranty (see Chapter 12, Topic 11 of this Handbook).

- For new and proposed construction cases, if the local building authority routinely performs construction inspections, but none were conducted, the property is ineligible for VA loan guaranty (see Topic 14 of this chapter).

- Condo-hotel properties (Condotels) where units are placed in a rental pool and "air" condominiums that do not have a homeowners association are not eligible for an appraisal. (see Chapter 11, Topic 12 of this Handbook.)

- A property is ineligible for an appraisal if any party of interest to the transaction, other than the purchaser, is debarred Government-wide, or excluded from participation in the Loan Guaranty program due to a VA-imposed sanction. Sanctions typically involve construction complaints or unfair marketing practices. Lenders must confirm that builders of properties appraised as new or proposed construction have a valid VA-issued builder ID number to ensure that sanctioned builders do not participate in the VA Home Loan Guaranty program (see Topic 11 of this chapter). If 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 the local building authority approved the work on which the sanction was based, or the builder changes the company's name or organizational structure or becomes a principal or officer in another organization.

11. Builder Identification Numbers

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. ID Numbers Assigned by State	VA registers builders and issues identification (ID) numbers. Builders must obtain an ID number for each state where they are building homes for Veterans who are obtaining VA-guaranteed loans.
b. Builder must have ID Before NOV is Issued	For all new and proposed construction properties, with the exceptions of a new construction property sold by a lender or a home built by the Veteran for his/her own occupancy, the builder must have a valid ID number prior to the NOV being issued.
c. Must Meet Licensing Requirements	The builder must meet any state and/or local licensing requirements.
d. Online List of Registered Builders	A list of registered VA builders with ID numbers is available at https://vip.vba.va.gov/portal/VBAH/Home under "Featured Items" in the "Builder Locator."
e. How to Obtain a Builder ID Number	Builders who wish to apply for an ID number must send the following four items to the RLC of jurisdiction: • Copy of the builder's license, if required by a state or local authority. • VA Form 26-421, *Equal Employment Opportunity Certification*. • VA Form 26-8791, *VA Affirmative Marketing Certification*. • Builder Information and Certifications for the VA Home Loan Guaranty program submitted on the builder's letterhead or attached to a statement on the builder's letterhead which references it. The certification statement and forms are available at: http://www.benefits.va.gov/HOMELOANS/appraiser_cv_builder_info.asp.

12. Proposed Construction Appraisal from Plans and Specifications

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Construction Exhibits	Construction exhibits must be uploaded by the lender into WebLGY the same day the case number is assigned. The exhibits must include: • survey or plot plan, • plans sufficient to allow the appraiser to establish market value, • foundation or basement plan, • exterior elevations, • wall section, and • specifications, on either VA Form 26-1852, *Description of Materials*, HUD Form 92541, or another format that provides essentially the same information in sufficient detail.
b. Certification of Exhibits	The appraiser will certify in the appraisal report, "I hereby certify that the information contained in [specific identification for all construction exhibits, (for example, 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."
c. Appraisal Subject to Completion of Construction	The appraiser will prepare the appraisal report subject to the completion per plans and specifications.

13. Proposed Construction Appraisal from a Model Home

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Notification to Appraiser

When ordering the appraisal, the lender must enter the full legal description of the subject property in the legal description block on the appraisal request form in WebLGY followed by "APPRAISAL FROM MODEL HOME." This will alert the fee appraiser of the procedure to be followed.

b. Model Home Requirements

The model home must be:

- fully completed,
- the same plan type as the subject home (reversed plans are acceptable),
- located in the same market area, and
- readily accessible to the assigned fee appraiser.

c. Contact Information for Model Home Access

Contact information for the sales office or an individual who can provide the appraiser with access to the interior of the model home must be provided on the appraisal request.

d. Differences between Subject and Model Home

The appraiser must be provided with information concerning any differences in customer preference items, upgrades, or additional features between the model home and the subject property.

e. Statement on the Appraisal

In the "Comments" section at the bottom of page 1 of Fannie Mae Form 1004, *Uniform Residential Appraisal Report (URAR),* the fee appraiser must insert the following statement: "*Appraisal from Model Home. Value has been based on an inspection of a model home of the same plan type as the subject. Construction to be completed according to contract dated_____."*

Continued on next page

13. Proposed Construction Appraisal from a Model Home, continued

f. NOV Requirements

When issuing the NOV, the SAR must:

- issue the NOV under the guidelines for proposed construction (since the model home was used to illustrate the property instead of plans), and
- place the following condition in item 16 of the NOV: *"Appraisal from Model Home. Construction to be completed according to contract dated_____. Appraiser is to be contacted for Final Inspection and to provide a statement verifying satisfactory completion."*

14. Construction Inspections

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Local Building Inspections	Many local building authorities have adopted comprehensive residential building codes and perform mandatory inspections at the foundation, framing, and final stages of construction.
b. Confirming Local Inspections Performed	On cases involving new or proposed construction, lenders must confirm whether or not local inspections are performed.
c. Purpose of Inspections	The purpose of the inspections is to ensure that the property: • is built according to the building codes adopted by the local authority, and • has been satisfactorily completed as evidenced by a final construction inspection or certificate of occupancy.
d. Missed Inspections	In the event that the local authority provides construction inspections, but none were conducted, the property is ineligible to be the security for a VA-guaranteed loan.

15. Warranty Requirements for New Construction

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. New Construction Warranties

On a new construction property, the Veteran must be provided with:

- a 1-year warranty on VA Form 26-1859, *Warranty of Completion of Construction*, or
- a 10-year, insurance backed warranty.

b. Evidence of Construction Completion

Evidence that the new construction property was satisfactorily completed will be documented as follows:

- If the local authority performs foundation, framing and final inspections, VA will accept the certificate of occupancy as evidence of local authority inspections and satisfactory completion of construction in compliance with local building code requirements. If the local authority does not issue a certificate of occupancy, copies of the three satisfactory inspection reports or a written statement from the local authority confirming the three inspections were completed and that the construction was found to be satisfactory will be acceptable.

- If the local authority does not provide construction inspections, the lender must certify that the property is complete (both on-site and off-site improvements), and that it meets VA MPRs for existing construction (see Chapter 12 of this Handbook).

16. Warranty Requirements for Proposed Construction

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Construction Warranty	On a proposed construction property, the Veteran must be provided with a construction warranty.
b. Warranty Requirements	Warranty requirements will be determined by whether or not the local building authority performs construction inspections: • If the local authority performs foundation, framing and final inspections, VA will accept the certificate of occupancy as evidence of local authority inspections and satisfactory completion of construction in compliance with local building code requirements. If the local authority does not issue a certificate of occupancy, copies of the three satisfactory inspection reports or a written statement from the local authority confirming the three inspections were completed and that the construction was found to be satisfactory will be acceptable. The builder must provide the Veteran with a 1-year warranty on VA Form 26-1859, *Warranty of Completion of Construction*. VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-year VA builder's warranty period. • If the local authority does not provide construction inspections, the builder must provide both a 1-year builder's warranty on VA Form 26-1859, *Warranty of Completion of Construction* and a 10-year insurance backed warranty. The lender must certify that the property is complete (both on-site and off-site improvements), and that it meets VA MPRs for existing construction (see Chapter 12 of this Handbook). VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-year VA builder's warranty period.

17. Post Construction Inspection by an Appraiser

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Inspection by an Appraiser Following Construction	On proposed construction cases, in addition to any local building authority inspections, the lender must have the VA-assigned fee appraiser visit the property and certify that construction substantially complies with the certified construction exhibits upon which the appraisal was based and that the improvements comply with any conditions of the sales contract (for example, landscaping, decking, or fencing).
b. Inspection Report Form	The report may be prepared on: • Fannie Mae Form 1004D – Freddie Mac Form 442, Part B (Part A is not acceptable for VA use), or • the appraiser's letterhead.
c. Inspection Report Contents	The report must contain: • the appraiser's certification that the completed construction substantially complies with the construction exhibits used in the appraisal, • front and rear exterior photos, and • an invoice for the inspection report.
d. Incomplete Construction or Deviations	If the appraiser finds that construction is not complete or that there have been deviations from the plans, the appraiser should provide details in the report and include an invoice as the appraiser may charge a fee for each inspection.
e. Uploading the Report	The appraiser must upload the report into WebLGY.
f. Contact RLC for Another Appraiser if Needed	When a post-construction inspection is needed and the VA-assigned appraiser is not available, the lender should notify the RLC of jurisdiction to have another appraiser assigned.

18. Veteran Building His/Her Own Home

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Veteran Building a Home	If a Veteran, acting as a general contractor, is building a home for his/her own occupancy, the appraisal must be ordered as "existing" construction.
b. No ID Number or Warranty	A VA builder ID number and a construction warranty are not required.
c. Veteran's Statement	The lender must obtain the Veteran's signed acknowledgement that no construction warranty is provided and that VA will not assist with any construction defects.

19. Special Exception for a Veteran Purchasing a New Construction Property Without a Warranty

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Special Exception for a Property Without a Warranty

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 1-year VA builder's warranty or a 10-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 1-year VA builder's warranty or a 10-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, and 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.

- The lender obtains a copy of documentation issued by the local building authority to verify that construction was acceptably completed, such as a final inspection or certificate of occupancy. Where local authorities do not perform building inspections, the Veteran and builder must certify in writing that "The dwelling was not inspected during construction by any state, county, or local jurisdiction."

b. Builder ID Number

The builder must have a VA-issued builder ID number as the exception only applies to the warranty requirement.

20. New Construction Sold by the Lender

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Appraisal Request

If a lender acquires title to a newly constructed home due to a builder's bankruptcy or cessation of business, the lender must order the appraisal as follows:

- As "existing", not "new", construction, and
- As "IND", not "LAPP", as properties sold by the lender are not eligible for processing under LAPP.

b. Documentation Required

The lender must:

- provide evidence of property ownership,
- complete any repairs needed for the property to meet VA's MPRs,
- obtain a certificate of occupancy from the local authority, and
- obtain the Veteran's signed acknowledgement that "This property is being purchased as existing construction from a lender who acquired this new construction property from the builder. There is no warranty and VA will not provide assistance with any construction defects."

21. Completed Appraisal Uploaded to WebLGY

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. WebLGY	Fee appraisers are required to upload completed appraisal reports into WebLGY.
b. Access to an Appraisal	VA staff, lenders, agents, servicers, and other authorized requesters with VA-issued ID numbers that are associated with the loan number will have access to retrieve the appraisal from WebLGY for review, issuance of the NOV, or other functions.
c. Required Electronic Format	The appraiser must contact the RLC for assistance if an appraisal form is not available in MISMO XML format.
d. Systems Not in Operation	In the event that an appraiser completes an appraisal on a LAPP or Servicer Appraisal Processing Program (SAPP) case and WebLGY is not available, the appraiser may email the appraisal to the requester and upload the appraisal as soon as WebLGY is available. The appraiser must place a note in WebLGY documenting that this procedure was followed.

22. Reconsideration of Value

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Written Request	After the NOV has been issued, the Veteran may request reconsideration of value in writing by contacting the RLC of jurisdiction. If the request is submitted to the RLC through the lender, the SAR is encouraged to research market data and provide a recommendation to the RLC with the Veteran's request.
b. Market Data	Providing market data in support of the request, as described in Chapter 10, Topic 8, of this Handbook, is encouraged, but not required. A market data grid is not required.
c. Review by VA staff	Within 5 business days, VA staff will review the appraisal report, additional submitted data, as well as the market data available through VA's AMS. In some cases, VA staff may conduct a field review which will be completed within 20 business days. If VA staff determines that an increase in value is appropriate, VA will issue an amended NOV.

23. Repair Inspections

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Repair Inspections	When required on the NOV, repair inspections are completed by appraisers assigned by VA for: • repairs/alterations/improvements on existing properties, • customer preference items on new construction properties, and • post-construction inspections on properties appraised as proposed construction to confirm that construction was completed in accordance with the certified construction exhibits upon which the appraised value was based (see Chapter 10, Topic 17 of this Handbook).
b. Lender Certification Encouraged	When issuing NOVs for existing or new construction properties, SARs are encouraged to condition the NOV for a lender certification of repairs, especially repairs performed by licensed personnel, instead of an appraiser certification. Repair certifications which may involve lead-based paint must be completed by the fee appraiser.
c. Notification to an Appraiser	When repairs have been completed and are ready for inspection, lenders must notify the appraiser and provide a copy of the NOV as the requirements on the NOV may differ from the recommendations listed on the appraisal (see Chapter 13, Topic 3 of this Handbook).
d. Contact RLC for Another Appraiser if Needed	When a repair inspection is needed and the VA-assigned appraiser is not available, the lender should notify the RLC of jurisdiction to have another appraiser assigned.

Continued on next page

23. Repair Inspections, continued

e. Inspection Report Form

Appraisers may place the repair inspection report on:

- Fannie Mae Form 1004D – Freddie Mac Form 442, Part B (Part A is not acceptable for VA use), or
- the appraiser's letterhead.

f. Inspection Report Requirements

The repair inspection report must:

- list the items on the NOV,
- certify that quality materials were used,
- certify that the items were completed in a satisfactory manner,
- identify any non-compliant items,
- include photos of all items,
- be signed by the appraiser, and
- uploaded into WebLGY.

24. Appraisal and Repair Inspection Fees

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Based on Fees for Similar Services	The maximum appraisal and repair inspection fees allowed by VA are based on customary fees for similar services in that vicinity. Regardless of the amount of the maximum fee, appraisers must not charge Veterans more than they charge other clients for similar services. VA will entertain additional fees in unusual circumstances.
b. Fees Listed Online	Appraisal and repair inspection fees can be found at: http://www.benefits.va.gov/HOMELOANS/appraiser_fee_schedule.asp.
c. Mileage	Mileage may be charged in accordance with the RLC's fee schedule. The fee per mile is based upon the GSA mileage rate which can be found at: http://www.gsa.gov.
d. Certification that the Fee will be Paid	When an appraisal is ordered, the requester must certify in WebLGY that the appraisal fee has been collected and is being held to be paid to the appraiser before the appraisal request will be assigned to an appraiser.
e. Fee Must be Paid by the Requester	Appraisers are not authorized to collect appraisal fees directly from Veterans. Fees must be paid by the requester who placed the appraisal request.
f. No "Rush" Fees	VA expects the highest level of service will be consistently provided to Veterans and their mortgage lenders. No fees for "rush" or "priority" service are acceptable.

Continued on next page

24. Appraisal and Repair Inspection Fees, continued

g. Appraisal Fee Included on a Claim	On liquidation appraisals, the servicer may request reimbursement of the appraisal fee that was paid to the appraiser when filing the claim under guaranty. In the event that the borrower requests to pay the full arrears after the appraisal is performed, the servicer must include the cost of the appraisal in the calculation of the total amount due.
h. Complex Properties	VA fee and timeliness schedules cover fees for typical appraisals. Appraisal assignments that are complex in nature may require additional resources and time. If an assignment is determined to be complex in nature, appraisers may negotiate additional fees with the lender, subject to VA approval. Fee should not exceed what is reasonable and customary for a similar complex property type in the market area.

25. Appraisal Fee Collection Issues

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Certification Fee to be Paid	When an appraisal is ordered, the requester must certify in WebLGY that the appraisal fee has been collected and is being held to be paid to the appraiser.
b. Timely Payment of the Fee	VA expects requesters to pay the appraiser within 30 to 45 days after the NOV is issued or it is determined by VA that an NOV will not be issued.
c. RLC Assistance Collecting Overdue Fees	Appraisers may notify the RLC of jurisdiction about ongoing, documented issues collecting fees. The RLC may contact the requester to resolve the issue. In the event that the requester fails to pay the appraisal fee, the RLC may require advance payment from the requester on future appraisals.
d. VA Authorization of Advance Fees	Appraisers may not require advance payment from requesters or charge late fees unless approved in writing by VA.

26. Request from the Veteran to Change Lenders

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Lender Responsibilities	Lenders are expected to cooperate when a Veteran decides to change lenders. The lender who ordered the appraisal must transfer the case to the new lender when requested by the Veteran in writing (including email). An appraisal report and case number may be transferred to another LAPP lender in WebLGY by a SAR of the original lender. The new lender should provide to the Veteran, their email address, phone number, and VA Lender ID number to be included in the Veteran's letter to the original lender.
b. New Lender Must Issue the NOV	An NOV issued by a SAR is not transferable to another lender. The new lender's SAR must review the appraisal and issue a new NOV to the Veteran.
c. Lender Not Approved for LAPP	If the new lender does not participate in LAPP, the Veteran's request to change lenders must be submitted to the RLC of jurisdiction. The RLC will issue the NOV.

27. Natural Disaster during the Appraisal Process

Change Date	March 11, 2019 • This chapter has been revised in its entirety.
a. Declarations Listed Online	Lenders are required to check the FEMA website at www.fema.gov/disasters for the specific lists of counties and disaster declaration dates. Disaster information is also provided on the VA Home Loan website at https://www.benefits.va.gov/HOMELOANS/, as applicable.
b. Appraisal Not Completed Before the Disaster	If the appraisal had been ordered, but the appraiser had not yet visited the property before the date of the disaster, the appraiser will complete the appraisal as usual, subject to any MPR repairs. No additional documentation is needed.
c. Appraisal Completed - Loan Not Closed Before Disaster	If the property was appraised on or before the date of the declared disaster and not closed prior to that date, the following items must be submitted with the VA guaranty request: 1. Lender's signed and dated certification that "*This is to affirm that the property which is security for VA loan number _____ has been inspected to ensure that it was either not damaged in the recently declared disaster or has been restored to its pre-disaster condition or better."* 2. Veteran's signed and dated certification that "*I have inspected the property located at _____ and find its condition now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses and now wish to close the loan."*
d. Decrease in Value After Disaster	If there is an indication that the property value may have declined due to the disaster, despite the completion of repairs, the lender must have the VA-assigned appraiser perform a new appraisal. The payment of the appraiser's fee for this service will be a contractual matter between the buyer and seller.

28. Title Limitations

Change Date

March 11, 2019

- This chapter has been revised in its entirety.

a. Lender Responsibilities

If the lender determines that a title limitation or condition discovered prior to loan closing may affect eligibility, the lender must contact the appraiser to determine if the property is still eligible to become the security for a VA-guaranteed loan. If the condition was discovered after the effective date of the appraisal, the appraiser may consider this a new assignment and an additional fee may be charged to the Veteran.

b. VA Processing Procedures

If VA becomes aware of limitations or conditions which were not considered in the appraisal report or covered by 38 CFR 36.4354, the RLC of jurisdiction will:

- contact the fee appraiser if additional information is needed to determine the effect of the limitation or condition on the value estimate,
- consider the impact of the condition or limitation on the reasonable value of the property,
- describe the condition or limitation in WebLGY notes, and
- issue an amended NOV, if appropriate.

Appendix 1. Steps for Requesting an Appraisal

Step	Action
1	Obtain a user ID and password for the Veterans Information Portal (VIP) (see Chapter 10, Topic 2 of this Handbook)
2	Ensure that the property is eligible for an appraisal. Contact the RLC with any questions about property eligibility or if the property is not eligible, but is already the security for a VA loan
3	Request for Certificate of Eligibility (COE)
4	Log on to VIP and select WebLGY > Request Appraisal > Select Appraisal Type
5	Input all requested information to generate VA Form 26-1805-1, *VA Request for Determination of Reasonable Value*
6	To avoid a delay for the Veteran, provide a complete legal description and ensure that the Point of Contact's (POC) information is correct and that the POC can provide access to the property for the appraiser without any additional calls
7	WebLGY will: - assign a case number (in liquidation cases, this will be the existing VA loan number for the property that must be provided by the requester) - assign an appraiser (since VA is required by law to select the fee appraiser on a rotational basis from a panel maintained by VA) -generate a completed VA Form 26-1805-1, *VA Request for Determination of Reasonable Value* -e-mail the assignment to the VA-assigned fee appraiser

Continued on next page

Appendix 1. Steps for Requesting an Appraisal, continued

Step	Action
8	If the Veteran is purchasing a home, the same day the assignment is made, the requester must upload a copy of the sales contract and any construction exhibits into WebLGY. VA highly recommends the use of reduced-size construction drawings to save copying, mailing, and storage costs for all parties involved. Building plans, elevations and details, traditionally drawn at ¼ inch scale and larger, can be photographically reduced or computer-drawn to be clearly readable on 8½ by 14-inch pages. Other exhibits normally provided in an 8½ by 11-inch format (such as specifications, certifications, etc.) must not be further reduced. VA does not accept 11 by 17-inch pages as this size is not compatible with scanning equipment generally available to program participants.
9	For all appraisal types, if the legal description is lengthy and does not fit in the legal description block on the appraisal request, a copy of the complete legal description must be uploaded into WebLGY the same day the assignment is made.
10	In most cases, the appraisal will be assigned instantly. If an appraiser is not assigned by WebLGY, please notify the RLC of jurisdiction. Requesters must not re-enter the information as a duplicate appraisal request will be generated.

RLC Contact Information http://www.benefits.va.gov/HOMELOANS/contact_cv.asp or http://www.benefits.va.gov/HOMELOANS/contact_rlc_info.asp

Chapter 11 Appraisal Report

Overview

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1. Appraisal Reports

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. USPAP and VA Requirements	The appraiser assigned by VA must prepare the appraisal report in accordance with Uniform Standards of Professional Appraisal Practice (USPAP), the specific VA requirements outlined in this handbook, and in circulars periodically issued when program changes arise.
b. Appraisers Trained by VA	Appraisers who have been appointed to VA's fee appraiser panel have been trained on VA appraisal requirements. Lenders may rely on VA fee panel appraisers to have performed the appraisal in accordance with VA guidelines without the need for additional statements or certifications.
c. SAR Responsibilities	Lenders' Staff Appraisal Reviewers (SARs) who are reviewing appraisal reports must be familiar with residential appraisal principles and VA's specific requirements for appraisal reports.

2. Market Value

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Market Value Definition	The appraiser must estimate the market value, as "the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus." 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.
b. Protecting the Interests of Veterans, Lenders, Servicers and VA	The quality of the appraisal is critical in protecting the interests of Veterans, lenders, servicers, and VA. This fact requires VA to be integrally involved in its management and oversight of the appraisal process, from the initial assignment of the appraiser through the issuance of the Notice of Value (NOV), as well as oversight performed on closed loans.
c. Oversight	Any appraisal report is unacceptable if the analysis is not based upon recognized appraisal practices and was intended to "accommodate" or "meet" the sales price.

3. Appraisal Report Contents

Change Date February 22, 2019

- This Chapter has been revised in its entirety.

c. Appraisal Report Contents

1. Invoice	For consistency, the first page of PDF file uploaded into WebLGY
2. Appraisal Form	• Lender's name and "Department of Veterans Affairs" must be provided in the Lender/Client field on the appraisal report form • The VA assigned fee appraiser's signature must be provided in the signature block with the fee appraiser's VA ID in the "other" block, just below state certification and license information <u>Appraisal forms accepted by VA</u> • Fannie Mae Form 1004, *Uniform Residential Appraisal Report* • Fannie Mae Form 2055, *Exterior-Only Inspection Residential Appraisal Report*, for liquidation appraisals only if interior access was not provided • Fannie Mae Form 1004C, *Manufactured Home Appraisal Report,* • Fannie Mae Form 1073, *Individual Condominium Unit Appraisal Report* • Fannie Mae Form 1075, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*, for liquidation appraisals only if interior access was not provided • Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report*, • Commercially available vacant land form, for liquidation appraisals if the improvements have no contributory value (see Topic 22 of this Chapter.)
3. Street Map	• Showing location of subject and each comparable sale • Additional maps if sales are a substantial distance away from the subject.

Continued on next page

3. Appraisal Report Contents, continued

c. Appraisal Report Contents, continued

4. Building Sketch	• Gross living area calculations • Exterior dimensions of dwelling, basement, and any other improvements contributing value • Basement may be shown in relation to the floor plan of the house instead of separately • Floor plan layout (interior room dimensions and partitioning are not required) • If interior access is not provided on a liquidation appraisal, a sketch is not required
5. Photographs	• Clear and labeled • Front and rear taken at opposite angles to show all sides of the dwelling if possible • Improvements with contributory value • Minimum Property Requirement (MPR) repair items • Street scene • Any views affecting value • Kitchen • Main living area • Bathrooms • Any recent updates, remodeling or renovation • Front view of each comparable sale (real estate marketing photographs are acceptable with an explanation, for example, to exhibit condition at the time of sale, or if a comparable sale is in a gated community that was not accessible to the appraiser) • For condominiums, if the subject and sales are in the same building or identical buildings, the appraiser may comment instead of providing photographs of the sales • Interior photographs are not required on liquidation appraisals when access to the interior of the property is not available
6. Repair list	• Itemized list of any observed MPR repairs (see Chapter 12 of this handbook) or customer preference items to be installed on new construction appraisals • May be included directly on the appraisal form
7. Uniform Appraisal Dataset (UAD)	• UAD Property Condition and Quality Rating Definitions • UAD Property Description Abbreviations (see Topic 13 of this chapter)

Continued on next page

3. Appraisal Report Contents, continued

c. Appraisal Report Contents, continued

8. Appraiser's certifications	• Required by state law • Related to continuing education or membership in professional appraisal organizations • Additional certifications may be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions, any preprinted language on the appraisal form, or VA appraisal requirements
9. Liquidation appraisal addendum	• Required on liquidation appraisals only (see Topic 20 of this chapter)

4. Gross Living Area

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Definition	Gross living area (GLA) refers to the square footage of the area that is finished, habitable, contiguous, above-grade, residential space calculated by measuring the outside walls of the structure.
b. Non-Contiguous Areas	The functional utility and contributory value of any non-contiguous areas should be considered by the appraiser and listed separately from the GLA on the market data grid.
c. Basements	Basements, whether or not finished, must not be included in the GLA.
d. Attics	Finished attics may be included in the GLA.
e. Below-Grade Areas	If any part of a finished level is below grade, the appraiser must determine whether it should be considered GLA or valued separately. If the appraiser determines that a partially below-grade habitable space is similar to the GLA in design, quality of construction, and appeal, has full utility and is accepted in the market, the appraiser may include the area in the GLA. If the partially below-grade space is inferior to the rest of the property and not accepted in the market, the appraiser may determine that the area is not part of the GLA. In cases such as these, the contributory value of partially below-grade space should be considered separately on the market data grid.

5. Room Additions and Car Storage Conversions

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. GLA Considerations

Room additions and enclosures of garages and carports into the living area should be included in the GLA if the added space is:

- accessible from the interior of the main dwelling in a functional manner,
- has a permanent and sufficient heat source, and
- is similar in design, quality of construction and appeal to the main dwelling.

b. Non-GLA Areas Valued Separately

Added space that does not meet the criteria listed above must be valued separately from the GLA on the market data grid. The appraiser must consider the effect on marketability of an inferior addition or conversion when arriving at the line item adjustment for the added space. When selecting and analyzing comparable sales, the appraiser should consider the differences in quality and utility of room additions and converted spaces when compared with originally constructed space.

6. Accessory Dwelling Unit

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Single Real Estate Entity	An Accessory Dwelling Unit (ADU) is a living unit including kitchen, sleeping, and bathroom facilities added to or created within a single-family dwelling, or detached on the same site. A manufactured home on the site could be an ADU. The dwelling and the ADU together constitute a single real estate entity.
b. Highest and Best Use	As part of the highest and best use analysis, the appraiser must determine if the property is a single-family dwelling with an ADU, or a two-family dwelling. The highest and best use must be a legal use (see Topic 10). A two-family dwelling must be appraised on the Fannie Mae Form 1025, *Small Residential Income Property Appraisal Report*.
c. ADU Valued Separately	An ADU is usually subordinate in size, location, and appearance to the primary dwelling unit and may or may not have separately metered utilities and separate means of ingress and egress. The appraiser must not include the living area of the ADU in the calculation of the GLA of the primary dwelling. The ADU must be valued separately as a line item on the market data grid.
d. Notify the Lender if More than One Unit	The appraiser must notify the lender if a property has more than one ADU.
e. Detached Buildings	A manufactured home, shed, or other detached building on the property which does not have kitchen, sleeping, and bathroom facilities or cannot be legally used as a dwelling, may be valued as storage space if it does not present any health or safety issues.

7. Nuisances

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. **Effect on Value**	While nuisances do not make a property ineligible or require repair, the appraiser must describe any nuisances and consider any effect on value.
b. Sales with Same Influence	If available, comparable sales influenced by the same nuisance, should be used by the appraiser.
c. Examples	Examples of nuisances include heavy traffic, noise from a nearby highway, or odors from a factory in the vicinity.

8. Remaining Economic Life

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Factors in Estimating Remaining Economic Life

Remaining economic life is the estimated period of time until the improvements are expected to no longer serve their intended purpose as a home. In estimating the remaining economic life, the appraiser must consider:

- 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 functional utility of the property,
- the condition and durability of the property,
- maintenance levels of other properties in the area, and
- in areas where municipalities have established code enforcement areas, their expected results in improving the neighborhood for residential use.

b. Comment if Under 30 Years

The appraiser must estimate the remaining economic life as a single number and include specific comments if the estimated remaining economic life is less than 30 years.

c. Reporting

The estimated remaining economic life must be provided in the cost approach section of the appraisal report. For condominium units, the estimated remaining economic life must be provided in the "Reconciliation" section of the appraisal report.

9. Effective Age

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Estimating Effective Age	While the actual age is the number of years since the home was constructed, the effective age reflects the condition and functional utility of the property. For example, remodeling will likely decrease the effective age of a home while a lack of maintenance can increase the effective age, possibly to a number greater than the actual age.
b. Comment if Significant Change From Actual Age	The appraiser must state the effective age as a single number and include comments if the effective age differs significantly from the actual age.
c. Completed Repairs Considered	Since recommended repairs are included in value on origination appraisals, the effective age should reflect the condition of the property as repaired.

10. Highest and Best Use

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Definition	The highest and best use of a property is the most probable use which is physically possible, appropriately supported, legally permissible, financially feasible, and results in the highest value.
b. Appraisal to Meet VA Guidelines	While the appraiser must determine the highest and best use, the appraiser must also complete the appraisal in accordance with VA guidelines. For example, since VA-guaranteed loans are made for residential purposes, no value may be given to commercial uses, crops, livestock, land for future development, or any other non-residential use.

11. Farm Residences

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Farm Residence is an Eligible Property	Although VA does not make farm or other business loans, Veterans may use their VA home loan benefit to purchase a property on which there is a farm residence.
b. No Limit on Number of Acres	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 similar properties in the area were recently sold primarily for residential use.
c. Residential Purposes Considered in Valuation	Improvements not typically considered residential, for example, barns, corrals, or stables, must be valued by the appraiser as they contribute to the market value of the property for residential purposes only. The appraiser must not include in value any livestock, crops, or farm equipment.

12. Condominiums

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Condominium Development Accepted by VA	All condominium units, including site condominiums and manufactured home condominiums, must be located in a condominium development that has been accepted by VA prior to loan guaranty. SARs receiving an appraisal for a condominium unit in a development that has not been at least conditionally accepted by VA may not issue the NOV.
b. Avoid Unnecessary Appraisal Fee	Ensuring that the condominium is accepted by VA before ordering the appraisal is recommended to avoid an unnecessary appraisal fee in the event that the condominium is not accepted by VA.
c. Ineligible Property Types	Condo-hotel properties where units are placed in a rental pool and "air" condominiums that do not have a homeowners association are not eligible for appraisal as these condominiums do not meet VA guidelines. If a question arises as to whether or not a condominium would be accepted by VA, VA acceptance should be requested (see subsection g of this Topic).
d. HUD/FHA Review Process	VA no longer accepts HUD/FHA condominium approvals as the condominium approval requirements differ from VA's requirements.
e. Spot Approvals	VA does not perform "spot" approvals of individual condominium units within a condominium development.
f. Condominium List Available Online	A list of VA-accepted condominium developments, with any conditions needed for approval, and condominium ID numbers, may be found at https://vip.vba.va.gov/portal/VBAH/Home under "Featured Items" in "Condo Reports".

Continued on next page

12. Condominiums, continued

g. Documents Needed for Review

Lenders seeking VA acceptance of a condominium which has not already been reviewed by VA must establish a record for the condominium in WebLGY and upload the following documents in PDF format in this stacking order:

- Declaration
- Bylaws
- Amendments
- Plat Map
- Rules and Regulations
- Meeting Minutes
- Budget
- Special Assessment Letter
- Litigation Letter
- Presale Letter
- Any additional documents

h. Legal Review Results

When the required documents are uploaded, the RLC will request a review by VA's legal counsel. The RLC will notify the requester of the results of the review and update the status of the condominium in WebLGY.

Continued on next page

12. Condominiums, continued

i. Appraisal Requirements

In most cases, the appraiser will prepare the appraisal on Fannie Mae Form 1073, *Individual Condominium Unit Appraisal Report*. Appraisals of manufactured home condominium units must be prepared on Fannie Mae Form 1004C, *Manufactured Home Appraisal Report*, with the details about the condominium development usually provided in the Project Information Section of the condominium appraisal form included within the appraisal report. Liquidation appraisals of condominium units must be prepared on Fannie Mae Form 1075, *Exterior-Only Inspection Individual Condominium Unit Appraisal Report*, if interior access was not provided. In the Condominium Appraisal Report, the appraiser will:

- indicate which utilities are included in the monthly homeowners association fee,
- 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 similar condominium developments,
- recommend a fair assessment if the current assessment is considered inadequate, and
- report any known pending litigation involving the subject condominium development or its homeowners association.

j. Pre-sale Requirement

For new condominium developments, a pre-sale requirement of 70 percent must be included on the NOV and satisfied prior to VA loan guaranty.

k. Wood-destroying Insect Reports

A wood-destroying insect inspection is not required on units in low-rise or high-rise condominiums (units are stacked vertically), unless the appraiser notes a potential infestation problem. For site condominiums and villa/townhome style condominiums where units are side by side, located in a "very heavy" or "moderate to heavy" zone, a wood-destroying insect inspection must be required on the NOV unless evidence of a treatment guarantee has been provided by the homeowners association.

13. Uniform Appraisal Dataset (UAD)

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Definition

The UAD improves the quality and consistency of appraisal data by defining all fields required on specific appraisal forms and standardizes definitions and responses for a key subset of fields. Regardless of the geographic location of the property or any localized reporting conventions, the UAD standardization includes:

- Formats for fields that include dates, values, and other data,
- Allowable values from a list of choices provided for certain fields,
- Abbreviations to allow more information to fit on printed appraisal forms, and
- Ratings and definitions for the "Condition" and "Quality" of the property and "Updated/Remodeled" status.

b. UAD-Compliant Forms

Appraisals prepared on Fannie Mae Forms 1004, 1073, 1075 or 2055 must be UAD-compliant and must include the definitions for the property condition and quality ratings and the property description abbreviations used.

c. VA Requires Closed Sales

While the UAD may allow for the use of pending sales in the sales comparison grid, VA requires that only closed sales be used.

d. Remodeling Information

UAD requires appraisers to provide specific information regarding remodeling in the past 15 years. VA expects fee appraisers to recognize and describe remodeling or updating and to make appropriate adjustments. Fee appraisers should also report UAD information concerning the remodeling if it is available in the "normal course of business" within VA timeliness requirements for completion of the appraisal.

e. UAD Condition Ratings

Since origination appraisals are prepared "subject to" any repairs needed for the property to meet MPRs, UAD condition ratings of C5 and C6 are not appropriate.

14. Sales Comparison Approach

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Comparable Sale Selection

The appraiser must include, at a minimum, three closed sales which the appraiser believes are the best available sales and provide comments to support the selection, when appropriate. Comparable sales should be selected based on similar locational and physical characteristics, not sales price. Recent sales in the same established subdivision, condominium or PUD are typically the best indicators of value. The sales should be similar to the subject property to the extent that the sales would be competing properties if they were on the market at the same time as the subject property.

b. Comments Explaining Adjustments

The appraiser should provide comments when adjustments are made for points of comparison that are not self-explanatory or when large adjustments are made. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

c. Limited Sales Data

If the sales data from the market area is limited, the appraiser must provide the best information available and comments with the appraiser's professional opinion about the market, any reasons for the lack of sales data, and the various differences between the subject and the comparable sales.

d. Distance of Comparable Sales

VA does not set minimum or maximum distance requirements between the subject and comparable sale properties. In suburban or rural communities, the market areas may be greatly expanded and suitable comparable sales may be many miles away from the subject. In such cases, the appraiser should specify why those comparable sales were used and how they compare with the subject.

e. Sales of REO Properties

The appraiser may use sales of Real Estate Owned (REO) properties or short sales if transactions of this nature are prevalent in the market. A transaction involving a foreclosure transfer to a mortgage servicer is not evidence of market value and must not be considered as a comparable sale.

Continued on next page

14. Sales Comparison Approach, continued

f. Sales From Competing Developments	If the property is in a new subdivision or condominium, the appraiser should include, if available for comparison, properties constructed by a competing builder in the subject market area as well as properties within the subject subdivision or condominium.
g. Market-derived Adjustments	All adjustments on the market data grid should be market-derived, based on the amount the appraiser estimates a typical buyer would pay for the item in the market. Adjustments reflect contributory value in the market, which does not necessarily equal the cost of an item.
h. Sales Concessions	Sales concessions typically include financing incentives or non-realty items. As all adjustments must be market-derived, the adjustment should reflect the difference between the sales price with the sales concessions, and what the property would have sold for without the concessions under typical market conditions. The sales concessions on the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. Any concession adjustments must be downward adjustments as positive adjustments for sales concessions are not acceptable.
i. Recent Sales	Comparable sales should reflect the most recent activity in the market. Comparable sales are preferably sales that have taken place within the last 6 months, and generally sales that are not more than 12-months old, unless explained by the appraiser.

Continued on next page

14. Sales Comparison Approach, continued

j. Time Adjustments

Market condition (time) adjustments are made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal. The appraiser must provide comments about current market trends to support any time adjustments.

In an increasing market, positive market condition adjustments should be made if there is evidence, based on a thorough analysis of specific market trends, of increasing prices, a shortage of homes for sale, or decreasing marketing times.

In a declining market, negative market condition adjustments should be made if there is evidence of a decline in prices, an oversupply, or extended marketing times.

k. Condition Adjustments

Since VA appraisals must be prepared "subject to" the completion of any repairs needed in order for the property to meet VA's MPRs (see Chapter 12 of this handbook), the condition for the subject property compared with the comparable sales on the market data grid should reflect the condition with the repair items completed.

15. Cost Approach

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Not Required by VA

The cost approach is not required for VA purposes, but may be completed to supplement the indicated value in the sales comparison approach.

b. Site Value

If the cost approach is provided, the appraiser must estimate the site value through sales comparison, allocation, or extraction. If the cost approach is not completed, a site value must not be provided.

16. Income Approach

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Residential Income Properties	If appraising a residential income property with two to four units, the appraiser must prepare the appraisal on the Freddie Mac Form 72/ Fannie Mae Form 1025, Small Residential Income Property Appraisal Report, which includes an income approach
b. Other Property Types	VA does not require an income approach on any other property types.

17. Final Reconciliation

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Approaches to Value Considered

In the final reconciliation on the appraisal report the appraiser will evaluate and summarize the approaches to value which were included in the appraisal report.

b. Market Approach

On appraisals prepared for VA, the market approach will likely reflect the appraiser's final estimate of value since VA does not require a cost approach and an income approach is only required on two to four unit properties.

18. Appraisal Conditions

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. As-is	The appraisal will be prepared "as-is" if: • the appraiser finds that the property meets MPRs on origination appraisals, or • the assignment is a liquidation appraisal (see Topic 20 of this Chapter).
b. Subject to Repairs	The appraisal will be prepared "subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed" if: • on an origination appraisal, the appraiser recommends that repairs be completed for the property to meet MPRs, • customer preference items must be completed on a new construction property, or • alterations are being made to the property.
c. Subject to Completion	Proposed construction properties will be appraised "subject to completion per plans and specifications."
d. Recommend Repairs, Not Inspections	When an appraiser observes an item that does not meet VA MPRs, the appraiser must recommend a repair, not an inspection.

19. Appraiser Training a New Appraiser

Change Date	February 22, 2019 • This Chapter has been revised in its entirety.
a. Training for New Appraisers	VA understands the importance of appraisers providing training to new appraisers and is supportive of appraisers who are dedicating their time to training others who are pursuing a career as an appraiser.
b. Visiting Properties	Trainees may accompany the VA-assigned appraiser when visiting the property.
c. Assistance From Trainee	A trainee or another appraiser may assist in any part of the appraisal yet the analysis establishing value must be performed by the VA-assigned fee appraiser. The appraiser must select the comparable sales, perform all critical analyses contained in the appraisal report, and prepare the Market Conditions Addendum.
d. Reporting Trainee's Name and Work Performed	If a trainee or another appraiser provided assistance or participated in the preparation of the appraisal, the appraiser must provide the name of the trainee or appraiser in the report and describe their role in developing the appraisal. Only the VA-assigned fee appraiser may sign the appraisal report.

20. Liquidation Appraisals

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Requested by the Servicer

When a VA-guaranteed loan is in default, a liquidation appraisal should be requested by the servicer no later than 30 days prior to the estimated or scheduled sale date.

b. Timeliness Standard

The timeliness requirement for liquidation appraisals is 5 business days (see Chapter 10, Section 7 of this handbook).

c. Servicer to Assist Appraiser in Obtaining Access to the Property

Servicers are required to assist the appraiser in obtaining access to the interior of the property and should provide:

- for occupied properties, the name and telephone number of the current or last known occupant, or
- for vacant properties, the location of the keys to the property or contact information for a person who can promptly provide the appraiser with access to the interior of the property.

d. Occupied Property Access Attempts

If the property is occupied, the appraiser must gain access to the interior, unless:

- the owner or occupant has permanently refused the appraiser's request for access,
- the appraiser considers access to present a legitimate hazard,
- at least one attempt to visit the property and two or more calls, on different days and times to increase the likelihood of reaching the occupant, have not resulted in access, or
- the appraiser has made three appointments, all of which have been broken.

Continued on next page

20. Liquidation Appraisals, continued

e. Vacant Property Access Attempts

If the property is vacant, the appraiser must gain access to the interior, unless:

- 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 has waived access after considering other valid extenuating circumstances (such as, the owner's personal effects remain in a vacant property causing legitimate concern about exposure to litigation), or
- the RLC has approved a request to waive the servicer's responsibility to assist the appraiser in obtaining access.

f. Requirements if No Access Gained

If interior access is not gained, the appraiser must:

- make reasonable efforts to verify the interior condition by the best available means, for example, information from listings of the property on the market, or property assessment records, and
- make reasonable assumptions about the interior condition as well as any potential MPR and cosmetic repairs.

g. No Borrower to be Named on the Appraisal

Since there is no borrower on a liquidation appraisal, the appraiser must insert "n/a" in the "Borrower" field.

Continued on next page

20. Liquidation Appraisals, continued

h. As-is value

The fee appraiser's value estimate for all liquidation appraisals will be for the subject property in its "as is" condition. VA liquidation appraisals are prepared under the same definition of market value as origination appraisals, not a discounted or forced sale value. Consequently, a property which needs no repairs should appraise for the same value on a liquidation appraisal and an origination appraisal.

i. Liquidation Addendum

An addendum to the liquidation appraisal must be provided with the following information:

- whether the property is occupied or vacant,
- whether or not access to the interior was gained,
- if access was not gained, details of attempts to gain access must be provided in accordance with item d or e above,
- if the property is vacant, whether or not the property was secure,
- any repairs urgently needed, such as securing the dwelling or securing a swimming pool,
- information about three current listings or pending sales, including the length of time on the market, the current listing price, any known price changes, and a short statement describing how each property compares to the subject property, and
- an itemized list of any MPR repair items and any cosmetic items that affect the marketability of the property, with the estimated cost and the estimated contributory value of each item. The total contributory value of all repairs listed should be considered by the appraiser when making condition adjustments on the market data grid since liquidation appraisals are completed "as is".

21. Partial Release Appraisals

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Partial Release Appraisal Request

When an appraisal is needed in order to review a request for a partial release of security, VA will assign the appraiser. The servicer of the VA loan must e-mail a request for an appraisal for a partial release of security to the RLC of jurisdiction. Neither VA Form 26-1805, *Request for Determination of Reasonable Value,* nor WebLGY will be used to request a partial release appraisal. The request must include the following information:

- Name and address of the servicer,
- E-mail address of the servicer,
- VA case number (remains the same from origination of loan),
- Property address,
- Name of the property owner and contact number for property access,
- Plot plan or survey of the property showing the proposed partition,
- Identification of the parcel to remain after partial release is completed,
- Legal description for each parcel,
- Reason for the release of the property (for example, sale, public taking, designation as conservation site), and
- Confirmation that the appraisal fee will be paid to the VA-assigned appraiser upon completion of the appraisal report and submission of an invoice.

b. Appraisal Fee

The fee for an appraisal for partial release of security purposes is not fixed and could vary from the typical origination appraisal fee. The appraisal fee will be established by VA, on a case-by-case basis, after consulting with the appraiser.

Continued on next page

21. Partial Release Appraisals, continued

c. Assignment of Appraiser

The RLC of jurisdiction will assign a VA fee panel appraiser (outside of WebLGY) to complete the appraisal and will provide instructions for completion and a copy of the information listed above.

d. Values to be Provided

The following market value estimates will be provided in the appraisal report:

- the entire property prior to the release, and
- the property which will remain as security of the loan after the release.

e. Submitting Appraisal and Invoice

The appraiser will e-mail the appraisal invoice and the completed appraisal report to the RLC. The appraisal report will be reviewed by VA staff. The invoice, a copy of the appraisal, and a memorandum containing estimates of the value of the property prior to the partial release of the security and the value of the property on which the lien will remain will be emailed to the servicer and a copy provided to the Loan Administration Officer (LAO) at the RLC.

22. Vacant Land Appraisals

Change Date

February 22, 2019

- This Chapter has been revised in its entirety.

a. Liquidation Appraisals

A vacant land appraisal may be needed for a liquidation appraisal if there are no improvements on the land or if the improvements have no contributory value.

b. Appraisal Requirements

The appraiser must provide a written narrative format or a commercially available vacant land appraisal form. Like all VA appraisals, the appraisal must meet USPAP. The appraisal report must include:

- property address
- legal description
- owner of record
- assessment and property tax information
- property rights appraised
- site size
- zoning
- highest and best use
- shape
- topography
- drainage
- availability of utilities
- flood zone information
- estimated cost of razing any existing improvements which must be considered in market approach
- comparable sales grid with three comparable sales, adjusted to indicate the estimated market value of the subject property
- Assumptions and Limiting Conditions, and Appraiser Certifications

Chapter 12 Minimum Property Requirement

Overview

This chapter contains the following topics.

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1. Minimum Property Requirement Procedures, continued

a. MPRs, continued

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1. Minimum Property Requirement Procedures

Change Date	October 18, 2019 • This chapter has been revised in its entirety.
a. MPRs	VA has established Minimum Property Requirements (MPRs) to protect the interests of Veterans, lenders, servicers, and VA. Properties must meet these requirements prior to guaranty of the loan by VA.
b. Appraisal is Not a Home Inspection	While VA-assigned fee appraisers must note any readily apparent repairs that are needed, it is important to distinguish the differences between a real estate appraisal and a home inspection report. The fee appraiser will not perform operational checks of mechanical systems or appliances. The fee appraiser estimates the value of the property to ensure that it is sufficient for the amount of the proposed loan.
c. Safe, Sound, Sanitary	MPRs help ensure that the property is safe, structurally sound, and sanitary. The scope of MPRs also includes issues related to the property's location and legal considerations.
d. Appraisal Subject to Repairs to meet MPRs	The appraiser will prepare origination appraisals "subject to" the completion of any MPR repairs that appear to be needed and include the contributory value of the completed repairs in the estimated market value. Liquidation appraisals are prepared "as-is" (see Chapter 11, Topic 20 of this Handbook).
e. Recommend Repairs, Not Inspections	Appraisers must not prepare appraisals subject to inspections. The appraiser must recommend repairs, not inspections, for any conditions that do not appear to meet MPRs.
f. Cosmetic Items	The appraiser should not recommend repairs of cosmetic items, items involving minor deferred maintenance or normal wear and tear, or items that are inconsequential in relation to the overall condition of the property. While minor repairs should not be recommended, the appraiser should consider these items in the overall condition rating when estimating the market value of the property.

Continued on next page

1. Minimum Property Requirement Procedures, continued

g. Detached Improvements	Detached sheds or other improvments on the site may be included in value if the improvement meets VA's MPRs. If the improvement does not meet MPRs it must be excluded from value. If the improvement presents a health or safety hazard, the appraisal must be completed subject to the removal of the improvement.
h. Home Inspection Recommended	After an origination appraisal is completed, the Notice of Value (NOV) that is issued to the Veteran includes a recommendation that the Veteran may wish to obtain a home inspection (see Chapter 13, Appendix A of this Handbook).
i. Local Requirements	Information about MPRs concerning properties in specific locations are listed by state at http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp.
j. SAH	Additional MPRs apply to Specially Adapted Housing (SAH) program cases. The Regional Loan Center (RLC) of jurisdiction should be contacted for assistance with SAH questions.

2. Marketable Real Estate Entity

Change Date	October 18, 2019 • This chapter has been revised in its entirety.
a. Single Real Estate Entity	The property must be a single, readily marketable, real estate entity.
b. Multiple Parcels	More than one parcel or lot may be included as long as all of the property is contiguous and legally marketable. VA does not set a limit on the number of acres that the property may have. If the property being appraised includes more than one parcel, the appraisal must be prepared subject to placing all of the parcels on one deed.
c. Road or Waterway Dividing the Property	If a property is divided by a road or waterway, the appraiser must determine the effect on the utility of the property to ensure that the property is a readily marketable, real estate entity.

3. Space Requirements

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Space Requirements	Each living unit must have sufficient space for: • living, • sleeping, • cooking and dining, and • sanitary facilities.
b. Non-Standard Construction	Non-standard house styles which may be unique in a market area, for example, log houses, earth sheltered houses, dome houses, and houses with lower than normal ceiling heights, must meet any local building codes. The appraiser must consider the marketability of the home in the appraisal.

4. Access

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Street Access	Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street with an all-weather surface.
b. Private Road Requirements	Private roads must be: • protected by a permanent easement, and • maintained by a homeowners association or joint maintenance agreement.
c. Maintenance Agreement Signatures	If a maintenance agreement does not exist, every effort should be made to obtain the agreement of all owners of properties on the private road to share the cost of maintaining the road.
d. RLC Approval Required if the Veteran is Accepting Additional Responsibility	In the absence of an agreement signed by all owners, particularly those of properties located between the subject property and the public road, an agreement by a Veteran to accept responsibility for a disproportionate share of the road must be reasonable in regards to the distance from the subject property to the public road. The RLC of jurisdiction must be contacted in order to approve the agreement. VA will not accept an agreement in which the Veteran accepts sole responsibility for maintaining an unreasonable distance of the private road as this could create a burden for the Veteran as well as future property owners.
e. Private Street in PUD or Condominium	If private street maintenance is covered in the organizational documents for a planned unit development (PUD) or condominium, or by state law, the NOV may be issued without a requirement for further documentation.
f. Easements Must Run with the Land	Each living unit must be accessible without passing through any other living unit or trespassing on adjoining properties. Any easements required must run with the land.

Continued on next page

4. Access, continued

g. Backyard Access	Access to the backyard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by means of • an alley, • easement, or • passing through the subject dwelling.
h. Exterior Wall Access	Adequate space to perform maintenance of the exterior walls must be present between buildings.
i. Property Constructed Adjacent to Another Property Line	A building constructed on or next 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 ridge of the roof.

5. Encroachments

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Encroachments	The appraiser must report any apparent encroachments of the subject's dwelling, garage, or other improvements onto an adjacent property, right-of-way, utility easement, or building restriction line and any apparent encroachments of a neighboring dwelling, garage, or other improvements onto the subject property.
b. Prompt Notification	The appraiser must notify the lender of the encroachment promptly to provide as much time as possible to resolve the issue.

6. Drainage and Topography

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Grading	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.
b. Topographic Conditions	The appraiser must report any danger due to topographic conditions, such as mudslides from adjoining properties, falling rocks, or avalanches.

7. Geological or Soil Instability, Subsidence, and Sinkholes

Change Date	October 18, 2019 • This chapter has been revised in its entirety.
a. Soil Conditions	The appraiser must report any readily observable soil conditions of the site, and other physical features that affect the value of the site. The appraiser should also consider any published reports regarding the instability of the soil and surface support of the land concerning the subject and nearby properties. The appraiser must consider any effect on the estimated market value of the property.
b. Subsidence	Subsidence may be encountered where homes are constructed on uncontrolled fill or unsuitable soil, in locations near mining activity or extraction of subsurface minerals (to include fracking), or where the subsoil or subsurface is unstable and subject to slippage or expansion. Signs of subsidence may include cracks in the terrain, sinkholes, foundation damage or settlement problems.
c. Dangerous Subsidence or Sinkholes	The appraiser must report any probable or imminent danger of subsidence or sinkholes. Depending on the extent of the problem, it could be considered a hazard (see Topic 20 of this Chapter) which would make the property ineligible. The appraiser must notify the lender promptly when a hazardous condition is found.
d. Repairs by Contractor	If a settlement problem that does not have the severity of a hazard is apparent, the appraisal must be prepared "subject to repair" by a licensed contractor (for example, step-cracks in an exterior wall, or cracked flooring with significant vertical displacement).
e. Hairline Cracks	Minor hairline cracks due to expansion or normal settlement that are common in the market area do not typically require repair.

Continued on next page

7. Geological or Soil Instability, Subsidence, and Sinkholes, continued

f. New or Proposed Property

For new or proposed construction properties, 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.)

8. Special Flood Hazard Area

Change Date	October 18, 2019 • This chapter has been revised in its entirety.
a. Flood Insurance	Properties located in a FEMA Special Flood Hazard Area (SFHA) must be covered by a flood insurance policy. Properties located in a SFHA are not eligible if flood insurance is not available.
b. Regular Flooding	Based on the appraiser's knowledge of the market area, properties that are subject to regular flooding are not eligible, whether or not the area has been designated an SFHA.
c. Verification of Flood Zone	While appraisers must provide flood zone information on the appraisal report, flood zone maps do not typically indicate the location of specific properties. Lenders are responsible for verifying the flood zone information.
d. Flood Zones	SFHAs are usually designated Zones A, AO, AH, A1-A30, AE, A99, AR, AR/AE, AR/AO, AR/A1-A30, AR/A, V, VE, and V1-V30. Flood insurance is not required in Zones B, C, X, and D.
e. Excluding Non-Residential Improvements	At the Veteran's request, non-residential improvements such as detached garages and small sheds may be excluded from the flood insurance policy if they are also excluded from the appraised value. The cost of flood insurance with and without coverage for the detached building should be compared as excluding a detached building may not be worthwhile.
f. Private Flood Insurance	Veterans may elect to obtain private flood insurance instead of obtaining flood insurance through the National Flood Insurance Program.

9. Coastal Barrier Resources System

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Eligibility

Properties located in Coastal Barrier Resources System (CBRS) areas are not eligible for an appraisal.

b. Appraiser Responsibilities

Appraisers who perform appraisals for VA near the Atlantic Ocean, the Great Lakes, the Gulf of Mexico, or the Caribbean Sea must be familiar with any CBRS areas. If the appraiser finds that a property on which an appraisal has been ordered is located in a CBRS area, the appraiser must stop work and promptly notify the lender.

10. Lava Flow Hazard Zones

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Appraiser Responsibility	Lava Flow Hazard Zones are designated by the United States Geological Survey. Appraisers who perform appraisals for VA in affected areas must be familiar with these zones.
b. Property Eligibility	Properties in Zones 1 and 2 are not eligible for appraisal. If the appraiser finds that a property on which an appraisal has been ordered is located in Zone 1 or 2, the appraiser must stop work and promptly notify the lender.
c. Market Value to be Considered	If the property is in a Lava Flow Hazard Zone other than Zone 1 or 2, the appraiser must report the zone information in the appraisal and analyze the effect on market value.

11. Non-Residential Use

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Eligibility Considerations	A property that has both a residential and business use may be eligible for loan guaranty if: • the property is primarily for residential use, • the non-residential use does not impair the residential character, • the property contains no more than one business unit, and • the property is legally permitted and conforms to current zoning, or is a legal, non-conforming use that is accepted by the local authority.
b. No Value to Business or Commercial Property	No value may be given to the business operations or commercial fixtures in the appraisal.

12. Zoning

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Zoning Compliance	The property must comply with all applicable zoning ordinances.
b. Legal, Non-Conforming Use	If the property does not comply with current zoning ordinances, but is accepted by the local authority, the appraiser must describe the property as "Legal Non-Conforming" and comment on the property's marketability and any adverse effect this classification may have on value. The appraiser must state whether or not the dwelling may be legally rebuilt if destroyed.

13. Local Housing/Planning Authority Code Enforcement

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Local Authority Requirements	If the property is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser must describe the requirements in the appraisal report.
b. Repairs Required by a Local Authority	If the appraiser is aware of any repairs that will be required due to local code enforcement, for example, the removal of unpermitted improvements, the appraiser must prepare the appraisal subject to these repairs.

14. Utilities

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Electricity	Each living unit must have electricity for lighting and for necessary equipment.
b. Appraiser Not Conducting Operational Checks	Since the appraiser does not perform any operational checks of mechanical systems or appliances, the utilities are not required to be turned on when the appraiser visits the property.
c. Electrical Wires	Any visible frayed or exposed electrical wires must be repaired.
d. Utilities for Living Units	Utility services must be independent for each living unit, except • units in a two to four-unit property may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit, and • units under separate ownership may share connections from the main to the building line when those connections are protected by an easement and a maintenance agreement acceptable to VA.
e. Access for Maintenance and Repair	Individual utilities serving one living unit shall not pass over, under, or through another living unit unless there is a legal provision for a permanent right of access for maintenance and repair of the utilities without trespass on adjoining properties.

15. Water Supply and Sanitary Facilities

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Water and Sewer	The property must have: • a continuous supply of safe and potable water for drinking, bathing, showering and sanitary uses, • hot water, • sanitary facilities, and • a safe method of sewage disposal.
b. Safe Drinking Water	Given the importance of safe drinking water, appraisers must ensure that accurate water supply information is reported in the appraisal and the Staff Appraisal Reviewer (SAR) must condition the NOV appropriately. If the appraiser is aware of any issues regarding the water supply, the appraiser must comment in the appraisal.
c. Market Value Considerations	Appraisers must comment and adjust for any market reaction discovered as a result of water contamination, as well as any environmental stigma.
d. Filtration of Water	Proper mitigation of lead contaminated water must include a central filtering system which filters all water that could serve the property's occupants. When public water must be filtered, the requirements for individual water filtering under Topic 17, Subsection d of this Chapter including a Veteran's acknowledgement, must be applied. Information about water filtration is available at http://www.nsf.org/newsroom/consumer-guide-to-nsf-international-certified-lead-filtration-devices.

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15. Water Supply and Sanitary Facilities, continued

e. Individual Water Supply	If the property has an individual water supply see Topic 17 of this Chapter for additional requirements.
f. Individual Sewer Supply	If the property has an individual sewer supply see Topic 18 of this Chapter for additional requirements.
g. Connection Mandated by a Local Authority	If public water or sewer is available and the local authority mandates connection, the appraiser must prepare the appraisal "subject to" connection.

16. Individual Water Supply

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Health Authority Requirements

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 guidelines established by the Environmental Protection Agency (EPA) will apply. Additional information is available at the following websites: https://www.epa.gov/privatewells/private-drinking-water-well-programs-your-state and https://www.cdc.gov/healthywater/drinking/private/wells/testing.html.

b. Third Party Testing

All testing must be performed by a disinterested third party. This includes collecting and transporting the water sample from the water supply source. The sample may be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Veteran or other interested party collect and/or transport the sample.

c. Conditions Requiring a Veteran's Signed Statement

The appraiser must comment in the appraisal and the Veteran must acknowledge awareness in writing when the water to the property is:

- supplied by dug wells, cisterns, or holding tanks used in conjunction with water purchased and hauled to the site,
- provided with a mechanical chlorinator,
- provided through springs, lakes, rivers, sand-point or artesian wells, or
- supplied with a rainwater catchment system.

d. Water Filtration System

If the property has a water filtration system, the Veteran must acknowledge in writing that the water must be continuously treated as required by the local health authority to be considered safe for human consumption and for this to be effective, the system must be inspected and maintained to include filter replacements per the manufacturers' recommendations.

Continued on next page

16. Individual Water Supply, continued

e. Distance Requirements	The appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures.
f. Testing Validity Period	Water quality test results are valid for 90 days from the date certified by the local health authority unless the local authority indicates otherwise.
g. Connection Mandated by a Local Authority	If public water is available and the local authority mandates connection, connection is required (see Topic 16 of this Chapter).

17. Individual Sewage Disposal

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Individual Sewage Disposal	An individual sewage disposal system must adequately dispose of all domestic wastes in a sanitary manner which will not create a nuisance, or in any way endanger the public health.
b. Pit Privies	Individual pit privies are acceptable where such facilities are customary and installed in accordance with the recommendations of the local health authority.
c. Health Authority Approval	On proposed construction cases, or new or existing construction cases where the appraiser notes a problem, or if the area is known to have soil percolation problems, health authority approval of the individual sewage disposal system is required.
d. Connection Mandated by a Local Authority	If public sewer is available and the local authority mandates connection, connection is required (see Topic 16 of this Chapter).

18. Shared Wells

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Shared Well Requirements

A shared well refers to a well that serves two or more properties. The shared 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,
- protected by a permanent easement, which allows for maintenance and repair, and
- maintained under a well-sharing agreement containing provisions for the cost of repairs that is binding on the signatory parties and successors in title and has been recorded in public records.

b. Appraiser Responsibility

The appraiser must report that that the property is served by a shared well and note any readily apparent deficiencies.

c. Lender Responsibility

The lender must obtain the shared well agreement and review the agreement to determine eligibility.

d. Water Quality

The water quality must meet the requirements for individual wells described in Topic 17 of this Chapter.

19. Community Water Supply/Sewage Disposal Requirements

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Community Water/Sewer to be Noted in an Appraisal	A community water/sewage system refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association. The appraiser must note that the property is on a community water/sewage system in the appraisal report.
b. Sufficient Water Supply	The water supply must be sufficient in size for the project. Water quality must be approved by the local or state health authority.
c. Adequate Size Sewage System	The sewage system must be adequate in size and properly operated and maintained to prevent it from becoming a menace to public health.
d. Local/State Authority Approval	The lender must obtain evidence of approval of the facilities by the local or state health authority.
e. Trust Deed	A trust deed is required if the local or state authority that approved the system does not: • enforce compliance with its requirements, • fix rates, and • provide for prompt relief in case of deficient operation, service, or exorbitant rates.
f. Trust Deed for Private System	If a trust deed is required for a privately-owned system, it should be similar to the trust deed found in HUD Handbook 4075.12.

20. Hazards

Change Date March 28, 2019

- This chapter has been revised in its entirety.

a. 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.

b. Prompt Notification of the Lender The appraiser must notify the lender promptly when a hazard is identified so that the eligibility of the property may be addressed and, depending on the nature of the hazard, to provide as much time as possible to resolve the situation.

21. Defective Conditions

Change Date

October 18, 2019

- This chapter has been revised in its entirety.

a. Definition

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. The integrity of the envelope of the structure must not be compromised.

b. Appraisals "Subject to" Repair of Defective Conditions

Appraisals must be prepared "subject to" the repair of any defective conditions with the contributory value of the completed repair included in value.

c. Examples

Examples of defective conditions include:

- defective construction,
- poor workmanship,
- evidence of continuing settlement,
- excessive dampness,
- leakage,
- decay, and
- termites.

22. Mechanical Systems

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Requirements	Mechanical systems must be: • safe to operate, and • protected from destructive elements.
b. Appraiser Responsibility	While the appraiser is not required to test the operation of any mechanical systems, the appraiser should recommend the completion of any repairs that are readily apparent.

23. Heating

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Requirement	Heating must be permanently installed and maintain a temperature of at least 50 degrees Fahrenheit in areas with plumbing.
b. Non-Vented Heater	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 the Veteran's written acknowledgement that the dwelling contains a non-vented fireplace or space heater which has not been inspected by VA, and • a licensed heating/air conditioning contractor must certify in writing that the non-vented appliance is equipped with an approved Oxygen Depletion Sensor and meets the local building authority requirements (if there are no local requirements, the installation must meet the manufacturer's recommendations).
c. Mild Climate	In areas with a mild climate, heating may not be required (see Topic 1, Subsection h of this Chapter).
d. Air Conditioning	Air conditioning is not required, but if installed, must be operational. If any needed repairs to the air conditioning equipment are apparent, the appraiser must prepare the appraisal subject to the repair of the air conditioning system by a licensed heating/air conditioning contractor.

24. Leased Mechanical Systems and Equipment

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. No Value to Leased Equipment	The appraiser must not include the value of any leased mechanical systems or any other leased equipment in the estimated market value as leased items are not suitable security for a loan. This includes, but is not limited to, fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other alternative energy equipment.
b. Leased Equipment to be Noted in the Appraisal	The appraiser must identify leased items in the appraisal report. Some leases may encumber the title making the property less than fee simple. The appraiser must consider any detrimental effect on the value of the property if the leased items are removed by the lessor.

25. Alternative Energy Equipment

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Alternative Energy Systems	Alternative energy systems use wind, geothermal, or solar energy to produce energy to support the habitability of the structure.
b. Market Acceptance to be Considered	The appraiser must analyze the market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components, geothermal systems, and wind powered components.
c. No Value to Leased Equipment	Leased equipment must not be given value in the appraisal.

26. Roof Covering

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Requirement	The roof covering must: • prevent entrance of moisture, and • provide reasonable future utility, durability, and economy of maintenance.
b. Multiple Shingle Layers	When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.
c. Appraiser Expectation	The appraiser is not required to climb onto the roof.
d. Appraisal Considerations when the Roof is Not Visible	When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report how the condition of the roof was determined. For example, a roof may be covered with snow yet the appraiser observed no evidence of leaks and documentation was provided to the appraiser verifying the age of the roof. If available, other methods such as drones could be utilized to show the area.

27. Attics

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Appraiser Expectations	Fee appraisers must view the interior of readily accessible attic spaces. The appraiser is not required to climb into the attic. The appraiser is not required to move insulation or personal items that may hinder visibility. If there is no scuttle or other access to the attic, there is no requirement to provide access.
b. Deficient Conditions	If a deficient condition (for example, a water-stained ceiling or insufficient ventilation) is apparent, the appraiser must prepare the appraisal subject to the repair.

28. Crawl Space

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Appraiser Expectation	Fee appraisers are required to view, but not enter, the crawl space.
b. Requirements	The crawl space must: • have adequate access, • be clear of debris, and • be properly vented.
c. Floor Joists	The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing.
d. Dampness	Any excessive dampness or ponding of water must be corrected.
e. Vacant Area Beneath House	Not all houses with a vacant area beneath the flooring are considered to have a crawl space particularly if no mechanical systems are present, and there is no reason for access. If the area is properly vented and free of moisture, this condition is acceptable.

29. Basements

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Dampness or Structural Problems	The appraiser must report any dampness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.
b. Sump Pump	If a sump pump is present, the appraiser must recommend repair if it is not hard-wired by an acceptable wiring method or equipped with a factory electrical cord that is connected to a suitable receptacle.

30. Swimming Pools

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Pool Equipment	If the pool water contains algae or if the pool has been winterized, and the appraiser cannot determine if the pool equipment is in good working order, the appraiser may complete the appraisal under the extraordinary assumption that the pool and its equipment can be repaired at minimal cost without recommending any repairs.
b. Structural Defects	The appraiser must report readily observable defects including unstable sides and structural issues that would render the pool inoperable or unusable. Depending on the extent of the damage, the appraiser must prepare the appraisal report "subject to" the repair of the pool, and include the pool in value, or prepare the appraisal "subject to" permanently filling in the pool, in accordance with local guidelines, and re-grading the yard, if necessary.
c. Above-Ground Pools	Above-ground pools which include water filtering equipment and decking may be included in value if the appraiser determines that above-ground pools are customary and accepted in the market area.
d. Local Requirements for Securing Pools	Swimming pools must be secured in accordance with any local requirements. On a liquidation appraisal, if the pool is unsecure, securing the pool must be included on the repair list and reported as a safety hazard on the liquidation addendum.

31. Burglar Bars

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Requirement	If a property has burglar bars, at least one window per bedroom must have a quick-release mechanism, unless there is an exterior door from the bedroom providing rapid egress.
b. Removal of Burglar Bars	If the appraiser is not able to confirm that quick release mechanisms are in good working order, the appraiser should prepare the appraisal subject to removal of the burglar bars as a safety consideration.

32. Lead-Based Paint

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Properties Built in 1978 or Later

If the dwelling or related improvements were built **in 1978 or later**, the appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements. Interior defective paint on a dwelling built in 1978 or later is normally considered cosmetic.

b. Properties Built Before 1978

If the dwelling or related improvements were built **before 1978,** the presence of lead-based paint must be presumed. Any defective lead-based paint is a safety hazard that must be remediated. The appraiser must clearly identify the location of any defective paint. Economic feasibility is not an acceptable reason for waiver of a repair involving lead-based paint.

c. Correction of Defective Lead-Based Paint

Any defective lead-based paint must receive adequate treatment to prevent the ingestion of contaminated paint. Either:

- the surface requiring treatment must be thoroughly washed, scraped, wire brushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping, and loose paint, and then repainted with two coats of a suitable nonleaded 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 integrity of the surface needing treatment cannot be maintained.

d. Appraiser Certification of Repairs

The completion of all repairs involving defective lead-based paint must be certified by the VA-assigned appraiser.

33. Wood Destroying Insects/Fungus/Dry Rot

Change Date

March 28, 2019

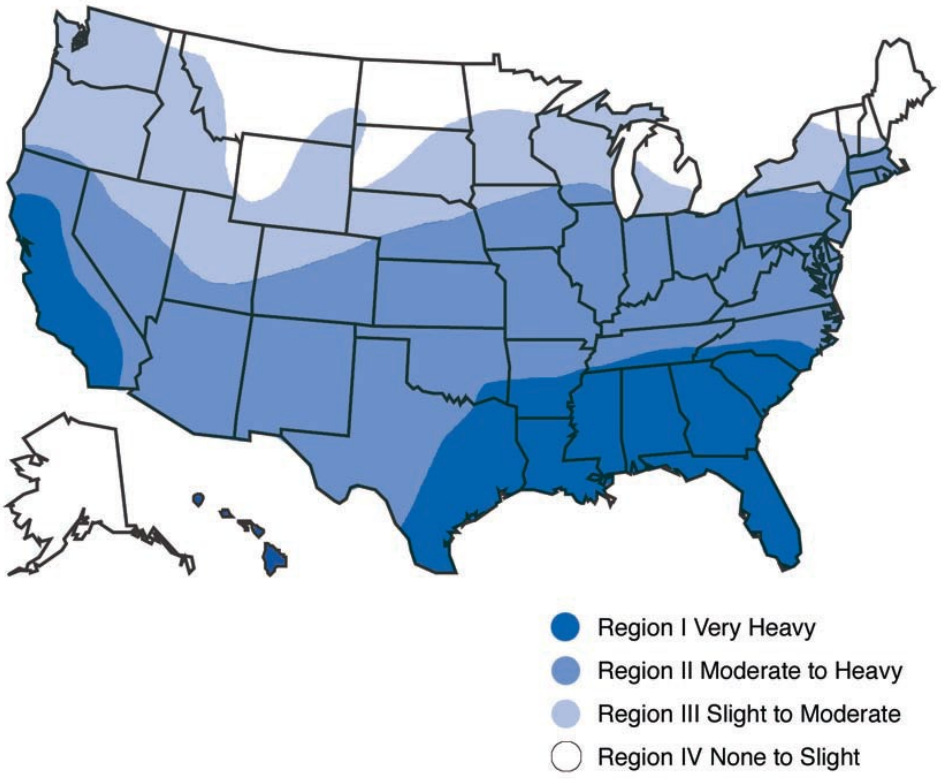
- This chapter has been revised in its entirety.

a. Apparent Damage

Appraisers must report any apparent evidence of wood destroying insect infestation, fungus growth or dry rot. The appraisal must be prepared subject to a wood destroying insect inspection if any infestation or damage is apparent, and all damage must be repaired.

b. Termite Infestation Probability Map

If the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy" on origination appraisals, a wood destroying insect inspection report must be required on the NOV.



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33. Wood Destroying Insects/Fungus/Dry Rot, continued

c. Local Requirements Webpage	The specific borders for some of the zones are difficult to determine from this map. Additional information may be found on VA's local requirements webpage (see Topic 1, Subsection h of this Chapter).
d. Non-Residential Improvements	Small sheds or other detached, non-residential improvements which were not given value on the appraisal report may be excluded from the inspection report.
e. Requirements for Properties in Condominium Developments	A termite inspection is not required on units in high-rise condominiums (units are stacked vertically). For villa and townhome style condominiums where units are side by side, not stacked, if located in a "very heavy" or "moderate to heavy" zone, a termite inspection must be required on the NOV unless the homeowners association provides evidence of treatment.

34. Radon Gas

Change Date	October 18, 2019 • This chapter has been revised in its entirety.
a. Testing Recommended by VA	On the NOV that is provided to Veterans with the results of the appraisal, VA recommends testing for radon gas.
b. Builder Certification	On proposed and new construction cases, the builder must certify that radon resistant construction techniques were used where applicable and construction meets any local or state building codes for radon control. Radon resistant construction techniques are considered to be applicable for properties located in Radon Zone 1 as designated by the EPA at the following website: https://geopub.epa.gov/Radon/. Additional information about radon resistant construction techniques is available at the following link: https://www.epa.gov/radon/radon-resistant-construction-basics-and-techniques.
c. Additional Information	Additional information about radon gas is available at the following link: https://www.epa.gov/radon.

35. Potential Environmental Problem

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Potential Environmental Problem

The appraiser must report and consider the effect on value of any apparent indication of a potential environmental problem.

b. Examples

Examples include, but are not limited to:

- underground storage tanks,
- slush pits,
- oil and gas wells (operating or abandoned),
- hydrogen sulfide gas emitted from petroleum product wells,
- chemical contamination (including methamphetamine) or
- soil contamination from sources on or off the property.

c. Appraisal Considerations

The appraisal report must be prepared subject to correction of the problem in accordance with any local, state, or federal requirements, or documentation from the appropriate local, state, or federal authority that the condition is acceptable.

36. Stationary Storage Tanks

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Distance Requirement	If the property is located within 300 feet of an above-ground or subsurface stationary storage tank with a capacity of 1,000 gallons or more containing flammable or explosive material, the appraiser must report this information in the appraisal. This includes storage tanks for domestic and commercial uses as well as automotive service station tanks.
b. Comparable Sales	The appraiser should use comparable sales in similar locations, if available.
c. NOV Requirement	The SAR must include the information on the NOV, requiring the Veteran's signed acknowledgement to ensure the Veteran is fully informed of the situation.

37. Mineral, Oil, and Gas Reservations or Leases

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Influence on Property

The appraiser must analyze and report the degree to which residential benefits may be impaired or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.

b. Appraisal Considerations

The appraiser should consider the following:

- the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease, and
- the hazards, nuisances, or damages to the subject property from exercise of reservation or lease privileges on neighboring properties.

38. High Voltage Electric Transmission Lines

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Residential Structure	No part of any residential structure may be located within a high voltage electric transmission line easement.
b. Detached Improvements	Any detached improvements even partially in a transmission line easement will not receive value for VA purposes.
c. Distance Requirement	If the property is within 100 feet from the nearest boundary of a high voltage electric transmission line easement, the appraiser must comment in the appraisal.

39. High Pressure Gas and Liquid Petroleum Pipelines

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Residential Structure	No part of any residential structure may be located within a high-pressure gas or liquid petroleum pipeline easement.
b. Detached Improvements	Any detached improvements even partially in the pipeline easement will not receive value for VA purposes.
c. Distance Requirement	If the property is within 100 feet from the nearest boundary of a high-pressure gas or liquid petroleum pipeline easement, the appraiser must comment in the appraisal.

40. Properties near Airports

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Appraiser Responsibility	Appraisers must be familiar with noise zones and safety-related zones surrounding airports in areas where they perform appraisals for VA.
b. Appraisal Considerations	Whenever a property is located near an airport, appraisers must consider the effect on value of any airport noise and select comparable sales, if available, with the same airport influence.
c. Proposed Construction in a Clear Zone	Proposed construction located in a Clear Zone (also known as a Runway Protection Zone) is not eligible. The appraiser must stop working on the appraisal and notify the lender immediately.
d. Existing or New Construction in a Clear Zone	For existing or new construction located in a Clear Zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located near the end of an airport runway and this may have an effect upon livability, safety, value and marketability of the property."
e. Accident Potential Zone	For all properties located in an accident potential zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located in an accident potential zone and this may have an effect upon the livability, safety, value, and marketability of the property."
f. Maps Available Online	Airport noise zone maps may be found at https://www.faa.gov/airports/environmental/airport_noise/noise_exposure_maps/.

41. Manufactured Home Classified as Real Estate

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. MPRs	Manufactured homes must meet the VA MPRs described in this Chapter.
b. Real Estate Entity	The manufactured home and site must be considered a real estate entity in accordance with state law and meet all local zoning requirements for real estate.
c. Permanent Foundation	The manufactured home must be placed on a permanent foundation, constructed to withstand both supporting loads and wind-overturning loads, that meets state and local requirements.
d. HUD Standards	The manufactured home must be built to HUD Manufactured Home Construction and Safety Standards.
e. Space Requirements	The manufactured home must have a floor area of not less than 400 square feet for a singlewide, or 700 square feet for a double wide manufactured home.
f. State/Local Requirements	Fee appraisers are expected to be familiar with state and local regulations governing manufactured homes (for example, missing HUD labels, alterations, modifications, additions, or component replacements), and to prepare appraisals subject to appropriate requirements for compliance.
g. Proposed Construction	If the manufactured home is appraised as proposed construction, the following exhibits are required: • foundation plan, • floor plan showing room layout and exterior dimensions, • elevation plans, and • specifications for flooring, heating, plumbing, electrical equipment, appliances and other items included with the manufactured home.

42. Modular Homes

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. State/Local Codes	Modular homes must meet all state and local building codes.
b. Comparable Sales	The appraiser will typically treat modular housing and on-frame modular housing in the same manner as conventionally built housing. The appraiser must select comparable sales that would be competing properties on the market which may include modular homes, conventionally built homes, or manufactured homes.
c. On-frame Modular Home Requirements	On-frame modular housing is factory built on a permanent chassis. The appraiser must ensure that: • all running gear is removed, • the crawl space is covered by a vapor barrier with vented permanent masonry skirting, • the skirting has an access hatch, and • the home is secured to a permanent foundation that meets state and local requirements.

43. Energy Conservation and Sustainability

Change Date	March 28, 2019 • This chapter has been revised in its entirety.
a. Energy Efficient Mortgages	Energy efficient mortgages are described in Chapter 7 of this Handbook. Veterans are provided information about this program in item #1a on NOVs issued for existing properties (see Chapter 13, Appendix A of this Handbook).
b. Energy Conservation Encouraged	VA encourages home improvements that conserve energy, reduce water usage, enhance safety or strengthen disaster preparedness.

44. Requests for Waiver of MPR Repairs

Change Date

March 28, 2019

- This chapter has been revised in its entirety.

a. Waiver Requested by a Veteran

After the NOV has been issued, at the request of the Veteran, VA will consider waiving MPR repairs if the following conditions are met:

- the request is signed by the Veteran,
- the lender concurs with the Veteran's request, and
- the property is habitable from the standpoint of safety, structural soundness, and sanitation.

These requests should not allow for the Veteran to waive MPRs that could result in safety issues with the home.

b. Inspection Report

In support of the waiver request, while not required, providing an inspection report from a licensed professional who is qualified to assess the condition of the item in question will ensure the Veteran is fully informed about the condition of the item.

c. Contributory Value

If the request is approved, VA staff will amend the NOV, removing the repair requirement(s). Since appraisals are prepared "subject to" repairs, VA staff may reduce the value by the contributory value of the waived repair(s). If the contributory value of the repair item(s) is not material, the NOV may be issued without a change in value.

d. Materials Shortage Following a Natural Disaster

Following a natural disaster, shortages of materials could delay the completion of repairs. The RLC of jurisdiction should be contacted for consideration of repair waivers on a case-by-case basis when a Veteran wishes to proceed with purchasing or refinancing a home in need of repairs when needed materials are not readily available.

e. Escrowed Funds for Completion of Repairs

Depending on the nature of required repairs, it may be advantageous for the Veteran to have the MPR repairs completed after closing on the loan. Lenders may hold funds in escrow for repairs to be completed after closing, however all repairs must be completed and escrowed funds distributed before the loan may be guaranteed by VA.

Chapter 1 Lender Approval Guidelines

Overview

In this Chapter This chapter contains the following topics.

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1. Definitions and Authorities

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

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:

- Financial institutions which are members of the Federal Reserve System,
- Financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Administration (NCUA),
- Financial institutions which are members of the Office of Thrift Supervision,
- Federal Savings Banks,
- National Banks,
- Farm Credit System Institutions,
- State Chartered Banks,
- Insurance Companies,
- Credit Unions,
- Savings and Loan Associations, and
- Private banks.

A state acting as a lender is also considered supervised.

Continued on next page

1. Definitions and Authorities, continued

c. Non-supervised Lender	Any lender that is **not** a supervised lender.
d. Non-supervised Automatic Lender	A lender who has applied for authority to close loans on an automatic basis and has been formally granted such authority by VA.
e. Agent	An Agent may also be referred to as a Mortgage Broker. An Agent is a person or entity that performs any activity 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	Lender mergers and acquisitions are discussed in section 8 of this chapter.
h. Prior Approval	A Prior Approval lender is neither a supervised or non-supervised automatic lender. All prior approval loans must be submitted to VA for underwriting and approval prior to closing the loan. All lenders, whether or not they have automatic authority, **must** submit the following types of loans to VA for prior approval: • Joint loans (Veteran/Veteran or Veteran/non-Veteran). • Loans to Veterans in receipt of VA nonservice-connected pension. • Loans to Veterans with a VA appointed fiduciary. • 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. • Unsecured loans or loans secured by less than a first lien.

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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. Lenders with automatic authority should use it to the maximum extent possible. The following lenders have automatic authority:

- all supervised lenders,
- certain non-supervised 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.

Continued on next page

1. Definitions and Authorities, continued

j. Supervised Versus Non-supervised Automatic Lenders

A non-supervised 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 non-supervised lenders is outlined below.

Authority	Supervised Lender	Non-supervised 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. IRRRL 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. Use of agents to process IRRRLs is subject to the same requirements as agents processing other types of loans (see Topic 7 of this chapter).

2. Before a Lender Starts Making Loans

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Sending the Initial Information Package to VA

This section applies to all lenders (supervised, non-supervised automatic, and prior approval).

First-time VA lenders must send the certain information to the VA Regional Loan Center (RLC) or the Honolulu Regional Office according to jurisdiction. A complete list may be found at: http://www.benefits.va.gov/homeloans/contact_rlc_info.asp. The information that should be sent includes:

- 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*, and
- a letter identifying 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.

In addition, VA may, at its discretion, order a credit report on a lender and/or interview principal officers.

Continued on next page

2. Before a Lender Starts Making Loans, continued

b. What Happens Next?

The VA RLC of jurisdiction will provide information to the lender, including training on VA loan processing, and a VA ID number to use for all VA lending transactions and documents as an identifier of the lender.

The lender may download a copy of this VA Pamphlet 26-7, *Lender's Handbook,* at http://www.warms.vba.va.gov/pam26_7.html.

To receive new lender information from the VA, including updates to this manual, the lender will need to sign up for GovDelivery at https://public.govdelivery.com/accounts/USVAVBA/subscriber/new?preferences=true.

The VA RLC 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 non-supervised 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 Topic 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 must submit all loans except certain IRRRLs to VA for prior approval until it receives recognition as supervised. See Topic 3 of this chapter for more information.

3. Lenders That are Considered Supervised

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

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:

- The Board of Governors of the Federal Reserve System
- The Federal Deposit Insurance Corporation
- The Comptroller of the Currency
- 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.

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

b. 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 Topic 3, Subsection a, of this chapter. In such cases, the lender must request that VA specifically recognize it as supervised and must be a wholly owned subsidiary or affiliate of a VA recognized supervised lender.

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 must be submitted to the VA office with jurisdiction over the lender's home office.

VA will inform the lender of its decision by letter.

Continued on next page

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.

These loan types are listed in Topic 1 of this chapter under "Prior Approval."

The supervised lender must obtain VA recognition of agents it uses to make VA loans. See Topic 7 of this chapter for more information.

If the lender uses an agent, 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 Topic 10 of this chapter) for each lender agent that acts for the lender 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. Failure to pay annual renewal fees could result in loss of a lender's automatic processing authority.

4. How a Non-supervised Lender Applies for Automatic Authority

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Procedures and Criteria for Qualification

Submit a completed VA Form 26-8736, *Application for Authority to Close Loans on an Automatic Basis-Non-supervised Lenders*, to the VA office with jurisdiction over the lender's home office, along with:

- The documentation specified in the tables in this subsection,
- The appropriate fee(s), (see Topic 10 of this chapter), and
- The information specified in Topic 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 Non-supervised Lender Applies for Automatic Authority, continued

a. Procedures and Criteria for Qualification, continued

Criteria	Required Documentation
Lender Experience (38 C.F.R. §36.4352(b)) Either: • the lender must have at least 2 years active VA origination experience and have originated and closed at least ten VA loans (properly documented and submitted) within the past 2 years, or • the lender (with less than 2 years active VA origination experience) must have originated and closed at least 25 VA loans (properly documented and submitted), or • a principal officer who is actively involved in managing VA origination functions must have at least two years management experience in the most recent 5 years, 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).	**Note:** For purposes of determining whether the experience criteria are met, IRRRLs do **not** count as VA loans originated, since no underwriting is involved. ***For all lenders***: • Completed VA Form 26-8736, *Application for Authority to Close Loans on an Automatic Basis-Non-supervised Lenders*, • VA ID number, and • Resume for each principal officer (president plus any officers involved in managing loan origination functions) showing mortgage lending experience. • The VA underwriter certificate of completion for mandatory training must be provided to VA within 90 days of underwriter approval. ***Additional documentation for lenders qualifying based on experience as agent:*** • 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 the number of VA loans submitted by the agent each year, and the loans have been documented and submitted in compliance with VA requirements and procedures.

Continued on next page

4. How a Non-supervised Lender Applies for Automatic Authority, continued

a. Procedures and Criteria for Qualification, continued

Criteria	Required Documentation
Qualified Underwriter(s) (38 C.F.R. §36.4352(b)(2)) A senior officer of the lender must nominate at least one full-time qualified employee to act as an underwriter who has either: • at least 3 years experience in processing, pre-underwriting or underwriting mortgage loans, and • at least 1 year of the most recent 3 years must have included making underwriting decisions on VA loans, • a current AMP (Accredited Mortgage Professional) designation from the Mortgage Bankers Association (MBA), or • a current CRU (Certified Residential Underwriter) designation from MBA. All VA-approved underwriters must be familiar with VA's credit underwriting standards and this VA Lender's Handbook.	**For all underwriters** VA Form 26-8736a, *Non-supervised 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. **Additional documentation for underwriters qualifying based on 3 years of experience** Underwriter's resume, outlining the underwriter's specific experience with VA loans. (**Note**: For purposes of determining whether the experience criteria are met, IRRRLs do **not** count as processing, pre-underwriting, or underwriting.) **Additional documentation for underwriters qualifying based on AMP/CRU designation** Evidence that he or she is a current AMP/CRU as designated by the MBA. See "Underwriter Approval" in Topic 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.

Continued on next page

4. How a Non-supervised Lender Applies for Automatic Authority, continued

a. Procedures and Criteria for Qualification, continued

Criteria	Required Documentation
Sanctions For Prior Acts There must be no factors indicating the lender would not exercise the necessary care and diligence.	A statement of facts is required in any case where: • 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.

b. Application Checklist

The application checklist provides a quick-reference checklist for application materials and requirements. Please see Topic 15 of this chapter for more information.

c. Nationwide Authority

All lenders who have been approved by VA for automatic authority may use this authority on a nationwide basis.

d. Notification of VA Decision

The VA office of jurisdiction reviews the application materials submitted, 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.

Loans uploaded for prior approval that are **not** required to be submitted for prior approval **must** include a written explanation from the underwriter. See Chapter 5, Topic 4 of this handbook for more information.

Continued on the page

4. How a Non-supervised Lender Applies for Automatic Authority, continued

e. Probationary Period

The lender will be subject to a probationary period of 1 year or longer, 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 must perform a complete review including underwriting analysis for a minimum of the first 15 loans closed and guaranteed, and fifty percent (50%) of the next 50 loans closed automatically.

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 Non-supervised Automatic Lender Must Comply With

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Do Not Close Loans for Others

The president or principal officer must certify on VA Form 26-8736, *Application for Authority to Close Loans on an Automatic Basis-Non-supervised Lenders,* that the lender will **not** close loans on an automatic basis for the following:

- 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 Topic 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, *Application for Authority to Close Loans on an Automatic Basis-Non-supervised Lenders,* 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.

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5. Certifications a Non-supervised Automatic Lender Must Comply With, continued

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

Notification of change of ownership and/or name change of the non-supervised automatic lender should be made through the RLC of the surviving entity.

All mergers and acquisitions always extinguish automatic authority of the lender unless the new entity is supervised. See Topic 8 of this chapter for requirements in the case of a merger, acquisition, or change in ownership and 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 decided by a VA-approved underwriter.

All VA-approved underwriters must be familiar with the VA 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 Certified Public Accountant (CPA) to VA within 120 days of the end of its fiscal year. The financial statements must be sent to the RLC with jurisdiction over the lender's home office.

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 Topic 13 of this chapter.

Continued on next page

5. Certifications a Non-supervised Automatic Lender Must Comply With, continued

d. Submit Annual Financial Statements, continued

When submitting the financial statements to the RLC of jurisdiction, the lender **must** also submit the following:

- a list of VA-recognized agent relationships the lender wants to renew, if the lender uses agents for making VA loans, and
- the annual fees specified in Topic 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, *Application for Authority to Close Loans on an Automatic Basis - Non-supervised Lenders,* 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 Non-supervised Automatic Lender Requests Underwriter Approval or Approval to Close Loans involving an Affiliate

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

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. An electronic signature is acceptable.

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 (as listed in Topic 10 of this chapter) and the documentation for underwriter approval (as listed in Topic 4, Subsection a, of this chapter).

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

All VA-approved underwriters must attend a 1-day (8 hour) training course on underwriter responsibilities, VA underwriting requirements, and VA administrative requirements, including the usage of VA forms, within 90 days of approval. Web-based training is also available. The Credit Standards training course is located on your landing page within the Veterans Information Portal (VIP): https://vip.vba.va.gov/portal/VBAH/Home. Successful completion of the Internet-based training meets the 1-day training requirement.

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6. How a Non-supervised 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 AMP or CRU 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 will 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 1 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 Non-supervised Automatic Lender Requests VA Recognition of an Agent

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Limitations on Use of Agents

A lender must request VA recognition of an ongoing relationship with an agent. 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 and the following lender responsibilities must be met:

- 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 non-supervised 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 Non-supervised Automatic Lender Requests VA Recognition of an Agent, continued

b. How to Request VA Recognition of an Agent

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

- the agent's name, address, telephone, e-mail address, and Federal Tax ID number,
- 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 a fee of $100 for each agent with the request.

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, *Report and Certification of Loan Disbursement,* for each loan.

Continued on next page

7. How a Supervised or Non-supervised Automatic Lender Requests VA Recognition of an Agent, continued

c. 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, telephone number, e-mail address, Federal Tax ID number 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.

Continued on next page

7. How a Supervised or Non-supervised Automatic Lender Requests VA Recognition of an Agent, continued

d. 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 agent 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.

e. 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.

f. Who is the LGC Issued to?

VA will issue the Loan Guaranty Certificate (LGC) to the sponsoring lender in WebLGY.

Continued on next page

7. How a Supervised or Non-supervised Automatic Lender Requests VA Recognition of an Agent, continued

g. 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, *Report and Certification of Loan Disbursement,* have been complied with.

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

Exception: 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.

h. Prior Approval Lenders

If the lender does not have automatic authority, they may not use the services of an agent. Follow prior approval procedures in Chapter 5 of this handbook.

8. Mergers and Acquisitions Involving Supervised or Non-supervised Automatic Lenders

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. The Issue

Changes in 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 Home 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.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Non-supervised Automatic Lenders, continued

b. Required Submissions

Whenever a supervised or non-supervised 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 RLC with jurisdiction over its home office:

- the names of the acquiring and selling entities, and the surviving entity.
- the information listed in Topic 2, Subsection a, of this chapter for the surviving entity.
- a general description of the assets being acquired in the merger or acquisition.
- 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 Topic 7 of this chapter for more information.

Note: Any of these items that remain unchanged do **not** have to be resubmitted; simply indicate that they are unchanged.
Questions about merger or acquisition transactions should be sent 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. Lenders with questions may send an e-mail to LoanPolicy.VBAVACO@va.gov.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Non-supervised Automatic Lenders, continued

c. Additional Submissions for Non-supervised Automatic Lenders

Non-supervised 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.

d. Additional Submissions for the Lender Appraising Processing Program (LAPP)

LAPP lenders must also provide a list of LAPP Staff Appraisal Reviewers (SAR) to be employed by the surviving entity that 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.

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.

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.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Non-supervised Automatic Lenders, continued

e. Immediate Impact While VA Reviews Submission

A change in the ownership of a non-supervised automatic lender always extinguishes the automatic authority (and therefore the LAPP authority) of the lender unless the new entity is supervised.

Whenever a supervised lender undergoes merger or acquisition, apply the standards detailed in Topic 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 Non-supervised Automatic	Supervised by a Federal entity listed in Topic 3 of this chapter.	None	Automatic authority continues.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Non-supervised 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.
Non-supervised 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.

Continued on next page

8. Mergers and Acquisitions Involving Supervised or Non-supervised 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
Non-supervised automatic with different ownership than surviving entity and/or a supervised lender	Non-supervised 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.
Non-supervised automatic with same ownership as surviving entity	Non-supervised lender	None	Automatic authority continues if lender retains its VA-approved underwriter(s).

9. Withdrawal of Automatic Authority from Supervised or Non-supervised Automatic Lenders

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

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 non-supervised 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 Topic 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 non-supervised 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 non-supervised automatic lenders, automatic authority may be withdrawn for poor underwriting consistently careless processing, failure to provide loan files timely, or to provide other necessary documents as requested by VA.

Continued on next page

9. Withdrawal of Automatic Authority from Supervised or Non-supervised 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, such as the 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.
- 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.

Continued on next page

9. Withdrawal of Automatic Authority from Supervised or Non-supervised Automatic Lenders, continued

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 hand carried 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.

e. Withdrawal for 1 to 3 Years

Withdrawal for 1 to 3 years can be based on any of the following:

- Failure to properly disburse loans, such as loan disbursement checks are returned due to insufficient funds.

- Involvement by the lender in the improper use of a Veteran's entitlement, such as knowingly permitting the Veteran to violate occupancy requirements.

- Lender involvement in the Veteran's sale of entitlement to a third party, such as 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 Non-supervised Automatic Lenders

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Introduction

Per 38 C.F.R. 36.4348, VA is authorized **to** collect fees from lenders with automatic authority to help defray the costs of administering the VA Home Loan program. Always submit fees to the RLC with jurisdiction over the lender's home office. Fees consist of annual participation fees, and administrative fees (for processing lender requests).

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).

Pay all fees by lender's check to the Department of Veterans Affairs.

If an agent, underwriter, or SAR 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 Non-supervised Automatic Lenders

Remit fees within 120 days of the end of the lender's fiscal year to the RLC with jurisdiction of the lender's home office. If the lender has ongoing VA-recognized agency relationships, a list of agent relationships is required.

Continued on next page

10. Participation Fees for Supervised and Non-supervised Automatic Lenders, continued

b. Annual Fees for Non-supervised Automatic Lenders, continued

The fees are as follows:

- $200 annual recertification fee.
- $100 for annual renewal of each agent that acts for the lender and was recognized by VA as the lender's agent as of the end of its fiscal year. **Note:** 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 required 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 Non-supervised Automatic Lenders

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

The required fees are:

- $100 for processing requests for approval of each nominee for underwriter. This is 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 Non-supervised 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 agent relationships in the previous calendar year, along with a list of agent relationships the lender wants to renew.

The required fee is $100 for annual renewal of each lender agent that acts for the lender and has been recognized by VA as the lender's agent.

Note: an annual fee is not 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 fee is $100 for processing requests for VA recognition of each lender agent.

f. LAPP Fees

Lenders must pay a one-time $100 fee for each SAR applicant. Remit the fee with the SAR application to the appropriate VA office. The fee is non-refundable, 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 LAPP, see Chapter 15 of this handbook.

11. Maintenance of Loan Records

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Requirement

Lenders must maintain all loan origination records on VA-guaranteed home loans for at least 2 years from the date of loan closing. Even if the loan is sold, the original lender must maintain all records (or legible copies) for the required period.

b. Examples of Loan Records

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(s),
- letters of explanation for adverse credit items and discrepancies,
- 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.

c. Accessibility

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

12. Lender Access to Training and Information

Change Date	February 1, 2019 • This chapter has been revised in its entirety.
a. VA Training Sessions	The RLCs and the Honolulu Regional Office conduct regular training sessions for lenders and other program participants in their jurisdictions. Each lender should: • 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 RLC of jurisdiction.
b. Web-based Training	VA offers interactive web-based training sessions to lenders and servicers. The HomeTown USA credit standards training course is located on your landing page within VIP at https://vip.vba.va.gov/portal/VBAH/Home. Additionally, Loan Guaranty training resources are available through the VA Home Loan website at https://www.benefits.va.gov/homeloans/index.asp.
c. Electronic Documents and Files	The Lender's Handbook, Servicing Guide, VA circulars, and other information are all available through the Lenders, Servicers, and Real Estate Professionals pages on the VA Home Loan website at https://www.benefits.va.gov/homeloans/index.asp.
d. Receipt of VA Mailings	It is essential that lenders inform the appropriate VA office whenever they have point of contact, address, or email changes. Informational mailings are sent to the address associated with a lender's VA ID number.
e. VA Offices of Jurisdiction	Contact the RLC with jurisdiction over the lender's home office to request any information not found in the VA Lender's Handbook, or to discuss a particular loan.

Continued on next page

12. Lender Access to Training and Information, continued

f. VA Escalation Protocol for Resolving Policy Issues	VA's escalation protocol to resolve policy issues can be found at: https://www.benefits.va.gov/HOMELOANS/documents/docs/Protocol_for_Resolving_Policy_Issues.pdf.

13. Calculation of Adjusted Net Worth

Change Date	February 1, 2019 • This chapter has been revised in its entirety.
a. Method	Net worth for VA purposes is determined by 38 C.F.R. §36.4352(b)(4)(ii).
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 statement, per the above regulation.
c. Calculation	Adjusted net worth is total assets, minus total liabilities, minus the following unacceptable assets: • 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 has a financial interest in or is employed in a management position by the lender. • 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. • 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.

14. Elements of a Quality Control Plan

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Purpose

A quality control (QC) plan must be submitted with every non-supervised lender's application for automatic authority. This exhibit outlines the criteria which the QC plan must satisfy. Although supervised lenders are not required to submit a QC plan with their application, VA will review the QC plan when VA performs a lender audit.

b. Audit Program

The QC plan must provide for:

- 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

The QC plan must provide:

- Audits or reviews are not less than ten 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 ten percent.
- 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 QC procedures.
- Procedures for validating third party verification data obtained through Automated Underwriting Systems (AUS).
- For each branch office that originates VA loans, an on-site branch office review should be conducted at least once annually.

Continued on next page

14. Elements of a Quality Control Plan, continued

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.
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. • 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. • 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).

Continued on next page

14. Elements of a Quality Control Plan, continued

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.

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.

k. Debarred Persons Not Employed

The QC plan must ensure that the lender does not employ for VA loan origination, or underwriting, any individual who is debarred or suspended.

l. Review of Loans

The QC plan must provide for the following on loans selected for review:

- 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. ***Note***: Report may be a Residential Mortgage Credit Report (RMCR) 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 determines whether underwriting conclusions and lender documentation are overall complete and accurate per 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** pre-signed in blank by the borrower or employee(s) of the lender, and were all corrections initialed by the borrower or employee(s) of the 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 RMCR standards, if 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

14. Elements of a Quality Control Plan, continued

l. Review of Loans, continued

Step	Action
5	Is there a correlation of each outstanding liability and each asset of the borrower and co-borrower used to qualify for the loan to those listed on the initial loan application? ***Note***: If discrepancies exist, the loan file must show they have been explained or otherwise resolved.
6	Were any outstanding judgments appearing on the credit report listed on the application with an accompanying explanation and documentation? ***Note***: 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.
7	Does the loan file contain required tax returns? ***Note***: If the borrower is self-employed, the loan file must include 2 years of tax returns and a profit and loss statement for year-to-date since the end of the last fiscal year, and a current balance sheet showing all assets and liabilities.
8	Was the Closing Disclosure accurately prepared and properly certified?
9	Were fees charged to the Veteran appropriate and accurate?
10	Was the loan properly documented and submitted in accordance with VA standardized loan file set-up procedure?
11	Was the loan current at the time it was submitted to VA for guaranty?
12	Did the borrower transfer the property at the time of closing or soon after, indicating possible misuse of the Veteran's loan entitlement?
13	**Were all conflicting information or discrepancies resolved and properly** documented in writing prior to submission of the loan to VA for guaranty?

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

Change Date

February 1, 2019

- This chapter has been revised in its entirety.

a. Checklist

☐ **1) Experience**

Your firm must meet one of the following experience requirements:

☐ **Company Experience**

- Firm actively engaged in originating VA loans for at least 2 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 2 years, and firm has originated and closed at least 25 VA loans (excluding IRRRLs).

☐ **Principal Officer Experience**

Documentation

Resumes for each principal officer (president plus any officers involved in managing loan origination functions) showing mortgage lending experience.

Experience Requirement

A principal officer who is actively engaged in managing VA origination functions must have at least 2 recent years management experience in the most recent 5 years.

Continued on next page

15. 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 2 years, and originated a minimum of ten VA loans; **or,**
- Firm actively operating as an agent for an automatic lender for less than 2 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 3 years of experience in processing, pre-underwriting or underwriting mortgage loans, and at least 1 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.

☐ **3) Working Capital or Net Worth**

- A minimum of $50,000 in working capital must be demonstrated; **or**
- Lender has $250,000 net worth and reported by CPA in annual financial statements (see Topic 14 of this chapter).

Continued on next page

15. Application Checklist for Authority to Close Loans on an Automatic Basis, continued

a. Checklist, continued

☐ **4) Financial Statements** audited and certified by a CPA **and** current to within 6 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 Topic 14 of this chapter)

☐ **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 13 Notices of Value

Overview

In this Chapter

This chapter contains the following topics.

Topic	Topic Name	See Page
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2	Scope of Appraisal Review	13-3
3	Appraisal Review Process	13-4
4	Appraisal Management System	13-6
5	Notice of Value Timeliness Expectation	13-8
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1. Issuing the Notice of Value

Change Date	July 22, 2019 • This chapter has been revised in its entirety.
a. Appraisal Uploaded in WebLGY	When the fee appraiser uploads the completed appraisal report into WebLGY, a lender's Staff Appraisal Reviewer (SAR) or VA staff must review the appraisal and issue a Notice of Value (NOV) to the Veteran.
b. Purpose of NOV	The NOV will inform the Veteran about the results of the appraisal report and conditions that must be met for guaranty of the loan. The NOV explains how appraisal reports differ from home inspections and suggests that the Veteran may wish to obtain a home inspection.
c. Processing under LAPP	Every property eligible for VA's Lender Appraisal Processing Program (LAPP) should be processed accordingly. If a LAPP-approved lender does not process an eligible property under LAPP, the request for VA staff to issue the NOV must include a detailed explanation.
d. NOV Reflects Conditions Required for the Loan to be Guaranteed	Since the NOV reflects the results of the appraisal review, lenders and servicers should refer to the NOV, not the appraisal, for the reasonable value, repair requirements, and all other appraisal-related conditions required for the loan to be guaranteed by VA.

2. Scope of Appraisal Review

Change Date

July 22, 2019

- This chapter has been revised in its entirety.

a. SAR's Certification of Appraisal Review

When issuing an NOV in WebLGY, the SAR must electronically certify the following: "*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 am 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.*" (WebLGY notes are considered "the attachment to this report" referenced in this certification).

b. SAR's Responsibilities

By making this certification together with the certifications already made when initially approved by VA, the SAR is certifying that he/she:

- personally reviewed the appraisal report (see Topic 3 of this Chapter),
- concurred with the fee appraiser's recommendation, except as noted in WebLGY notes,
- 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, and
- 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 the data in the report, and complied with applicable VA requirements.

3. Appraisal Review Process

Change Date

April 12, 2019

- This chapter has been revised in its entirety.

a. Appraisal Report and Electronic Scoring

After the appraiser uploads the completed appraisal report, the SAR must review the appraisal and the results of the electronic scoring of the appraisal by VA's Appraisal Management System (see Topic 4 of this Chapter).

b. Property Eligibility and VA Appraisal Guidelines

The SAR must ensure that:

- the property is eligible, and
- the appraisal report meets VA guidelines as outlined in Chapters 10, 11, and 12 of this Handbook.

c. MPR Repairs

The SAR must review the appraiser's recommendations for any VA Minimum Property Requirement (MPR) repairs and ensure that the property meets or will meet VA's MPRs. The SAR must limit repairs required on the NOV to only those repairs that are needed for the property to meet MPRs. SARs must place notes in WebLGY justifying any non-MPR repairs or inspections recommended by appraisers that the SAR has determined are not required on the NOV.

d. Clarifications on the Appraisal

During the review of an appraisal, in most cases, when a question arises, the SAR should first contact the appraiser for any needed clarifications and corrections. The SAR must document any contact with the appraiser and resolution of appraisal-related concerns in WebLGY notes. Customer service expectations are covered in Chapter 10, Topic 6 of this Handbook.

e. Appraisal Revisions

If the appraiser makes any changes to the appraisal report, the revised appraisal report must be uploaded into WebLGY.

Continued on next page

3. Appraisal Review Process, continued

f. Questions not Resolved by an Appraiser	If the question is not resolved after contacting the appraiser, the SAR should email the RLC for assistance. VA staff will assist the SAR in resolving the question concerning the appraisal.
g. Property Not Eligible	SARs must not issue an NOV for a property that cannot reasonably be expected to meet eligibility or VA MPRs prior to loan guaranty (see Chapters 10, 11, and 12 of this Handbook).
h. NOV to Reflect Appraiser's Estimate of Market Value	Once the SAR has determined the appraisal report is acceptable to VA, the SAR must issue the NOV in WebLGY at the appraised value. If contact with the appraiser resulted in the appraiser uploading an amended appraisal report with a changed value, the SAR must issue the NOV at the changed (current) value.
i. Electronic Issuance of an NOV	The SAR is not required to sign the NOV in ink since the SAR's name and VA-issued ID number are automatically included on the NOV. This constitutes an electronic signature since SARs log into WebLGY with a unique user name and password.
j. NOV Provided to the Veteran	The same day the NOV is issued, the SAR must send the Veteran a copy of the NOV together with a copy of the appraisal report.
k. Actions after the NOV Issued	After the NOV has been issued: • employees of lenders associated with the case will be able to view and download copies of the appraisal and NOV from WebLGY, • Veterans may request a waiver of a repair requirement (see Chapter 12, Topic 45 of this Handbook), and • interested parties may request a reconsideration of value (see Chapter 10, Topic 22 of this Handbook).

4. Appraisal Management System

Change Date

July 22, 2019

- This chapter has been revised in its entirety.

a. Electronic Scoring of the Appraisal

When the appraiser uploads the completed appraisal report into WebLGY, VA's Appraisal Management System (AMS) will electronically read and score the appraisal, assisting SARs in quickly assessing appraisal risk, determining property eligibility, ensuring VA policy compliance and identifying over/under-valuations, and appraisal quality issues. SARs must use AMS as a tool to help ensure appraisals are accurate, complete, and that the property is properly valued according to VA-accepted appraisal principles and practices.

b. Business Rules in AMS

As a rules-based system, AMS will assist SARs in finding inconsistencies by flagging items as potentially problematic, and determining whether the appraisal is in compliance with VA appraisal requirements, industry-accepted appraisal principles, and Uniform Standards of Professional Appraisal Practice (USPAP).

c. Alerts Provided by AMS

Alerts will be noted by the AMS based on VA's business rules. All high alerts must be addressed in WebLGY notes. Medium and low alerts do not require a comment, but should be carefully reviewed by the SAR. Often the alerts will reflect an NOV condition that must be required, with no clarification needed from the appraiser.

d. VA Guidance on Specific AMS Scores

VA will issue a circular periodically describing the AMS scores that will be considered low-risk and high-risk appraisals. SARs may perform a cursory review on low-risk appraisals. High-risk appraisals require a comprehensive review. Sometimes a score of "N/A" will be reported for complex, rural, or new/proposed construction properties due to a lack of market data. While this is not an indication of a high-risk appraisal, a comprehensive review must be performed since the AMS did not return a score within the acceptable range for a cursory review. SARs must indicate whether or not a cursory review was performed in WebLGY with the indicator on the screen where the NOV is issued.

Continued on next page

4. Appraisal Management System, continued

e. Cursory Review of an Appraisal

Cursory review requirements include:

- reviewing the sales comparison grid,
- confirming that the report contains the required photographs (see Chapter 11, Topic 3 of this Handbook) which accurately reflect the appraiser's description of the subject and comparable properties,
- identifying all VA MPRs that must be addressed before the property can become the security for a VA-guaranteed loan,
- reviewing any alerts identified by the AMS, documenting any high alerts in WebLGY notes, and
- identifying any additional conditions that must be included on the NOV.

f. Findings upon Cursory Review

Findings in a cursory review may cause the review process to be elevated to a comprehensive review.

g. Additional Requirements for a Comprehensive Review

Comprehensive review requirements include the requirements specified above for a cursory review and:

- verifying that the appraisal report is fully completed,
- verifying that the appraisal meets USPAP requirements,
- verifying that the appraisal complies with the Uniform Appraisal Dataset (UAD) requirements,
- determining 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, and
- ensuring that the appraiser's market value estimate and other conclusions are consistent with those in similar cases recently processed.

h. Systems Not in Operation

If system issues arise and AMS results are not available, the SAR may perform a comprehensive review, noting in WebLGY that AMS results were not available. If WebLGY is not available, the SAR may issue the NOV outside of WebLGY, entering the NOV in WebLGY when the system is back online. A note should be entered documenting that this procedure was followed.

5. Notice of Value Timeliness Expectation

Change Date	July 22, 2019 • This chapter has been revised in its entirety.
a. Importance of Prompt Issuance of an NOV	VA is committed to providing expeditious service to Veterans. It is advantageous to Veterans to receive the NOV well ahead of the scheduled loan closing.
b. Timeliness Expectation	The SAR must issue the NOV within five business days from the time the completed appraisal is uploaded into WebLGY, unless there is a delay beyond the SAR's control. Any delays should be explained in WebLGY notes.
c. Lender Delays	LAPP lenders are responsible for resolving any timeliness problems involving authorized agents and branch personnel.
d. Notification to an RLC if the Appraisal is Late	The RLC should be notified when appraiser timeliness expectations are not being met.

6. Appraisal Review Reference Materials

Change Date

July 22, 2019

- This chapter has been revised in its entirety.

a. Industry News and Resources

SARs should have access to articles published online by professional appraisal organizations and subject matter experts, as well as economic forecasts, real estate market trends and appraisal industry news.

b. Reference Materials

The following reference materials should be available to the SAR:

- the VA Lender's Handbook,
- all valid VA-issued Circulars,
- VA's "Local Requirements" at http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp,
- applicable Federal statutes and VA regulations, USPAP, and
- residential appraisal publications which include instructions for completing the Uniform Residential Appraisal Report (URAR) and other acceptable appraisal report forms.

7. Notice of Value Validity Period

Change Date	July 22, 2019 • This chapter has been revised in its entirety.
a. Validity Period	An NOV is valid for 6 months.
b. Veteran Under Contract	If a Veteran is under contract during the validity period, processing may continue until that transaction is either completed or terminated.
c. Extension of the Validity Period	On a case-by-case basis, VA may extend validity periods when requests for such actions are reviewed and found to be appropriate under prevailing conditions.

8. Notice of Value Conditions

Change Date	July 22, 2019 • This chapter has been revised in its entirety.
a. NOV Conditions	All conditions included on an NOV must be satisfied prior to guaranty of the loan by VA.
b. Additional Lender Requirements	While lenders may require additional documentation over and above VA requirements, often referred to as "lender overlays", items that are not required by VA must not be included on the NOV.
c. Table of NOV Conditions	The following table lists the conditions that appear on the NOV form with details about when each condition is required on the NOV. The NOV letter format is provided in Appendix A at the end of this chapter.

Continued on next page

8. Notice of Value Conditions, continued

c. Table of NOV Conditions, continued

NOV Condition	Details for including this condition on an NOV
1. Energy Conservation	Item 1a should be marked on NOVs for existing properties (over 1-year old or previously occupied) to allow lenders to increase the loan amount for Veterans wishing to make energy efficiency improvements (see Chapter 7 of this Handbook). Item 1b should be marked on NOVs for new or proposed construction excluding manufactured homes. For new and proposed manufactured homes, energy efficiency is already covered by the manufacturer's guidelines (see Chapter 12, Topic 42 of this Handbook) so this item should not be marked.
2. Wood Destroying Insect Information	If the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy," a wood destroying insect inspection report must be required on the Notice of Value (NOV). Mark 2a if the property is existing or new construction, or item 2b if the property is proposed. For new construction, if a soil treatment guarantee is provided, this is preferable and will satisfy condition 2a. The pest control operator must meet all state requirements. State-required inspection forms are acceptable. Inspection reports are valid for 90 days. Soil treatment guarantees differ from an inspection and are consequently valid well beyond 90 days. A wood-destroying insect inspection is not required on units in low-rise or high-rise condominiums (units are stacked vertically) unless the appraiser notes a potential infestation problem. For site condominiums, and villa or townhome style condominiums where units are not vertically stacked, an inspection must be required on the NOV unless evidence of a treatment guarantee has been provided by the homeowners association.

Continued on next page

8. Notice of Value Conditions, continued

c. Table of NOV Conditions, continued

NOV Condition	Details for including this condition on an NOV
3. Lien-Supported Assessment	If the property is located in a planned unit development (PUD) or condominium, mandatory homeowners association fees must be shown on the NOV. Special assessments including local authorities collecting Community Development District (CDD) fees or other fees on the HOA's behalf should be reported here as well.
4. Condominium	If the condominium is conditionally accepted by VA, this item should be marked. This item is not required if the condominium is fully accepted by VA. If the condominium has not been accepted by VA, the NOV must not be issued. (See Chapter 11, Topic 12 of this Handbook).
5. Private Road/Shared Driveway	If access to the property is by a private road or shared driveway, this item should be marked, unless the property is in a PUD or condominium with private streets which are covered by the organizational documents. If a state law establishes requirements for the maintenance of private roads, this condition is not needed on the NOV.
6. Flood Insurance	If the property is located in a Special Flood Hazard Area, this item must be marked. It is the lender's responsibility to ensure 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. If flood insurance is not available, a property in a SFHA is not eligible to be the security for a VA-guaranteed loan.
7. Water/Sewage System Acceptability	If the property has an individual water supply, such as a well, this condition must be marked. For proposed construction cases, acceptance of an individual sewage system must be required. Acceptance of the sewage system is also required for existing or new construction cases in which there is an indication of a problem or the property is in an area known to have soil percolation problems. Certifications are valid for 90 days unless the local authority indicates otherwise.

Continued on next page

8. Notice of Value Conditions, continued

c. Table of NOV Conditions, continued

NOV Condition	Details for including this condition on an NOV
8. Connection to Public Water and/or Public Sewer	This condition is required only if the property does not have public water and/or sewer and the state or local authority has mandated connection to public utilities.
9. Repairs	The repairs recommended on the appraisal should be reviewed and only those which are needed for the property to meet VA MPRs should be listed on the NOV. Any apparent defective conditions observed by the appraiser must be addressed by requiring correction, rather than an inspection. The completion of any repairs that could involve lead-based paint must be certified by the fee appraiser.
10. Post Construction Inspection	This condition must be marked on all proposed construction properties and properties appraised subject to alterations such as a room addition.
11. New Construction Inspections/Warranty	For new construction properties, either 11a or 11b must be required based on whether or not local building inspections are performed. Since new construction must have either a 1 year or a 10-year warranty, either 11c or 11d must be marked.
12. Proposed Construction Inspections/Warranty	For proposed construction properties, either 12a or 12b must be required based on whether or not local building inspections are performed. Warranty requirements are determined accordingly.

Continued on next page

8. Notice of Value Conditions, continued

c. Table of NOV Conditions, continued

NOV Condition	Details for including this condition on an NOV
13. New or Proposed Manufactured Home	If the subject is a new or proposed manufactured home, 13a or 13b must be required based on whether the local authority issues a certificate of occupancy. VA Form 26-8599, Manufactured Home Warranty, is provided by the manufacturer and the 1-year warranty is provided by the manufactured home installer who placed the home on the foundation.
14. Lead/Water Distribution System	This condition must be required on all new or proposed construction properties, and on properties having repairs to the potable water distribution system.
15. Radon Gas	This condition must be required on all new or proposed construction properties.
16. Other Conditions	Any additional requirements should be listed in Item 16, for example, an unvented space heater (see Chapter 12, Topic 24 of this handbook), an airport safety zone (see Chapter 12, Topic 41 of this handbook), requirements for cisterns (see Chapter 12, Topic 17 of this handbook), stationary storage tanks containing flammable material (see Chapter 12, Topic 37 of this handbook), or any local requirements (see Chapter 12, Topic 1, Item h of this Handbook).

Appendix A. Notice of Value Sample Letter

Change Date July 22, 2019
- This chapter has been revised in its entirety.

[Reminder: The NOV must be mailed or emailed to the Veteran on the date issued.]

[on lender's letterhead]

LENDER'S NOTICE OF VALUE

[date NOV issued]

[Veteran's name]
[Veteran's current address]
[Veteran's city, state, zip code]

LENDER LOAN #:
VA CASE #:
APPRAISAL REVIEWER: [SAR name, SAR id #]
PROPERTY ADDRESS: [complete address]

Dear [Mr. or Ms.] [Veteran's last name]:

The above property has been appraised by a fee appraiser assigned by the VA Regional Loan Center in [RLC City and State]. On [date NOV issued], the VA-authorized appraisal reviewer personally reviewed the fee appraiser's report and determined the property's estimated reasonable value to be $[value]. The maximum repayment period for a loan secured by this property is [30 years or estimated remaining economic life on appraisal, whichever is less].

The VA appraisal was made to determine the reasonable value of the property for loan purposes. <u>The appraisal must not be considered a building inspection.</u> 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. VA recommends testing for radon, which the government has determined can cause lung cancer.

REMEMBER: VA GUARANTEES THE LOAN, NOT THE CONDITION OF THE PROPERTY

Continued on next page

Appendix A, continued

The following marked conditions apply to this property:

1. ENERGY CONSERVATION.

( ) a. Existing property. You 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.

( ) b. New or proposed construction property. Builder's certification that this new dwelling was constructed to meet the energy conservation standards of the International Residential Code (IRC).

2. WOOD-DESTROYING INSECT INFORMATION.

( ) a. Inspection Report (Existing or New Construction). The property must be inspected by a qualified pest control operator using Form NPMA-33, or other VA-approved collection method. 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 Construction). Properly completed NPMA-99a and NPMA-99b forms are required. The lender will provide you with a copy of these forms.

3. LIEN-SUPPORTED ASSESSMENT.
( ) a. Homeowner Association Fee. Estimated fee of $[0.00] per [period of time].
( ) b. Other (Special Assessments, Assessments by local taxing authorities)

4. ( ) CONDOMINIUM. Evidence that the condominium project meets VA requirements.

5. ( ) PRIVATE ROAD/SHARED DRIVEWAY. Evidence that use of the private road/shared 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.

Continued on next page

Appendix A, continued

6. ( ) FLOOD INSURANCE. If improvements on this property are located in a FEMA Special Flood Hazard Area, flood insurance is required. The lender must verify flood zone information provided on an appraisal report.

7. WATER/SEWAGE SYSTEM ACCEPTABILITY. Evidence from the local health authority or other source authorized by VA that the individual
( ) water supply, and/or
( ) sewage disposal system(s)
is/are acceptable.

8. CONNECTION TO ( ) PUBLIC WATER and/or ( ) PUBLIC SEWER. Required only when connection is mandated by a local authority.

9. ( ) REPAIRS. The ( ) lender ( ) fee appraiser (_____[insert name]_____) is to certify that the following repairs have been satisfactorily completed.

_____
_____
_____
_____
_____ Important – please see the above second paragraph about your responsibility concerning the condition of the property.

10. ( ) POST CONSTRUCTION INSPECTION. The fee appraiser (_____[insert name]_____) must visit the property and certify that construction substantially complies with the certified construction exhibits on which the appraisal was based, or that the construction is in accordance with the model home and related information on which the appraisal was based, and that improvements comply with any conditions in the sales contract.

11. NEW CONSTRUCTION INSPECTIONS/WARRANTY.
( ) a. Provide copy of the Certificate of Occupancy (CO), or equivalent document, issued by a local building authority.
or
( ) b. The local authority does not perform construction inspections. The lender is to certify that the property is complete (both on-site and off-site improvements) and that it meets VA MPRs for existing construction. The lender must obtain the Veteran's written acknowledgement that the property was not inspected during construction.

Continued on next page

Appendix A, continued

( ) c. The builder must provide a 1-year VA builder's warranty completed on VA Form 26-1859, Warranty of Completion of Construction. VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period.
or
( ) d. Provide evidence of enrollment in a 10-year insurance backed protection plan. VA will not assist with any construction complaints.

12. PROPOSED CONSTRUCTION INSPECTIONS/WARRANTY.
( ) a. Provide a copy of the Certificate of Occupancy (CO), or equivalent document, issued by the local building authority. The builder must provide a 1-year VA builder's warranty completed on VA Form 26-1859, Warranty of Completion of Construction. VA will provide assistance with construction complaints limited to defects in equipment, material and workmanship reported during the one-year builder's warranty period.
or
( ) b. The local authority does not perform construction inspections, therefore the property must be covered by both a 10-year insurance backed protection plan and a 1-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction. The lender is to certify that the property is complete (both on-site and off-site improvements) and that it meets VA MPRs for existing construction. VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period only. The lender must obtain the Veteran's written acknowledgement that the property was not inspected during construction.

13. NEW OR PROPOSED MANUFACTURED HOME.
( ) a. Provide a copy of the Certificate of Occupancy (CO), or equivalent document, issued by the local building authority. Provide the warranty on VA Form 26-8599, Manufactured Home Warranty, and a 1-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction. VA will provide assistance with construction complaints limited to defects in equipment, material and workmanship reported during the one-year builder's warranty period.
or
( ) b. The local authority does not perform construction inspections. The lender must provide evidence that the manufactured home has been installed on a permanent foundation. Provide warranty on VA Form 26-8599, Manufactured Home Warranty, and a 1-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction. VA will provide assistance with construction complaints limited to defects in equipment, material, and workmanship reported during the 1-year builder's warranty period. The lender must obtain the Veteran's written acknowledgement that the property was not inspected during the construction of the manufactured home foundation.

Continued on next page

Appendix A, continued

14. ( ) LEAD/WATER DISTRIBUTION SYSTEM. The builder's certification which identifies this 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.

15. ( ) RADON GAS. Builder to certify that radon resistant construction techniques were used and construction meets local building codes and state regulations for radon control, where applicable. In the absence of any building codes, certification will be based upon IRC requirements.

16. OTHER CONDITIONS

Expiration Date: (six months from date of appraisal).

Sincerely,

(WebLGY will automatically enter the name of the individual who logged into WebLGY with a password and issue the NOV).

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	• 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.

Continued on next page

Determining the Type of Inspection (continued)

When the property is appraised as ...	Then ...
existing construction with major • alterations • improvements, or • repairs	VA will determine on a case-by-case basis • 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.

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14.01 Obtaining an Inspection	14-3
14.02 Inspection Stages	14-4
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14.04 Manufactured Homes Classified as Real Estate	14-11
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14.06 Lender Use of Inspection Reports	14-14
14.07 Changes to Construction Exhibits	14-15

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.

Continued on next page

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.

Continued on next page

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.

Continued on next page

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
- finish grading
- drainage
- utility connections
- walks
- drives
- accessory buildings
- retaining walls
- planting
- safety provisions at
  - terraces
  - porches
  - areaways
- protection against the elements and penetration of moisture
- masonry pointing
- caulking at openings
- paint coverage
- flashing
- design of dwelling structure
- materials and details of their installation and finish
- offsite improvements including
  - utilities
  - storm sewer system
  - drainage channels
  - grading
  - curbs
  - gutters
  - paving
  - pavement edging
  - subgrade, and
  - base and wearing surface and erosion control

Interior Inspection:

- design
- materials, equipment, and details of their installation
- interior surfaces and their finish treatment
- cabinets and millwork
- details and operation of systems, equipment, and fixtures related to
  - plumbing
  - heating
  - ventilating
  - electric
- quality and operation of hardware
- quality of
  - tilework
  - glass
  - linoleum
  - venting of attics and underfloor spaces

Continued on next page

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 in 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.

Continued on next page

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.

Continued on next page

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.

Continued on next page

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…

Continued on next page

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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Chapter 15. Lender Appraisal Processing Program (LAPP)

Overview

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering and to make minor grammatical edits.

a. Purpose of LAPP

The purpose of the Lender Appraisal Processing Program (LAPP) is to speed up the time to loan closing by allowing VA-authorized lenders to receive appraisal reports directly from appraisers and process them without VA involvement.

b. 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 • 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

c. In this Chapter

This chapter contains the following topics:

Topic	See Page
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15.02 Lender Quality Control System Requirements	15-5
15.03 Applying for LAPP Authority	15-7
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15.01 LAPP Eligibility

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering and to make minor grammatical edits.

a. 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.

b. Role of Staff Appraisal Reviewer

The lender exercises its LAPP authority through an employee who is a VA-approved staff appraisal reviewer (SAR).

c. SAR Requirements

A lender's staff appraisal SAR must:
- be a full-time salaried employee of the lender, and
- have at least 3 years of work experience which qualifies him or her to competently perform administrative appraisals reviews in conjunction with underwriting loans for VA loan guaranty purposes.

d. 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 of experience related to the HUD Direct Endorsement program satisfies the experience requirement provided all other application requirements are satisfied.

Continued on next page

15.01 LAPP Eligibility, Continued

e. Location of SAR

There is no restriction on the location of a lender's SAR.

f. 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.

Note: 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.

g. SAR Conflicts of Interest

There must not be a 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

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering, add hyperlinks, and to make minor grammatical edits.

a. 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 Lender's Staff Appraisal Reviewer Application (SAR) Application, VA Form 26-0785, that the QC system meets the requirements detailed in this section.

b. 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.

c. 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

15.02 Lender Quality Control System Requirements, Continued

d. 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.

e. 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.

f. 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.

g. 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 Loan Center where the appraiser is a member of the fee panel.

15.03 Applying for LAPP Authority

Change Date

June 28, 2010, Change 14

- This section has been updated to add subsection lettering, add hyperlinks, and to make minor grammatical edits.

a. Application and Fees

Submit a separate Lender's Staff Appraisal Reviewer Application (SAR) Application, VA Form 26-0785, and fee for each SAR approval request to the VA regional office with jurisdiction over the SAR's physical location.

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.

For each SAR approval request, include a $100 processing fee plus the information, statements and certifications exactly as detailed on the application, either on lender letterhead or attached to a statement on lender letterhead which references it.

The same procedure applies to subsequent requests for VA approval of additional SARs.

b. Notification of VA Decision

The VA regional office will review the application materials submitted and notify the lender of its decision as quickly as possible.

If VA determines that the SAR meets basic LAPP qualification requirements, it will inform the lender that the SAR must fulfill the *SAR Training and Initial Case Review* requirements detailed in this chapter.

c. SAR ID Number

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 a SAR for that lender.

15.04 SAR Training and Initial Case Reviews

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering, add hyperlinks, and to make minor grammatical edits.

a. Training and Case Review Requirements

The Staff Appraisal Reviewer (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.

b. 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 a 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.

Continued on next page

15.04 SAR Training and Initial Case Reviews and Initial Case Reviews, Continued

c. 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 numbers for at least five cases.

d. 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 1 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

15.04 SAR Training and Initial Case Reviews and Initial Case Reviews, Continued

e. 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. **Note**: SAR should not send it to the veteran purchaser.
4	VA staff or an experienced SAR with VA permission reviews the following items: • the NOV, • the appraisal request, • the appraisal report, and • any related documents.
5	If the SAR's work on the case is acceptable • VA staff will issue a NOV to the lender within 5 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. ***Reference***: Chapter 13, Section 3.

Continued on next page

15.04 SAR Training and Initial Case Reviews and Initial Case Reviews, Continued

f. 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 5 days of receipt of the package.
found to have substantive deficiencies such as failure to • identify significant appraisal errors, or • correctly note minimum property requirements or other conditions or requirements on the NOV	VA's letter to the lender • will state that the SAR must continue to submit LAPP cases for VA review and issuance of a VA NOV 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 of Lender's Status

Change Date

June 28, 2010, Change 14

- Subsection b has been changed to add language to the required statement lenders must submit.
- This section has been updated to add subsection lettering, add hyperlinks, and to edit minor grammatical errors.

a. SAR No Longer Employed or Performing SAR Work

The lender must promptly notify VA if the Staff Appraisal Reviewer 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.

b. SAR Employed By New Lender

If the SAR begins work for a new lender, that lender must promptly submit to VA a new VA Form 26-0785, Lenders Staff Appraisal Reviewer Application, 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 and issued NOVs within the last year.

c. Lender Changes

The lender must notify VA any time there is a

- change in ownership,
- merger, or
- acquisition.

Reference: See Chapter 1, Section 9 for a description of the information VA needs from the lender to continue its LAPP authority.

15.06 Lender Responsibilities Under LAPP

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering, add hyperlinks, and to edit minor grammatical errors.

a. 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 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.

b. 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 Chapter 17, Section 4.

c. 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

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering, add hyperlinks, and to edit minor grammatical errors.

a. 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.

b. Appraisal Requirements

For details about VA appraisal requirements, see Chapter 11.

c. Appraisal Reviews

For details about requirements for reviewing appraisals and issuing notices of value for VA purposes, see Chapter 13.

d. 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 an NOV. The submission must include the SAR's draft 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 Chapter 5, Section 4.

Note*:* Every property eligible for the 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

Change Date

June 28, 2010, Change 14
- This section has been updated to add subsection lettering, add hyperlinks, and to edit minor grammatical errors.

a. 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 from 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.

Reference: Chapter 1, Section 7.

b. 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.

Reference: Chapter 1, Section 8.

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.

Continued on next page

15.08 Affiliates and Agents, Continued

c. 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	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. If the agent is to receive the appraisal report, the request must include the agent's: • address in item 5, • signature in item 38, • firm's name in item 39, and • telephone number in item 40. ***Note***: In requesting an appraisal, the authorized agent is making the required certifications on behalf of the sponsoring lender.

Continued on next page

15.08 Affiliates and Agents, Continued

c. 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 Chapter 13, Section 10.

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.

Topic	See Page
Section A: Requirements for Properties in Common Interest Communities	16-A-1
Section B: Use of Attorney's Opinion	16-B-1

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.

Topic	See Page
16-A.01 Requirements Applicable to All Properties in Common Interest Communities	16-A-2
16-A.02 Condominium Approval Procedures	16-A-5
16-A.03 Table of Required Documents	16-A-9

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]

Continued on next page

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	indicate any special conditions/requirements which must be met prior to VA guaranty of an individual loan in the project, such as • recording of documents • pre-sale requirement, or • completing of common areas. ***Note***: There is no formal VA approval letter for projects accepted by VA based on their approval by HUD or USDA.
there were • missing/incomplete documents • inaccurate/inconsistent information, or • correctable deviations from VA requirements	explain what further documentation is needed. ***Note***: VA will then suspend processing pending receipt of the needed information or material.
the project is unacceptable	state the reason. ***Note***: 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.

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

Continued on next page

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

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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.

Continued on next page

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.

Continued on next page

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.

Continued on next page

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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.

Continued on next page

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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.

Continued on next page

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.

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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.

Continued on next page

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

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

- 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.

The conclusions stated by the attorney are subject in each instance to the operation and effect of any such matters.

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.

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.

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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.

Continued on next page

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;

Continued on next page

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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.)

Continued on next page

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.

Continued on next page

January 1, 2001 16-B-15

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;

Continued on next page

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.

Continued on next page

January 1, 2001 16-B-17

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.

Continued on next page

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).

Continued on next page

January 1, 2001 16-B-19

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.

Continued on next page

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;

Continued on next page

January 1, 2001 16-B-21

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.

Continued on next page

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).

Continued on next page

January 1, 2001 16-B-23

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.

Continued on next page

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;

Continued on next page

January 1, 2001 16-B-25

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.

Continued on next page

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
Attorney's Opinion, 16-1
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Basic VA Requirements. *See* Section 16-A
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Waivers or Limitations, 16-8
Zoning Requirements, 16-10

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.

Topic	See Page
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17.02 False Lender Certification	17-6
17.03 Withdrawal of Automatic Authority	17-7
17.04 Withdrawal of LAPP Authority	17-11
17.05 Debarment and Suspension	17-15
17.06 Limited Denial of Participation (LDP)	17-18
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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.

Continued on next page

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.

Responsbilities 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

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.

Note: Occasionally debarment is used to exclude the participant from only certain types of transactions.

Debarment Time Period

Debarment is effective for a period appropriate to the seriousness of the cause. Often a period of 3 years is deemed appropriate.

Suspension

Suspension has the same impact as debarment, but is imposed on a temporary basis, pending the outcome of

- investigative
- legal, or
- debarment proceedings.

Note: Suspension can be followed by debarment if the results of the proceedings warrant.

Suspension Time Period

Suspension generally does not exceed 18 months. It is imposed for a temporary period pending

- investigative
- legal, or
- debarment proceedings.

Note: An additional period of debarment may follow.

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	All loan guaranty program participants debarred by VA are listed in GSA's *List of Parties Excluded From Federal Nonprocurement Programs*. Most of these debarments are Government-wide. The GSA list contains government-wide debarments of parties who cannot participate in the nonprocurement programs of any Federal agency.
Participant is an Entity	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 • entire organization • a certain part of the organization, or • only certain individuals.
VA Regulations	VA can impose debarments or suspensions based on any of a multitude of causes outlined in VA regulations • 38 CFR 44.305, and • 38 CFR.44.405. **[38 CFR 44.305]** **[38 CFR 44.405]**

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	In the case of builders with unresolved construction deficiencies, the LDP may be for • 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 *List of Parties Excluded From Federal Procurement and Nonprocurement Programs*. 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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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	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. 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.)

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	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.) ***Note:*** The SAR must notify the RLC of jurisdiction when a test case has been submitted in TAS.
5	VA RLC staff will review the following for all test cases and a percentage of subsequent cases: • 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.

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