

VA LOAN GUARANTEE PROGRAM

POLICY	GUIDELINE																	
PRODUCT TYPE & TERMS	<ul style="list-style-type: none"> 30, 15 Year Fixed Rate Temporary Buy-downs are not permitted. Loan is assumable 																	
THIRD PARTY FEES	Third party processing fees as a separate fee paid by the borrower, property seller, or other third party is not allowed.																	
OCCUPANCY	<ul style="list-style-type: none"> Primary Residence ONLY Special considerations to deployed military and families. Refer to VA Lender Handbook.																	
MINIMUM FICO / CREDIT	<ul style="list-style-type: none"> Minimum 620 credit score for all borrowers regardless of AUS decision Non-traditional credit is not permitted Non-credit payment references may not be used to offset unacceptable credit in a trade line reference. Loan with mortgage derogatories greater than 0 x 60 in the last 12 months are ineligible. Rate and Term over 90% LTV must be 0x30 in the most recent 6 months. No outstanding tax liens or delinquent government debt allowed. No bankruptcy in last 24 months or foreclosure allowed in the last 24 months. All borrowers must be screened using the CAIVRS system. A Tri-merge Credit Report is required on all VA loans including Interest Rate Reduction Refinances (IRRRL)* <p style="text-align: center;">*See VA IRRRL Matrix located on the TPO Connect Website</p> <p>Disputed Accounts Lender may consider a veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment. Account balances reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments. For unpaid debts or debts that have not been paid timely, pay-off of these debts after the acceptability of applicant's credit is questioned does not alter the unsatisfactory record of payment.</p>																	
HIGH BALANCE LOAN REQUIREMENTS	<table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 40%;">Transaction</th> <th style="width: 30%;">Base Loan Amount*</th> <th style="width: 30%;">Minimum Loan Score</th> </tr> </thead> <tbody> <tr> <td rowspan="3">Purchase, Rate/Term, VA other finance, IRRRL</td> <td>>\$484,350-\$700,000</td> <td>620</td> </tr> <tr> <td>>\$700,000-\$1,000,000</td> <td>620</td> </tr> <tr> <td>>\$1,000,000-\$1,500,000</td> <td>700</td> </tr> <tr> <td rowspan="3">Cash Out Refinance</td> <td>>\$484,350-\$700,000</td> <td>640</td> </tr> <tr> <td>>700,000-\$1,000,000</td> <td>660</td> </tr> <tr> <td>>\$1,000,000-\$1,500,000</td> <td>700</td> </tr> </tbody> </table> <p>*Start point of when to require the Minimum Loan Score depends upon property location and number of units</p> <ul style="list-style-type: none"> Total loan amounts > \$1,000,000 require a certified appraiser when requesting the appraiser assignment from VA. 	Transaction	Base Loan Amount*	Minimum Loan Score	Purchase, Rate/Term, VA other finance, IRRRL	>\$484,350-\$700,000	620	>\$700,000-\$1,000,000	620	>\$1,000,000-\$1,500,000	700	Cash Out Refinance	>\$484,350-\$700,000	640	>700,000-\$1,000,000	660	>\$1,000,000-\$1,500,000	700
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LOAN PURPOSE	<ul style="list-style-type: none"> Purchase Interest Rate Reduction Refinance (IRRRL)* Cash Out Refinance Type I: A refinancing loan in which the loan amount (including Funding Fee) does not exceed the payoff amount of the loan being refinanced (ie: only paying off the existing conventional loan). Cash Out Refinance Type II: A refinancing loan in which the loan amount (including Funding Fee) exceeds the payoff amount of the loan being refinanced (such as including debt). <p style="text-align: center;">* See IRRRL Matrix</p>																	
MAX LTV / CLTV	Assuming full entitlement: <ul style="list-style-type: none"> PURCHASE: 100% / 100%. Interest Rate Reduction Refinance (IRRRL)* *See IRRRL Matrix Cash Out Refinance Type I and Type II: 90% / 90% (min 660 credit score required, no exceptions) Unlimited cash-back. LTV cannot exceed 90% LTV including the funding fee. 																	

<p>NTB Test, VA Loan Comparison, Home Equity Disclosure</p>	<p>All “Cash Out” transactions must meet the Net Tangible Benefit requirement and must be provided to the Veteran within three days of application.</p> <p>The NTB must meet at least one of the following:</p> <ul style="list-style-type: none"> • The new loan eliminates monthly mortgage insurance • The term of the new loan is shorter than the term of the loan being refinanced • The interest rate on the new loan is lower than the interest rate on the loan being refinanced • The payment on the new loan is lower than the payment on the loan being refinanced • The new loan results in an increase in the borrower’s monthly residual income • The new loan refinances an interim loan to construct, alter, or repair the home • The new loan is equal to 90% of the reasonable value of the home • The new loan refinances an adjustable rate loan to a fixed rate loan <p>A comparison key (such as an old versus new comparison) is required of key loan characteristics or terms for the exiting and refinancing loan, including:</p> <ul style="list-style-type: none"> • Refinancing loan amount vs. the payoff amount of the loan being refinanced. • Loan type of the refinancing loan vs. the loan being refinanced. • Loan term of the refinancing loan vs. the loan being refinanced. • The total Veteran will have paid after making all payments (principal and interest), and mortgage insurance, as scheduled, for both the refinancing loan and the loan being refinanced. • LTV of the loan being refinanced. • An estimate of the home equity being removed from the home as a result of the refinance and explain how the removal of home equity may affect the Veteran. <p>VA Loan Comparison and Home Equity Disclosures:</p> <ul style="list-style-type: none"> • There are two required for VA Cash Out Refinance, are required to be signed at application and again at closing. They are titled as follows <ul style="list-style-type: none"> ○ VA Guaranteed Home Loan Cash Out Refinance Comparison Certification ○ VA Cash Out Refinance Home Equity Disclosure <p>Please also refer to the Net Tangible Benefit for VA Cash Out Refinances job tool located on the intranet with this matrix under VA/ Net Tangible Benefit for VA Cash Out Refinances.</p>
<p>LOAN SEASONING REQUIREMENTS</p>	<p>VA will not guarantee a refinancing loan if the loan being refinanced has not been properly seasoned. This requirements apply to both Type I and Type II cash out refinance transactions made to refinance an existing VA loan:</p> <ul style="list-style-type: none"> • The borrower must have made at least six consecutive monthly payments on the loan being refinanced (initial loan), beginning with the payment made on the first payment due date AND • The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan.
<p>FEE RECOUPMENT</p>	<p>The broker/correspondent must certify the recoupment period to VA to obtain a Loan Guaranty Certificate. This requirement only applies to Type I cash out refinancing loans made to refinance an existing VA guaranteed home loan.</p> <p>The recoupment period for <u>all allowable fees and charges</u> financed as part of the loan or paid at or before closing does not exceed 36 months.</p> <p>Calculation: Divide all fees, closing costs, expenses, and incurred costs (excluding taxes, escrow, insurance, and like assessments), by the reduction of the monthly principal and interest payment as a result of the refinance.</p> <p><i>Note:</i> If the loan being refinanced has been modified, the principal interest reduction must be computed/compared to the modified principal and interest monthly payment.</p>
<p>LOAN AMOUNTS</p>	<p>For loans with BASE loan amounts exceeding \$453,100, please refer to the VA Jumbo Addendum for additional requirements.</p>
<p>VA COUNTY LOAN LIMITS</p>	<p>A Veteran with full entitlement available may borrow up to the maximum VA limits and VA will guarantee 25% of the loan amount (purchase transaction) or appraised value (cash-out refinance transaction).</p> <p>Link to VA Loan Limit website</p>
<p>REFINANCE REQUIREMENTS</p>	<p>There must be a lien of record on the property in order for the borrower to refinance with a VA loan. For cash-out refinance, the existing lien does not need to be a VA loan.</p> <ul style="list-style-type: none"> • Cash out max LTV-90% (includes funding fee) • Credit score required for >90%LTV - 660 no exceptions • Credit scores from 620-659 max LTV - 90% • Pricing adjustments to loans over 90% <p>For VA Cash Out, (unless the refinance of the principal amount of the new cash-out loan will exceed the amount of the loan being refinanced) the following applies:</p> <p>The borrower must have made at least six consecutive monthly payments on the loan being refinanced (initial loan), beginning with the payment made on the first payment due date AND the first payment due date of the refinance loan occurs no earlier than 210 days after the first payment due date of the initial loan.</p>

<p>SUBORDINATE FINANCING</p>	<p>Although not typical, additional liens must be subordinated to the VA first mortgage product. The combined loan amounts may not exceed the Certificate of Reasonable Value (CRV) or purchase price whichever is less. The borrower must not be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.</p> <p>The second mortgage must be assumable by creditworthy purchasers. The interest rate on the second mortgage may exceed the rate on the VA guaranteed first mortgage however; it may not exceed industry standards for second mortgages.</p>																																												
<p>MAXIMUM LOAN AMOUNT AND DOWN PAYMENT</p>	<p>VA requires that a combination of the guaranty entitlement and any cash down payment (or equity on a cash-out refinance transaction) must equal at least 25% of the reasonable value or the sales price of the property, whichever is less.</p> <p>Veterans with <u>full</u> entitlement are allotted 25% of the conforming loan limits (or maximum county limit if that exceeds conforming limits) in available entitlement. The borrower will not need to make a down payment (on a purchase transaction) and can obtain max financing on a cash-out refinance as long as they have full entitlement.</p> <p>Borrowers with partial entitlement may or may not be required to make a down payment (purchase transaction). Each scenario must be reviewed to determine if down payment is required.</p> <table border="1" data-bbox="354 854 1432 1021"> <thead> <tr> <th colspan="4">PURCHASE – FULL ENTITLEMENT</th> </tr> <tr> <th>Entitlement</th> <th>Maximum Loan Amount (including funding fee if financed)</th> <th>Max LTV</th> <th>Max CLTV</th> </tr> </thead> <tbody> <tr> <td>Full</td> <td>\$453,100 or maximum county limit</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table> <table border="1" data-bbox="354 1053 1432 1284"> <thead> <tr> <th colspan="4">PURCHASE – PARTIAL ENTITLEMENT</th> </tr> <tr> <th>Entitlement</th> <th>Maximum Loan Amount (including funding fee if financed)</th> <th>Max LTV</th> <th>Max CLTV</th> </tr> </thead> <tbody> <tr> <td>Partial</td> <td>Maximum <u>available</u> entitlement x 4</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>Partial</td> <td>Loan amount greater than <u>available</u> entitlement x 4 (up to \$453,100)</td> <td>Down payment required ⁽¹⁾</td> <td>Down payment required ⁽¹⁾</td> </tr> </tbody> </table> <p>⁽¹⁾ Down payment is calculated as follows: Loan amount x 25% less the amount of available entitlement Example: For loan amounts greater than \$144,000, the Veteran’s full entitlement is \$106,025. If the Veteran has \$20,000 in previously used entitlement that is not restorable, the Veterans available entitlement is \$86,025 (\$106,025 - \$20,000). If that Veteran would like to purchase a \$400,000 home, down payment is calculated as follows: \$400,000 x 25% = \$100,000 (required guaranty) \$100,000 - \$86,025 (remaining entitlement) = \$13,975 = down payment</p> <table border="1" data-bbox="354 1602 1432 1897"> <thead> <tr> <th colspan="4">CASH- OUT REFINANCE</th> </tr> <tr> <th>Entitlement</th> <th>Calculation of Maximum Loan Amount (including funding fee if financed)</th> <th>Max LTV</th> <th>Max CLTV</th> </tr> </thead> <tbody> <tr> <td>Full</td> <td>Appraised value up to \$453,100 (or maximum county limit) x 90%</td> <td>90%</td> <td>90%</td> </tr> <tr> <td>Partial</td> <td>Available guaranty + equity must equal 25% of appraised value</td> <td>90% or less</td> <td>90% or less</td> </tr> </tbody> </table>	PURCHASE – FULL ENTITLEMENT				Entitlement	Maximum Loan Amount (including funding fee if financed)	Max LTV	Max CLTV	Full	\$453,100 or maximum county limit	100%	100%	PURCHASE – PARTIAL ENTITLEMENT				Entitlement	Maximum Loan Amount (including funding fee if financed)	Max LTV	Max CLTV	Partial	Maximum <u>available</u> entitlement x 4	100%	100%	Partial	Loan amount greater than <u>available</u> entitlement x 4 (up to \$453,100)	Down payment required ⁽¹⁾	Down payment required ⁽¹⁾	CASH- OUT REFINANCE				Entitlement	Calculation of Maximum Loan Amount (including funding fee if financed)	Max LTV	Max CLTV	Full	Appraised value up to \$453,100 (or maximum county limit) x 90%	90%	90%	Partial	Available guaranty + equity must equal 25% of appraised value	90% or less	90% or less
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VA FUNDING FEE	<p>Unless the Veteran is exempt ⁽¹⁾ from the funding fee, all VA loans require a VA Funding Fee. All or part of the fee may be paid in cash at the loan closing or may be included in the loan without regard to the reasonable value of the property or the computed maximum loan amount, as appropriate.</p> <p>⁽¹⁾Exemptions are made to veterans with service-connected disabilities and to surviving spouses of veterans who die in service or from service-connected disabilities.</p> <p>The following tables list the percentages for the required VA funding fees:</p> <table border="1" data-bbox="375 397 1403 715"> <thead> <tr> <th colspan="4">PURCHASE</th> </tr> <tr> <th></th> <th>Down payment</th> <th>Veteran</th> <th>Reservist / National Guard</th> </tr> </thead> <tbody> <tr> <td rowspan="3">First Time Use</td> <td>Less than 5%</td> <td>2.15%</td> <td>2.40%</td> </tr> <tr> <td>At least 5 % but less than 10%</td> <td>1.50%</td> <td>1.75%</td> </tr> <tr> <td>10% or more</td> <td>1.25%</td> <td>1.50%</td> </tr> <tr> <td rowspan="3">Second and Subsequent Use</td> <td>Less than 5%</td> <td>3.30%</td> <td>3.30%</td> </tr> <tr> <td>At least 5 % but less than 10%</td> <td>1.50%</td> <td>1.75%</td> </tr> <tr> <td>10% or more</td> <td>1.25%</td> <td>1.50%</td> </tr> </tbody> </table> <table border="1" data-bbox="375 763 1403 911"> <thead> <tr> <th colspan="3">CASH-OUT REFINANCE</th> </tr> <tr> <th></th> <th>Veteran</th> <th>Reservist/National Guard</th> </tr> </thead> <tbody> <tr> <td>First Time Use</td> <td>2.15%</td> <td>2.40%</td> </tr> <tr> <td>Second and Subsequent Use</td> <td>3.30%</td> <td>3.30%</td> </tr> </tbody> </table>	PURCHASE					Down payment	Veteran	Reservist / National Guard	First Time Use	Less than 5%	2.15%	2.40%	At least 5 % but less than 10%	1.50%	1.75%	10% or more	1.25%	1.50%	Second and Subsequent Use	Less than 5%	3.30%	3.30%	At least 5 % but less than 10%	1.50%	1.75%	10% or more	1.25%	1.50%	CASH-OUT REFINANCE				Veteran	Reservist/National Guard	First Time Use	2.15%	2.40%	Second and Subsequent Use	3.30%	3.30%
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ELIGIBLE BORROWERS	<ul style="list-style-type: none"> • Veteran is a person who served on active duty in the Army, Navy, Air Force, Marines, or Coast Guard, and who (except for a service member on active duty) was discharged or released from active duty under conditions other than dishonorable. <ul style="list-style-type: none"> For those that enlisted (and service began) after 9/7/1980 or entered service as an officer after 10/16/1981, the Veteran must have completed either: <ul style="list-style-type: none"> ○ 24 continuous months of active duty; or ○ The full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime) All other Veterans must have completed: <ul style="list-style-type: none"> ○ 90 days or more, any part of which occurred during wartime, or ○ 181 continuous days or more (peacetime) Veterans who served less than the minimum required period may be eligible if discharged because of service-connected disabilities. • 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. • Surviving spouses (who have not re-married) of Veterans who died as a result of service or service-connected causes. • The 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 12/16/2003 • The spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to one-time use only. • All borrowers must have a valid US Social Security number. • US Citizen • Permanent Resident Alien with a valid green card • Non-Permanent Resident Alien with an acceptable visa • Must have established credit in the US • Must verify a minimum of 2 years employment and be paid in US dollars. • Funds to close / reserves must be in US dollars in a US depository. • Must pass a CAIVRS screening. An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the federal government until the delinquent account has been brought current or satisfactory arrangements have been made between the veteran and the federal agency. 																																								

ELIGIBLE PROPERTIES	<ul style="list-style-type: none"> • 1 unit, detached and attached residences • VA approved Condominiums (including site condos) & PUDS (MICHIGAN ONLY: Site Condos are processed as single family residences. Program participants no longer need to obtain a VA condominium ID or submit condominium association documents into VA for approval. When program participants request an appraisal, they will still be required to identify the property as a condominium in item 3A of the WebLGY online appraisal request form 26-1805-1, but will not have to provide a Condominium ID number) • 2-4 units <p>INELIGIBLE PROPERTIES</p> <ul style="list-style-type: none"> • Property involving a less than fee simple ownership (i.e. leaseholds) is not eligible without prior VA approval. • Manufactured Housing • Co-ops • Properties that do not meet VA's property standards as detailed in the Lender Handbook
MONTHLY MORTGAGE INSURANCE	<p>Not required</p>
AUTOMATED UNDERWRITING	<p>Loan can be evaluated through Desktop Underwriter or Loan Prospector. Certain reduced documentation requirements are allowed as detailed in the VA Handbook (Chapter 4 – Sect. 8).</p>
LOAN SUBMISSION	<p>All loans are submitted to the MLS Underwriter for review. For the following types of loans, the Underwriter must submit the package to VA for prior approval</p> <ul style="list-style-type: none"> • Joint loans - defined as “any loan for which title to the property will be held by the Veteran and any person other than the Veteran’s spouse” • Loans to Veterans in receipt of VA nonservice-connected pension • Loans to Veterans rated incompetent by VA <p>Approval of a loan by VA will be evidenced by VA Form 26-1866.</p>
GUARANTY	<p>A minimum 25% of the loan amount must consist of available guaranty. If less than 25% guaranty is indicated on the Loan Guaranty Certificate (LGC), the client must attach a copy of the worksheet indicating the calculations used to determine the full 25% guaranty.</p>
DOCUMENTATION	<ul style="list-style-type: none"> • Full/Alt documentation required • Loans must be documented according to the VA Lender Handbook and may not use the AUS conditions as they relate to income and assets. <p>VA Forms</p> <ul style="list-style-type: none"> • Certificate of Eligibility (COE) – certificate provided by the VA to evidence a Veteran’s entitlement to participate in the VA Home Loan Guarantee program. MLS processors will first attempt to obtain a COE on-line through WebLGY in the Veteran’s Information Portal. If eligibility cannot be established, WebLGY will provide a reference number and a message indicating the COE could not be processed. This does not mean the Veteran is ineligible. <ul style="list-style-type: none"> ○ If the Certificate of Eligibility does not show that the Veteran is exempt from paying the funding fee: The Veteran must be asked if he/she has a claim for compensation pending with VA. If so, an updated COE must be obtained no earlier than 3 days before loan closing using the COE “Correct” function in WebLGY. ○ If the Veteran is an Active Duty Servicemember: The Veteran must be asked if he/she has a pre-discharge claim pending. If so, the Regional Loan Center must be contacted immediately to request assistance in obtaining a proposed or memorandum rating in the event that the Servicemember may be exempt from paying the funding fee. • Verification of VA Benefits (26-8937) – is only required if the Veteran indicates he/she is receiving or has received VA disability. Form is submitted to the VA Regional Loan Center that has jurisdiction over the state in which the property is located. <p style="margin-left: 40px;">If the form indicates that the Veteran receives a nonservice-connected pension or has been rated incompetent by VA, the loan cannot be closed automatically. Submit the loan for prior approval.</p> <p style="margin-left: 40px;">If the form indicates that the Veteran has any of the following:</p> <ul style="list-style-type: none"> ○ an outstanding indebtedness of overpaid education, compensation, or pension benefits, ○ an education or direct home loan in default, ○ an outstanding indebtedness resulting from payment of a claim on a prior guaranteed home loan, ○ a repayment plan for any of these debts that is not current; <p style="margin-left: 40px;"><u>Then obtain one of the following:</u></p> <ul style="list-style-type: none"> ○ evidence of payment in full of the debt, or ○ evidence of a current repayment plan acceptable to VA and evidence that the Veteran executed a promissory note for the entire debt balance.

Continued on next page

<p>DOCUMENTATION (continued)</p>	<ul style="list-style-type: none"> • HUD/VA Addendum to Universal Residential Loan Application – (92900-A) • Loan Analysis (26-6393) – completed by the Underwriter when loan does not receive an “Accept” or “Approve” rating through the AUS. • Counseling Checklist for Military Homebuyers (26-0592) - if applicant is on active duty. • VA Loan Comparison and Home Equity Disclosures: There are two required for VA Cash Out Refinance, are required to be signed at application and again at closing. They are titled as follows <ul style="list-style-type: none"> ○ VA Guaranteed Home Loan Cash Out Refinance Comparison Certification ○ VA Cash Out Refinance Home Equity Disclosure • Notice of Value (NOV) • Net Tangible Benefit Disclosure • Applies to VA Refinances • Surviving Spouse • Loans to unmarried surviving spouses and spouses of a serviceperson missing in action require additional documents. Please refer to VA Lender Handbook.
<p>QUALIFYING RATIOS</p>	<ul style="list-style-type: none"> • 29/41% or AUS approval • Ratios may be exceeded with an acceptable AUS certificate • Child care expenses must be accounted for in debt ratio. • If the ratio is above 41%, the residual income must exceed the guideline by at least 20% to offset the higher ratio. • VA considers the cost of maintenance and utilities for the subject property when qualifying a borrower. Calculate maintenance and utility costs using 14 cents per square foot (above grade). • Significant Debts and Obligations Include: <ul style="list-style-type: none"> ○ Debts and Obligations with a remaining term of 10 months or more ○ Accounts with a term of less than 10 months with payments large enough to cause a severe impact on the family’s resources for any period of time <p><i>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.</i></p> • 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 • Open 30 day charge accounts <ul style="list-style-type: none"> ○ Determine if the borrower pays the balance in full each month and has verified funds to cover the account balance in addition to funds required for closing

CREDIT

- **Rental History for AUS Refer**
 - Provide a 24 month rental history directly from the landlord, through information shown on the credit report or by cancelled checks.
- **Open 30 day charge accounts**
 - Determine if the borrower pays the balance in full each month and has verified funds to cover the account balance in addition to funds required for closing
 - If there are sufficient funds, the payment does not need to be included in Section D of the [VA Form 26-6393](#) Loan Analysis, however the obligation should 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.
- **Collections**
 - VA does not require that collection account be paid off prior to closing if the overall credit is acceptable, however the existence of the collection account must be addressed with an explanation for excluding the debt: Underwriting will be responsible to address open collections and will need to make the determination for payoff vs allowing to remain open.
- **CAIVRS**
 - Each borrower must have a clear CAIVRS number
 - If the borrower is found to have a delinquent federal debt, the validity and delinquency status should be verified by contacting the creditor agency using the contact phone number and case number reflected on the CAIVRS report
- **Foreclosures**
 - A foreclosure finalized more than 2 years from the date of closing, may be disregarded.
 - The borrower must have re-established credit subsequent to the foreclosure and
 - The foreclosure was caused by circumstance beyond the control of the borrower, such as unemployment, prolonged strikes, medical bills not covered by insurance. Circumstances must be 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 the re-established credit.
- **Deed in Lieu or short sale**
 - If the borrower's payment history was not affected before the short sale/deed in lieu and was voluntarily communicating with the servicer, then that a waiting period may not be necessary.
 - Ensure that the borrower's COE reflects sufficient entitlement
 - In all cases, the borrowers each must have a clear CAIVRS number, even if a time period has been met
- **Community Property States/Non-Purchasing Spouse**

In community property states the broker/correspondent 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, brokers/correspondents 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.
- **Student Debt/Deferred Installment Debt**
 - If the Veteran or other borrower 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 the VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the following payment method.
 - Calculate each loan at a rate of 5 percent of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month is the monthly payment for debt ratio purposes).
 - The lender must use the payment(s) reported on the credit report for each student loan(s) if
 - The reported payment is greater than the threshold payment calculation above.
 - If the payment 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.
 - The statement 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.

INCOME

Business Loss on Tax Return

If a joint tax return shows a business loss associated with either the Veteran or a non-borrowing spouse, the loss will have to be deducted from the Veteran's income.

Residual Income

- Residual income must be sufficient to support the household based on loan size, family size (count all members of the household), and region of the country. Exceptions are not permitted.
- If the debt ratio is above 41%, the residual income must exceed the guideline by at least 20% to offset the higher ratio.

"Grossing up" Tax-Free Income

- Tax-free income may be "grossed up" for purposes of calculating debt-to-income ratio only (not residual income). This is a tool that may be used to lower the debt ratio for veterans who clearly qualify for the loan. "Grossing up" involves adjusting the income upward to a pre-tax or gross income amount which, after deducting State and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income. Do not add non-taxable income to taxable income before "grossing up".
- Tax-free income includes certain military allowances, child support payments, workers' compensation benefits, disability retirement payments, and certain types of public assistance payments. Verify that the income is indeed tax-free before "grossing up".

Child Support

- When documenting child support or alimony, provide the front page and details of support payments from the divorce decree, evidencing at least 3 years continuance.

Commission Income

- Tax returns are no longer required for commission and bonus income, therefore the requirement for IRS form 2106 has been removed.

Self Employed Business Income K-1 or Partnership:

- *AUS Approved:*
 - 2 Year personal tax returns
 - No balance sheet or YTD P&L is required
 - 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
 - Copy of K1 to reflect the percentage owned
 - Funds for down payment or closing costs are not from the business
- *Manual Underwriting:*
 - 2 years personal returns and tax transcripts
 - Signed copies of business returns and transcripts for the most recent 2 year period
 - Balance sheet or YTD P&L unless:
 - Origination date is 7 months or less from the business' fiscal year end for which tax returns or information from the IRS via form 8821 or 4506t were provided
- *Schedule C income for Manual or Refer:*
 - Signed copies of individual tax returns and transcripts for the most recent 2 years
 - Balance sheet or YTD P&L unless:
 - Origination date is 7 months or less from the business' fiscal year end for which tax returns or information from the IRS via form 8821 or 4506t were provided

Veteran owns and occupies a home, but now wants to rent it out –

- Provided the veteran has a signed lease agreement in place, Brokers/Correspondents may offset the mortgage payment on that home with the anticipated rents received each month. Brokers/Correspondents cannot use the excess income as qualifying income, but they should account for any shortfall as a debt under Section D of VA Form 26-6393, Loan Analysis. The veteran is not required to have 3 months Principal / Interest / Tax / Insurance payments (PITI) as cash reserves. What are cash reserves? They are the same as liquid assets: cash or cash equivalent that can be accessed within a 30-day period without penalty (typically cash, stocks and bonds and 401(k) loans).

Veteran owns multiple rental properties and wants to use that rental income to qualify –

- The Broker/Correspondent should use net rental income (after depreciation is added back) as qualifying income. VA will require individual tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show rental income generated by the properties. The Broker/Correspondent should also verify that the veteran has 3 months PITI as cash reserves

<p>ASSETS</p>	<p>Large Deposits When bank statements covering the most recent 2 months are used, the lender must evaluate large deposits, which are defined as a single deposit that exceeds 50% of the total monthly qualifying income for the loan. For all purchase and refinance transactions, a letter of explanation for the large deposit will be required from the Veteran. If funds from a large deposit are needed to complete the purchase transaction (that is, are used for down payment, closing costs or financial reserves), the lender must document that those funds are from an acceptable source. Occasionally, a borrower may not have all of the documentation required to confirm the source of deposit. In those instances, the lender must use reasonable judgment based on the available documentation as well as the borrower's debt-to-income ratio and overall income and credit profile. Examples of acceptable documentation include the borrower's written explanation, proof of ownership of an asset that was sold, or a copy of a wedding invitation to support receipt of gift funds. The lender must place in the loan file written documentation of the rationale for using the funds. Verified funds must be reduced by the amount (or portion) of the undocumented large deposit (as defined above), and the lender must confirm that the remaining funds are sufficient for the down payment, closing costs, and financial reserves. When the lender uses a reduced asset amount, net the unsourced amount of a large deposit, that reduced amount must be used for underwriting purposes (whether the mortgage loan is underwritten manually or through DU). Note: When a deposit has both sourced and unsourced portions, only the unsourced portion must be used to calculate whether or not it must be considered a large deposit. <i>Note: if the source of a large deposit is readily identifiable on the account statement(s), such as a direct deposit from an employer (payroll), the Social Security Administration, or IRS or state income tax refund, or a transfer of funds between verified accounts, and the source of the deposit is printed on the statement, the lender does not need to obtain further explanation or documentation. However, if the source of the deposit is printed on the statement, but the lender still has questions as to whether the funds may have been borrowed, the lender should obtain documentation.</i></p> <p>Earnest Money Deposits Document source of funds if amount of EMD exceeds 1% of sales price or appears excessive based on the borrower's savings history. Document by obtaining:</p> <ul style="list-style-type: none"> • A copy of the borrower's canceled check; • Certification from the deposit-holder acknowledging receipt of funds; or • A Verification of Deposit (VOD) or bank statement showing that the average balance was sufficient to cover the amount of EMD at the time of deposit. <p>If the source of the EMD was a gift, verify that the gift is in compliance with gift requirements.</p> <p>Cash to Close The borrower must have sufficient cash to cover:</p> <ul style="list-style-type: none"> • Any closing costs or points that are the borrower's responsibility and not financed in the loan; and • The difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA. <p>Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan and/or those that may have a bearing on the overall credit analysis.</p> <p>Cash Reserves None required, except when using rental income. See guide above in Income section. 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.</p> <p>Bank Statement Requirements</p> <ul style="list-style-type: none"> • Bank Statement Requirements <ul style="list-style-type: none"> ○ AUS Accept: <ul style="list-style-type: none"> ▪ Provide bank/asset statements covering most recent one month period in lieu of VOD ○ Manual Underwriting: <ul style="list-style-type: none"> ▪ Provide bank/asset statements covering the most recent two month period in lieu of VOD
<p>ENTITLEMENT</p>	<p>VA requires that a combination of the guaranty entitlement and any cash down payment must equal at least 25% of the reasonable value or the sales price of the property, whichever is less.</p> <p>Entitlement is defined as the dollar amount of loan guarantee that the Veteran's Benefit Administration (VA) provides to each eligible Veteran.</p> <ul style="list-style-type: none"> • Amount of entitlement can be found on the Certificate of Eligibility. The maximum available entitlement that can be shown is \$36,000, however, an asterisk next to this figure will detail additional entitlement available. • If the Veteran previously used the entitlement which has not been restored, then the available entitlement is reduced by the amount used on the prior loan. In this case, the Veteran will need to apply for restoration or the maximum loan amount will need to be reduced.

RESTORATION OF ENTITLEMENT	<p>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:</p> <ul style="list-style-type: none"> • The property which secured the VA-guaranteed loan has been sold, and the loan has been paid in full; or • An eligible veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming Veteran must also meet occupancy, income, and credit requirements of the law. <p>There are other special restoration criteria listed in the VA Handbook.</p> <p>The Veteran must complete and send Request for a Certificate of Eligibility (VA form 26-1880) to the appropriate Eligibility Center. If the Veteran has evidence of payment in full of any prior loans (HUD-1, Closing Disclosure, Paid in Full Letter, Satisfaction of Mortgage, etc), a copy should be included. Additionally, any previously issued COEs should be included.</p> <p>If the Veteran is applying for restoration in order to obtain another VA loan on the same property (refinance situation in which the prior loan will be paid off at closing from a VA refinancing loan on the same property), the Veteran should include a copy of the loan application submitted to the Broker/Correspondent along with the Request for a Certificate of Eligibility (26-1880).</p>
POA	<ul style="list-style-type: none"> • Veteran signed both the Purchase Contract and the Uniform Residential Loan Application: <ul style="list-style-type: none"> ▫ General Power of Attorney document is acceptable. • Veteran did not sign both the Purchase Contract and the Uniform Residential Loan Application: <ul style="list-style-type: none"> ▫ a Specific Power of Attorney document is mandatory <p>Please see the "POA" information page located on the intranet under Mortgage Tools for complete details.</p>
CASH REQUIRED TO CLOSE	<p>The borrower must have sufficient cash to cover:</p> <ul style="list-style-type: none"> • Any closing costs or points that are the borrower's responsibility and not financed in the loan; and • The difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA. <p>Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan and/or those that may have a bearing on the overall credit analysis.</p>
GIFTS	<p>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.</p> <p>Gifts must be documented as follows:</p> <ul style="list-style-type: none"> • Fully executed gift letter; <ul style="list-style-type: none"> ○ The gift letter must contain: <ul style="list-style-type: none"> ▪ The dollar amount of the gift ▪ The donor's statement that no repayment is expected, and ▪ The donor's name, address, phone number and relationship to the borrower • Evidence of donor withdrawal • Evidence of borrower's deposit. • Documentation must be obtained to verify sufficient funds to cover the gift. This may be provided during processing or received by the closing agent at the time of closing. Acceptable documentation includes the following: <ul style="list-style-type: none"> ▪ Evidence of the borrower's deposit ▪ A copy of the donor's funds by check or electronic transfer to the closing agent, Or ▪ The Closing Disclosure evidencing receipt of the donor's funds. • Gift funds cannot be used to meet reserve requirements
PROPERTY	<ul style="list-style-type: none"> • Pest Inspection/ Wood Destroying Organism Report <ul style="list-style-type: none"> ○ Required on all loans except: <ul style="list-style-type: none"> ▪ IRRRLs ▪ Units in vertically stacked low rise or high rise condominiums unless noted otherwise by the appraiser • Multiple Parcels <ul style="list-style-type: none"> ○ 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 • Private Roads must <ul style="list-style-type: none"> ○ Be protected by a permanent easement and ○ Be maintained by an HOA or joint maintenance agreement <p>If a maintenance agreement does not exist, efforts should be made to obtain the agreement of all owners of properties on the private road to share the cost of maintenance</p>

APPRAISAL REQUIREMENTS AND OTHER INSPECTIONS	<ul style="list-style-type: none"> • VA required appraisal – FNMA form 1004MC is required • VA does not have the ability to accept credit card payments for the VA appraisal. Funds must be collected from the borrower via check and the timing must be in compliance with MDIA policy. • The Notice of Value (NOV) is valid for 6 months – this form is issued to the borrower in conjunction with an appraisal; every NOV must include an estimated reasonable value of the property, estimated economic life of the property, and a list of any property-related conditions and requirements necessary to VA loan guaranty. • FNMA form 1004MC is required for all appraisals • Appraisal ordered through the VA TAS system • Certificate of Eligibility (COE) must be ordered prior to ordering the appraisal • DECLINING MARKETS (decline in prices/oversupply/extended marketing time) <ul style="list-style-type: none"> ○ There must be 2 comparables that have sold within 90 days of the appraisal date. If there aren't any, the appraiser must then provide a detailed explanation. ○ Also, the appraiser must provide 2 active listings or pending sales. This is in addition to a minimum of 3 sold comps. Appropriate adjustments must be made to the list/pending sale price. <p>Water/Sewage System Acceptability</p> <ul style="list-style-type: none"> • Water test must be performed and satisfy the local health authority requirements. • Connection to public water/sewer is required if the appraiser notes it is available and the city requires it. <p>**Please note appraisals follow the borrower, NOT the property</p>
INTERESTED PARTY CONTRIBUTIONS	<ul style="list-style-type: none"> • Contributions may not exceed 4% of the value of the property as indicated on the NOV • Normal discount points and payments of buyer's closing costs will not be considered a concession for purposes of determining total concessions. •
REAL ESTATE COMMISSIONS	<p>An aggregate real estate commission including a "bonus" greater than 8% of the sales price of the subject property is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price.</p>
ESCROW WAIVERS	<p>Not permitted.</p>
DOCUMENT AGE	<ul style="list-style-type: none"> • Credit Docs – 120 Days • Appraisal- 120 Days