WesLend Choice VA Credit Underwriting

Transaction	*Number of Units*	*Maximum LTV/CLTV*
Primary Residence – Owner Occupied		
Purchase	1 - 4 Unit	100%
Cash-Out Refinance	1 - 4 Unit	100%

Platinum VA Standard Program Codes:			
VA 30 Year Fixed	6000-99		
VA 25 Year Fixed	6100-99	VA 30 Year High Balance	6033-99
VA 20 Year Fixed	6200-99	VA 15 Year High Balance	6333-99
VA 15 Year Fixed	6300-99		

Highlights

Topic	Highlights
1031 Exchange	Funds from 1031 Tax Deferred Exchanges are not an acceptable source of funds.
4506 Transcripts	Transcripts are required per income documentation type included in the loan file.
Assets	Cryptocurrency, such as Bitcoin and Ethereum, may NOT be used for down payment funds or closing funds. These types of funds must be backed out of the borrower's assets.
AUS	• All non-IRRRL loans must be submitted through DU. A copy of the AUS is required. • DU findings are required for "Refer" decisions and for manual downgrades.
Borrower Eligibility	• Maximum four borrowers per loan. • All borrowers must be natural persons or an *inter-vivos* trust • Must be a qualified Veteran and spouse • Non-U.S. citizens must provide proof of lawful residency ▪ Permanent Resident Alien: o Veteran: Copy of Permanent Resident Alien card and Certificate of Eligibility o Spouse: Copy of Permanent Resident Alien Card ▪ Non-Permanent Resident Alien: o Veteran: USCIS Employment Authorization Document (EAD Card) and Certificate of Eligibility o Spouse: USCIS Employment Authorization Document (EAD Card)
Cash-Out Transactions	There must be an existing lien against the subject property. Properties owned free and clear are not eligible. **Note: This is a VA requirement – not an overlay.** The loan is eligible if it meets the following requirements: • **<u>Document the borrower has made at least six consecutive monthly payments on the loan being refinanced beginning with the payment made on the first payment due date.</u>** • **<u>The first payment due date of the refinance loan occurs no earlier than 210 days after the first payment date of the loan being refinanced</u>.**
Co-Borrower	Veteran's legally married spouse only. All borrowers must occupy the subject property.
Community Property States	• Arizona • California • Idaho • Louisiana • Nevada • New Mexico • Texas • Washington

	• Wisconsin
Condominiums	All condominium projects must be VA approved.
Construction to Permanent	Not Allowed.
Credit Report	• A new credit report may not be pulled once the file has been submitted for underwriting. • A new credit report is allowed only after the existing credit report has expired.
Credit Score	580. All borrowers must have a valid credit score from at least one repository.
Deed Restrictions	Not Allowed. Age restricted properties are allowed.
DTI	• No maximum with AUS approval. ▪ All loans with DTI > 41% without VA compensating factors must include a statement from the underwriter justifying the decision to approve the loan. • 50% for manually underwritten files.
Electronic Signatures	The following loan documents may not contain e-signatures: • Notes and Riders to the Note; • Security Instruments and Riders to the Security Instrument; • Notices of Right to Cancel (Rescission); and • Powers-of-Attorney.
Escrow (Impound) Waivers	Not Allowed. Escrows accounts for taxes, insurance and any additional items are required.
HPML	Allowed if Safe Harbor is met. Not allowed on Rebuttable Presumption.
Ineligible Borrowers	Foreign Nationals. Borrowers who are politically exposed. Borrowers with diplomatic immunity. Non-Resident Aliens
Ineligible Programs	• VA Supplemental Loans • Farm Residence VA Loans • 1-4 Units with a Business Unit • Land Loans • Graduated Payment Mortgage (GPM) • Growing Equity Mortgage (GEM) • Rural Housing • Loans to Native Americans on Trust lands • Energy Efficient Mortgage (EEM)
Ineligible Properties	• Properties with ratings of C5, C6, Q6 • Assisted living facilities • Board and care facilities • Bed and breakfast establishments • Commercial property • Co-ops • Dome or log homes • Hawaii properties in Lava Zones 1 and 2 • Houseboats • Manufactured homes • Mobile homes • Native American lands • Working farmers and ranches • Properties with zoning violations
Joint Loans (Vet/Vet or Vet/Non-Vet)	Not Allowed.
Leasehold	Not Allowed.
Manual Underwriting	Allowed per VA requirements.

Marijuana Related Business/Employment	Income received from a marijuana related business or employment may not be used as qualifying income.
Maximum Loan Amount	• $1,000,000
Non-Traditional Credit	Not Allowed.
Occupancy	**United States law requires a Veteran obtaining a VA loan to occupy the subject property as his/her primary residence.** • Occupancy must occur within 60 days after loan closing. • Occupancy by the Veteran's spouse or dependent children satisfies the occupancy requirements for a Veteran **who is on active duty** and cannot occupy the property within 60 days. • Single or married service members, while deployed from their permanent duty station, are considered to be on temporary duty status and able to meet the occupancy requirements. • The occupancy requirement is met if the Veteran will retire within 12 months. Retirement must be **verified with a specified date and the retirement income must be used to qualify for the loan.** **The use of the subject property as a seasonal home does not meet VA's occupancy requirements.**
PACE/HERO Obligations	Not Allowed.
Power of Attorney	• Must meet VA requirements • **May not be used on cash-out refinance transactions**
Seasoning Requirements (Refinances)	The not date of the new loan is the latter of: • At least 210 days after the first payment is made* on the loan being refinanced. • The date after the 6th monthly payment is made on the loan being refinanced. *Note: This is that date the payment is made and not the first payment due date.
Sales Concessions	Must not exceed 4% of the sales price or appraised value whichever is less
Sales Contract	Assigned sales contracts are ineligible.
Secondary Financing	Not allowed on purchase transactions. Cash-Out Refinance: • Existing secondary financing may be subordinated • New secondary financing is not allowed
Section 8 Vouchers	Not Eligible
State Restrictions	West Virginia, not allowed. 2-4 units in New Jersey, not allowed. Texas 50(a)(6), not allowed. Properties in U.S. Possessions or Territories, not allowed.
Temporary Buy Down	Not Allowed
Termite Reports	• Regardless of the location of the property, a termite inspection is always required if the appraisal report indicates evidence of wood-destroying insect damage or an active infestation. • Termite inspections are required on properties if the property is located in an area where the probability of termite infestation is "very heavy" or "moderate to heavy" as shown on the Termite Infestation Probability (TIP) Map published in The Council of American Building Officials (CABO) one and two family dwelling code. ▪ If there is a question about the location of an infestation or probability boundary line in relation to the subject property, contact the VA Regional Loan Center of jurisdiction to determine if the requirement is applicable. • The pest control operator must meet all requirements of the state where the subject property is located. In states which require the use of a state inspection form, the state form is acceptable for VA purposes. • Inspection reports are valid for VA purposes for 90 days from the date of inspection.

	• **Termite reports must be clear of all active infestation, dry rot, fungus infections and earth to wood contact.** Termite reports and clearances are required in the following states: • Alabama, Arizona, Arkansas, California, Connecticut, Delaware, District of Columbia, Florida, Georgia, Hawaii*****, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Maryland, Massachusetts, Mississippi, Missouri, Nebraska, Nevada, New Jersey, New Mexico, North Carolina, Oklahoma, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, and West Virginia *****Required on all existing residential properties including condo projects that are five stories or less in height. Termite reports and clearances are required in certain Counties of the following states: • Michigan: Allegan, Barry, Berrien, Branch, Calhoun, Cass, Hillsdale, Ionia, Jackson, Kalamazoo, Kent, Lenawee, Livingston, Macomb, Mason, Monroe, Muskegon, Oakland, Oceana, Ottawa, St. Clair, St. Joseph, Van Buren, Washtenaw, and Wayne. • New Hampshire: Belknap, Cheshire, Hillsborough, Merrimack, Rockingham, Strafford, and Sullivan. • New York: Bronx, Broome, Columbia, Delaware, Duchess, Greene, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Suffolk, Sullivan, Ulster, and Westchester. • Vermont: Bennington and Windham. Termite reports and clearances are not required in the following states: • Alaska, Colorado, Idaho, Maine, Minnesota, Montana, North Dakota, South Dakota, Washington, Wisconsin, and Wyoming. • Oregon – Contact the Denver Regional Loan Center
VA Native American Direct Loans	May not be refinanced with a VA guaranteed loan.

Verification of Employment/Verification of Deposit/Verification of Mortgage/Rent	• The use of a Verification of Employment (VOE) and/or a Verification of Deposit (VOD) only is not allowed.
	  ▪ At a minimum paystubs and bank statements are required. At their discretion, underwriters may require additional income/asset documentation.
	• When the borrower's current lender or landlord is a private party, the use of a Verification of Mortgage (VOM) or Verification of Rent (VOR) only is not allowed.
	  ▪ Copies of the borrower's most recent, consecutive 12 months cancelled checks are required.

VA CREDIT UNDERWRITING

Underwriting decisions must be based on sound application of the underwriting standards, and underwriters are expected to use good judgment and flexibility in applying the guidelines.

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

- *Is a satisfactory credit risk*
- *Has present and anticipated income that bears a proper relation to the contemplated terms of employment*

*VA's underwriting guidelines are incorporated into VA regulations at **38 CFR 36.4337**. VA's credit underwriting guidelines address verifications, procedures and the analysis involved in underwriting a VA-guaranteed loan. They provide guidance* *on how to treat income, debts and obligations, credit history, etc. and how to analyze these items on VA's Loan Analysis form. The guidelines do not deal with every possible circumstance that may arise therefore underwriters must apply reasonable judgment and flexibility in administering this important Veteran's benefit.*

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 to compliance with all of the above*

Underwriter's Objectives

The "VA Credit Standards" are written as guidelines and are meant to be interpreted and used just that way taking into consideration all of a borrower's financial, employment and family circumstances.

Underwriters are encouraged to find ways to approve borrowers who ought to be approved but may not appear approvable upon direct application of the credit standards. Underwriters should recognize that there are those whose lifestyle, minority status, or location require consideration of extraordinary factors in the underwriting process in order to find a basis for correctly making an approval decision.

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

OCCUPANCY

The law requires a Veteran obtaining a VA-guaranteed loan to certify that he/she intends to personally occupy the property as his/her home. As of the date of certification the Veteran must either personally live in the property or intend to personally move into the property within a reasonable time. Occupancy within a reasonable time means within 60 days after the loan closing.

Occupancy by the spouse or dependent child satisfies the occupancy requirement for a Veteran ***who is on active duty*** *and cannot personally occupy the property 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 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 property within a reasonable time due to distant employment other than military service. In these specific cases consult the Regional Loan Center to determine if this type of occupancy meets VA requirements. The cost of maintaining separate living arrangements should be considered in underwriting the loan.

Single or married service members, while deployed from their permanent duty station, are considered to be on temporary duty status and able to meet the occupancy requirement. This is true without regard to whether or not a spouse will be available to occupy the property prior to the Veteran's return from deployment.

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

- *Verify the Veteran's eligibility for retirement on the specified date and include a copy of the Veteran's application for retirement submitted to his/her employer*
- *Carefully consider the Veteran's income after retirement*

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

The Veteran need not maintain a physical presence at the property on a daily basis. However, occupancy "as the Veteran's home" implies that the property 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.

Discuss unusual circumstances of occupancy with the appropriate Regional Loan Center or submit a description of the circumstances to the Regional Loan Center for prior approval.

INCOME

Identify and verify income available to meet:

- *The mortgage payment*
- *Other shelter expenses*
- *Debts and obligations; and*
- *Family living expenses*

Evaluate whether verified income is:

- *Stable and reliable*
- *Anticipated to continue for at least three years; and*
- *Sufficient in amount*

Only verified income can be considered in effective income.

Income of a Spouse

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as the Veteran's income. To ensure compliance with ECOA do not ask questions about the income of a Veteran's spouse unless:

- *The spouse will be contractually liable*
- *The Veteran is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse; or*
- *The applicant resides in a community property state or the subject property is located in a community property state.*

Always inform the Veteran, and spouse if applicable, that they do not have to provide any information on the receipt of child support, alimony or separate maintenance. However, in order for this income to be considered in the loan analysis, the information must be provided and verified. Treat income from all sources equally - for example, make sure that if all or part of a Veteran's income is derived from any public assistance program it is not treated as a negative factor.

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

Income from Non-Military Employment

Verify a minimum of two years of employment. If the Veteran has been employed by the present employer less than two years:

- *Verify prior employment plus present employment covering a total of two years*
- *Provide an explanation of why two years' employment could not be verified, If applicable*

- *Compare any different types of employment verifications obtained, such as VOEs, pay stubs, W2s and tax returns, for consistency; and*
- *Clarify any substantial differences in the data*

Standard Documentation

Acceptable standard verification of non-military employment is:

- *Written verification of employment or any format which furnishes the same information (VOEs supplied by an employment verification service may be used); plus*
- *A pay stub*
- *The VOE and pay stub must be no more than 120 days old*

Note: *If the employer does not indicate the probability of continued employment on the VOE the it is not necessary to request anything additional on that subject.*

Additional documentation is needed for persons employed in the building trades or other seasonal climate-dependent work. In addition to standard documentation VOE and pay stub obtain:

- *Documentation evidencing the applicant's total earnings year to date*
- *Signed/dated tax returns for the previous two years; and*
- *If the borrower works out of a union, document the borrower's membership.*

Alternative Documentation

Alternative documentation may be submitted instead of a VOE if the borrower's income is stable, reliable, and anticipated to continue during the next three years. Alternative documentation consists of:

- *Pay stubs covering at least the most recent 30-day period;*
- *W2 forms for the previous two years; and*
- *Verbal verification of the borrower's current employment*

If the employer is not willing to give telephone verification of the borrower's employment or the pay stubs or W2s are in any way questionable as to authenticity, use standard documentation. Alternative documentation cannot be used.

Fax and internet documentation may be submitted in place of a VOE if the borrower's income is stable, reliable and anticipated to continue for the next three years. Fax and internet documentation consists of:

- *The same information contained in a standard VOE;*
- *Clear identification of the employer and source of the information; and*
- *Name and telephone number of a person who can verify faxed information.*

Underwriters are responsible for ensuring the authenticity of the documents. For faxed documents review the "banner" information provided at the top of the page. For internet documents review the information contained on any headers/footers and the "banner" portion of the downloaded webpage. These pages must contain the uniform resource locater (URL) and the date and time printed.

Income Analysis – General Guidance

Income analysis is not an exact science. It requires underwriters to underwrite each loan on a case-by-case basis using judgment, common sense, and ***flexibility when warranted****. Analyze the probability of continued employment by examining the borrower's past employment record; the borrower's training, education and qualifications for his/her position; the borrower's type of employment; and the employer's confirmation of continued employment, if provided.*

In the borrower's current position, two years of employment is a positive indicator of continued employment. This is ***not*** *a required minimum and not always sufficient by itself to reach a conclusion on the probability of continued employment.*

Generally employment less than 12 months is not considered stable and reliable. It may be considered stable and reliable if the individual facts warrant such a conclusion. Carefully consider the employer's evaluation of continued employment, if provided. Assess whether the borrower's training and/or education equipped him/her with particular skills that relate directly to the duties of his/her current position. This generally applies to skilled positions. Examples include nurse, medical technician, lawyer, paralegal, and computer systems analyst.

If the probability of continued employment is high based on these factors, include the income in the effective income. An explanation of why income of less than 12 months duration was used must be reflected on the Loan Analysis Worksheet. If the probability of continued employment is good, but not well supported, underwriters may still consider the income, if the borrower has been employed at least six months, to partially offset debts of 10 to 24 months duration.

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 a related field. Favorable consideration may not be possible for changes with no apparent betterment to the borrower and from one line of work to another. If income with a history of frequent job changes is included an explanation must be made on the Loan Analysis Worksheet.

For borrowers with low-to-moderate income it may be possible to establish stable and reliable income without having established a stable employment history in one position or job. It is not unusual for some borrowers to change jobs frequently or even to change lines of work. The borrower may be simply going where there is available work. To establish stability and continuance of income the borrower must demonstrate the ability to maintain ***an income at a constant level*** *over the most recent two year period even if he/she has worked for a variety of employers.*

Income from Overtime, Bonuses, Part-time Jobs and Second Jobs

Generally such income cannot be considered stable and reliable unless it has continued for two years. To include income from these sources:

- *The income must be regular and predictable; and*
- *There must be a reasonable likelihood that it will continue in the foreseeable future based on:*
  - *It's 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 arrangements.*

This income may be used, if it is not eligible for inclusion in effective income, but is verified for at least 12 months, to offset debts of 10 to 24 months duration. An explanation must be included on the Loan Analysis Worksheet.

It is not uncommon for people with limited income from their primary employment to take on part-time jobs to supplement their incomes. Ideally the borrower should show a two year history but one year may be considered for an otherwise strong borrower. Underwriters must review such income for probable continuance and justify that the part-time employment is reasonable and sustainable.

Income from Commissions

When all or a major part of the borrower's income is derived from commissions obtain the following documentation:

- *A VOE or other written verification which provides the following:*
  - *The actual amount of commissions paid year-to-date;*
  - *The basis for payment - salary plus commission, straight commission, or draws against commission; and*
  - *When commissions are paid – monthly, quarterly, semi-annually, or annually.*
- *Income tax returns for the previous two years or additional periods if needed to demonstrate a satisfactory earnings record.*

Generally income from commissions is considered stable when the borrower has obtained such income for at least two years. Less than two years cannot usually be considered stable unless the applicant has previous related employment and/or extensive specialized training. Less than two years can rarely qualify. In-depth development is required for a conclusion of stable income for less than one year cases.

Self-Employment Income

Obtain the following documentation:

- *Current financial statements prepared in a generally recognized format including:*
  - *A year-to-date Profit and Loss Statement; and*
  - *A current Balance Sheet.*
- *Tax returns for the previous two years or additional periods if needed to demonstrate a satisfactory earnings record.*

If the business is a corporation or partnership:

- *Copies of business tax returns for the previous two years; and*
- *A list of stockholders or partners showing the interest each holds in the business (K1s for all stockholders or partners).*

Generally income from self-employment is considered stable when the borrower has been in business for at least two years. Less than two years cannot usually be considered stable unless the borrower has had previous related employment and/or extensive specialized training.

Less than one year can rarely qualify. In-depth development is required for a conclusion of stable income for less than one year cases.

Analyze the general economic outlook for similar businesses to 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 the business is unusual and it is difficult to determine the probability of continued operation, obtain an opinion on viability and future earnings and an explanation of the function and financial operations of the business from a qualified party such as a Certified Public Accountant.

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

Active Duty Military Income

A military Leave and Earnings Statement (LES) is required instead of a VOE. The LES must be no more than 120 days old.

In addition, identify service members who are within 12 months of release from active duty. Find the date of expiration of the borrower's current contract for active service on the LES. For a National Guard or Reserve member find the expiration date on the borrower's current contract. If the date is within 12 months of the anticipated date that the loan will close, the loan package must also include one of the following four items or combination of items, to be acceptable:

- *Documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan; or*
- *Verification of a **valid** offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures – date employment will begin, earnings, etc. - must be included; or*
- *A statement from the service member's commanding officer or personnel officer confirming that the service member is eligible to re-enlist and there is no reason to believe that such re-enlistment will not be granted; or*
- *Documentation of other unusually strong positive underwriting factors such as:*
  - *A down payment of at least 10%;*
  - *Significant cash reserves; and*

- *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 service member is needed to qualify*

Base Pay – *Will be indicated on the LES and may be considered as stable and reliable except if the borrower is within 12 months of release from active duty. This income is taxable.*

Military Quarters Allowance – *Will be indicated on the LES and may be included in effective income if properly verified. In most areas there will be an additional variable housing allowance which can be included. This allowance is not taxable income.*

Subsistence and Clothing Allowances – *Will be indicated on the LES and may be included in effective income. These allowances are not taxable. The clothing allowance generally appears on the LES as an annual amount. Convert it to a monthly amount for the loan analysis.*

Other Military Allowances *– Includes pro-pay, flight or hazard pay, overseas pay, and combat pay. All of these are subject to periodic review and/or testing of the recipient to determine continued eligibility for receipt of this income. These types of allowances are considered to be taxable income. These allowances may only be included in effective income if such income can be expected to continue due to the nature of the borrower's assigned duties. Example, overseas pay for a deployed active duty borrower, if duration of this income cannot be determined this source of income may still be used to offset obligations of 10 to 24 months duration.*

Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be included in effective income if the length of the borrower's total active and reserve/guard service indicates a strong probability of continuance. Otherwise this income may be used to offset obligations of 10 to 24 months duration.

Recently Activated Members of Reserves or National Guard

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 so, determine how the borrower's income may be affected. If the income will be reduced, carefully evaluate the impact the reduction may have on the borrower's ability to repay the loan. If the income will increase, consider the likelihood that the income will continue beyond a 12 month period.

Example, An activated reserve/guard member applies for a loan and he/she presents orders indicating his/her tour of duty is not to exceed 12 months. Under these circumstances carefully evaluate both the present income (current civilian employment) and expected income (reservist active duty income) in terms of income stability and reliability.

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

It is very important that the loan file be carefully and thoroughly ***documented****, including any reasons for using or not using reservist/guard income. Weigh the desire to provide a Veteran their housing benefit with the responsibility to ensure the Veteran will not be placed in a position of financial hardship.*

Income of Recently Discharged Veterans

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

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

- *If the duties the Veteran performed in the military are similar or directly related to the duties of their present position use this as one indicator that the employment is likely to continue (the nature of the military duty can be found on Form DD214).*
- *If the Veteran's current job requires skills for which the Veteran has had no training or experience, greater time on the current job may be needed to establish stability.*

If the Veteran is retiring from active duty, and the retirement income is such that only minimal income from employment is necessary, the income may be used to qualify.

Examples:

Qualifying Short-Term Employment *– A Veteran who was an airplane mechanic in the military is now employed as an auto mechanic or machinist.*

Non-Qualifying Short-Term Employment *– A Veteran who was an Air Force pilot is now employed as an insurance salesperson on commission.*

Most cases fall somewhere between these extremes. Fully develop the facts of each case in order to make a determination. Apply the guidelines under "self-employment" for recently discharged Veterans who are self-employed.

Rental Income

Multi-Unit Property Securing the VA Loan *– Verify:*

- *Cash reserves totaling at least six months' PITI are available; and*
- *Document the borrower's prior experience managing rental units or other background involving both property maintenance and rentals.*

Include the prospective rental income in effective income only if the above two items can be documented. The amount of rental income to include in effective income is based on 75% of:

- *The verified prior rent collected on the units (existing property); or*
- *The appraiser's opinion of the property's fair market rent (proposed construction).*

Rental of the Veteran's Departure Residence

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

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

Rental of Other Property Not Securing the VA Loan

Rental income verified as stable and reliable may be included in effective income. Obtain the following:

- *A copy of the rental agreement;*
- *Document three months PITI reserves; and*
- *Two years' tax returns which reflect the rental income generated by the property*

If there is little or no prior rental history on the property, make a determination based on a review of:

- *Documentation of the borrower's prior experience managing rental units or other background involving both property maintenance and rentals;*
- *Any leases on the property; and*
- *The strength of the local rental market.*

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

Alimony, Child Support and Separate Maintenance

Verify the income if the borrower wants it to be considered. The payments must be likely to continue in order to include them in effective income. Factors used to determine whether the payments will continue include, but are not limited to:

- *Whether the payments are received pursuant to a written agreement or court order;*
- *The length of time the payments have been received;*
- *The regularity of the receipt; and*
- *The availability of procedures to compel payment.*

Automobile Allowance

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. In some instances the allowance may exceed the car payment. With proper documentation, income from a car allowance which exceeds the car payment may be used as effective income.

Other Types of Income

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

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

- *Pension and other retirement benefits;*
- *Disability income;*
- *Dividends from stocks;*
- *Interest from bonds, savings accounts, etc.; and*
- *Royalties*

Include verified income from public assistance programs in effective income if evidence indicates it will probably continue for three years or more. Underwriters may include verified workers' compensation income that will continue in the foreseeable future if the Veteran chooses to reveal it.

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

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

Note: *If unemployment compensation is a regular part of the borrower's income due to the nature of his/her employment, such as seasonal work, it may be included.*

ASSETS

Amount of Cash Required

The borrower must have sufficient cash to cover:

- *Any closing costs which are the borrower's responsibility and are not financed in the loan;*
- *The down payment, if applicable; and*
- *The difference between the sales price and the loan amount if the sales price exceeds the appraised value.*

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

Bank Account Assets

Verify all liquid assets owned by the borrower if funds are needed to close or if significant liquid assets may have a bearing on the overall credit analysis.

Copies of the borrower's last two bank statements are required. Internet or faxed statements that are obtained directly from the bank's website or fax machine are acceptable. Internet statements must contain the URL address of the banking institution. Verifications must be no more than 120 days old as of the note date.

Pending Sale of Real Estate

Sales proceeds may be necessary to make a down payment or pay closing costs. In addition, underwriters may want to consider the amount of equity the borrower has accumulated in the property and the extent to which that equity is attributable to the borrower's investment rather than the housing market in evaluating the borrower's ability to manage assets. Information documenting the equity to be realized from the sale is required.

DEBTS AND OBLIGATIONS

For obligations not included on the credit report which are revealed on the application or through other means, obtain written verification directly from the creditor. When a pay stub or LES statement reflects an allotment, investigate the nature of the allotment to determine whether the allotment is related to a debt.

For obligations that have not been rated on the credit report or elsewhere obtain the verification and rating directly from the creditor. Include a written explanation for any obligation that is not rated. Credit reports and verifications must be no more than 120 days old.

The request for or consideration of a spouse's credit history who will not be contractually obligated on the loan is a violation of ECOA except under the following circumstances:

- *The borrower is relying on alimony, child support, or maintenance payments from a spouse or former spouse; or*
- *When the subject property is located in a community property state:*
    - *VA requires consideration of the spouse's credit information whether or not the spouse will be personally liable on the note and whether or not the borrower chooses to have the spouse's income considered.*

Alimony and Child Support Obligations

*The payment amount on any alimony and/or child support obligation of the applicant **must be verified.** Do not request documentation of a borrower's divorce unless it is necessary to verify the amount of any alimony or child support liability indicated by the borrower. If, in the routine course of processing the loan, direct evidence is encountered that a child support or alimony obligation exists, make any inquiries necessary to obtain the appropriate documentation.*

Analysis of Debts and Obligations

Significant debts and obligations include:

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

Example, *Monthly payments of $300 on an auto loan with a remaining balance of $1,500, even though it should be paid out in five months, would be considered significant. The payment amount is large enough to possibly 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 for analysis. If a married Veteran wants to obtain the loan is his/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/her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a Veteran borrower. This includes debts that have become delinquent since the divorce.

Co-Signed Debt

The borrower may have a contingent liability based on co-signing a loan. If there is evidence that the loan payments are being made by someone else, and there is no reason to believe that the borrower will have to participate in repayment of the loan, then exclude the loan payments from the monthly obligation.

Generally the party making the payments must be obligated on the loan and must have made the last 12 months' payments without any late payments on the account.

Pending Sale of Real Estate

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

- *Clear the outstanding mortgage(s) against the property;*
- *Pay off outstanding consumer debt; and/or*
- *Make a down payment or pay closing cots on the new VA loan.*

Disregard the payments on the outstanding mortgage(s) and any consumer obligations which the Veteran intends to clear if the available equity realized from the sale will be sufficient.

Deferred Student Loans

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 (note date), a monthly payment does not need to be considered.

If a student loan is in repayment or is scheduled to begin within 12 months from the date of loan closing, consider the anticipated monthly obligation in the DTI. Use the ***greater of:***

- *The payment reported on the credit report for each student loan; or*
- *Calculate each student loan at 5% of the outstanding balance divided by 12 months.*
    - ***Example:*** *$25,000 student loan balance x 5% = $1,250/12 = $104.17/per month to be included in the DTI.*

Loans Secured by Deposited Funds

Certain types of loans secured against deposited funds, such as 401k loans, in which repayment may be obtained through extinguishing the asset do not require consideration in the analysis.

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

Federal Debts

A borrower cannot be considered a satisfactory credit risk if he/she is presently delinquent or in default on any debt owed to the federal government until the delinquent account has been brought current or satisfactory arrangements have been made between the borrower and the federal agency.

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

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. 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:

- *Overpayment on education cases;*
- *Overpayments on disability benefits income; and*
- *Claims paid due to home loan foreclosures.*

Perform a CAIVRS screening on all obligors on the loan including IRRRL loans. The one exception is that CAIVRS is ***not*** *required for non-purchasing spouses in community property states.*

Telephone access to CAIVRS has been discontinued. Obtain CAIVRS information via the internet. CAIVRS information can be accessed via HUD's FHA Connection website.

Borrowers Who Are Presently Delinquent

Give full consideration to the CAIVRS information and any subsequent clarifying information provided in applying VA credit standards. CAIVRS information is only for the underwriter's and borrower's use in processing the loan application. Only those persons having responsibility for screening borrowers may use CAIVRS. ***Any other use is unauthorized.***

If CAIVRS screening indicates a borrower is presently delinquent or has had a foreclosure or a claim paid on a loan made, guaranteed, or insured by a federal agency take the following actions:

Step	Action
1	Suspend processing of the loan.
2	Contact the borrower for information regarding the loan default, foreclosure or Claim. If a previous VA loan is involved, the borrower may call 1-800-827-0647 to make arrangements to repay the debt.
3	Contact the federal agency that reported the borrower to CAIVRS if further information Is needed.

ANALYZING CREDIT

The borrower's past repayment practices on obligations are the best indicator of his/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 is a satisfactory credit risk based on a careful analysis of the credit report and other credit data.

Rent and Mortgage Payment History – *The borrower's rental history and any outstanding or recently retired mortgages must be verified and rated. Housing expense payment history is often the best indicator of how motivated the borrower is to make timely mortgage payments in the future.*

Absence of Credit History - *Lenox/WesLend does not accept borrowers without a credit history and credit scores.*

Adverse Data

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

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

Disputed Accounts – *Consider a Veteran's claim of legitimate disputes 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, payoff of these debts after the acceptability of the borrower's credit is questioned does not alter the unsatisfactory record of payment.*

This guidance is not meant to address every possible scenario. Underwriters should carefully review the complete credit history and use their judgment. For example, if a borrower has numerous unpaid collections, regardless of when they were established, it is not unreasonable to question the borrower's ability and willingness to honor obligations. If the borrower is determined to be a satisfactory credit risk in spite of derogatory credit information, the loan file should include an explanation from the borrower and the underwriter. If underwriters are unsure about a particular situation they should contact the appropriate VA Regional Loan Center.

Consumer Credit Counseling Plan – *If a Veteran has prior adverse credit and is participating in a Consumer Credit Counseling plan they may be determined to be a satisfactory credit risk if they demonstrate 12 months' satisfactory payments and the counseling agency approves the new credit.*

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

Bankruptcy – *The fact that a bankruptcy exists in a borrower's credit history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reason for the bankruptcy and the type of bankruptcy filing.*

Chapter 7 – A bankruptcy discharged more than two years ago may be disregarded. If the bankruptcy was discharged within the last one to two years it is probably not possible to determine that the borrower is a satisfactory credit risk unless both of the following requirements are met:

- *The borrower has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period; and*
- *The bankruptcy was caused by circumstances beyond the control of the borrower such as unemployment, prolonged strikes, medical bills not covered by insurance, etc. The circumstances must be documented. Divorce is* ***not*** *viewed as beyond the control of the borrower.*

Chapter 11 – 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:

- *The borrower obtained a permanent position after the business failed;*
- *There is no derogatory credit information prior to self-employment;*
- *There is no derogatory credit information subsequent to the bankruptcy; and*

- *Failure of the business was not due to the borrower's misconduct*

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

Chapter 13 – This type of filing indicates an effort to pay creditors. Regular payments are made to a court appointed trustee over a two, three, four or five year period to payoff scaled down or entire debts. If the borrower has finished making all payments satisfactorily conclude that the borrower has reestablished satisfactory credit.

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

Foreclosure – *The fact that a home loan foreclosure, or deed-in-lieu, exists in the borrower's credit history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the foreclosure. Apply the guidelines provided for bankruptcies filed under Chapter 7.*

If the foreclosure was on a VA loan, the borrower may not have full entitlement available for the new loan. Ensure that the borrower's Certificate of Eligibility reflects sufficient entitlement to meet the required 25% guaranty.

AUTOMATED UNDERWRITING CASES

Lenders may use certain reduced documentation requirements on cases processed with an approved AUS (Lenox/WesLend uses DU only). The level of reduced documentation depends on the risk classification assigned. Please refer to the Documentation Classification tables. Please note that the documentation requirements are the same for AUS cases as for non-AUS cases except for any differences noted in the tables.

Data Integrity: *It is imperative that the data entered into DU be accurately verified. The data utilized by the system must be supported by source documentationr. 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.*

Because the AUS will be making the determination that the loan satisfies credit and income requirements, cases receiving an "approve/eligible" rating will not require the underwriter's certification on VA Form 26-6393, Loan Analysis Worksheet*.*

HOW TO COMPLETE VA FORM 26-6393, LOAN ANALYSIS WORKSHEET

In order to properly enter information in the Loan Analysis Worksheet underwriters must understand and apply the guidelines provided above. Self-explanatory items are not discussed here.

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 cents per square foot* ***Example:*** *A 1500 square foot home would have a combined maintenance and utility cost of $210 (1500 X .14).*
20	*For condominiums or houses in a Planned Unit Development include the monthly amount of maintenance assessment payable to the homeowners' association.*

Debts and Obligations – *List all known debts and obligations of the borrower including any alimony and/or child support payments. Place a check mark in the (3) column next to any "significant" debt or obligation.*

Job Related Expense – *Include any costs for child care, significant commuting costs, and any other direct or incidental costs associated with the borrower's employment. Check this item when total job related expenses are significant.*

***Item 33 Federal Income Tax* –** *Enter the borrower's estimated monthly federal income tax.*

***Item 44 Balance Available for Family Support* –** *Enter the appropriate residual income amount from the Residual Income Tables. Residual income is the amount of net income remaining after the deduction of debts and obligations and monthly housing expenses to cover family living expenses such as food, health care, clothing, and gasoline. The numbers in the Residual Income Tables are based on data supplied in the Consumer Expenditures Survey (CES) published by the Department of Labor's Bureau of Labor Statistics. They vary according to loan size, family size, and region of the country.*

Special Instructions for Using the Residual Income Tables *– Count **all** members of the household without regard to the nature of the relationship when determining family size including:*

- *An applicant's spouse who is not joining in title or on the note; and*
- *Any other individuals who depend on the borrower for support, such as step-children.*

Omit any individuals from family size who are fully supported from a source of verified income which, for whatever reason, is not included in effective income in the loan analysis. For example:

- *A spouse not obligated on the note who has stable and reliable income sufficient to support his/her living expenses; or*
- *A child for whom sufficient foster care payments or child support is received regularly.*

Reduce the residual income figure by a minimum of 5% if:

- *The borrower or spouse is an active-duty or retired service person; and*
- *There is a clear indication that he/she will continue to receive the benefits resulting from use of military-based facilities located near the subject property.*

*******Tax free income may be "grossed up" for purposes of calculating the debt-to-income ratio only **it cannot be used to calculate 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 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 actually tax-free before "grossing up".

If "grossing up" is used, indicate such and provide the "grossed up" ratio in item 47, "Remarks".

***Item 45 Past Credit Record* –** *Indicate whether the borrower is a satisfactory or unsatisfactory credit risk based on a complete analysis of all of the credit data.*

***Residual Income* –** *VA's minimum residual income (balance available for family support) is a guide. It should not automatically trigger approval or rejection of a loan. Instead consider residual income in conjunction with all other credit factors.*

An obviously inadequate residual income alone can be a basis for disapproving a loan. If residual income is marginal, look to other indicators such as the borrower's credit history and especially whether and how the borrower has previously handled similar housing expenses. Also consider the ages of the borrower's dependents in determining the adequacy of residual income.

***Debt-to-Income Ratio* –** *VA's debt-to-income is a ratio of total monthly debt payments - housing expense, installment debts, etc. – to gross monthly income. It is a guide and, **as an underwriting factor, it is secondary to the residual income.** Instead, consider the ratio in conjunction with all other credit factors.*

For manually underwritten loans, a ratio greater than 41% requires close scrutiny unless the residual income exceeds the guideline by 20% or more.

Credit History *– A poor credit history alone is a basis for disapproving a loan. If the credit history is marginal, look to other indicators such as residual income.*

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 ratios. They cannot be used to compensate for unsatisfactory credit.*

Valid compensating factors should represent unusual strengths rather than mere satisfaction of basic program requirements. For example, the fact that a borrower has sufficient assets for closing purposes, or meets the residual income guidelines, is not a compensating factor.

Valid compensating factors should logically be able to compensate for the identified weaknesses in the loan. For example, significant liquid assets not needed for closing purposes 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 Credit***
- ***Minimum Consumer Debt***
- ***Long-Term Employment***
- ***Significant Liquid Assets***
- ***Sizable Down Payment***
- ***Sizable Equity Not Being Accessed in Refinance Transactions***
- ***Little or No Increase in Housing Expense***
- ***Military Benefits***
- ***Satisfactory Homeownership Experience***
- ***High Residual Income***
- ***Low Debt-to-Income Ratio***
- ***Tax Credits for Child Care***
- ***Tax Benefits of Homeownership***

Housing Expense – *Closely scrutinize a case in which the borrower will be paying a significantly higher housing expense than he/she currently pays. Consider the ability of the borrower to accumulate liquid assets and the amount of debt incurred while paying a lesser amount for housing.*

If an application shows little or no capital reserves and excessive obligations, it may not be reasonable to conclude that a substantial increase in housing expense can be absorbed.

EXAMPLES OF UNDERWRITING DEFICIENCIES

Purpose ***–*** *Because of the high loan-to-value ratio of VA-guaranteed loans, it is critical that underwriters use sound judgment. The underwriting deficiencies listed below represent a sample of actual deficiencies found on VA loans that went into default. The deficiencies were of such significance that many of the loans should not have been made.*

Inadequate Development of Credit Information

- *Failing to compare documented information with the borrower's initial application.*
- *Failing to question and investigate obvious discrepancies:*
  - *In the number of dependents or household size; and*
  - *Between actual year-to-date average monthly earnings and the income claimed on the loan application.*
- *Failing to question multiple social security numbers.*
- *Failing to determine future plans of an active-duty service person whose separation from the service is imminent.*
- *Accepting an explanation for a bad credit history without documenting the circumstances alleged to have caused the credit problem, judgment or bankruptcy.*

Missing Documentation

- *Failure to inquire about and document the payment history on previous home loans including prior VA loans.*
- *Failure to obtain documentation of employment history during the previous two years.*

Verification and Procedural Errors

- *Requiring the Veteran to sign partially completed or blank forms.*
- *Permitting income or asset deposit information to be hand carried by the borrower, real estate/sales agent, or a party other than the lender's specifically designated employee.*
- *Addressing verification forms to an individual chosen by the borrower rather than to the employer's personnel or payroll department.*
- *Obtaining multiple revised credit reports without validating the need for the subsequent reports.*

Income Analysis Errors

- *Showing that a borrower is a salaried employee when the borrower works solely on a commission basis, is a contract employee, or is actually self-employed.*
- *Failing to use net profit or net income from Schedule C tax returns rather than the gross income of a borrower who is self-employed.*
- *Using short-term, temporary, or sporadic income to qualify a borrower.*
- *Qualifying a marginal borrower for a loan by using a buy down without establishing that the borrower's income will keep pace with the scheduled increase in mortgage payments.*

Examples of unreliable income sources include:

- *Overtime pay in an industry or area that is experiencing an economic slowdown or decline.*
- *Income from a second job even though the borrower does not have a history of steadily working two jobs.*
- *Rental income even though the borrower does not have verified experience as a landlord.*
- *Poorly documented income from self-employment.*

Other Analysis Errors

- *Failing to consider changes in marital status or household size after application and prior to closing.*
- *Failing to consider pay stubs showing deductions to creditors that are not shown on the application, credit report or bank statements.*
- *Approving a loan solely on the basis of an emotional appeal from the borrower, the sales agent, seller or other interested party**.*** ***Note,*** *A decision or an inclination to reject a loan application should* ***not*** *be changed unless there is new and compelling information available to justify approving the loan.*
- *Approving high debt-to-income ratio loans with few or no valid compensating factors.*
- *Using gift letters to offset past due obligations, pay off debts, etc. without consideration of the credit risk implications of the past due obligations.*

- *Ignoring debts, judgments, bankruptcies, alimony or child support obligations because they do not appear on the credit report.*
- *Failing to reconcile a large increase in housing expense with an undemonstrated ability to accumulate cash assets.*

VA Refinance

Interest Rate Reduction Refinance (IRRRLS)

An IRRRL is a VA-guaranteed loan made to refinance an existing VA-guaranteed loan. Generally no appraisal, credit information or underwriting is required on an IRRRL.

*An IRRRL **must have a lower interest rate** than the loan it is refinancing **unless the loan it is refinancing is an ARM.** The principal and interest on an IRRRL **must be less than the principal and interest on the loan being refinanced** unless one of the following exceptions applies:*

- *The IRRRL is refinancing an ARM; or*
- *The term of the IRRRL is shorter than the term of the loan being refinanced.*

A significant increase in the Veteran's monthly payment may occur with either of these 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*
- *A higher interest rate when an ARM is being refinanced.*

If the monthly payment (PITI) increases by 20% or more underwriters must:

- *Determine that the Veteran qualifies for the new payment from an underwriting standpoint – full credit qualifying is required.*
- *Include a certification that the Veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more.*

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.

The following fees and charges may be included in an IRRRL:

- *The VA Funding Fee; and*
- *Any allowable fees and charges*

*There is one limitation. While the borrower may pay any reasonable amount of discount points in cash, **only up to two discount points can be financed into the loan.***

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 financed into the loan. The interest rate may also be set high enough to enable the closing costs to be paid through lender credit.

An IRRRL cannot be used to take equity out of the property or to 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. The general rule is that the borrower cannot receive cash proceeds from the loan. If necessary the refinancing loan amount must be reduced to avoid payments of cash to the Veteran.

In a limited number of situations the borrower may receive minimal cash at closing. Some examples of situations where VA does not object to the borrower receiving cash are:

- *Computational errors;*
- *Changes in final payoff figures;*
- *Up-front fees paid for the appraisal and/or credit report that are later added into the loan; and*
- *The refund of the escrow balance on the old loan.*

The Veteran may receive a maximum of $500 cash back at close ***except in the state of Texas where the Veteran may not receive any cash back.***

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% 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.*

No additional charge is made to the Veteran's entitlement for an IRRRL. 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 loan 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 Amount *– The existing VA loan was originally made for $110,000 with a guaranty of $27,500 (25%). The new IRRRL is for $112,000. The guaranty on the new loan is $28,000 (25%) but the Veteran's entitlement use remains at $27,500.*

Examples of New Loan Amount Less than Old Loan Amount *– The existing VA loan was originally made for $42,000 with a guaranty of $25,000, or almost 60%. The new IRRRL is for $40,000. The guaranty on the new loan is $20,000 or 50% but the Veteran's entitlement use remains at $25,000.*