VA ARM Standard Guides

WesLend FINANCIAL

Primary Residence – Owner Occupied			
Minimum FICO Score	**Transaction**	**Number of Units**	**Maximum LTV/CLTV**
620	Purchase	1 - 4 Unit	100%
620	Cash-Out Refinance	1 - 4 Unit	90%
640	Cash-Out Refinance	1 – 4 Unit	100%

Platinum VA Standard Program Codes:	
VA 5/1 ARM	6700-99

Highlights

Topic	Highlights
1031 Exchange	Funds from 1031 Tax Deferred Exchanges are not eligible.
4506 Transcripts	Transcripts are required per income documentation type included in the loan file.
Appraisals	• Transferred appraisals are allowed • A new appraisal cannot be requested on a property which already has a valid VA value determination • Unpermitted additions are allowed subject to the following: ▪ The quality of the work is described by the appraiser as done in a workmanlike manner; ▪ The addition does not result in a change in the number of units comprising the subject property; ▪ If the appraiser gives the unpermitted addition value, the appraiser must be able to demonstrate market acceptance by the use of comparable sales with similar additions and state the following in the appraisal: o "Non-permitted additions are typical for the market area and a typical buyer would consider the unpermitted additional square footage to be part of the overall square footage of the property"; and o "The appraiser has no reason to believe the addition would not pass inspection for a permit".
ARM Parameters	5/1 ARM • Caps: 1/1/5 • Margin: 2% • Index: One Year Treasury • Qualifying Rate: Qualify at the greater of the fully amortized/fully indexed rate or the Note rate
Assets	Cryptocurrency, such as Bitcoin and Ethereum, may not be used for purposes of down payment funds or funds for closing. These funds must be backed out of the borrower's assets.
AUS	DU Approve/Eligible only
Borrower Eligibility	• The borrower must be an eligible Veteran • Resident aliens are permitted as long as the primary borrower is an eligible Veteran • Joint Veteran (Vet/Vet) loans are not allowed • Only the Veteran's spouse may be a co-borrower
Buy Down	Temporary buy downs are not eligible
Cash-Out Transactions	• **There must be an existing lien against the subject property. Properties owned free and clear are not allowed.** • 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 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>**
Condominium	All condominium projects must be approved by VA
Construction to Perm	Not Eligible
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	620 for purchases with LTVs up to 100% and cash-out refinances with LTVs up to 90% 640 for cash-out refinances when the LTV exceeds 90%. The following additional requirements apply: • The loan must receive an DU approve/eligible decision • 0X30 in the past 6 months if the credit score is > 660 • 0X30 in the past 12 months if the credit score is ≤ 660 All borrowers must have at least one credit score
Deed Restrictions	Only age related deed restrictions are eligible. All other deed restrictions are not allowed.
Down Payment Assistance/MCC	Not Eligible
Escrow Impounds	Escrow impounds are required. Waivers are not allowed.
Escrow Withholds/Repair Escrows	Not eligible
Future Income	Not Eligible
Ineligible Properties	Bed and Breakfast Establishments Boarding Houses Co-ops Hotel Condominiums Land Trusts Mobile Homes Properties located in Coastal Barrier Resources Systems (CBRS) Timeshares Unimproved Land and Property Currently in Litigation Working Farms and Ranches
Joint Loans (Vet/Vet or Vet/Non-Vet)	Not Allowed
Leasehold	Not Eligible
Manufactured Homes	Not Eligible
Manual Underwriting	Allowed per VA requirements
Marijuana Related Business	Income from a marijuana based business or employment is not allowed to be used as qualifying income.
Mortgage Differential Payments	Not Eligible
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 depending 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
Ratios	• Approve/Eligible – per DU • DU Refer and Manual Underwriting – 41% • DTI may exceed 41% up to a maximum of 50% when residual income exceeds 120% and significant documented compensating factors exist per VA guidelines
Sales Concessions	May not exceed 4% of the sales price/appraised value (whichever is less). Normal discount points and payment of the borrower's non-recurring closing costs are not to be included in the 4% limitation.
Sales Contract	Assigned sales contracts are not eligible
State Restrictions	Hawaii – Properties located in Lava Flow Zones 1 and 2 are not allowed New Jersey – 204 units not allowed West Virginia – Not Eligible Texas – 50(a)(6) transactions are not eligible

Section 8 Vouchers	Not Eligible
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: Termite reports are required in the following Counties: 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

Verification of Employment/Verification of Deposit/Verification or 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; and*
- *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**.*

Processors and underwriters 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.*

Cash-Out Refinance Loans

All non-IRRRL refinances are considered to be cash-out transactions whether or not the Veteran actually receives cash back. There is no "rate/term" or "no cash out" refinance option. A cash-out refinance loan is a VA-guaranteed loan that refinances any type of lien or liens against the subject property. ***There must be alien of some type against the subject property. Free and clear properties are not eligible for cash-out refinancing.*** *The liens to be paid off may be from any source such as tax or judgment liens or any type of existing mortgage.*

Loan proceeds beyond the amount needed to pay off the lien(s) may be taken as cash by the Veteran for any purpose acceptable to the investor. The loan must be secured by a first lien on the subject property.

The maximum loan amount is 100% of the appraised value plus the VA Funding Fee. Cash proceeds from the loan may be used to pay allowable fees and charges and discount points. The maximum guaranty for cash-out refinance loans is the same as the maximum guaranty for purchase transactions. The Veteran must have sufficient available entitlement for the loan. If an existing VA loan on the same property will be paid off by the refinancing loan the entitlement used for the existing loan can be restored for purposes of obtaining the new loan. The Veteran must certify that he/she intends to personally occupy the property as his/her home.

Eligible Properties

Types of Property eligible for an Appraisal

Existing Construction: *Refers to a home which has either been previously owner-occupied or had all onsite and offsite improvements fully completed for one year or more from the date of the Certificate of Occupancy.*

New Construction: *Refers to a newly completed property, completed less than one year and never occupied.*

A newly completed property is eligible if either:

- *It is covered by a one-year VA builder's warranty; or*
- *It is enrolled in a HUD-accepted ten-year insured protection plan.*

A Proposed or Under Construction property is eligible for an appraisal prior to construction or during construction if:

- *The appraisal is based on proposed construction exhibits or the model home; and*
- *The property is inspected during construction by the local authority having jurisdiction.*

A Modular Home is eligible if:

- *It is constructed to the standards of the state where the factory is located and receives the state's approval certification*
- *It is delivered to the building site in sections, but not attached to a chassis supported by wheels*

A Condominium is eligible if it is:

- *Approved by VA. The project must be approved by VA before any unit in the project can be appraised. A property involving a less than fee simple ownership, such as leaseholds, cooperatives, or ground rental arrangements, is not eligible.*

Properties Not Likely to be Eligible for an Appraisal

Property in a badly deteriorated condition is not eligible for an appraisal unless VA agrees there is a reasonable likelihood that it can be repaired to meet VA Minimum Property Requirements (MPR) prior to loan closing.

A property is not eligible for an appraisal if the improvements are or will be located in:

- *A Special Flood Hazard Area (SFHA) and either:*
  - *It is Proposed/Under/New Construction with elevation of the lowest floor below the 100 year flood level; or*
  - *Flood insurance is not available*
- *An area subject to regular flooding for whatever reason, whether or not it is in an SFHA*
- *A Coastal Barrier Resources System*
- *An airport Noise Zone 3, if Proposed or Under Construction*
- *A transmission line easement involving high-pressure gas or liquid petroleum or high voltage electricity when any part of the residential structure is located within the easement.*
- *An area susceptible to geological or soil instability such as earthquakes, landslides, or other history of unstable oils, when the property is Proposed/Under/New construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design.*

Other Appraisal Restrictions

A new appraisal cannot be requested on a property which already has a valid VA value determination.

For any property appraised as Proposed/Under/New Construction the builder must have a valid builder identification number prior to a VA Notice of Value being issued.

A property is ineligible for an appraisal if any part of interest to the transaction, other than the purchaser, is debarred Government-wide or otherwise excluded from participation in the Loan Guaranty program due to a VA-imposed sanction for substantially prejudicing a Veteran by either:

- *Failing to correct justified construction complaint items;*
- *Violating VA Minimum Property Requirements;*
- *Deviating from plans and specifications without VA approval;*
- *Failing to honor other contractual obligations on houses previously built and sold with VA financing; or*
- *Using a sales contract or marketing method or practice which VA considers to be unfair or unduly prejudicial to the Veteran involved.*

Appraisers must not complete an assignment for a property that does not appear to be eligible to become the security for a VA-guaranteed loan without first contacting the lender involved or the Regional Loan Center with jurisdiction.

VA Minimum Property Requirements

VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties which will become the security for VA-guaranteed loans. In Proposed or Under Construction cases, the MPRs help ensure that the property is constructed according to the applicable building codes and federal requirements.

Basic Minimum Property Requirements

Entity

The property must be a single readily marketable real estate entity.

Non-Residential Use

Any non-residential use of the property must be subordinate to its residential use and character. If any portion of a property is designed or used for non-residential purposes, that property is eligible only if the non-residential use does not:

- *Impair the residential character of the property; or*
- *Exceed 25% of the total floor area.*

Note: In making this calculation, the total non-residential area must include storage areas or similar spaces that are integral parts of the non-residential portion.

Space Requirements
Each living unit must have the space necessary to assure suitable:

- *Living;*
- *Sleeping;*
- *Cooking and Dining Accommodations; and*
- *Sanitary Facilities.*

Mechanical Systems
Mechanical systems must:

- *Be safe to operate;*
- *Be protected from destructive elements;*
- *Have reasonable future utility, durability, and economy; and*
- *Have adequate capacity and quality.*

Heating
*Heating must be adequate for healthful and comfortable living conditions. Homes with a **wood burning stove** as a primary heating source **must also have a permanently installed conventional heating system** that maintains a temperature of at least 50 degrees Fahrenheit in areas with plumbing.*

Solar Systems
Solar systems for domestic water heating and/or space heating must:

- *Meet HUD requirements; and*
- *Be backed up 100% with a conventional thermal energy subsystem or other backup system which will provide the same degree of reliability and performance as a conventional system.*

Water Supply and Sanitary Facilities
Each unit must have the following:

- *Domestic hot water;*
- *A continuing supply of safe and potable water for drinking and other household uses; and*
- *Sanitary facilities and a safe method of sewage disposal.*

Roof Covering
The roof covering must:

- *Prevent the entrance of moisture; and*
- *Provide reasonable future utility, durability, and economy of maintenance.*

When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.

Crawl Space
The crawl space must:

- *Have adequate access;*
- *Be clear of all debris; and*
- *Be properly vented.*

The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing. Any ***excessive dampness or ponding of water*** *in the crawl space must be corrected.*

Ventilation
Natural ventilation of structural spaces such as attics and crawl spaces must be provided to reduce the effect of excess heat and moisture which could cause decay and deterioration of the structure.

Electricity
Each unit must have electricity for lighting and for necessary equipment.

Facilities
Facilities such as laundry and storage space or heating may be shared in two-to-four unit buildings under a single mortgage.

Utilities
Utility services must be independent for each living unit, except:

- *Living units under a single mortgage or ownership may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit; and*
- *Living units under separate ownership may share connections from the main to the building line when those connections are protected by:*
    - *An easement or covenant; and*
    - *A maintenance agreement acceptable to VA.*

Individual utilities serving one living unit shall not pass over, under, or through another living unit unless there is a legal provision for permanent right of access for maintenance and repair of the utilities without trespass on adjoining properties.

Access to the Property
Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street. Private streets must be:

- *Protected by a permanent easement; and*
- *Maintained by a homeowners association or joint maintenance agreement.*

All streets must have an all-weather surface.

Access to Living Units
Access to the living area must be provided without passing through any other living unit. Each living unit must be able to be used and maintained individually without trespass upon adjoining properties. Any easements required must run with the land.

Access to Real Yard
Access to the rear yard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by means of:

- *An Alley;*
- *An Easement;*
- *Passage through the subject dwelling; or*
- *Other acceptable means.*

Access for Exterior Wall Maintenance

There must be adequate space between buildings to permit maintenance of the exterior walls.

Hazards

The property must be free of hazards which may:

- *Adversely affect the health and safety of the occupants;*
- *Adversely affect the structural soundness of the dwelling and other improvements to the property; or*
- *Impair the customary use and enjoyment of the property by the occupants.*

Defective Conditions

*Conditions which impair the safety, sanitation, or structural soundness of the dwelling will cause the property to be **unacceptable until the defects or conditions have been remedied** and the probability of further damage eliminated. Such conditions include, but are not limited to:*

- *Defective construction;*
- *Poor workmanship;*
- *Evidence of continuing settlement;*
- *Excessive dampness;*
- *Leakage;*
- *Decay; or*
- *Termites*

Drainage

The site must be graded so that it:

- *Provides positive, rapid drainage away from the perimeter walls of the dwelling; and*
- *Prevents ponding of water on the site.*

Wood Destroying Insects/Fungus/Dry Rot

Appraisers must look for and report evidence of wood destroying insect infestation, fungus growth, and dry rot in addition to any VA requirement for an inspection of the property by a wood destroying insect inspector.

Lead Based Paint

Lead-based paint constitutes an immediate hazard that must be corrected unless testing shows that lead is not present in the paint at a level above that permitted by law. Appraisers must:

- *Assume that a defective paint condition, involving cracking, scaling, chipping, peeling, or loose paint, on any interior or exterior surface of properties built prior to 1978 involves lead paint;*
- *Clearly identify the location of such conditions; and*
- *Recommend corrections.*

Any defective paint condition identified must receive adequate treatment to prevent the ingestion of contaminated paint. Either:

- *The surface requiring treatment must be thoroughly washed, scraped, wire brushed or otherwise cleansed to remove all cracking, peeling, chipping and loose paint and the repainted with two coats of a suitable non-leaded paint; or*
- *The paint shall be completely removed or the surface covered with a suitable material such as gypsum, wallboard, plywood or plaster before any painting is undertaken.*

Party Walls

A building constructed to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the roof ridge. The wall may separate row type townhouses or semi-detached units.

Gas and Petroleum Pipelines

No part of any residential structure may be located within a high pressure gas or liquid petroleum pipeline easement. Any detached improvements even partially in the pipeline easement will not receive value for VA purposes.

If a proposed residential structure will be located outside the pipeline easement, but within an area that extends 220 yards on either side of the centerline of the pipeline itself, the VA Notice of Value will be conditioned for the following, as applicable:

- ***High Pressure Gas Pipelines:*** *A statement from an authorized official of the pipeline company certifying compliance with 49 CFR 192.607, 192.609, 192.611 and 192.633.*
- ***Liquid Petroleum Pipelines:*** *A statement from an authorized agent of the pipeline company certifying compliance with 49 CFR 195 and amendments thereto.*

High Voltage Electric Transmission Lines

No part of any residential structure may be located within a high voltage electric transmission line easement. Any detached improvements even partially in a transmission line easement will not receive value for VA purposes.

Connection of Public System

Connection to a public or community water/sewage disposal system will only be mandatory when such connection is required by the local building, planning, or health authorities.

For properties on individual water and/or sewer (septic) systems where well water or septic tests or certifications are required, the validity of those tests or certifications is 90 days.

All Notices of Value (NOVs) issued on properties served by individual water and/or sewer systems will require NOV #6 to be checked for connection to public water or public sewer only if the local building, planning, or health authority requires such connection.

Water Quality

The water supply must meet the requirements established by the local health authority. If the local health authority has not established specific requirements, then requirements established by the state health authority will be used. In the case where there are no state requirements, the requirements established by the Environmental Protection Agency (EPA) will be used. For information regarding state requirements please access the following website:

https://www.epa.gov/privatewells/private-drinking-water-well-programs-your-state

All testing must be performed by a disinterested third party. ***This includes the collection and transport of the water sample collected at the water supply source.*** *The sample may be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority.* ***At no time will the Veteran or other interested party collect and/or transport the sample.***

For VA purposes the test is valid for 90 days from the date certified by the local health authority. After 90 days another sample must be taken and a new test must be completed.

Following is a link to the Centers for Disease Control's website regarding testing requirements for drinking water.

https://www.cdc.gov/healthywater/drinking/private/wells/testing.html

Water Treatment Systems
Water treatment systems are not acceptable for wells which do not meet VA quality standard

Shared Wells
The following requirements must be met for a shared well:

- *The well must be capable of providing a continuing supply of safe and potable water to each property simultaneously so that each dwelling will be assured a sufficient quantity for all domestic purposes.*
- *There must be a permanent easement which allows access for maintenance and repair.*
- *There must be a well-sharing agreement which:*
  - *Makes reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs;*
  - *Is binding on the signatory parties and their successors in title; and*
  - *Is recorded in local deed records.*

Springs or Cisterns
Springs or cisterns are permitted where such facilities are customary and the only feasible means of water supply provided they are installed in accordance with the recommendations of the local health authority and the Veteran purchaser acknowledges in writing his/her awareness of the situation.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

Water Catchment Systems in the State of Hawaii
In the State of Hawaii water catchment systems are not regulated by the Department of Health (DOH). DOH had a policy that water catchment systems were not safe for domestic use. After discussions with VA, DOH has determined that water catchment systems may be made safe for domestic use if certain guidelines are followed.

VA will process home loans for guaranty on properties with rainwater catchment systems as the source of domestic water when the following actions are taken:

- *Provide the Veteran purchaser a **printed** copy of the publication,* Guidelines on Rainwater Catchment Systems for Hawaii *by the University of Hawaii College of Tropical Agriculture and Human Resources. These guidelines may be found at: www.ctahr.hawaii.edu/hawaiirain/guidelines.html*
- *The VA Notice of Value (NOV) issued in conjunction with the VA appraisal process must be conditioned in Block 20 of the NOV with: The Veteran purchaser must sign a written acknowledgement that they have received the publication* Guidelines on Rainwater Catchment Systems for Hawaii. *The written acknowledgement must state: "I have been provided a copy of the publication* Guidelines on Rainwater Catchment Systems for Hawaii *which includes information on the potential hazards of use of, and suggested maintenance procedures for rainwater catchment systems, as a source of domestic water."*
- *The NOV must be conditioned in Block 5. **WATER/SEWAGE SYSTEM ACCEPTABILITY**: Evidence from the local health authority or other source authorized by VA that the individual water supply system is acceptable.*
- *Water testing must be ordered from a laboratory acceptable to the DOH. The sampling for this test may not be delegated to any party of interest to the transaction. For minimum water quality standards and a listing of laboratories see: http://health.hawaii.gov/sdwb/raincatchment/*

Sewage Disposal System
An individual sewage disposal system must adequately dispose of all domestic wastes in a manner which will not create a nuisance or in any way endanger the public health.

Pit Privies

Individual pit privies are permitted where such facilities are customary and are the only feasible means of waste disposal, provided they are installed in accordance with the recommendations of the local health authority.

If the local health authority has no requirements, U.S. Public Health Service requirements apply.

Community Water

If the property will be serviced by a community water and/or sewage disposal system, VA must be satisfied that the type of system and organization will provide adequate, continuous service at reasonable rates.

*The **water supply** must be sufficient in size for the project. The quality of the water must be approved by the local or state health officials.*

*The **sewage system** must also be adequate in size and properly operated and maintained so as to prevent it from becoming obnoxious or a menace to public health.*

For properties appraised as Existing or New Construction that use a community water supply, the only requirement is evidence of approval of the water company's facilities by the appropriate state or local public utility and health authorities.

For properties appraised as Proposed or Under Construction, the VA field station will review the following documentation:

- *Evidence of the financial stability and technical experience of the corporation, firm or organization operating the facilities;*
- *Evidence of approval of the facilities by the appropriate state or local public utility and health authorities; and*
- *Rates for the water supply and/or sewage disposal systems to ensure that they are not greater than the charges for like services to properties similarly situated.*

VA Appraisal Requirements

For VA guaranty purposes the "reasonable value" of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions. VA considers "reasonable value" and "market value" to be synonymous.

Any appraisal that is not based on recognized appraisal practices in order to "accommodate" the sales price is unacceptable and will result in VA disciplinary action. If the VA assigned appraiser relied on significant professional assistance in performing the appraisal or in preparing the appraisal report, the name of that individual and the specific tasks performed must be shown in the "Reconciliation" section of the appraisal report.

Sales Contract

VA requires a copy of the sales contract be provided to the appraiser by the requester of the VA appraisal immediately upon assignment. When the value opinion to be developed is market value, USPAP requires an appraiser to analyze all agreements of sale, options, or listings of the subject property current as of the Effective Date of the appraisal if such information is available to the appraiser in the normal course of business.

VA believes that the appraiser must have access to the information in the sales contract to ensure that the estimate of value represents a proper value which includes consideration of financing data, sales concessions, or property conditions typically contained in a sales contract.

The requester of a VA appraisal must provide a copy of the sales contract and all addenda to the appraiser immediately upon assignment, but not later than one business day after the date of assignment. The assigned VA appraiser will *analyze the sales contract and consider that analysis in establishing the fair market value of the property and any effect on VA Minimum Property Requirement repairs. Should the requester fail to provide the sales contract to the appraiser the appraiser will hold the assignment and notify VA of the delay.*

If the sales contract is amended during the process (prior to the Effective Date of the appraisal) the requester ***must*** *provide the updated contract to the appraiser to ensure the appraiser has the opportunity to consider any changes and their potential impact on value.*

If the sales contract is amended subsequent to the Effective Date of the appraisal, but prior to loan closing, use due diligence in determining whether the amendment(s) could reasonably be thought to affect the estimated value of the property. If so, forward the amended contract to the VA appraiser for consideration. The appraiser will be responsible for the determining of the impact of the amended sales contract and compliance with all provisions of the USPAP in developing and reporting credible assignment results.

Depending on the amount of time and/or the extent of any change to the originally considered sales contract, the circumstances may warrant the appraiser considering such change to constitute a new assignment under USPAP, and an additional fee may be warranted up to the full amount of the new fee. Such determination by the appraiser may result in an additional fee which may be paid by the Veteran. Disputes in regard to any such additional fees should be referred to the VA Regional Loan Center (RLC) of jurisdiction.

General Requirements

Every VA Appraisal must:

- *Be performed within VA timeliness requirements;*
- *Conform to Uniform Standards of Professional Appraisal Practice (USPAP). Every VA appraisal must meet the USPAP requirements. Staff Appraisal Reviewers (SARs) are expected to be familiar with applicable USPAP provisions;*
- *Meet the additional requirements that VA considers to be supplemental to USPAP; and*
- *Be uploaded into WebLGY by the appraiser.*

The VA assigned appraiser must personally:

- *View the interior and exterior of the subject property (except on Proposed Construction cases) and the exterior of each comparable sale;*
- *Select and analyze the comparable sales;*
- *Make the final value estimate; and*
- *Sign the appraisal report as the appraiser.*

Every VA appraisal report must include the following items:

- *A properly completed appraisal report using one of the following forms:*
    - Uniform Residential Appraisal Report, Fannie Mae Form 1004*, if the property is a single family residence, not a unit in a condominium project.*
    - Individual Condominium Unit Appraisal Report, Fannie Mae Form 1073*, if the property is a condominium unit.*
    - Small Residential Income Property Appraisal Report, Fannie Mae Form 1025*, if the property has two to four living units.*
- *A location map showing the location of the subject and each comparable sale.*
- *Building perimeter sketches showing the "footprint" of all improvements including the floor plan layout of the residential spaces. The calculation for the square foot size of the improvements must also be shown either on the sketch or in the "Comments on Cost Approach" section of the appraisal report.*

- *Clear illustrative photos of the subject property which at a minimum show:*
  - *The kitchen*
  - *All bathrooms*
  - *Main living area*
  - *Examples of physical deterioration, if applicable*
  - *Examples of recent updates such as restoration, remodeling, and renovation, if applicable*
- *Exterior photographs should include photographs showing the front view, rear view (preferably including a different side view in each photograph), and street scene of the subject property.*
- *The front view of each comparable sale is also required. Photographs of comparable listings are encouraged but not required.*
- *The subject and all comparable sales must be appropriately identified and include photographs of any improvements, site feature, or view affecting value.*
- *Acceptable photographs include original, clear, and illustrative images. Copies of photographs from a multiple listing service or other source are only acceptable with an explanation why original photos were not available such as in gated communities where access may require trespassing to photograph the comparable sale.*
- *An itemized list of any observed repairs required to be completed, customer preference items to be installed, inspections to be performed, or conditions to be corrected, for the property to meet VA Minimum Property Requirements.*
- *A copy of the appraisal invoice should be included* ***preceding*** *the report.*
- *Any additional appraisal or repair related information that may be needed to support the appraiser's conclusions.*

Exceptions to photo requirements are:

If….	Then….
It is a proposed construction case and no improvements are under construction,	*Only a photograph of the subject site and street scene are required in addition to a front view photograph of each comparable sale.*
The property is in a condominium building that is more than three stories high,	*No photographs of the comparable sales that are located in the same project as the subject property and are substantially identical to the subject property.*
The appraiser documents an inability to take photos of the comparable sales due to lack of access, poor visibility, etc.,	*Copies of listing service or advertising pictures are acceptable for the comparable sales if they clearly depict the properties.* ***Copies of listing service or advertising pictures in lieu of photographs are never acceptable for the subject property.***

Selection and Analysis of Comparable Sales

Approaches to Value

Sales Comparison Approach: *VA relies exclusively on the sales comparison approach to value except in very unusual circumstances involving inadequate or nonexistent comparable sales or an extremely unique property. The VA value estimate should never exceed what has been indicated through the sales comparison approach. This approach recognizes that a well-informed purchaser will generally pay no more for a property than the price of acquiring a similar property of equal desirability and utility without an undue delay.*

Cost Approach: *Since the residential real estate market does not base transaction decisions on a property's reproduction or replacement cost, the cost approach to value may only be used to support the sales comparison approach in the final reconciliation. VA does not require the completion of the cost approach unless it is applicable to the appraisal.*

Income Approach: *Development of an income approach for a single family property is not required. If the appraisal involves an income-producing property (more than one living unit), the appraiser will use the* Small Residential Income Property Appraisal Report, Form 1025 *which requires value estimates developed through both the income and the sales comparison approach in the final reconciliation.*

General Requirements

The appraiser must select the three best closed comparable sales available and properly adjust the sales price of each comparable sale for market recognized differences between it and the subject property. The goal is to obtain a VA value estimate that does not exceed the price at which similar properties can be purchased in the current market. The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject. Sales listings, contract offers, and unsettled sales must not be used as comparable sales.

Sales Price Range: *Comparable sales should preferably exhibit a narrow price range. The appraiser must adequately explain a wide range in the sale prices of comparable sales before or after adjustment.*

Data and Verification: *A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a secondary data source or a party without interest in the transaction.*

Sales Dates: *Comparable sales should be recent sales, typically within six months and generally not more than 12 months old. In some markets, sales over six months old may be considered outdated. The appraiser must adequately explain the use of sales over 12 months old.*

Location: *Comparable sales should be located as close to the subject as practical. Their proximity to the subject (such as three blocks north) must be described. Generally, blocks should be used in cities and miles in rural areas to locate properties. The appraiser must adequately explain any reliance on sales locate either:*

- *Further from the subject than similar recent comparable sales readily available in the subject neighborhood; or*
- *Outside of the subject's market area.*

In some rural areas, comparable sales may be 5, 10, or 20 miles away from the subject property and still be within the subject's immediate market area.

Value Adjustments: *To be in a condition acceptable to VA properties must meet VA's Minimum Property Requirements (MPR). Since MPR repairs identified in the appraisal report must be completed as a condition of the report, value adjustments to the comparable sales are made as if the repairs to the subject have been completed. Generally good comparable sales require minimal adjustment for individual feature differences and a minimal total net adjustment. The appraiser must adequately explain large adjustments. Adjustments based on some factor other than market reaction, such as builder costs for materials, project development, etc., are not generally acceptable.*

Other Market Analysis Considerations

The following market analysis considerations are provided as a reminder of VA appraisal expectations and as an aid in the development of the appraisal report. Reporting each consideration, separate from the requirements of the appraisal report form is optional, unless time adjustments are used in the report.

Sales Financing Concessions: *The appraiser should report:*

- *In the "Neighborhood" section of the appraisal report or in an addendum, the prevalence of sales or financing concessions (for example, interest rate buy-downs, inclusion of non-realty items in the transaction, seller payment of any buyer closing costs, etc.); and*
- *If any comparable sale involved concessions, the effect of the concessions on the sales price of the comparable sale should be noted. In doing so the appraiser should consider:*
    - *That the effect of financing/sales concessions can vary in different locales;*
    - *That the amount of any adjustment should generally be based upon the real estate market reaction to the concession, not the dollar-for-dollar cost of the concession(s) to the seller; and*
    - *In Proposed Construction cases, closed sales by the same builder, sales in competitive subdivisions and re-sales of similar existing properties.*

Market Conditions Addendum: *VA now requires appraisers to complete* Fannie Mae Form 1004MC, Market Conditions Addendum. *This form requires appraisers to document an overview of the neighborhood market conditions and trends as well as housing supply and demand. VA requires the appraiser to include this form in all VA appraisal reports.*

Sales Listings and Contract Offers: *In every case the appraiser should:*

- *Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal. This is especially important in markets with rapidly increasing or decreasing value. If the subject property is in a new subdivision, the analysis should include the builder's closed sales, sales in competitive subdivisions and sales of similar existing properties.*
- *Certify, either in the "Neighborhood" section of the appraisal report or on an addendum , "I have considered relevant competitive listings/contract offers in performing this appraisal and any trend indicated by that data is supported by the listing/offering information included in this report."*

Minimum Property Requirement Repairs – Existing Construction

The appraiser must view both the interior and exterior of the subject property to:

- *Determine its overall condition; and*
- *Recommend any readily observable repairs necessary to make it meet VA Minimum Property Requirements (MPRs).*

On the appraisal report the appraiser must select the appropriate box in the "Reconciliation" section following "This appraisal is made":

- *"As is", if the property meets MPRs with no repairs required; or*
- *"Subject to the following repairs" if repairs are required for the property to meet MPRs. The appraiser must also provide an itemized list of observed repairs, customer preference items to e installed on New Construction cases, or other action necessary to ensure the property meets MPRs.*

When there is an indication of a potential environment problem (abandoned underground fuel storage tanks, for example), the appraisal report must contain a requirement for correction of the problem in accordance with any local, state or federal requirement.

Appraisers must not recommend electrical, plumbing, heating, roofing or other inspections only as a measure of liability protection. Improvements or site conditions that do not appear to meet MPRs should, in most instances, be required to be corrected, repaired or replaced, rather than inspected. An inspection should be recommended only if there is an indication of a complex problem requiring a professional opinion, such as pests, site damage, structural defects, safety concerns, code violations, etc.

Appraisers are required to view, but not enter any accessible crawl space and/or attic areas of the home and report any significant defective conditions observed.

Remaining Economic Life of Improvements

Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home. For VA Loan Guaranty purposes the remaining economic life of the security must be at least as long as the loan repayment terms, typically 30 years.

A remaining economic life estimate of less than 30 years must be adequately explained and not arbitrarily established. This is to avoid depriving Veterans of the home of their choice in an area where they can afford to live. In estimating remaining economic life, the appraiser must consider:

- *The relationship between the property and the economic stability of the block, neighborhood and community;*
- *Comparisons with homes in the same or similar areas;*
- *The need for a home of the particular type being appraised;*
- *The architectural design, style and utility from a functional point of view;*

- *The workmanship and durability of the construction, its physical condition, and probable cost of maintenance and/or repair;*
- *The extent to which other homes in the area are kept in repair; and*
- *In areas where rehabilitation and code enforcement are operating or under consideration, their expected results in improving the neighborhood for residential use.*

If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation, based on either known economic factors or observed physical condition. If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate as its maximum, for example, 40 years.

For condominium units the estimate of remaining economic life must be reported in the "Reconciliation" section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.

Other Property Types

Planned Unit Developments (PUDs) and Condos

The appraiser must:

- *Show the amount of the current monthly assessment;*
- *For condominiums, indicate which utilities are/are not included;*
- *Comment on the adequacy of the monthly assessment based upon the appraiser's opinion of the adequacy of the project's budget and a comparison to competitive projects. If the assessment is considered inadequate, a "fair" or "market" assessment must be recommended; and*
- *Report any known pending litigation involving the subject project or its homeowners' association.*

Solar Energy Systems

For VA purposes the value of a solar energy system must be based on real estate market data. Solar systems for domestic water heating and/or space heating must:

- *Meet HUD standards; and*
- *Be backed up 100% with a conventional thermal energy subsystem or other backup system which will provide the same degree of reliability and performance as a conventional system.*

Local Housing/Planning Authority Code Enforcement

If the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser must take this into consideration.

Farm Residences

Although VA does not make farm or other business loans, the law allows Veterans to use the Loan Guaranty benefit to purchase a farm where there is a farm residence. VA does not set a limit on the number of acres which the property may have.

The appraisal of properties with acreage should not present difficulties if a sufficient number of similar properties in the area, which may include improvements not typically considered residential such as barns, sheds, corrals, stables, postures, etc., were recently sold primarily for residential use. For VA purposes the valuation must not include livestock, crops, or farm equipment and supplies. In any case, individual improvement not typically considered residential will be valued at their fair market value on the basis of the use of the property for residential purposes only.

Properties Subject to Flooding

Special Flood Hazard Areas (SFHAs) are those areas in 100 year floodplains delineated on Federal Emergency Management Agency (FEMA) flood maps. SFHAs are usually designated Zones A, AO, AH, AE, A99, VO, VE or V. The appraiser must:

- *Check FEMA flood maps for the area where the property is located*
- *Notify VA and the lender if it appears that the property may not be eligible for a VA appraisal because:*

  - *It is proposed or new construction and there is an indication that the elevation of the lowest floor is below the base flood level (100-year flood level); or*
  - *There is an indication that it is subject to regular flooding for whatever reason. Regular flooding would cause the property to not meet VA Minimum Property Requirements (MPRs) whether or not it is located in a SFHA.*
- *If the property is eligible for appraisal and located on a flood map:*
  - *Identify the map number and flood zone on the appraisal report whether or not the property is located in a SFHA.*
  - *If any part of the dwelling is in a SFHA provide appropriate information in the "Site" section of the appraisal report.*

Flood insurance is not required in Zones B, C, X and D.

Properties in Coastal Barrier Areas

Properties located in a Coastal Barrier Resources System (CBRS) area as delineated on a CBRS map ***are not eligible*** *as security for a VA-guaranteed loan. Affected areas include portions of the Great Lakes, Gulf Coast, Florida Keys, Puerto Rico, Virgin Islands and the Atlantic coast. Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Fish and Wildlife Service. Prohibited areas on the maps are those inside the solid heavy black lines.*

Properties Near Airports

The appraisal report must identify any airport noise zone or safety-related zone where the property is located. Noise Zones are defined in decibels (db) in the table below:

Noise Zone	CNR (Composite Noise Rating)	NEF (Noise Exposure Forecast)	DNL (Day/Night Average Sound Level)
1	Under 100 db	Under 30 db	Under 65 db
2	110-115 db	30-40 db	65-75 db
3	Over 115 db	Over 40 db	Over 75 db

- *Clear zones are areas of highest accident risk located immediately beyond the ends of a runway.*
- *Accident potential zones are beyond the clear zones but still have significant potential for accidents. Only military airports identify them.*
- *No existing property will be rejected because of airport influence if that property is already the security for an outstanding VA loan.*

Depending on the type of construction and the airport noise or safety-related zone involved, the following requirements (refer to the table below) also apply with regard to the appraisal and/or VA Notice of Value (NOV).

Construction Type	Noise Zone One	Noise Zone Two	Noise Zone Three	Clear Zone	Accident Potential Zone
Proposed	A	A,B,C,D	E	E	A, C, H, I
New/Existing	A	A, D	A, D	A, C, G	A, C, I

Requirement	
A	The fee appraiser's market data analysis must include a consideration of the effect on value, if any, of the property being located near an airport
B	Sound attenuation features must be built into the dwelling to bring the interior DNL of the living unit to 45 decibels or less
C	Available comparable sales must indicate market acceptance of the subdivision where the property is located
D	The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an area near an airport, and that aircraft noise may affect livability, value, and marketability of the property
E	Not acceptable as the security for a VA loan unless the project was accepted by VA before noise zone three contours were changed to include it. In that situation, the requirements for Proposed Construction in noise zone two must be met
F	**Not acceptable as security for a VA loan**

G	*The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located near the end of an airport runway, and that this may have an effect upon livability, safety, value and marketability of the property*
H	*The project where the properties are located must be consistent with the recommendations found in the airport's Air Installation Compatible Use Zone (AICUZ) report*
I	*The Veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an accident potential zone and that this may have an effect upon livability, safety, value and marketability of the property*

Repair Inspection Procedure

When repairs have been completed and are ready for inspection, notify the appraiser and provide a copy of the Notice of Value if one is not available to the appraiser in WebLGY. VA fee appraisers may use Fannie Mae Form 1004D, Part B, Certification of Completion*, or their letterhead to certify satisfactory completion of the required repairs or to report their repair inspection findings if repairs were not acceptably completed. Photos of completed repairs are expected to be included with the appraiser's inspection or certification.*

Note: *Fannie Mae* Form 1004D, Part A, Summary Appraisal Update Report *is **not** acceptable for VA use.*

The VA fee appraiser identified on the Notice of Value is authorized to inspect the repairs and prepare a report, including photos on his/her letterhead or on Form 1004D. *If the VA assigned fee appraiser is unavailable, the VA Regional Loan Center of jurisdiction may be contacted to request another Fee appraiser be assigned to do the repair inspection.*

The inspection report or certification must re-list the items on the Notice of Value to be repaired or installed in the case of customer preference items and which were inspected by the appraiser. The inspection report or certification must certify that quality materials were used and the identified repair or installation items were competed in a workmanlike manner.

Any required repairs not addressed or not completed in a workmanlike manner should be identified and photos of items of non-compliance must be included with the inspection report or certification. The inspection report or certification is to be completed, signed and uploaded to WebLGY.

New Construction

To be eligible for an appraisal as New Construction the property must be fully completed or completed except for customer preference items such as interior wall finishes, floor coverings, appliances, fixtures and equipment, and those improvements for which escrow withholds are permitted.

Construction exhibits and/or inspections during construction are not required for properties appraised as New Construction. Properties appraised as New Construction must be covered by either:

- *A one-year VA builder's warranty; or*
- *A ten-year insurance-backed protection plan*

If the builder will provide a one-year VA builder's warranty, then both of the following will be required:

- *The Veteran purchaser's written acknowledgement that, "I am aware that VA did not inspect this property during construction and that VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported in writing during the one-year VA builder's warranty period."*
- *A one-year VA builder's warranty on VA* Form-1859, Warranty of Completion of Construction.

If the builder will provide a ten-year insurance-backed protection plan, then both of the following will be required:

- *The Veteran purchaser's written acknowledgment that, "I am aware that VA did not inspect this property during construction and that it does not qualify for VA assistance with construction complaints."*
- *Evidence of enrollment of the property in a ten-year insured plan acceptable to HUD*

Properties can be appraised prior to the start of completion of construction. Construction exhibits must be provided with the request to appraise properties as Proposed or Under Construction. Properties appraised as Proposed or Under

Construction must be inspected by the local authority during construction. The purpose of the inspection(s) is to help ensure that the property:

- *Is built according to the construction exhibits used in the appraisal; and*
- *Meets VA Minimum Property Requirements for Proposed construction.*

In every case processed as Proposed or Under Construction the builder must provide the Veteran home buyer with a one-year VA builder's warranty on VA Form 26-1859, Warranty of Completion of Construction*.*

VA will accept the construction inspections performed by the local authority which verify full compliance with local building codes in lieu of three VA compliance inspections.

If the local authority performs the required three inspections but does not issue a Certificate of Occupancy or equivalent, VA will accept copies of the inspection reports which verify full compliance with local building codes, or a written statement from the local authority that states that the required three inspections were performed satisfactorily as evidence of satisfactory completion of construction. VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required one-year VA builder's warranty period.

If the local authority does not perform the required inspections, the property ***must*** *be covered by a ten-year insurance-backed protection plan that is acceptable to the Department of Housing and Urban Development and a one-year VA builder's warranty. In addition:*

- *The underwriter is to certify that the property is 100% complete (both on-site and off-site improvements) and that is meets VA's Minimum Property Requirements for existing construction.*
- *VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the one-year VA builder's warranty period.*

Use this table to determine the type of warranty required:

When the property is appraised as….	***….Then….***
Existing Construction	*No warranty is required*
New Construction (existing less than one year old)	*Either:* • *A one-year builder's warranty is required; or* • *A ten-year insured protection plan is required.*
Proposed or Under Construction with a full complement of Local Authority Inspections	*Only a one-year builder's warranty is required.*
Proposed or Under Construction and inspections are not performed by the local authority	• *Both a one-year builder's warranty and a ten-year insured protection plan are required.*

Construction exhibits are required for properties appraised as Proposed or Under Construction. They are not required for properties appraised as either New Construction or Existing Construction.

Each set of proposed construction exhibits must include:

- *Specifications on VA* Form 26-1852, Description of Materials*, signed and dated by the builder and by the Veteran. Other specification formats are also acceptable provided they are signed and dated by the builder and Veteran and are sufficiently detailed for VA appraisal and compliance inspection purposes.*
- *Plot plan which includes the location of the well/septic systems, if applicable*
- *All exterior building elevations*
- *Foundation or basement plan*
- *Plan of all floors*
- *Sectional wall details*
- *A certification signed and dated by a technically qualified and properly identified individual (such as a builder, architect, engineer, etc.) which states, "I certify that the construction exhibits for (identification of the property by the house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial*

conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Official's Model Energy Code and the requirements for lead-free water piping." VA will accept HUD Form 92541, Builder's Certification of Plans, Specifications and Site*, in lieu of this certification.*

In most cases for HUD Form 92541 *to be acceptable it must have the identifying information at the top completed as well as items 2 and 4* ***or*** *items 5, 6, 9, 12, 12 and 13 completed.*

Per VA Circular 26-14-23 appraisers may now use model homes rather than construction exhibits when appraising the property to Proposed or Under Construction if the model home is:

- *Fully completed*
- *The same plan type as the subject property*
- *Located in the same market area; and*
- *Is readily accessible to the assigned appraiser*

The appraiser should perform the appraisal according to VA requirements for New Construction appraisals except for the following:

- *In the "Comments" section at the bottom of page 2 of the appraisal report the appraiser must insert the following statement: "Appraisal from Model Home. Value has been based on an inspection of a model home of the same plan type as the subject. Construction to be completed according to contract date ___________."*

The Staff Appraiser Reviewer (SAR) should complete the Notice of Value (NOV) in the same manner as other NOVs. In these cases the SAR should place the following verbiage in item 10 of the NOV:

> *"Appraisal from Model Home. Construction to be completed according to contract dated ________. Appraiser is to be contacted for Final Inspection and is to provide a statement verifying satisfactory completion."*

Geological or Soil Instability

In areas that have a history of geological or soil instability, the builder must submit either:

- *A certification that to the best of the builder's knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill; or*
- *Evidence from a qualified geologist or engineer that the subject size either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements.*

Qualified geologists are state licensed or are a member of a national or state organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology.

Common Interest Communities

Condominiums and PUDs

A common interest community is a subdivision containing common land often including recreational amenities. That common property is typically owned by an association of the homeowners (HOA), to which they all must belong and pay lien-supported assessments for a proportionate share of the expenses of the HOA.

There are VA requirements applicable to ***all properties*** *located in either a PUD or condominium project. Also,* ***condominiums*** *(but not* ***PUDs****) must be* ***approved by VA*** *before any lots or units in the project are eligible for VA loan guaranty. The nationwide VA Approved Condominium List can be found on the VA Portal.*

Requirements Applicable to All Properties in Common Interest Communities

While only condominiums must be approved by VA, lots or units securing VA loans in condominiums and other Planned Unit Developments must meet both title and lien-related VA regulatory requirements. Lenders are responsible for ensuring that these requirements are met for each VA loan. Although there is no specific VA requirement that lenders maintain evidence in the loan file that these requirements are met, they may wish to be guided by the advice of their legal counsel in this regard.

***Acceptable Title** – There are title requirements for every VA loan, whether or not the property is located in a common interest community. These requirements are:*

- *The estate must not be less than fee simple*
- *Title must not be subject to unreasonable restrictions or use and occupancy*
- *Certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property*

***Superior Lien** – VA regulations require that every VA loan be secured by a lien on the property. When a property is located in a condominium or Planned Unit Development ensure that any mandatory homeowner assessment is subordinate to the VA-guaranteed mortgage.*

***Appraisal Related** – Appraisers will use Fannie Mae* Form 1073, Individual Condominium Unit Appraisal Report*, for properties located in a condominium and Fannie Mae* Form 1004, Uniform Residential Appraisal Report, *for properties located in a Planned Unit Development.*

If there is any commercial or other non-residential ownership interest in the condominium the appraisal report must include the usage and comment on its impact on the value of the residential units.

*In developer controlled **condominium conversions** the appraiser must:*

- *Ascertain the degree to which the converted structure and units have been or will be rehabilitated for condominium use. The structure may have been, or is proposed to be, remodeled, renovated, rehabilitated, modernized, or cosmetically refurbished; and*
- *Provide a description of the type of work completed or proposed to be completed in the conversion being appraised for developer sales. This information is not required in spot re-sales by sellers other than the developer.*

***Notice of Value Related** – The Notice of Value for **all** properties in a PUD or condominium will be conditions: "This property is located in a development with mandatory membership in a homeowners' association. The lender is responsible for ensuring that title meets VA requirements for such property and that the homeowner association assessments are subordinate to the VA-guaranteed mortgage."*

***Note:** There are other regulatory-related requirements for a property in a condominium. For example: pre-sale requirements, warranty requirements for the unit and common elements, and a wood-destroying insect inspection is required in low rise and high rise units only when the appraiser observes a potential problem.*

Condominium Approval Procedures

For condominium projects provide the following to the VA office of jurisdiction:

- *A written request for VA approval; and*
- *A copy of the project's organizational documents*

Note: These documents must be reviewed for compliance with VA regulations and approved by VAV before any lots or units in the project are eligible for VA loan guaranty.

VA will:

- *Review the project's organizational documents for compliance with VA regulations; and*
- *Notify the requesting lender*

Note: VA no longer accepts HUD/USDA approved projects. All projects must be approved by VA.

After completing its review of the material submitted with the request for project approval, the VA office of jurisdiction sends a written notice of its decision.

When….	***Then the Notice will….***
The project is approved	*Indicate any special conditions/requirements which must be met prior to VA guaranty of an individual loan in the project, such as:* • *Recording of documents* • *Pre-sale requirements* • *Completing of common areas*
There were • *Missing/incomplete documents* • *Inaccurate/inconsistent information; or* • *Correctable deviations from VA requirements*	*Explain what further documentation is needed* ***Note:*** *VA will then suspend processing pending receipt of the needed information or material*
The project is unacceptable	*State the reason.* ***Note:*** *When there are objectionable provisions related to unreasonably retained controls or rights of the developer, and it is difficult to amend the document, VA may consider a separate recorded agreement from the developer relinquishing the objectionable provisions*

Document Amendments After Project Approval *– VA recommends that developers have amendment procedures for the declaration or equivalent document amendable by an instrument approved by not less than 67% of unit owners. The association must request VA approval of proposed amendments prior to recordation.*

*VA approval of **any** amendments to the declaration, by-laws, or other enabling documentation is required while the developer is in control of the homeowner's association. A written statement signed by an officer of the Association's Board of Directors and submitted with VA* Form 26-1844 *is required as evidence of approval.*

Changes made by the developer prior to the first sale in a condominium project may require amendment of the organizational documents.
Note: *VA approval is not required for amendments which annex additional phases to the condominium in accordance with a development plan previously accepted by VA.*

Mortgagee Rights *– the condominium documents must specify the following rights for holders of first mortgages:*

- *Prior approval by the first lienholders before the Association can:*
  - *Abandon condominium status or partition or subdivide a unit or the common elements;*
  - *Change the percentage interest of unit owner; or*
  - *Materially amend the legal documents.*
- *Timely written notice to first lienholders of:*
  - *Any condemnation or eminent domain proceeding; and*
  - *Substantial damage or destruction to the common elements.*
- *The right to:*
  - *Examine the association books;*
  - *Receive annual audited financial statements and records; and*
  - *Be given notice of association meetings and be entitled to a representative at such meetings.*

Table of Required Documents

The table below identifies the documents that the VA office of jurisdiction must review in order to approve a particular condominium project. As indicated in the tables, some documents are required only:

- *If applicable;*
- *If the developer/declarant is in control of the project; or*
- *For condominium conversion projects.*

The last column indicates whether or not it is acceptable to submit a draft of the document. Recorded or existing final documents must be provided if loans have closed in the project.

	Required Document	New Project	Existing Re-Sales	Draft
1	Declaration of Covenants, Conditions and Restrictions	Yes	Yes	Yes
2	By-laws for HOA	Yes	Yes	Yes
3	Articles of Incorporation for HOA	If Applicable	If Applicable	Yes
4	Umbrella project-Declaration, By-laws and Articles of Inc.	If Applicable	If Applicable	Yes
5	Plat, map and/or air lot survey of project	Yes	Yes	Yes
6	Plat, map and/or air lot survey of units	If Applicable	If Applicable	Yes
7	Development plan and schedule	Yes	If Declarant Controls	Yes
8	Information or Public Offering Statement	Yes	If Declarant Controls	Yes
9	Grant or Deed Form	Yes	If Declarant Controls	Yes
10	State reviewing agency's report	If Applicable	If Applicable	Yes
11	Annexation documents	If Applicable	If Applicable	Yes
12	Cross-Easement(s)	If Applicable	If Applicable	Yes
13	Facility Leases	If Applicable	If Applicable	Yes
14	Management Agreement	If Applicable	If Applicable	Yes
15	Service Contracts	If Applicable	If Applicable	Yes
16	HOA Budget (existing and proposed)	Yes	Yes	No
17	Current financial statements & reserves of project	If Applicable	If Applicable	No
18	Special assessments/litigation statement	Yes	Yes	No
19	Minutes of last two HOA meetings	Yes	Yes	No
20	Registered architect/engineer statement-conversions	Yes	If Declarant Controls	No
21	Recorded documents	Yes	Yes	No

Submit as Available *– Although the following documents are also required, as applicable, they may not be available for submission with the initial package. They must be submitted as soon as available and before any lots or units in the project can be considered eligible for VA loan guaranty.*

	Document	New Project	Existing Re-Sales	Draft
21	Recorded Documents	Yes	Yes	No
22	Recorded annexation documents for subject phase	Yes	Yes	No
23	Evidence recreational facilities completed and common area conveyed to HOA	Yes	Yes	No
24	Statement of adequacy of utilities (conversions only)	If Declarant Controls	If Declarant Controls	N/A
25	Evidence of common area title free of financial encumbering	Yes	If Applicable	No
26	Evidence of final local authority approval (Low/High Rises and Conversions only)	Yes	No	No
27	Lender's certification that pre-sale requirements are met	Yes	Yes	No