PLAZA HOME MORTGAGE, INC.

VA – Veterans Administration Home Loan Program Fixed and ARM

PROGRAM GUIDELINES

Program Overview

The Veteran's Administration (VA) was established in 1930 when Congress authorized the President to "consolidate and coordinate Government activities affecting war veterans." The Serviceman's Readjustment Act of 1944 (known as "the G.I. Bill") authorized the VA to administer a variety of benefit programs, including a home loan guaranty program, to facilitate the adjustment of returning veterans to civilian life.

The underwriting information contained in these guidelines is intended for use in conjunction with pamphlet 26-7 Guaranty Insurance of Loans to Veterans – GI Loan Programs.

Loan Term & Program Codes

Program Name	Program Code	Loan Term
VA 15 Year Fixed	VA150	15 Years
VA 15 Year Fixed – Investor Specific Guidelines	VA1510	15 Years
VA 20 Year Fixed	VA200	20 Years
VA 25 Year Fixed	VA250	25 Years
VA 30 Year Fixed	VA300	30 Years
VA 30 Year Fixed Energy Efficient Mortgage	VA300EM	30 Years
VA 30 Year Fixed – Investor Specific Guidelines	VA3010	30 Years
VA 3/1 Treasury ARM	VA31T	30 Years
VA 5/1 Treasury ARM	VA51T	30 Years
VA Jumbo 30 Year Fixed Rate	VAJUMBO30	30 Years
VA Jumbo 30 Year Fixed Rate Energy Efficient Mortgage	VAJUMB30EM	30 Years
VA Jumbo 30 Year Fixed Rate – Investor Specific Guidelines	VAJ3010	30 Years

For VAIRRRL transactions please refer to the VA Streamline Program Summary.

Occupancy

- Owner occupied primary residences only.
- Veterans purchasing a primary residence, refinancing or improving their home must certify that they intend to live in the home.
- If the buyer is on active duty, a spouse may certify occupancy. Single or married service members deployed from their permanent duty station are considered to be in a temporary-duty status and are able to certify intent to occupy. There is not need to have a spouse, if applicable, certify the occupancy.

Conversion of Principal Residence to an Investment Property

If a veteran is converting a current principal residence to an investment property upon purchase of a new principal residence, the following requirements apply:

- Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent. This rental income may **not** be included in effective income.
- Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes.
- Evidence of cash reserves totaling 6 months PITI for the retained property is required.

Conversion of Principal Residence to a Second Home

If a veteran is converting a current principal residence to a second home upon purchase of a new principal residence, the following requirements apply:

- Both the current and proposed monthly housing expenses must be used to qualify.
- Evidence of cash reserves totaling 6 months PITI for the retained property is required. However, only reserves of 2 months PITI are required for the retained property if 30% equity in the existing principal residence is documented with:
  - An appraisal ordered from a Plaza approved AMC, **OR**
  - A Plaza approved AVM

Pending Sale of Real Estate

In instances where the veteran intends to sell the property but it will not close before the purchase of a new principal residence occurs:
The principal, interest, taxes and insurance (PITI) on both the pending sale and the subject property must be included in qualifying the borrower AND the following documentation must be obtained:

- Cash reserves totaling at least six months PITI for both properties, **OR**
- Cash reserves totaling at least two months PITI for both properties if able to document equity of at least 30% in the existing property. Acceptable documentation for determining the equity position is ether an appraisal ordered from a Plaza approved AMC or a Plaza approved AVM.

Note: The PITI of the pending sale does not need to be included in qualifying the borrower as long as the six months of reserves (or two months with documented equity) for both properties are documented and the following additional documentation is provided:

- The executed sales contract for the current residence, **AND**
- Confirmation that any financing contingencies have been cleared.

Eligible Borrowers

Eligible Veterans
For VA home loan purposes, a veteran is a person who has served on active duty in the Army, Navy, Air Force, Marines or Coast Guard, and who (except for a service member on active duty) was discharged or released from active duty under conditions other than dishonorable. In general, the following criteria apply:

- The minimum service required wartime is 90 days of active duty.
- The minimum service required for the peacetime periods is 181 days of continuous active duty.
- The veteran must have been discharged or released from active duty under other than dishonorable conditions. Veterans who served less than the minimum required period may be eligible if discharged because of service-connected disabilities.
- Members of the Reserves of National Guard who are not eligible for loan guaranty benefits are eligible upon completion of six years of service in the Selected Reserve, or upon discharge from the Reserves of National Guard because of a service-connected disability before completing six years.
- The un-remarried surviving spouse of an eligible service member who died as a result of service or service-connected injuries may also be eligible.
- Specific questions on veteran's eligibility matters should be referred to the VA regional office.

Same-sex Married Couples
Effective with VA Circular 26-13-18, the Department of Veterans Affairs (VA) will, to the extent legally possible, begin reviewing applications for the home loan guaranty benefit for same-sex married couples in a manner consistent with processes currently used for opposite-sex married couples. On a case-by-case basis, VA will determine whether same-sex married couples can use both spouses' incomes to qualify for a loan.

Applications from same-sex married couples must be forward, along with the following information, to the appropriate VA Regional Loan Center for further review:

- Date and State of marriage
- State of residence at time of marriage
- State where subject property is located
- Current State of residence **AND**
- Estimated date of loan closing

VA staff will then notify the lender if both spouses' incomes may be applied. If so, lenders should process the loan in WebLGY as "Sole Ownership," as they would with loans made to opposite-sex married couples.

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Eligible Properties

- Attached/Detached SFRs
- Attached /Detached PUDs
- VA-approved Condos[1]

2-4 Units limited to <= $417,000 or <= $625,500 in Hawaii and Alaska

HUD-owned (REO) properties that meet HUD minimum property requirements (MPRs) are eligible for VA financing.

[1] Condo projects must be approved by VA and have a VA condo ID number. VA may accept HUD/FHA/USDA condo approvals if the project approval was prior to December 7, 2009. VA will not accept HUD/FHA/USDA condo approvals if the project approval was dated on or after December 7, 2009. VA will not accept phases annexed into the project approved by HUD/FHA/USDA if the annexation occurred on or after December 7, 2009. If this is the case, a full review of the legal documents for the entire project must be performed by VA.

Refer to the VA list of VA approved condos.

Refer to the Lender's Handbook Chapter 16, Section A.02 for other condo requirements.

Mixed Use properties are eligible provided:

- The property is primarily for residential purposes
- There is not more than one business unit
- The nonresidential area does not exceed 25 percent of the total floor area

Ineligible Properties

- Cooperatives
- Geothermal Homes
- Timeshares
- Condotels
- Geodesic Dome Homes
- Commercial Property
- Manufactured Housing or Mobile Homes
- Working Farms, Ranches, Orchards
- VA Indian Leasehold properties

Property Flips

If the owner (individual or entity other than the Mortgage holder) sells a property within 12 months after the date of acquisition, the underwriter should ensure that value is supported.

All Flips

- Non arms length or Identity of Interest transactions are not permitted.
- There can be no pattern of previous flipping as evidenced by multiple transfers in the last 12 months.
- No double escrows or assignment of sales contract.
- Seller of record must own the property at the time of the purchase contract.
- Full appraisal required.

Unexpired Redemption Period
Foreclosed properties that are located in a state where a redemption period is allowed (including Fannie Mae and Freddie Mac owned or HUD REO) are not eligible until all of the following are met:

- The redemption period has expired. **AND**
- The foreclosure sale has been confirmed. **AND**
- Clear and marketable title is obtained.

Properties Listed for Sale

Refinances on properties that are listed for sale are not permitted. In all circumstances, the listing agreement must be cancelled prior to the application date.

If the borrower is receiving cash-out, the property may not have been listed for sale in the last 6 months.

Geographic Restrictions

State or geographic restrictions are identified here, however at this time Plaza may not be lending in all states listed. Properties are limited to those states where Plaza branches are currently authorized to originate loans.

Alaska: Owner occupied and second home refinances, in the prior loan is within 12 months of the refinance, borrower must meet the net benefit requirements.

Hawaii: Properties in Lava Flow Zones 1 or 2 are not allowed.

Iowa: An attorney's opinion of title is acceptable in lieu of a title policy, or a title policy may be ordered through the Title Guaranty Division (TGD) of the Iowa Financial Authority.

Maryland: All loans must be documented with standard 2 year income documentation.

Massachusetts: Properties with a septic system require an inspection whenever a property is transferred to a different owner. A system must be inspected within 2 years prior to the transfer of title to the property served by the system. An inspection conducted up to 3 years before the time of the transfer may be used in the inspection report is accompanied by records demonstrating that the system has been pumped at least once a year during that time.

Mississippi: Not eligible.

Montana: Lot size of the property may not exceed 40 acres.

Nevada: Purchase transaction loans secured by properties located in Fallon, Nevada and serviced by the City of Fallon Municipal Water System include a veteran-signed "Purchaser Acknowledgement and Release" form. For additional information, contact your local VA office.

Texas: Cash out is not allowed in Texas.

West Virginia: Not eligible.

Additional local property requirements and restrictions may be found on the VA website.

Transaction Types

- Purchase
- Cash-out Refinance

Cash-Out Refinance

A VA refinance (non-IRRRL) is considered cash-out whether or not the borrower actually receives equity out. Both rate/term and cash-out structured transactions are considered cash-out. A cash-out refinance may be used to pay off any type of lien or liens against the secured property, payoff unsecured debt, or to give the borrower cash back. The liens to be paid off may be from any source (for example, VA, FHA, or conventional mortgages and/or tax/judgment liens). The property may not be owned free and clear. VA cash-out loans are not allowed in Texas.

The maximum loan amount is based on the appraised value, plus the cost of any energy efficiency improvements (less than or equal to $6,000). The available VA guaranty plus the Veteran's equity must always be at least 25% of the Notice of Value (NOV).

Cash-Out Transactions Structured as Rate/Term Refinances:

- Maximum LTV/CLTV: 100%
- The following items are eligible to be paid from loan proceeds:
  - First liens
  - Purchase money second liens
  - Non-purchase money second liens seasoned a minimum of 12 months
  - Fees and charges, including reasonable discount points
  - Up to $500 incidental cash out to the veteran is allowed
- Payoff of other debt and cash to the veteran > $500 is NOT allowed.
- DataTrac data input: Purpose of Refi = No Cash Out - Other. Cash-out = No

Cash-Out Transactions where borrower pays off non-mortgage debt or receives > $500 cash back:

- Maximum cash back on Conforming loan amounts: No limit to the amount of cash out.
- Maximum cash back on Jumbo loan amounts: $325,000.
- Additional requirements for LTV/CLTV > 90%:
  - Maximum LTV/CLTV of 95%
  - 1 unit properties only
  - Credit Score 640 for Conforming loan amounts
  - Credit Score 660 for Jumbo loan amounts
  - DTI <= 50%
  - Max loan amount $700,000
- DataTrac data input: Purpose of Refi = Cash Out Other/Debt Consolidation. Cash-out = Yes

Refinances with LTV/CLTV > 90% are only allowed on the following Product Codes:

- VA150
- VA200
- VA250
- VA300
- VA300EM
- VA31T
- VA51T
- VAJUMBO30
- VAJUMB30EM

Maximum Total Loan Amount

Maximum Loan Amount by Program (Including VA Funding Fee)			
Program	**Units**	**Continental US**	**Alaska and Hawaii**
Conforming	1-4	$417,000	$625,500
VAJUMBO30/VAJUMB30EM	1	$1,094,625	$1,094,625
VAJ3010	1	$1,500,000	$1,500,000

A VA loan is considered a VA Jumbo when the total loan amount, regardless of the number of units, exceeds $417,000 (or $625,500 in AK & HI).

Loan Amounts > $700,000

- VAJUMBO30 > $700,000 <= $1,094,625 requires approval by a Plaza Level 5 Underwriter.
- VAJ3010 > $700,000 <= $1,500,000 requires both investor prior approval and approval by a Plaza Level 5 Underwriter.

Underwriting Method

Loans not receiving an LP or DU approval may be manually underwritten if:

- The loan meets all published loan program guidelines. and
- The underwriter's evaluation has determined the loan is an investment quality mortgage, and
- The loan file contains documentation to support the underwriting decision.

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Credit Matrix

Program	Loan Amount[1]	Credit Score		DTI
		Purchase	Cash-Out	
VA Fixed & ARM Conforming	<= $417,000 (except AK & HI) <= $625,500 (AK & HI)	620	620 / 640[2]	60%[3]
VAJUMBO30 VAJUMB30EM	> $417K - $700K (> $625,500 AK & HI)	640	660	41%[4]
	> $700K - $1,094,625	660	680	41%[4]
VA J3010	> $417K - $700K (> $625,500 AK & HI)	620	640	41%[4]
	> $700,000 - $1,000,000	620	660	41%[4]
	> $1,000,000 - $1,500,000	700	700	41%[4]

1. Loan amounts > $417,000 <= $625,500 are considered conforming balance in Alaska and Hawaii
2. Cash-out > 90% LTV/CLTV requires 640 minimum credit score if borrower receives > $500 cash back.
3. For non-Jumbo loans with DU or LP approval, DTI up to 60% is allowed. Manual underwriting maximum DTI is 50%.
4. For Jumbo loan amounts, maximum DTI is 41%, however, loans that have been approved through DU or LP with a DTI of up to 50.00% may be considered if the loan meets the compensating factor requirement per the Lender's Handbook section 4.

Credit Score/Depth/History

The lowest qualifying score of all applicants is used to qualify and each borrower must have at least one credit score. The qualifying score is the lower of 2 or the middle of 3 scores and must be reviewed for each borrower.

Valid Credit Score: Regardless of AUS approval, for a credit score to be considered valid, the score must be generated based on sufficient credit depth. Sufficient credit depth can vary by borrower. Here are some examples of acceptable credit depth:

- The borrower has (3) trade lines that have been evaluated for at least 12 months. These trade lines do not need to be currently active but require some activity in the last 24 months.
- The borrower has (2) trade lines that have been evaluated for at least 24 months and have had some activity in the last 24 months.
- The borrower has a credit history of 5+ years and there are not any accounts with late payments or any collection accounts in the last 24 months. Borrower's mortgage/rental payment history with no late payments in the last 24 months.

Non-traditional credit is not allowed on VA Jumbo transactions.

Credit Profile

If the borrower's credit profile consists of only collection accounts, judgments or other adverse credit, the borrower is not eligible. This applies regardless of credit score or AUS approval.

Housing Payment History

- **Mortgage Payment History:** 0 x 30 in the last 12 months. For borrowers with mortgage delinquency beyond the most previous 12 months, it is the underwriter's responsibility to carefully review and determine the borrower's credit worthiness.
- **Rental Payment History:** If the loan is manually underwritten, a 12 month rental history of 0 x 30 in the last 12 months is required. For loans run through an AUS, rental history requirement will be per the AUS findings.

The mortgage payment history may be documented by a VOM or provide the rating per the credit report.

Downgrade Policy

In the event that credit terms or loan information was not considered in the AUS decision, an Approve/Eligible or Accept decision must be downgraded to Refer and be manually underwritten. Circumstances requiring downgrade, if not considered in the AUS decision, include but are not limited to:

- Delinquent federal debt, CAIVRS and suspended and debarred individuals.
- Disputed accounts, significant inaccuracy or undisclosed debt.
- Previous mortgage foreclosure or bankruptcy within 2 years of application.
- Collection accounts, tax liens, charge-offs, judgments.
- Bank statements that indicate multiple non-sufficient funds (NSF) charges. Example: more than 1 or 2 isolated incidents over a 60 day period. An explanation for such NSFs will be required and additional assets statements may be required to decision the loan.
- Failure to meet the specific conditions of an AUS approval.

CAIVRS Requirement

Perform and document a CAIVRS screening on each veteran and any co-obligor. An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangements have been made between the veteran and the Federal Agency.

Refer to the Lender's Handbook, Chapter 4 Credit Underwriting for more details.

Self Employed Borrowers

Obtain a credit report on the business as well as the applicant. Refer to the Lender's Handbook for more details.

Community Property States

If the property is located in a community property state, VA requires consideration of the spouse's credit information (whether or not the spouse will be personally liable on the Note and whether or not the applicant and spouse choose to have the spouse's income considered). Refer to the Lender's Handbook for more details.

Bankruptcy

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

- **Conforming Balance**: You may disregard a bankruptcy discharged more than two years ago.
- **Jumbo**: There may be no history of any bankruptcy in the last 7 years.

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

- The applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period. **AND**
- The bankruptcy was caused by circumstances beyond the control of the applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified.
- Divorce is not generally viewed as beyond the control of the borrower and/or spouse.

If the bankruptcy was caused by failure of the business of a self-employed applicant, it may be possible to determine that the applicant is a satisfactory credit risk if:

- The applicant obtained a permanent position after the business failed.
- There is no derogatory credit information prior to self-employment.
- There is no derogatory credit information subsequent to the bankruptcy, **AND**
- Failure of the business was not due to the applicant's misconduct.

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

Chapter 13

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

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

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

Jumbo: There may be no history of any bankruptcy in the last 7 years.

Foreclosures

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

- Develop complete information on the facts and circumstances of the foreclosure.
- For conforming balance transactions, apply the guidelines provided for Chapter 7 bankruptcies.
- Jumbo loans may not have any history of foreclosure in the last 7 years.

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

Adverse Credit

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

Collections: Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. See the payoff requirements. However, collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit. Borrowers with a history of collection accounts should have reestablished satisfactory credit (see previous paragraph) in order to be considered a satisfactory credit risk.

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

Payoff Requirements for Judgments and Collection Accounts

Judgments: Judgments must be paid off at or prior to closing, regardless of credit score or AUS approval.
Collections/Charge-off accounts: Aggregate balance of $1,000 or greater must be paid in full. (This does not include medical collection accounts) Funds required to pay off the accounts must be documented in the loan file.

A Plaza Level 5 Underwriter may consider exceptions to this policy if all of the following apply:

- Adverse credit exists due to extenuating circumstances. The loan must be documented with the circumstance that caused the adverse credit and the borrower must be able to demonstrate that the issue and/or cause is not ongoing and has been resolved. **AND**
- A credit explanation in the borrower's own handwriting.

Income and Employment

All VA loans must be fully documented.

Verbal Verification of Employment

A verbal VOE is required for all borrowers.

IRS Form 4506-T

Processed 4506-T transcripts must be reviewed and approved prior to the loan closing/funding on every loan. The most recent two years of income must be validated, or as determined by AUS with a minimum of one year verification required. If the IRS returns "no transcripts available" for the time period requested, proof of extension and the most recent years' IRS transcripts available, as determined by the AUS certificate, are required.

VA Form 26-6393

Only verified income can be considered in total effective income. The income calculation and analysis performed by the underwriter to determine the veteran's income must be documented in the file. VA Form 26-6393 is used by the underwriter to analyze the veteran's income, debts and creditworthiness.

Military Income Sources and Documentation

Base Pay	
Verification	**Analysis**
Obtain an original military Leave and Earning Statement (LES) dated no more than 120 days prior to the Note signing date instead of a VOE.	Determine if the service member is within 12 months of release from active duty or end of the contract term. If the date is within 12 months of the anticipated loan closing date, obtain any of the following: • Documentation of re-enlistment to a date beyond the 12 month period following the projected closing of the loan. **OR** • A statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the 12-month period plus a statement from the service member's commanding officer confirming that the service member is eligible to re-enlist or extend his/her active duty and that the commanding officer has no reason to believe that the re-enlistment or extension of active duty will not be granted. **OR** • Verification of a valid offer of local civilian employment following the release from active duty. **OR** • Documentation of strong mitigating 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 nonmilitary spouse's income high enough that only minimal income from the active duty service member is needed to qualify.

Military Basic Pay Tables are available at: http://www.dfas.mil/militarymembers.html

Military Income Sources and Documentation

Subsistence and Clothing Allowances	
Verification	**Analysis**
The subsistence (rations) and clothing allowances are indicated on the LES.	Verified allowances may be included as effective non-taxable income.
Military Quarters Allowance	
Verification	**Analysis**
Verification is required. [1]	Military quarters allowance may be included as effective non-taxable income[2] if properly verified. In most areas there will be an additional variable housing allowance that can also be included.
Other Military Allowances	
Verification	**Analysis**
Other allowances include: propay, flight or hazard pay, overseas pay and combat pay.	To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance and how long the veteran has received it. These types of pay are subject to periodic review and/or testing of the recipient to determine eligibility. These allowances are considered taxable income. These allowances may be included in effective income only if it is expected to continue because of the nature of the veteran's assigned duties; for example, flight pay for a verified pilot.
Voluntary Separation Payment	
Verification	**Analysis**
Special Separation Benefit (SSB)	• A one-time lump sum. • Taxable in the year received. • Treat as any substantial cash reserve.
Voluntary Separation Incentive (VSI)	• Annual payments. • Include in effective income. • Taxable in the year received. • Payment period is calculated by multiplying the veteran's years of service multiplied by two. • Available only to veterans with six or more years of service (equating to a minimum of 12 years annual payments)

[1] Verification of this income may be obtained from the borrower's paystub, on the Department of Defense website, http://www.defensetravel.dod.mil/site/bahCalc.cfm, or on Military.com under Benefits on the Basic Allowance for Housing (BAH) Rate Tables (amount must be verified based on geographic duty, location, pay grade and dependency status),

[2] Tax-free income may be "grossed up" only for calculating the debt-to-income ratio, not residual income. Do not add non-taxable income to taxable income before "grossing up."

Reserves or National Guard Income

Income from service in the Reserves or National Guard may be included in effective income if the length of the veteran's total active and Reserve/Guard service indicates a strong probability that the Reserve Guard income will continue. Otherwise, this income may be used to offset obligations that have 10 to 24 months duration.

Recently Activated Reserve or National Guard

Veterans with qualifying income that may be subject to change due to unit activation and participation in a Reserves/National Guard unit must be reviewed carefully. The underwriter must determine what the veteran's income will be upon unit activation:

- If income will be reduced: Carefully evaluate the impact the reduction may have on the veteran's ability to repay the loan.
- If the income will increase: Consider the likelihood the income will continue beyond a 12 month period.

Carefully and thoroughly document, including reasons for using or nor using the reserve/guard income, these situations on the 1008, Underwriting Transmittal Summary, or on a separate memorandum to the file.

Rental Income

The underwriter is responsible for determining eligibility of rental income in accordance with VA requirements for existing rental properties. Refer to the Lender's Handbook, Chapter 4 for VA requirements.

Qualifying Ratios

Total Loan Amount	Underwriting Method	LTV	Maximum DTI
Conforming Balance	AUS	All	60%
	Manual		50%
Jumbo	All	<= 95%	41%[1]
		> 95%	41%[2]

1. LTV <= 95% that have been approved through DU or LP with a DTI of up to 50.00% may be considered if the loan meets the compensating factor requirements per the Lender's Handbook, chapter 4.
2. LTV > 95% that have been approved through DU or LP with a DTI of up to 45.00% may be considered if the loan meets the compensating factor requirements per the Lender's Handbook, chapter 4.

A Plaza Level 5 underwriter may consider exceptions to these guidelines.

Qualifying the Borrower

Fixed Rate Loans: Borrower must qualify based on the Note Rate.

3/1 & 5/1 ARM: qualify at the Note Rate.

Installment Debt: Payments on all installment debts with 10 months or more of remaining payments must be included in the DTI. Accounts with a term of less than 10 months that require payments so large as to cause a severe impact on the family's resources for any period of time, also must be included in the DTI.

Auto Lease: The payment must be included in the DTI regardless of the remaining number of payments.

Alimony, Child Support or Maintenance Payments: When there are 10 or more months remaining, the payment must be included.

Revolving Debt: The monthly payment per the credit report must be included in the DTI calculation regardless of the account balance. If a payment is not provided, use 5% of the outstanding balance.

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

401(k) Loans: Loans secured by 401(k) accounts, certificates of deposit, savings accounts, stocks, bonds, life insurance policies and other assets with a monetary value easily converted to cash are not required to be included in the DTI.

Paying-off Debt: Installment accounts may be paid off to qualify. Revolving debt may be paid off; however unless the account will be paid off and closed, a monthly payment must be included for qualifying. Use the payment per the credit report, or the greater of $10 or 5% of the outstanding balance if the credit report does not provide a payment. For purchase or limited cash-out refinance transactions, the underwriter must manually reduce the borrower's liquid assets in the AUS by the amount being applied to the account and resubmit to the AUS.

Co-signed Obligations: The applicant may have a contingent liability based on co-signing a loan if:

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

Payment Shock: Underwriter to use discretion and consider payment shock as part of the credit qualification analysis as it may suggest inability to afford the new mortgage debt without significant compensating factors present.

Assets

Cash Required to Close

The veteran or spouse must have sufficient cash to cover:

- Any closing costs or points that are the veteran's responsibility and are not financed in the loan, **AND**
- The difference between the sales price and loan amount, if the sales price exceeds the reasonable value established by VA.

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

Earnest Money Deposit

The source of any earnest money deposits must be verified using the following documentation:

- A copy of the borrower's cancelled check and two months bank statements (up to and including the date the check cleared) to evidence a sufficient average balance to support the amount of the earnest money deposit. **OR**
- Verification that there are sufficient funds on deposit in the borrower's account(s) to cover the earnest money deposit and any other required funds to closed.

Note: Any large deposits to the account must be addressed.

Cash Reserves

The following reserve requirements must be met for purchases and refinances:

- **Conforming loan amounts:**
  - 1 Unit: No reserves are required unless borrower is retaining their prior residence.
  - 2-4 Units & rental income **IS NOT USED** to qualify: No reserves are required.
  - 2-4 Units & rental income **IS USED** to qualify: 6 months PITI reserves required.
  - Other rental properties not secured by VA loan: 3 months PITI required for each additional property.

- **VAJUMBO30/VAJUMB30EM:**
  - <= $700,000: 3 months PITI reserves required.
  - > $700,000: 6 months PITI reserves required.

- **VAJ3010:** reserves are not required

Asset Verification

Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis. Document asset verification using VA form 26-8497a Request for Verification of Deposit and at least one bank statement.

A written VOD cannot be used as standalone documentation for verifying assets, regardless of AUS.

Interested Party Contributions/ Property Seller Concessions

A maximum of 4% of the value of the property as indicated on the Notice of Value (NOV) may be contributed from an interested party (property seller concession) to be applied toward closing costs and/or prepaid items.

Any property seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive and unacceptable for VA-guaranteed loans. A reduction of the sales price in the amount equal to the excess is required in these instances.

Property seller concessions include, but are not limited to, the following:

- Payment of the VA funding fee.
- Prepayment of the veteran's property taxes and insurance.
- Payment of additional discount points to provide permanent interest rate buydowns.
- Provision of escrowed funds to provide temporary interest rate buydowns.
- Payoff of credit balances or judgments on behalf of the veteran

Property seller concessions do NOT include:

- Payment of the veteran's closing costs.
- Payment of points as appropriate to the market. Example: If the market dictates an interest rate of 7.50% with 2 discount points, the property seller's payment of the 2 points would NOT be a property seller concession. If the property seller paid 5 points, 3 of the 5 points would be considered a property seller concession.

Real Estate Commissions

An aggregate real estate commission including a "bonus" greater than 8% of the sales price of the subject property is considered a sales concession and that commission and/or bonus amount over 8% must be deducted from the sales price.

Appraisal Requirements

All loans require at minimum a VA Appraisal.

Additional Requirements for Investor Specific Program Codes:

- **VA1510, VA3010 or VAJ3010**: Appraisal reviews are at the underwriter's discretion however any review product should be ordered through RELS direct.
- **VAJ3010** w/ loan amount > $1,000,000: Request a certified appraiser when requesting the appraiser assignment from VA.

VA requires appraisers to include Fannie Mae's Market Conditions Addendum, Form 1004MC, in all VA appraisal reports. Information and instructions on completing the addendum are available online at: https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0830.pdf

Notice of Value (NOV)

The NOV for property appraised as existing, new, proposed, or under construction, is valid for 6 months.

Minimum Property Requirements

VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties that will become the security for VA-guaranteed loans. MPRs provide a basis for determining that the property is safe, structurally sound, sanitary, and meets the standards considered acceptable in a permanent home in its locality.

All properties, including foreclosed properties, must be in a condition that meets MPRs or have a reasonable likelihood the property can be repaired to meet the MPRs prior to loan closing. In those cases where repairs are required, the VA appraiser must list on the appraisal report any repairs necessary to meet MPRs and provide an estimate of fair market value for the property, as if repairs are completed. The property seller is expected to pay for these required repairs since they are included in the estimate of value. It is not allowable to escrow funds from the veteran purchaser for use in making required repairs.

Loan cases involving an REO property may not be processed under the Lender Appraisal Process Program; these cases must be ordered as an "IND" appraisal.

Fees and Charges

VA policy has evolved around the objective of helping the veteran to use his/her home loan benefit; therefore, VA regulations limit the fees that the veteran can pay to obtain a loan. The following limitations must be strictly adhered to on all VA loans:

Fees/Charges the Veteran Can Pay	Fees/Charges the Veteran Can Not Pay

• The VA Funding Fee.
• The maximum of:
  o Reasonable and customary amounts for any or all of the Itemized fees and Charges designated by the VA, plus
  o Reasonable discount points.
• Origination fee, not to exceed 1%.
• 1% flat charge (intended to cover all of the costs and services that are not reimbursable as "itemized fees and charges.
	• Additional appraisals/reviews that are requested for reconsideration of value.
	• Appraisals requested by parties other than the veteran or originating lender.
	• Attorney's fees.
	• Brokerage fees.
	• Consulting and Referral Fees.
	• Flood zone determination.
	• Inspection fees.
	• Tax service fee.

Note: If the veteran was charged an ineligible fee(s), the fee must be refunded and the loan file must contain adequate documentation that the fee was refunded to the veteran.

Itemized Fees and Charges

The veteran can pay any or all of the itemized fees and charges listed below, in amounts that are reasonable and customary. For services performed by a third party, the amount paid by the veteran cannot exceed the actual charge of that third party.

- Appraisals, including second appraisals requested by the veterans for reconsideration of value.
- Credit report or on AUS-decisioned loans, up to $50 evaluation fee charged in lieu of a credit report. For “refer” recommendations the veteran may also pay the charge for a merged credit report.
- Flood zone determination: the veteran may pay for a life-of-the-loan flood determination service purchased at the time of loan origination.
- Hazard insurance premium including flood insurance, if required.
- Mortgage Electronic Registrations Systems (MERS) fee.
- Prepaid items such as taxes, assessments, and similar items for the current year chargeable to the veteran and the initial deposit for the tax and insurance account.
- Recording fees and recording taxes or other charges incident to recordation.
- Special mailing fees such as Federal Express®, Express Mail®, etc. for refinance transactions only.
- Survey, if required by the underwriter or the veteran. Condominium surveys must have prior approval of the VA.
- Title examination and title insurance including environmental protection lien endorsement, if required.
- Other fees as authorized by the VA.

VA Loan Guaranty

The maximum VA entitlement/guaranty for loan amounts greater than $144,000 is 25% of the VA limit which can be found at VA County Loan Limits. The VA Calculator worksheet should be completed on every loan. The calculator assists in calculating any required down payment from the borrower on purchase or refinance transactions. Regardless of the loan amount, the VA guaranty plus the Veteran's down payment and/or equity must always be at least 25% of the lesser of the sales price or Notice of Value (NOV).

A VA loan guaranty may be used for:

- The purchase of a single-family residence, 2-4 units, condo or PUD that the veteran intends to occupy. **OR**
- The refinance of an existing home.

The maximum guaranty is the lesser of the veteran's available entitlement or the maximum potential guaranty amount detailed in the following table.

Loan Amount	Maximum Potential Guaranty
Up to $45,000	50% of the loan amount
$45,001 to $56,250	$22,500
$56,251 to $144,000	40% of the loan amount with a maximum of $36,000
$144,001 to $417,000	25% of the loan amount with a maximum of $104,250
$417,001 to $1,094,625	25% of the loan amount with a maximum of $273,656

VA Funding Fee Tables

Purchase & Construction			
Type of Veteran	**Down Payment**	**First Time Use**	**Subsequent Use**
Regular Military	Less than 5%	2.15%	3.30%
	5% - 9.99%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves / National Guard	Less than 5%	2.40%	3.30%
	5% - 9.99%	1.75%	1.75%
	10% or more	1.50%	1.50%

Refinance (all refinances excluding IRRRLs)		
Type of Veteran	**First Time Use**	**Subsequent Use**
Regular Military	2.15%	3.30%
Reserves / National Guard	2.40%	3.30%

Other Types of Loans	
Type of Loan	**Percentage for Type of Veteran Whether First-Time or Subsequent Use**
Energy Efficient Mortgages	Calculate the funding fee based on the full loan amount including the cost of the energy efficiency improvements based on the percentages listed in the above tables.

Funding Fee Exemption

A veteran must establish any claim for exemption from the fee. The following are the only exceptions allowed:

- Veterans receiving VA compensation for service-connected disabilities.
- Veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay.
- Surviving spouses of veterans who died in service or from service-connected disabilities (regardless of whether such surviving spouses are veterans with their own entitlements and whether they are using their own entitlements on the loan).
- Veterans who are rated by the VA as eligible to receive compensation as a result of pre-discharge disability examination and rating.

Note: All scenarios involving a veteran that is exempt from paying a VA Funding Fee must have proper documentation to verify the exemption. The Certificate of Eligibility (COE) will indicate the veteran's exemption. The Verification of VA Benefits (VA Form 26-8937) should only be used in the rare instance when the COE does not indicate the exemption.

Temporary Buydowns

Temporary Buydowns are not allowed.

Hazard and Flood Insurance

The following hazard insurance requirements apply:

- For hazard insurance the amount of coverage must be equal to at least the principal balance of the new loan or replacement cost.
- All loans require a flood certificate.
- Flood insurance is required on all properties located in a Special Flood Hazard Area (SFHA).

Escrow Requirements

Escrow funds may not revert to the party that established the escrow. If the property is sold subject to or on an assumption of the loan, prior to the completion of the buydown, the remaining funds held in escrow must continue to be paid out on behalf of the new owner.

Escrow / Impound Accounts

An Escrow/impound account is required for property taxes and insurance on all VA loans.

Maximum Financed Properties

The maximum number of financed 1-4 unit properties, including the subject property and regardless of the lending source is limited to four.

Maximum Loans/Maximum Exposure

A maximum of 4 Plaza loans or $1,500,000 is permitted to one borrower, whichever is less.

Escrow Holdback

In some instances it may not be possible to complete certain items before the veteran wishes to move into the property. The escrow of funds can permit the veteran-purchaser to gain occupancy of the dwelling prior to completion of the certain items which must be postponed due to weather conditions or other circumstances.

An escrow involves withholding 1 ½ times (150%) the dollar amount necessary to complete the postponed items (as estimated by a third party) from the proceeds due the property seller at closing. The funds are released once the postponed items have been satisfactorily completed.

Both weather related and non-weather related holdbacks will be considered by a Plaza Level 5 Underwriter on a case by case basis.
HUD repair escrows and Energy Efficient Mortgages follow the sales contract and standard FHA guidelines.

Escrow Holdback Requirements

To establish an escrow holdback, the following guidelines apply:

- Construction of the dwelling must be complete and the property must be suitable for immediate occupancy.
- Postponement of the improvements must be beyond the control of the builder/property seller.
- The duration of the postponement must not be unreasonable. To be determined by a Plaza Level 5 Underwriter.

Situations not requiring an Escrow Holdback

- The incomplete work is limited to the installation of landscaping features (lawn, shrubbery, etc.).
- The estimate of the cost to complete the work is not greater than $500. **AND**
- There is adequate assurance that the work will be completed timely and satisfactorily within 90 days.

Subordinate/Secondary Financing

Secondary financing is acceptable for conforming loans as long as the veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA. Subordinate financing is not allowed on VA Jumbo loans.

In addition, the following requirements must be met:

Factor	Requirement
Simultaneous	Secondary financing must be existing or obtained simultaneously with the VA loan.
Documentation	The loan file must contain documentation disclosing the source, the amount and the repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligor.
Lien Positions	The second mortgage must be subordinated to the VA loan.
Allowable Purposes	The proceeds of the second mortgage may be for items such as, but not limited to: • Closing costs • A down payment to meet secondary market requirements. Secondary financing may not be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over the VA reasonable value.
Cash Back	There can be no cash back to the veteran from the VA first or second mortgage that is obtained simultaneously.
Underwriting	The veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation.
Interest Rate	The interest rate on the second mortgage may exceed the rate on the VA guaranteed first lien; however, it may not exceed industry standards for second mortgages.
Assumability	The second mortgage must be assumable by creditworthy borrowers/purchasers.
Grace Period	There should be a reasonable grace period before: • A late charge comes due, or • Commencement of foreclosure proceedings in the event of default.
Unusual Terms	Second mortgages bearing unusual terms, interest rates, etc. are sometimes offered. Consult the VA if it is unclear whether the terms of the second mortgage meet VA standards.
Down Payment Assistance Program (DAPP)	The respective VA Regional Loan Center for the subject property must approve the down payment assistance program.

ARM Product Characteristics

Characteristic	ARM			
Amortization Term	30 years			
Index	**Treasury** Weekly average on U.S, Treasury securities adjusted to a constant maturity of one year.			
Margin	2.00%			
Life Floor	5% below the start rate, but never lower than the margin.			
Interest Rate Caps	**Product**	**First Adjustment**	**Subsequent Adjustments**	**Lifetime**
	3/1	1%	1%	5%
	5/1	1%	1%	5%
Interest Rate Adjustment Date	3/1	The first adjustment is 36-42 months after the first payment date		
	5/1	The first adjustment is 60-66 months after the first payment date.		
	After the initial fixed period, the interest rate may adjust annually			
Payment Adjustment Date	The payment adjustment date is the first of the month following the interest rate adjustment and every 12 months thereafter.			
Conversion Option	Not allowed.			
Temporary Buydowns	Not allowed.			

Energy Efficient Mortgages (EEMs) - Program Codes: VA300EM & VAJUMB30EM

Energy Efficient Mortgages (EEMs) are loans to cover the cost of making energy efficiency improvements to a dwelling and are made in conjunction with a VA loan for the purchase of an existing home or a VA refinancing loan secure by the home.

- **Maximum loan amount:** Mortgage may be increased by:
  - Up to $3,000 based solely on documented costs. **OR**
  - Up to $6,000 provided the increase in the monthly mortgage payment does not exceed the likely reduction in monthly utility costs. **OR**
  - Greater than $6,000 subject to a value determination by VA.
- **Maximum loan-to-value**: EEM is an enhancement to the other VA Loan Programs. Refer to the specific VA loan program for complete information.
- **Maximum guaranty:** the maximum guaranty is calculated based on the full enhanced loan amount; however, the veteran's entitlement is not charged for that part of the guaranty assigned to the EEM enhancement. See Calculating the Loan Guaranty and Entitlement Use on EEMs below.
- **Cash back to the veteran:** Up to $6,000 of loan proceeds may be used to reimburse the veteran for the cost of energy efficiency improvements completed within the 90 days immediately prior to the date of the loan.

Calculating the Loan Guaranty and Entitlement Use on EEMs

Calculate the Loan Guaranty on an Energy Efficient Mortgage as follows:

Step	Action
1	Calculate guaranty on the loan without the portion attributable to the energy-efficiency improvements.
2	Calculate guaranty on the energy-efficiency improvements portion by applying the same percentage used in Step 1.
3	Add the results of Steps 1 and 2 to arrive at guaranty on the entire loan. Note: The veteran's entitlement will only be charged the amount arrived at in Step 1; that is, based upon the loan amount before adding the cost of the energy-efficiency improvements.

Example 1: If a veteran has full entitlement and applies for a loan of $80,000 plus $6,000 in energy-efficiency improvements, VA will guaranty 40% of the full loan amount of $86,000. The dollar amount of the guaranty will be $34,400 even though the charge to the veteran's entitlement is only $32,000.

Example 2: If a veteran with full entitlement applies for a $144,000 loan to purchase a home and adds $6,000 in energy-efficiency improvements, the 25% guaranty on the loan will only require use of $36,000 entitlement, but the dollar amount of guaranty will be $37,500.

Energy Efficient Mortgages (EEMs), Continued

Acceptable Improvements

Acceptable energy-efficiency improvements include, but are not limited to:

- Solar heating systems, including solar systems for heating water for domestic use.
- Solar heating and cooling systems.
- Caulking and weather stripping.
- Furnace-efficiency modifications limited to replacement burners, boilers, or furnaces designed to reduce the firing rate or to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency, devices for modifying flue opening which will increase the efficiency of the heating system, and electrical or mechanical furnace ignition systems that replace standing gas pilot lights.
- Clock thermostats.
- New or additional ceiling, attic wall and insulation.
- Water heater insulation.
- Storm windows and/or doors, including thermal windows and/or doors.
- Heat pumps.
- Vapor barriers.

Underwriting Considerations for EEMs

Funds for energy efficiency improvements are considered part of the total loan, which must be secured by a first lien. Additionally, the following requirements must be met:

- If the labor is performed by the veteran, the repair loan amount will be limited to the amount necessary to pay for materials.
- A loan on an existing property may be increased by up to $6,000 for energy efficiency improvements at the option of the underwriter and veteran at any time up to loan closing without VA's prior approval.
- The underwriter must determine that the proposed weatherization and/or energy conservation improvements are reasonable to the particular property. The underwriter must evaluate the veteran's ability to pay the increased loan payments caused by the addition of energy efficiency improvements.
- Energy efficiency improvements that increase a loan amount by more than $6,000 must be supposed by an increased valuation in an equal amount.

Energy Efficient Mortgages (EEMs), Continued

Notice of Value (NOV)

Information on EEMs is provided to a veteran who applies for a loan for home purchase or cash-out refinance, both of which requires a Notice of Value (NOV). The NOV includes the following notice to the veteran:

- The veteran may wish to contact a qualified person/firm for a home energy audit to identify needed energy efficiency improvements to the property. In some localities, the utility company may perform this service. The mortgage amount may be increased as a result of making energy-efficiency improvements such as: solar or conventional heating/cooling systems, water heaters, insulation, weather stripping/caulking and storm windows/doors. Other energy-related improvements may also be considered.
- The mortgage may be increased by:
  - Up to $3,000 based solely on the documented costs. **OR**
  - Up to $6,000,000 provided the increase in the monthly mortgage does not exceed the likely reduction in monthly utility costs. **OR**
  - Greater than $6,000 subject to a value determination by VA.

Documentation Requirements

Evidence of the cost of improvements, such as a copy of the bid(s) or contract itemizing the improvements and their costs, must be included in the loan file. In addition, for:

- **Improvements greater than $3,000 up to $6,000 –** Evidence of the Underwriter's determination that the increase in monthly mortgage payments does not exceed the likely reduction in monthly utility costs.
- **Improvements greater than $6,000 –** Documentation of VA's valuation of the energy-efficient improvements.

EEM Closing Requirements

- A minimum of one bid for VA EEM improvements is required.
- The escrow account must contain sufficient funds to cover the uncompleted improvements.
- Funds may be released only upon the receipt of documentation substantiating the completion of the improvements, such as an Appraisal Update and/or Completion Report (From 1004D/442)
- Any escrowed funds not applied to energy improvements within six months following the loan's funding date must be applied to the unpaid principal balance.