

VA Fixed Rate

Note: The underwriting information contained in this chapter is intended for use in conjunction with VA Lenders Handbook.

7.1-A Eligible Properties

- 1-4 Units
- VA Approved Condos
- PUDs

7.1-B Ineligible Properties

- Condo hotels
- Commercial buildings
- Mobile/Manufactured housing
- Non-FHA approved condos
- Co-ops
- Log homes
- Leasehold Property

7.1-C Documentation Types

Full

7.1-D LTV/CLTV Parameter

Purchase					
Occupancy	Max Loan Amount	Units	LTV	CLTV	FICO
Primary	≤ \$417,000	1-4	100%	100%	620
Primary	\$417,001 - \$650,000	1-4	n/a*	n/a	720
Primary	\$650,001 –\$1,500,000**	1-4	n/a*	n/a	740
Cash Out Refinance					

Occupancy	Max Loan Amount	Units	LTV	CLTV	FICO
Primary	≤ \$417,000	1-4	90%*	90%	620
Primary	\$417,001 - \$650,000	1-4	90%*	90%	720
Primary	\$650,001 - \$1,500,000**	1-4	90%*	90%	740

*Borrowers down payment/equity plus the available VA entitlement must be equal to at least 25% of the lesser of the purchase price or the Notice of Value (NOV)

**VA loan amount greater than \$700,000 requires an exception from Credit Policy and the investor.

For VA IRRRL guidelines, see section 7.1-M

NOTE: All loan amounts over 417,000 (including Hawaii) are considered jumbo for underwriting purposes.

For pricing purposes only, all loans above \$417,000 (\$625,500 in Hawaii) must be priced with the V-F30J code

7.1-E Loan Amount

Maximum Loan Amount: \$1,500,000

The Maximum loan amount varies depending on the location of the property but in all cases cannot exceed \$1,500,000 inclusive of the funding fee. The following website lists counties that have a higher VA loan limit. If a county is not listed the maximum county loan limit is \$417,000.

http://www.homeloans.va.gov/docs/2010_county_loan_limits.pdf

7.1-F Term

30 & 15 year fixed rate

7.1-G Occupancy

Occupancy requirements are:

- Veterans purchasing a primary residence, refinancing, and or improving their home must certify that they intend to occupy the property.
- 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.

7.1-G1 Non-Occupant Co-Borrower

Not allowed

7.1-H Residency

Permanent and non-permanent resident aliens are allowed. Veteran's legal spouse is acceptable regardless of citizenship.

7.1-I Underwriting

Loans must be run through DU or LP, even if manually underwritten.

All VA loans will be subject to the DTI, FICO, and 2nd signature requirements as listed in the SNMC General Guidelines, section 2.

See VA Lenders Handbook for additional VA guidelines not included in this chapter.

7.1-I1 Credit History

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

7.1-I2 Income

Tax-free income may be "grossed up" (125%) only for calculating the debt-to-income ratio, not residual income. Do not add non-taxable income to taxable income before "grossing up".

Veterans and spouses whose income is being used to qualify for a loan must be asked if their income is subject to change due to participation in a Reserves/National Guard unit due to activation.

Veterans should also address receipt of any VA Benefit/Disability income that may affect Funding Fee exemption.

See VA Lenders Handbook and SNMC Income Chapter of Credit Policy for additional guidelines on income.

7.1-I3 Assets

See VA Lenders Handbook and SNMC Asset Chapter of Credit Policy for guidelines on Assets

Down Payment / Gifts

Gift funds are acceptable from a relative. Standard documentation of gift funds applies.

7.1-I4 Jumbo Underwriting

- Minimum cash reserves – 6 Months. Loan amounts over \$650,000 require 12 month reserves.
- No foreclosure or bankruptcy in the last 7 years
- No housing payment 30 days or more past due in the last 12 months
- Loans must be run through DU or LP. Approve/Ineligible or Accept/Ineligible findings are allowed as long as the only reason for ineligibility is the loan size. Maximum 50% DTI and minimum 720/740 FICO depending on loan amount, regardless of automated findings
- Manual underwriting is allowed for “Refer” AUS findings. Not allowed for non-traditional credit.
- Standard VA DTI ratio of 41% may be exceeded if sufficient residual income and compensating factors are present
- Maximum 50% DTI
- 2-4 Units not allowed
- Maximum cash out \$325,000
- No gift funds allowed
- Loan amounts greater than \$700,000 require an exception from Credit Policy and the investor.
- Loan amounts between \$650,001 to \$1,000,000 require a VA appraisal plus a LARA (Landsafe)
- Loan amounts greater than \$1,000,000 require a VA appraisal and Landsafe Field Review
- Secondary financing not allowed
- Non-traditional credit not allowed

7.1-J Converting Primary Residence into Investment Property

Underwriting analysis on VA loans may not consider rental income from the property vacated except under the circumstances described below:

Exceptions: Rental income on the property vacated reduced by the appropriate VA vacancy factor (25%) may be used under the following circumstances:

Relocations: The homebuyer is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance. A properly executed lease agreement (a lease signed by the homebuyer and lessee) of at least one year’s duration is required from the date the loan closes. You may also want to obtain evidence of the security deposit and/or evidence the first month’s rent was paid to the homeowner.

Sufficient Equity in Vacated Property: The homebuyer has a loan-to-value ratio of 75% or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using Form 1004-70, may also be an exterior only appraisal using Form 2055 and for a condo, Form 1075-466.

The above guidelines apply solely to a primary residence vacated in favor of another primary residence and are not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E).

7.1-K VA Guaranty

Regardless of loan amount, the VA Guaranty plus cash/equity must be equal to at least 25% of the purchase price or Notification of Value (NOV), whichever is less, on purchases, new construction, and non-IRRRL refinances.

For a loan amount greater than \$417,000, VA will guarantee 25% of the original principal loan amount up to the maximum guaranty amount. The maximum guaranty amount varies depending upon the location of the property being purchased.

7.1-K1 Calculating the Maximum Guaranty for loan amounts over \$417,000

To calculate the maximum guaranty amount for a particular property, refer to the county loan limits listed on the VA website. If the county is not listed, the loan amount is limited to \$417,000.

If your borrower has maximum entitlement, they can have increased guaranty – up to 25% of the maximum loan limit posted. Please note that your total loan amount may be higher than the VA posted limits. In that instance, your borrower would have to provide down payment in excess of the eligible guaranty in order to equal 25% of the purchase price.

As an example: The limit for Salt Lake County is \$652,500. The maximum guaranty is 25% of that amount which would be \$163,125 (as opposed to the standard amount of \$104,250). A veteran could apply for a VA loan up to \$652,500 (funding fee included) for Salt Lake County and would have the 25% guaranty from VA.

As an example: Veteran has full entitlement available and is purchasing a home for \$480,000 where the county loan limit is \$417,000.

$\$417,000 \times 25\% = \$104,250$ Maximum Guaranty and Entitlement Available

$\$104,250 / \$480,000 = 21.72\%$ Guaranty

Since VA's Guaranty will be less than 25%, a down payment will be required to meet investor requirements.

$\$480,000 \times 25\% = \$120,000$

$\$120,000 - \$104,250 = \$15,750$ Down Payment

Worksheets for loan amount and eligibility are posted on the Credit Policy site under the Forms Section

http://www.homeloans.va.gov/loan_limits.htm

Regardless of the loan amounts listed on the VA website, the maximum loan amounts for SecurityNational are as posted in the grid on page 1.

7.1-K2Funding Fee

VA Funding Fee is determined by Veteran status and LTV. It can be financed into the loan amount or paid in cash (or through seller concessions on a purchase). If Funding Fee is paid in cash, SNMC requires

Section 7.1: Government Products

all of the Funding Fee to be paid in cash, not a partial amount. Max loan amount guidelines are required minimum 25% equity (down payment plus entitlement) applies if the funding fee is financed.

Purchase and Construction Loans			
Type of Veteran	Down Payment	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military	0 – 4.99%	2.15%	3.30%
	5 – 9.99%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard	0 – 4.99%	2.40%	3.30%
	5 – 9.99%	1.75%	1.75%
	10% or more	1.50%	1.50%

Cash-Out Refinance		
Type of Veteran	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military	10/01/04 – 09/30/11: 2.15%	3.30%
Reserves / National Guard	2.40%	3.30%

IRRRL'S		
Type of Veteran	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military	.50	.50
Reserves / National Guard	.50	.50

Other Types of Loans	
Type of Loan	Percentage for Type of Veteran Whether First-Time or Subsequent Use
Loan Assumptions	0.50%

Funding Fee Exemption: A veteran must document any claim for exemption from the fee. VA Form 26-8937 Verification of VA Benefit must be completed and signed by VA . 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)

7.1-L Cash Out Refinances

Must have an existing lien to pay off. Free and clear properties are not eligible.
 All refinances are considered cash out. VA does not offer a rate and term refinance.
 Borrower must be on title and on current lien to be eligible for cash out refinance.
 VA cash out transactions not allowed in Texas

7.1-M IRRRL’s (Interest Rate Reduction Refinance Loan)

An IRRRL is a VA-guaranteed loan made to refinance an existing VA guaranteed loan and must lower the interest rate and will generally lower the Principal and Interest payment.

7.1-M1 General

- Product Code: VF30RS
- Occupancy: Primary Residence Only
- Max loan amount \$417,000 (\$625,000 in Hawaii)
- Minimum Fico 660
- Funding Fee is .50%
- Currently not eligible for properties located in Dade County, Florida.

7.1-M2 Net Tangible Benefit

In all cases the interest rate on the new loan must be lower than the interest rate on the loan being refinanced.

The new total mortgage payment (PITI) must decrease by the greater of \$50 or 5%.

The P& I on an IRRRL must be less than the P & I on the loan being refinanced unless the term of the IRRRL is shorter than the term of the loan being refinanced. In this case if the monthly PITI increases by 20% or more:

- Determine that the veteran qualifies for the new payment from an underwriting standpoint: such as, determine whether the borrower can support the proposed shelter expense and other recurring monthly obligations in light of income established as stable and reliable, and
- Include a certification that the veteran qualifies for the new monthly payment which exceeds the previous payment by 20% or more. Certification must be completed by the lender that the veteran qualifies for new monthly payment that exceeds previous by 20% or more.

7.1-M3 Credit & Seasoning

- Minimum Fico of 660, credit report is used to validate credit score and mortgage history only
- No mortgage lates allowed in the last 12 months
- A borrower must have made all mortgage payments within the month due for the preceding 12 months at the time of application
- If current mortgage has less than 12 months, a prior mortgage to equate 12 consecutive payments is required. (Rent rating not acceptable)
- In all cases a borrower must have made at least 6 mortgage payments in the month due for the current mortgage
- Subordinate financing is not allowed

7.1-M4 Income and Employment

Employment must be verified at underwriting and again prior to funding. Self-employment can be verified by any third party source such as CPA letter, copy of business license, etc. Income is not required. When submitting the loan for guaranty endorsement, the lender must include a signed and dated cover letter on their letterhead certifying that the borrower is employed and has income at the time of application. A Verbal VOE at closing must be completed as well per SNMC policy.

SNMC will require documentation to support that certification.

Income Type	Documentation Requirements
Salaried/W-2 Wage Earner	Verbal VOE
Self-Employment Income	Verification of SE applicant’s business

If the completed loan application indicates income is from an **“other income”** source, documentation supporting the source of the income is required in the loan file. Refer to the list below for some examples of acceptable documentation. The Direct Endorsement (DE) Underwriter may accept documentation not listed below provided it identifies the source of the other income as well as supports the Lender Certification that the DE Underwriter is required to sign and date.

Other Income Types (not all inclusive)	Examples of Acceptable Documentation
Alimony/Separate Maintenance	Copy of divorce decree/settlement agreement or court payment record
Annuity	Most current institutional statement
Child Support	Copy of divorce decree/settlement agreement or court payment record
Interest/Dividend Income	Document showing ownership of interest bearing account or copy of current statement showing interest income
IRA/Keogh	Most current bank statement or letter from administer
Note Income	Copy of note or most current statement
Pension/Retirement	Most current bank statement or benefit award letter or most current W-2/1099
Rental Income	Copy of current lease
SS/Ret/Survivor’s/Disability Income	Award letter or most current deposit statement
Trust Income	Copy of trust agreement or trustee’s statement
VA Benefits	Award letter or most current deposit statement

UW Memo 8.2010

7.1-M5 Property

- A full conventional appraisal must be obtained.
- Appraisals need to be ordered independently such as though an AMC Company. The veteran may be charged for this appraisal on IRRRL’s only.
- Property value must support full loan amount including VA Funding Fee.
- Property must be in “Average” or above condition and any repairs that impact safety or habitability must be completed.
- Request a new case number through The Appraisal System but do not order a VA appraisal.

7.1-M6 Additional Requirements

- For all IRRRL's the veteran must sign a statement acknowledging the effect of the refinancing loan on the veteran's loan payments and interest rate. (IRRRL Comparison Sheet form posted in credit policy section 12)
- Prior Loan Validation printed from the VA website, takes the place of a Certificate of Eligibility
- VA Form 26-8923, IRRRL Worksheet is used to calculate the maximum loan amount.
- Lender Certification that mortgage is current at time of closing.
- Borrower cannot receive cash back at closing and cannot pay off anything other than the existing VA loan.
- The maximum loan term is the original term of the VA loan being refinanced plus 10 years, but not to exceed 30 year and 32 days. For example, if the old loan was made with a 15 year term the term of the new loan cannot exceed 25 years.
- The veteran must still own the property and generally the parties obligated on the original loan must be the same on the new loan.

7.1-N Seller Contribution

Seller Contribution limited to 4%

7.1-O Subordinate Financing

Allowed according to VA guidelines (not on IRRRL's).

7.1P Temporary Buydowns

2-1 Temporary buydowns are allowed. Borrower must qualify at the note rate. Not allowed on jumbo transactions.

7.1-Q Appraisals

On a case by case basis some appraisers may not be able to provide comparable sales within 90 days. In areas that are not declining markets this may be acceptable.

If the appraiser is unable to provide at least one comparable sale that closed within the last 90 days, pull Fraudguard/Disso and review it for an acceptable value, comparable sales, etc. If Fraudguard does not support the value then order an AVM from Landsafe, RELS, etc. Only order a field review if the AVM does not support value or you feel an additional appraisal would offer a second opinion of value. If you normally order a desk review and find that it gives you the information and support that you need, then go ahead and order a desk review. We have found that some offices order AVM's, or Desk Reviews and that is sufficient for their areas, but may not be sufficient for a declining market area. Use the options that you have found work well for your area whether it is an AVM, Desk Review, or Field Review.

7.1-R Property Flipping

Follow Conventional guidelines found in section 3.2-A2 LTV/CLTV Calculation

7.1-S Recently Listed Properties

Properties currently listed for sale are **not eligible** for VA refinance, whether fully qualifying IRRRL, or cash-out.

- Properties previously listed and then cancelled, are eligible for refinance with the following loan to value guidance:
- Cash-out transactions: Maximum 70% loan-to-value if the listing was cancelled within six months preceding the application date.
- The following evidence must be provided to verify cancellation of the listing:
 - The property's listing history must be shown in the subject section of the appraisal;
 - Documentation of cancelled listing agreement;
 - Evidence a search was made of the Multiple Listing Service (MLS); and
 - The borrower's confirmation of their intent to continue to occupy the subject property as their primary residence and a reasonable explanation for removing the house from the market.

7.1-T New Construction Requirements

The following is a list of items needed for VA new construction. This information was taken from VA Circular 26-06-01 and Chapter 10 of the VA Lenders Handbook.

Existing Construction: A home which has either been previously owner occupied or had all onsite and offsite improvements fully completed for one year or more (per date Certificate of Occupancy was issued)

New Construction: Newly completed properties (completed less than one year and never owner occupied)

Proposed or Under Construction: Property is eligible for appraisal prior to construction or during construction if: 1. The appraisal is based on proposed construction exhibits and 2. The property is inspected by VA, HUD, or local building authority

7.1-T1 Requirements for Proposed or Under Construction Cases

For proposed or under construction cases, VA will accept the construction inspections performed by the local authority, which verify full compliance with local building codes, in lieu of the three VA compliance inspections.

- If the local authority performs the required foundation, framing and final inspections and issues a Certificate of Occupancy (CO) or equivalent, VA will accept the CO for the property as evidence

of local authority inspections and satisfactory completion of construction. VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported during the required 1-yr VA builders warranty period. NOV must be marked accordingly and veteran must sign acknowledgement with this verbiage

- 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 state 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 1-yr builder's warranty period. Veteran must sign acknowledgement with this verbiage.
- If the local authority does not perform the required inspection, the property must be covered by a 10-yr insurance backed protection plan that is acceptable to HUD and a 1-yr VA builder's warranty. In addition we need the following:
 - The lender is to certify that the property is 100% complete (both on-site and off-site improvements) and that it meets VA's minimum property requirements for existing construction, and
 - VA assistance with construction complaints will be limited to defects in equipment, material, and workmanship reported during the required 1-yr builder's warranty period. Veteran must sign acknowledgement with this verbiage.

Issuing NOV's for Proposed and Under Construction Properties

- Where local authority performs inspections:
 - Check items 12 and 12a in the conditions section of the NOV
 - Check item 2b if required in your State
 - Check item 17 (proposed construction)
 - Check item 19 (1 year warranty)
 - Check item 20 (other conditions) and insert the following statement: "All construction inspections have been or will be performed by the local building-code enforcement authority in accordance with its policies and procedures with satisfactory results"
 - Call for all other applicable proposed construction conditions and requirements on the NOV (such as #14 and #15)
 - Condition for Certificate of Occupancy
- b. Where local authority **does not** make inspections
 - Check item 2b if required in your State
 - Check items 12 and 12a in conditions section of NOV
 - Check item 13 (10 yr warranty) in conditions section of NOV
 - Check item 17 (Proposed Construction)
 - Check item 19 (1 yr warranty)

- Check item 20 (Other conditions) and insert the following statement: “The lender is to certify that the property is 100% complete (both on-site and off-site improvements) and that it meets VA’s minimum property requirement for existing construction”
- Call for all other applicable proposed construction conditions and requirements on the NOV (such as #14 and #15)

7.1-T2 Requirements for New Construction or Existing less than 1 yr old and never occupied:

Appraisal must be completed “as is” and must be existing or at least 97% complete except for customer preference items such as flooring, appliances, etc. Appraiser would have to note this on appraisal. Neither construction exhibits nor VA or HUD inspections during construction are required for these properties.

Properties appraised as “new construction” or “existing less than 1 yr old” must be covered by **either**:

- A one year VA builder’s warranty (Form 26-1859), or
- A ten year insurance-backed protection plan

Issuing NOV’s for New Construction or Existing less than 1 yr old:

- If the builder will provide a one year warranty then the following are required:
- Check item 2b if required in your State
- Check item 12 and 12a in conditions section of NOV
- Check item 19 (1 yr warranty)
- Final inspection or Certificate of Occupancy (if needed)
- Call for all other applicable conditions on the NOV (such as #14 and #15)

If the builder will provide a ten year warranty then the following are required:

- Check item 2b if required in your State
- Check item 12 and 12b in conditions section of NOV
- Check item 13 (10 yr warranty)
- Final inspection or Certificate of Occupancy (if needed)
- Call for all other applicable conditions on the NOV (such as #14 and #15)

When the property is appraised as...	Then...
Existing construction	No warranty is required
New construction	Either... 1 year builder’s warranty is required or 10 year insured protection plan required

Section 7.1: Government Products

Proposed or under-construction with a full complement of VA inspections	Only a 1 year builder’s warranty is required
Proposed or under construction (with only a final VA inspection and local inspections are accepted in lieu of VA first and second stage inspections per Section 14.03)	Only a 1 year builder’s warranty is required
Proposed or under construction (with only a final VA inspection and local inspections are not accepted in lieu of VA first and second stage inspections per Section 14.03)	Both a 1 year builder’s warranty and a 10 year insured protection plan are required

Condos must be approved by VA. The condo ID number is found on the VA website and must be included when issuing the NOV.

Builders must be VA approved for any property that is appraised as either “proposed or under construction” or “new construction”. The builder’s VA ID number is found on the VA website and must be included when issuing the NOV.

To obtain a valid VA-assigned builder ID number, all of the following must be fully executed and submitted to the VA office of jurisdiction where the property is located:

- VA Form 26-412, Equal Employment Opportunity Certification
- VA Form 26-8791, VA Affirmative Marketing Certification
- The identifying information and certification shown in Figure 1 of the VA Lenders Handbook, VA Pamphlet 26-7, as worded and in the order shown, either on the builder’s letterhead or attached to a statement on the builder’s letterhead which references it.