

# VA Underwriting Guidelines

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# Be In Mortgage Underwriting

## Philosophy

Be In Mortgage underwrites and purchases all types of residential mortgages. These programs and products can be found in our Product Matrices (located on our web), and on our daily rate sheet. The Product Matrices will reference specific product features and requirements (such as maximum Loan-to-Value ratios and minimum credit score requirements, if any). This guide is intended to address unique underwriting situations.

Be In Mortgage uses Automated Underwriting Systems (AUS). Generally, underwriters validate the conditions set forth by the AUS. However, there are circumstances where underwriters will need to add conditions to the loan. These guidelines are meant to serve as a guide for obtaining adequate documentation to enable us to satisfy those conditions.

Be In Mortgage underwrites a borrower's creditworthiness based solely on information that we believe is indicative of the applicant's willingness and ability to pay the debt they would be incurring. We prudently underwrite to agency standards and guidelines. Due to a multitude of factors involved in a loan transaction, no set of guidelines can contemplate every potential situation. Therefore, each case is weighed individually on its own merits. Be In Mortgage's underwriting philosophy is to weigh all risk factors inherent in the loan file, considering the individual transaction, borrower profile, the level of documentation provided, and the property used to collateralize the debt.

Our commitment to fairness and equal opportunity is clear and unequivocal. The application of fair and consistent underwriting practices is mandated in the underwriting guidelines outlined in this guide. All loans considered for denial will be subject to a second level review prior to a final decision.

As our guidelines and processes are impacted by external market conditions, it will be necessary for us to reevaluate the guidelines in this manual from time to time. Occasionally, revisions will be made. As applicable, corporate written notifications and updates will be provided to you and incorporated into these guidelines.

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## Program Description

The Veterans Administration (VA) was established in 1930 when Congress authorized the President to “consolidate and coordinate government activities affecting war Veterans”. The Servicemen’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 Department of Veterans Affairs (VA) was established as a Cabinet-level position on March 15, 1989. The VA loan guaranty program encourages lenders to offer long-term, low-down payment mortgages by protecting lenders against loss. Like many other benefits, VA loans have requirements the recruit must fulfill before they can be considered eligible to apply.

The underwriting information contained in this section is intended for use in conjunction with VA Guidelines. Unless otherwise stated, all VA loans must conform to applicable VA one-to-four family housing requirements as well as federal, state and local law compliance. All loans must be guaranteed by VA and eligible for inclusion in pools of mortgage-backed securities fully guaranteed by the Government National Mortgage Association (Ginnie Mae). Be In Mortgage reserves the right to deny any loan which does not meet these guidelines/requirements. To the extent that any conflicts exist between the provisions set forth in the VA guidelines and Be In Mortgage’s guidelines, then Be In Mortgage guidelines should be followed.

In addition to program eligibility and prudent underwriting, Be In Mortgage requires all loans to meet the Ability to Repay (ATR) rules established by the Consumer Financial Protection Bureau (CFPB). The ATR Rule requires that a reasonable, good faith determination is made before or when the loan is consummated, and that the consumer has a reasonable ability to repay the loan. The eight underwriting factors established by the CFPB must be considered, and the loan must be documented accordingly.

1. The borrower’s current or reasonably expected income or assets;
2. The borrower’s current employment status;
3. The borrower’s monthly payment on the covered transaction;
4. The borrower’s monthly payment on any simultaneous loan;
5. The borrower’s monthly payment for mortgage-related obligations;
6. The borrower’s current debt obligations, alimony, and child support;
7. The borrower’s monthly debt-to-income ratio or residual income; and
8. The borrower’s credit history

In the interim final rule, VA defines a Safe Harbor Qualified Mortgage as one that meets Ability to Repay requirements, regardless of whether the loan might be considered a high-cost mortgage transaction. All of Be In Mortgage’s guidance contained in this document will ensure that all loans are underwritten as Safe Harbor Qualified Mortgages. VA Circular 26-18-13 requires all IRRRLs to recoup costs within 36 months; therefore, QMs with Rebuttable Presumption no longer exist. However, [Higher Priced Mortgage Loans](#) (HPMLs) are permitted.

All loans must be prudently underwritten by Be In Mortgage and be of sound investment quality. Loans having serious credit and/or property deficiencies may be denied at the option of Be In Mortgage.

**NOTE:** Guidance contained in this document assumes the loan received an Approve/Eligible recommendation. Manual underwrites require compliance with agency guidelines – refer to the [26-7](#) for manual underwriting requirements.

In some instances, the AUS findings may reflect reduced documentation requirements with an Approve or Accept recommendation. In these cases, the findings may be followed.

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## Requirements and Restrictions

### Loan Requirements

- 15, 20, 25 and 30 year fixed rate terms available
  - 15, 25 and 30 year fixed rate terms available for High Balance
- The minimum required score is 600 for loans up to \$1,000,000, and 700 for loans \$1,000,001 to \$1,500,000
  - Manual underwriting not permitted on scores < 600
- Maximum mortgage amount of \$647,200 (unless borrower qualifies for the [High Balance](#) program), which may or may not include the VA funding fee, depending on transaction type
- AUS findings reflecting Approve/ or Accept/Eligible and Refer/Eligible (manual underwrites) are acceptable.

### Loan Restrictions (Ineligible)

- VA loans approved based on non-traditional credit history (borrower must have traditional credit with valid credit scores).
- Non Occupying Co-Borrowers
- Veteran with Non-Veteran / Non-Spouse, including “Common Law Marriages”. (See [Veteran/Borrower](#))
- Escrow waivers
- Loans requiring VA prior approval (i.e. Joint Loans)
- Refinance loans that have been restructured due to a financial hardship / in forbearance / short payoff loans
- Any loans with an existing PACE/HERO loan that is not being paid off. These liens may not remain outstanding.

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### Maximum LTV / CLTV

When VA loans are permitted for the full reasonable value of the property, no down payment is required. If the purchase price exceeds the reasonable value of the property, a down payment in the amount of the difference must be made in cash from the borrower’s own resources.

For all cash out refinance applications dated on/after August 26, 2019, both Type I and Type II, the maximum LTV/CLTV (including all financed fees, charges, and the VA Funding Fee) is limited to 90%

of the reasonable value of the property.

### LTV Calculation for Applications Taken on/after February 15, 2019

To calculate the LTV for cash out loans on/after February 15, divide the total loan amount, including the VA Funding Fee, if applicable, by the property value as determined by the reasonable value on the Notice of Value (NOV).

If a veteran has less than full entitlement available, Be In Mortgage may require a down payment in order to make the veteran a loan that meets GNMA or other secondary market requirements. The rule of thumb for GNMA is that the VA guaranty, or a combination of the VA guaranty plus down payment and/or equity must cover at least 25% of the loan.

### Purchase of Existing or New Construction Properties

Assuming sufficient entitlement, 100% of the lesser of:

- The VA Notice of Value
- The contract/sales price

100% maximum CLTV allowed (calculated on base mortgage amount, exclusive of Funding Fee, subject to Vet's available entitlement).

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### New Construction

**Properties that are proposed or under construction are not eligible.** If the borrower holds title to the lot at the time of end loan financing, loan should be structured as a refinance. If the sales contract is for both the lot and the improvements, loan should be structured as a purchase. **The refinancing of all construction-to- permanent loans, regardless of whether there is a change in the principal loan amount, must be considered as cash out refinances.** Assuming sufficient entitlement:

#### ***Property (House and Lot) from Builder as Package: Purchase***

100% LTV/CLTV of the lesser of:

- The VA Notice of Value, or
- The contract/sales price

#### ***Property Construction Financed by a Construction Loan: Refinance***

90% LTV/CLTV of the lesser of:

- The VA Notice of Value appraised value, or
- The outstanding balance on the construction loan, plus
  - Any unpaid balance on the note for land purchase (if acquired separately), and
  - Closing costs, including discount points paid by the Veteran.

**NOTE:** No cash back to borrower allowed. The lot equity may NOT be financed in the loan amount. See the table below for an example of the calculation used to determine the maximum loan amount.

Factor	Amount
Balance of Construction Loan	\$70,000 (a)
Lot Value	\$25,000
Current balance owed on lot	\$10,000 (b)
Closing costs & discount	\$3,000 (c)
Maximum VA loan amount	\$83,000 (a + b + c)

### Cash-Out Refinance

Called “cash out” by VA, even if the borrower receives no cash at closing. Includes rate/term refinance. Effective with applications taken on/after February 15, 2019, VA has categorized cash out refinancing loans into two categories:

- Type I Cash Out Refinance: a refinancing loan in which the loan amount (including VA funding fee) does not exceed the payoff amount of the loan being refinanced.
- Type II Cash Out Refinance: a refinancing loan in which the loan amount (including VA funding fee) exceeds the payoff amount of the loan being refinanced.

Assuming sufficient entitlement:

- Owner-occupied, existing dwellings over one year old.
- 90% maximum LTV/CLTV (subject to Vet’s available entitlement. The funding fee must be included in the 90% maximum). See on section below: LTV Calculation for Applications Taken on/after February 15, 2019)
- The Veteran must be in title to the property. Properties free and clear are not eligible.
- All cash out refinance requirements must be met.

### IRRRLs

LTV is not determined, as an appraisal is not obtained (except in cases where discount points are being charged on a fixed-to-ARM transaction). [VA Form 26-8923](#) must be used to determine maximum loan amount. See IRRRL chapter for further details.

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## Maximum Loan Amount

Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans.

VA limits the amount of the loan to the reasonable value of the property shown on the NOV, plus the VA funding fee, with the following exceptions:

Exception	Maximum Loan
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IRRRLs	<p>Existing VA loan balance, <b>plus</b></p> <ul style="list-style-type: none"> <li>• Allowable fees and charges, <b>plus</b></li> <li>• Up to two discount points, <b>plus</b></li> <li>• The VA funding fee.</li> </ul> <p><i>VA Form 26-8923, IRRRL Worksheet, must be used for the actual</i></p>
Regular Refinance (Both Type I and Type II Cash Out)	90% of the VA Reasonable Value, <b>including</b> the VA funding fee.
<p>Loans to refinance:</p> <ul style="list-style-type: none"> <li>• a construction loan, or</li> <li>• an installment land sales contract, or</li> <li>• a loan assumed by the veteran at an interest rate higher than that for the proposed refi</li> </ul>	<p>The lesser of:</p> <ul style="list-style-type: none"> <li>• 90% of the VA reasonable value, including the VA funding fee, or</li> <li>• the sum of the outstanding balance of the loan plus allowable closing costs and discounts <ul style="list-style-type: none"> <li>○ for construction loans, “balance of the loan” includes the balances of construction financing and lot liens, if any</li> </ul> </li> </ul> <p><i>*Cash out is not permitted</i>  <i>*Bonus entitlement may not be used for land sales contracts</i></p>

**Down payment**

Because VA purchase loans can be for the full reasonable value of the property, no down payment is required by VA, except if the purchase price exceeds the reasonable value of the property. In this case, a down payment in the amount of the difference must be made in cash from the borrower’s own resources.

If a veteran has less than full entitlement available, Be In Mortgage requires a down payment in order to make the veteran a loan that meets GNMA or other secondary market requirements. The VA guaranty, or a combination of VA guaranty plus down payment and/or equity, must cover at least 25 percent of the loan.

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**Higher Priced Mortgage Loans**

Although VA transactions subject to Rebuttable Transaction do not exist, VA loans that are considered Higher Priced Mortgage Loans (HPMLs) are permitted, providing the following criteria are met:

- An appraisal must be obtained by a certified or licensed appraiser who conducts a physical visit of the interior of the subject property (n/a for IRRRLs)
- An additional appraisal by a separate appraiser may be needed if:
  - The seller acquired the property 90 days or less prior to the consumer agreement was signed and the agreement exceeds the seller’s acquisition price by more than 10%, or
  - The seller acquired the property 91 to 180 days prior to the consumer agreement and the price



- exceeds
- the seller's acquisition price by more than 20% (n/a for IRRRLs)
- Cannot waive appraisal delivery timing – borrower must receive appraisal at least 3 days prior to closing (n/a for IRRRLs)
- An escrow account for payment of property taxes and insurance premiums is required

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## Collateral Requirements

*Properties are to be free of health and safety hazards and major structural problems.*

### Eligible Collateral

- Single Family Residence
- 2-4 Unit Dwellings (Veteran must occupy one of the units)
- Planned Unit Dwellings (PUDs) \*do not require VA approval.
- Townhome/Rowhome
- Condominiums (must be approved by VA – no exceptions)
  - Existing Construction (all units, common elements, and facilities within the project must be 100% complete, as evidenced by issuance of the final Certificate of Occupancy, and the Homeowners Association has been turned over).
- Log; Dome; Berm Homes; Pier Foundations; Auxiliary/Accessory Dwelling Units; Homes with extreme functional obsolescence (i.e. one bedroom) – Must be common and typical for the area and have like comparables
- Modular Homes – Must be “off frame” or “off chassis”

### Ineligible Collateral

- Properties that are proposed or under construction.
- Flood Hazard Area where the community does not participate with FEMA
- Mobile/Manufactured Homes
- Agricultural/Commercial/Industrial use
- Leasehold Properties (title must be held in Fee Simple interest only)
- VA Indian Leasehold Properties
- Condominium Hotel or “Condotels”
- “Air” condominiums that do not have a homeowners association
- Manufactured Home Condominiums and Houseboat projects
- Multi-dwelling unit condominiums (i.e. more than one dwelling per condominium unit)
- Leasehold condominium projects
- Any/all condo projects not deemed to be used primarily as residential
- Condo projects consisting of only one unit
- Proposed and/or new construction condos
- Properties currently listed for sale (refinances)
- 2nd Homes / Non-Owner Occupied Properties
- Time-Share Units/Cooperatives
- Construction Financing

- Properties vested in Life Estates (refinance transactions)
- Properties that do not meet VA’s Minimum Property Requirements (MPRs) – see below.
- Properties located in Coastal Barrier Resource Systems (CBRS)
- Properties located on a repaired sinkhole or with sinkhole activity.
  
- Any land, building, property, structure, etc. in which there is knowledge of an illegal activity occurring past or present (based on federal or state law), regardless of whether any income or assets are being derived from the illegal activity. Property alterations cannot be made to achieve collateral eligibility.

## **Appraisal Reports**

Appraisals are performed to protect the interests of veterans, lenders, servicers, and VA.

### **USPAP and VA Requirements**

The appraiser assigned by VA must prepare the appraisal report in accordance with Uniform Standards of Professional Appraisal Practice (USPAP), the specific VA requirements outlined in these guidelines, and in circulars periodically issued when program changes arise.

### **Appraisers Trained by VA**

Appraisers who have been appointed to VA’s fee appraiser panel have been trained on VA appraisal requirements. Be In Mortgage may rely on VA fee panel appraisers to have performed the appraisal in accordance with VA guidelines without the need for additional statements or certifications.

### **SAR Responsibilities**

Be In Mortgage’s Staff Appraisal Reviewers (SARs) who are reviewing appraisal reports must be familiar with residential appraisal principles and VA’s specific requirements for appraisal reports.

## **Market Value**

### **Market Value Definition**

The appraiser must estimate the market value, as "the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus." VA considers reasonable value and market value to be synonymous. VA’s definition of market value is consistent with that used by Fannie Mae, Freddie Mac, and major appraisal organizations.

### **Protecting the Interests of Veterans, Lenders, Servicers, and VA**

The quality of the appraisal is critical in protecting the interests of Veterans, lenders, servicers, and VA. This fact requires VA to be integrally involved in its management and oversight of the appraisal process, from the initial assignment of the appraiser through the issuance of the Notice of Value (NOV), as well as oversight performed on closed loans.

### **Oversight**

Any appraisal report is unacceptable if the analysis is not based upon recognized appraisal practices

and was intended to "accommodate" or "meet" the sales price.

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## Appraisal Report Contents

- **Invoice**
  - For consistency, the invoice should be the first page of the PDF file uploaded into WebLGY
- **Appraisal Form**
  - Be In Mortgage's name and "Department of Veterans Affairs" must be provided in the Lender/Client field on
  - the appraisal report form
  - The VA-assigned fee appraiser's signature must be provided in the signature block with the fee appraiser's VA ID in the "other" block, just below the state certification and license information.
  - Appraisal forms accepted by VA:
    - Fannie Mae Form 1004, Uniform Residential Appraisal Report
    - Fannie Mae Form 1004C, Manufactured Home Appraisal Report,
    - Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report
    - Fannie Mae Form 1025, Small Residential Income Property Appraisal Report
- **Street Map**
  - Must show location of the subject and each comparable sale
  - Additional maps must be provided if sales are a substantial distance away
- **Building Sketch**
  - Gross living area calculations must be provided
  - Must contain exterior dimensions of dwelling, basement, and any other improvements contributing value
  - Basement may be shown in relation to the floor plan of the house instead of separately
  - Floor plan layout required (interior room dimensions and partitioning are not required)
- **Photographs**
  - Clear and labeled
  - Front and rear taken at opposite angles to show all sides of the dwelling, if possible
  - Improvements with contributory value
  - Minimum Property Requirement (MPR) repair items
  - Street scene
  - Any views affecting value
  - Kitchen
  - Main living area
  - Bathrooms
  - Any recent updates, remodeling or renovation
  - Front view of each comparable sale (real estate marketing photographs are acceptable with an explanation, for example, to exhibit condition at the time of sale, or if a comparable sale is in a gated community that was not accessible to the appraiser)
  - For condominiums, if the subject and sales are in the same building or identical buildings, the appraiser may comment instead of providing photographs of the sales
- **Repair List**
  - Itemized list of any observed MPR repairs or customer preference items to be installed
  - May be included directly on the appraisal form

- **Uniform Appraisal Dataset (UAD)**
  - UAD Property Condition and Quality Rating definitions
  - UAD Property Description Abbreviations
  
- **Appraiser's Certifications**
  - Required by state law
  - Related to continuing education or membership in professional appraisal organizations
  - Additional certifications may be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions, any preprinted language on the appraisal form, or VA appraisal requirements.

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## Gross Living Area

Gross Living Area (GLA) refers to the square footage of the area that is finished, habitable, contiguous, above- grade, residential space calculated by measuring the outside walls of the structure. The functional utility and contributory value of any non-contiguous areas should be considered by the appraiser and listed separately from the GLA on the market data grid.

Basements, whether or not finished, must not be included in the GLA. Finished attics may be included in the GLA.

If any part of a finished level is below grade, the appraiser must determine whether it should be considered GLA or valued separately.

If the appraiser determines that a partially below-grade habitable space is similar to the GLA in design, quality of construction, and appeal, has full utility and is accepted in the market, the appraiser may include the area in the GLA.

If the partially below-grade space is inferior to the rest of the property and not accepted in the market, the appraiser may determine that the area is not part of the GLA. In cases such as these, the contributory value of partially below-grade space should be considered separately on the market data grid.

## Room Additions and Car Storage Conversions

Room additions and enclosures of garages and carports into the living area should be included in the GLA if the added space is:

- accessible from the interior of the main dwelling in a functional manner,
- has a permanent and sufficient heat source, and
- is similar in design, quality of construction and appeal to the main dwelling.

Added space that does not meet the criteria listed above must be valued separately from the GLA on the market data grid. The appraiser must consider the effect on marketability of an inferior addition or conversion when arriving at the line-item adjustment for the added space. When selecting and analyzing comparable sales, the appraiser should consider the differences in quality and utility of room additions and converted spaces when compared with originally constructed space.

## Accessory Dwelling Unit

An Accessory Dwelling Unit (ADU) is a living unit including kitchen, sleeping, and bathroom facilities added to or created within a single-family dwelling, or detached on the same site. A manufactured home on the site could be an ADU. The dwelling and the ADU together constitute a single real estate entity.

As part of the highest and best use analysis, the appraiser must determine if the property is a single-family dwelling with an ADU, or a two-family dwelling. The highest and best use must be legal use. A two-family dwelling must be appraised on the Fannie Mae Form 1025, Small Residential Income Property Appraisal Report.

An ADU is usually subordinate in size, location, and appearance to the primary dwelling unit and may or may not have separately metered utilities and separate means of ingress and egress. The appraiser must not include the living area of the ADU in the calculation of the GLA of the primary dwelling. The ADU must be valued separately as a line item on the market data grid.

The appraiser must notify the lender if a property has more than one ADU.

A manufactured home, shed, or other detached building on property which does not have kitchen, sleeping, and bathroom facilities or cannot be legally used as a dwelling, may be valued as storage space if it does not present any health or safety issues.

## Nuisances

While nuisances do not make a property ineligible or require repair, the appraiser must describe any nuisances and consider any effect on value. If available, comparable sales influenced by the same nuisance, should be used by the appraiser. Examples of nuisances include heavy traffic, noise from a nearby highway, or odors from a factory in the vicinity.

## Remaining Economic Life

Remaining economic life is the estimated period of time until the improvements are expected to no longer serve their intended purpose as a home. In estimating the 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 functional utility of the property,
- the condition and durability of the property,
- maintenance levels of other properties in the area, and
- in areas where municipalities have established code enforcement areas, their expected results in improving the neighborhood for residential use.

The appraiser must estimate the remaining economic life as a single number and include specific comments if the estimated remaining economic life is less than 30 years. The remaining economic life must be equal to or greater than the term of the loan.

The estimated remaining economic life must be provided in the cost approach section of the appraisal report. For condominium units, the estimated remaining economic life must be provided in the “Reconciliation” section of the appraisal report.

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## Effective Age

While the actual age is the number of years since the home was constructed, the effective age reflects the condition and functional utility of the property. For example, remodeling will likely decrease the effective age of a home while a lack of maintenance can increase the effective age, possibly to a number greater than the actual age.

The appraiser must state the effective age as a single number and include comments if the effective age differs significantly from the actual age. Since recommended repairs are included in value on origination appraisals, the effective age should reflect the condition of the property as repaired.

## Highest and Best Use

The highest and best use of a property is the most probable use which is physically possible, appropriately supported, legally permissible, financially feasible, and results in the highest value.

While the appraiser must determine the highest and best use, the appraiser must also complete the appraisal in accordance with VA guidelines. For example, since VA-guaranteed loans are made for residential purposes, no value may be given to commercial uses, crops, livestock, land for future development, or any other non- residential use.

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## Appraisals

### Ordering an Appraisal

VA appraisals are ordered in VA’s WebLGY, through the Veterans Information Portal (VIP), in which appraisal assignments are automatically made on a rotational basis by VA. **Be In Mortgage will order VA appraisals on your behalf.** See [VA Appraisal Ordering Process](#) and the [Order Request Form](#) posted on our website.

Appraisals may only be ordered after a Certificate of Eligibility has been obtained. VA Appraisal Fee Schedules and Timeliness Requirements can be found [here](#).

### ***Duplicate Appraisal Requests***

Once an appraisal has been requested, no duplicate appraisal requests are authorized. If more than one appraisal is requested for the same Veteran on the same property, Be In Mortgage must immediately cancel the additional request(s).

If Be In Mortgage fails to cancel duplicate appraisal requests and multiple appraisals are completed for the same Veteran on the same property, Be In Mortgage will be responsible

for the fees for all duplicate appraisals. The NOV will be issued based on the first appraisal requested.

After the NOV has been issued, no duplicate appraisals may be requested for the same Veteran on the same property during the validity period of the NOV.

### ***Canceling Appraisal Requests***

An appraisal request may be canceled before the appraisal is completed for a valid reason; for example, if Be In Mortgage finds that the borrower will not qualify for the loan. The following steps must be followed to cancel an appraisal:

- Immediately notify the appraiser of the cancellation. The appraiser may charge a fee for any work performed prior to this notification which is chargeable to the Veteran.
- E-mail a request to the RLC to cancel the appraisal in WebLGY. The request should include the VA case number, the property address, the reason for the cancellation and confirmation that the appraisal fee, if charged for any work performed, will be paid.

A case may be canceled after the appraisal has been completed, but before the NOV is issued, for a valid reason; for example, if the sale falls through, by following the same steps. In this situation, Be In Mortgage is not required to issue the NOV, and upon cancellation, the case will be removed from Be In Mortgage's list of appraisals pending review in WebLGY. **An appraisal request may not be cancelled after the NOV has been issued.**

### ***Communication with the Appraiser***

Fee appraisers may be contacted by lender and servicer employees other than SARs inquiring about the status of the appraisal. Fee appraisers are expected to respond promptly, by the next business day at the latest, providing an update on when the appraisal report is expected to be completed. When communicating by email, place the VA Loan Identification Number (LIN) in the subject line. Do not include any other information such as the borrower's name or address due to privacy concerns. Also, state the reason for the request.

### **VA Case Number Assignments**

Every VA loan in process must have a VA case number assigned to the subject property prior to requesting an appraisal. WebLGY allows lenders to request and receive case numbers and appraisal assignments online within seconds. A user ID and password are required to access the system. WebLGY may be accessed at the following link: <https://vip.vba.va.gov/portal/VBAH/Home>.

### **VA Appraisal Assignment**

Please follow the process below when ordering VA appraisals:

- Upon login to the Veteran's Information Portal (VIP) <https://vip.vba.va.gov/portal/VBAH/Home> and choose WebLGY. Then select "Request an Appraisal" (this function assigns a loan number and appraiser to a single property case).
- Under Origination Appraisals, select "LAPP" (Lender Appraisal Processing Loans).
- Enter Be In Mortgage's sponsor ID # 6499629-00-00 and enter [appraisals@beinmortgage.com](mailto:appraisals@beinmortgage.com) under 1C (you may enter more than one email address separated by semicolons). Complete the form as required.

The following additional requirements apply:

- For all appraisal types, if the legal description is lengthy and does not fit in the legal description

block on the appraisal request, a copy of the complete legal description should be uploaded into WebLGY the same day the request is made. In order to avoid delays on appraisals, the appraiser may determine if sufficient information is provided to identify the property and proceed with the appraisal.

- A copy of the sales contract must be uploaded into WebLGY the same day the request is made. If it is not, the appraiser must place the appraisal assignment on hold, notify the requestor, and document the delay in WebLGY notes. Also see [Revisions Due to Sales Contract Amendments](#)
  - The appraiser must analyze all sales contracts, options, or listings of the subject property as of the effective date of the appraisal, if such information is available to the appraiser in the normal course of business. The appraiser will analyze the sales contract in estimating the reasonable value of the property and will also consider any effect on VA MPR repairs. The appraisers must also analyze the contract to ensure that a VA-mandated “Escape Clause” is contained within the contract. This must be boldly and clearly addressed in the appraisal report for the SAR to validate.
  - The appraiser must have access to the sales contract in order to consider financing data, sales concessions or other information included in the contract when estimating the reasonable value of the property.
- VA REOs: Properties purchased as VA Real Estate Owned (REO’s) are not eligible for LAPP Appraisals. The VA will issue the Notice of Value (NOV) if the Liquidation Appraisal issued by the VA is less than 6 months old. Contact the Regional Loan Center where the property is located for the liquidation appraisal. To request a NOV from the VA submit a completed paper copy of VA Form 26-1805 (Request for Determination of Value) to the VA Regional Loan Center. VA will then transfer the appraisal from the current servicer, if applicable to Be In Mortgage and issue a new case number. Note that the Be In Mortgage VA underwriter still needs to perform complete underwriting on these transactions.
- Be In Mortgage will provide the NOV (Notice of Value) and a copy of the appraisal to the veteran at the address provided to us.

The fee appraiser will estimate the market value of the property in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and VA appraisal guidelines. The appraiser will note any readily apparent repairs needed for the property to meet VA’s Minimum Property Requirements (MPRs).

The completed appraisal report will be uploaded into WebLGY and electronically scored by VA’s Appraisal Management System (AMS). A Staff Appraisal Reviewer (SAR) employed by a lender or servicer, or VA staff, will review the appraisal and issue a Notice of Value (NOV) to the Veteran.

### **Appraisal Requirements**

Appraisals are not intended to be property inspections; however, appraisers are required by VA to determine the overall condition of the subject property and recommend any readily observable repairs necessary to meet the [Minimum Property Requirements](#) as provided by VA. An appraisal is required to help ensure that any property that will become the security for a VA-guaranteed loan:

- Has a loan-to-value (LTV) within program parameters, and
- Is in a condition acceptable to VA



## Uniform Appraisal Dataset (UAD)

The UAD improves the quality and consistency of appraisal data by defining all fields required on specific appraisal forms and standardizes definitions and responses for a key subset of fields. Regardless of the geographic location of the property or any localized reporting conventions, the UAD standardization includes:

- Formats for fields that include dates, values, and other data,
- Allowable values from a list of choices provided for certain fields,
- Abbreviations to allow more information to fit on printed appraisal forms, and
- Ratings and definitions for the “Condition” and “Quality” of the property and “Updated/Remodeled”

status.

The UAD does not change the look of the existing appraisal forms, but some fields on the forms are being extended to include additional information. All appraisal reports must be completed in compliance with the Uniform Appraisal Dataset (UAD). This rule applies to all VA mortgage loans.

The appraisal forms that must be UAD-Compliant, and include the definitions for the property condition and quality ratings and the property description abbreviations used, are:

- *Uniform Residential Appraisal Report* (FNMA Form 1004)
- *Individual Condominium Unit Appraisal Report* (FNMA Form 1073)
- *Exterior-Only Inspection Individual Condominium Unit Appraisal Report* (FNMA Form 1075)
- *Exterior-Only Inspection Residential Appraisal Report* (FNMA Form 2055)

**NOTE:** *City Lending Inc is unable to accept properties with a Condition Rating of C5 or C6, nor a Quality Rating of Q6.*

While the UAD may allow for the use of pending sales in the sales comparison grid, VA requires that only closed sales be used.

UAD requires appraisers to provide specific information regarding remodeling in the past 15 years. VA expects fee appraisers to recognize and describe remodeling or updating and to make appropriate adjustments. Fee appraisers should also report UAD information concerning the remodeling if it is available in the “normal course of business” within VA timeliness requirements for completion of the appraisal.

## Compliance Inspection Report (VA Form 26-1839)

This may be used by the appraiser to report the completion of repairs and/or the satisfaction of requirements and conditions noted in the original appraisal report for existing/new/proposed construction. Additionally, effective March 25, 2014, Freddie Mac Form 442, Fannie Mae Form 1004D, Part B: Certification of Completion, or the appraiser’s letterhead may be used 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. Fannie Mae Form 1004D, Part A is **not** acceptable for VA use.

## Tidewater Procedure

During the appraisal process, fee appraisers are required to notify the requester before  
1.29.2024

completing the appraisal when it appears that the estimated market value will be below the sales price. The appraiser will allow two business days for the requester, or any parties to the transaction contacted by the requester, to submit any additional sales data that they wish to have considered. This process is known as the “Tidewater Procedure”, as VA first piloted this procedure in the Tidewater area of Virginia.

For each potential comparable sale submitted, the following information should be provided:

- street address,
- sales price,
- date of sale,
- gross living area,
- if the property was listed, a copy of the listing with details about the property, and
- any other information to assist the appraiser in determining whether the sale could be used as a comparable property. It is the responsibility of the requester to provide sufficient information for the appraiser to analyze.

If market data is submitted, the appraiser will note in the appraisal that this procedure was followed and include the following information:

- street address of each sale submitted,
- whether or not each sale was considered and, if not, the reason, and
- the effect of the data, if any, on the opinion of value.

If no market data is submitted, after two business days, the appraiser will note in the appraisal that the Tidewater Procedure was followed and complete the appraisal report.

### **Appraisal Rebuttal Process**

After the NOV has been issued, an interested party may request reconsideration of value in writing by contacting the RLC of jurisdiction.

The party requesting reconsideration should provide market data as described in the [Tidewater Procedure](#).

VA staff will review the appraisal report, additional submitted data, as well as the market data available through VA’s AMS. In some cases, VA staff may conduct a field review. If VA staff determines that an increase in value is appropriate, VA will issue an amended NOV.

### **Revisions Due to Sales Contract Amendments**

If the agreement of sale 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 considers the potential impact on value of any changes.

If the sales contract is amended after the effective date of the appraisal, but prior to loan closing, due diligence must be used to determine whether the amendment(s) could reasonably be thought to affect the estimated value of the property. If so, the amended sales contract must be forwarded to the VA fee appraiser for consideration. The appraiser will be responsible for

determining the impact of the amended sales contract and compliance with all provisions of USPAP in developing and reporting credible assignment results. Depending on the extent of any change to the originally considered sales contract, the appraiser may consider the change to constitute a new assignment under USPAP, warranting an additional fee, chargeable to the Veteran, up to the full amount of a new appraisal.

### Appraisal Portability/VA Case Transfers

Cases may be reassigned between lenders in WebLGY. In transactions where a borrower has switched lenders, at the borrower's request, the case will be reassigned to the second lender, including the appraisal report. VA does not require that the client name (lender name) or the borrower name on the appraisal be changed when it is transferred (case number transfer executes appraisal transfer) to another lender. In accordance with the Uniform Standard of Professional Appraisal Practice (USPAP), the lender **is not** permitted to request that the appraiser change the name of the client within the appraisal report. Be In Mortgage will accept the appraisal report in the name of the original VA Lender. The NOV must be reissued by Be In Mortgage. Second appraisals are not allowed by VA and may not be charged to the Veteran.

### Appraisal Validity Period

The Notice of Value (NOV) for properties appraised as existing, new, proposed or under construction is valid for six months. NOVs cannot be re-used after the mortgage for which the appraisal was ordered has closed. A new NOV/appraisal is required for each purchase/refinance transaction requiring an appraisal. Example: an appraisal used for the purchase of a property cannot be used again for a subsequent refinance, even if the six months has not elapsed.

### Appraisal Delivery Requirements

Under the Dodd Frank Act, Regulation B has been revised for all applications taken on/after January 18, 2014. The borrower is required to receive a copy of all valuation documents developed in connection with an application for a loan that is secured by a first lien on a dwelling. This includes:

- Appraisals
- Desk reviews
- AVMs / BPOs

Be In Mortgage will deliver the valuation documents directly to the borrower. This will occur promptly upon completion of the documents or no later than three days prior to closing, whichever is earlier, *unless* the borrower chooses to waive their right to receive the valuation documents prior to closing on the Appraisal Delivery Timing Waiver disclosure. In this case, the valuation documents are not required to be delivered 3 days prior to closing but must **always** be delivered at the time of consummation (at the latest).

### Sales Comparison Approach

#### ***Comparable Sale Selection***

The appraiser must include, at a minimum, three closed sales which the appraiser believes are the best available sales and provide comments to support the selection, when appropriate. Comparable sales should be selected based on similar locational and physical characteristics, not

sales price. Recent sales in the same established subdivision, condominium or PUD are typically the best indicators of value. The sales should be similar to the subject property to the extent that the sales would be competing properties if they were on the market at the same time as the subject property.

### ***Comments Explaining Adjustments***

The appraiser should provide comments when adjustments are made for points of comparison that are not self-explanatory or when large adjustments are made. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

### ***Limited Sales Data***

If the sales data from the market area is limited, the appraiser must provide the best information available and comments with the appraiser's professional opinion about the market, any reasons for the lack of sales data, and the various differences between the subject and the comparable sales.

### ***Distance of Comparable Sales***

VA does not set minimum or maximum distance requirements between the subject and comparable sale properties. In suburban or rural communities, the market areas may be greatly expanded, and suitable comparable sales may be many miles away from the subject. In such cases, the appraiser should specify why those comparable sales were used and how they compare with the subject.

### ***Sales of REO Properties***

The appraiser may use sales of Real Estate Owned (REO) properties or short sales if transactions of this nature are prevalent in the market. A transaction involving a foreclosure transfer to a mortgage servicer is not evidence of market value and must not be considered as a comparable sale.

### ***Sales from Competing Developments***

If the property is in a new subdivision or condominium, the appraiser should include, if available for comparison, properties constructed by a competing builder in the subject market area as well as properties within the subject subdivision or condominium.

### ***Market-Derived Adjustments***

All adjustments on the market data grid should be market-derived, based on the amount the appraiser estimates a typical buyer would pay for the item in the market. Adjustments reflect contributory value in the market, which does not necessarily equal the cost of an item.

### ***Sales Concessions***

Sales concessions typically include financing incentives or non-realty items. As all adjustments must be market-derived, the adjustment should reflect the difference between the sales price with the sales concessions, and what the property would have sold for without the concessions under typical market conditions. The sales concessions on the comparable properties are adjusted to typical market expectations, not to the specific terms or conditions of the sale of the subject. Any concession adjustments must be downward adjustments as positive adjustments for sales concessions are not acceptable.

### ***Recent Sales***

Comparable sales should reflect the most recent activity in the market. Comparable sales are preferably sales that have taken place within the last 6 months, and generally sales that are not more than 12- months old, unless explained by the appraiser.

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### ***Time Adjustments***

Market condition (time) adjustments are made to reflect value changes in the market between the date of the contract for the comparable sale and the effective date of the appraisal. The appraiser must provide comments about current market trends to support any time adjustments.

In an increasing market, positive market condition adjustments should be made if there is evidence, based on a thorough analysis of specific market trends, of increasing prices, a shortage of homes for sale, or decreasing marketing times.

In a declining market, negative market condition adjustments should be made if there is evidence of a decline in prices, an oversupply, or extended marketing times.

### ***Condition Adjustments***

Since VA appraisals must be prepared “subject to” the completion of any repairs needed in order for the property to meet VA’s MPRs, the condition for the subject property compared with the comparable sales on the market data grid should reflect the condition with the repair items completed.

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## **Cost Approach**

The cost approach is not required for VA purposes but may be completed to supplement the indicated value in the sales comparison approach.

If the cost approach is provided, the appraiser must estimate the site value through sales comparison, allocation, or extraction. If the cost approach is not completed, a site value must not be provided.

## **Income Approach**

If appraising a residential income property with two to four units, the appraiser must prepare the appraisal on the Freddie Mac Form 72/ Fannie Mae Form 1025, Small Residential Income Property Appraisal Report, which includes an income approach. VA does not require an income approach on any other property types.

## **Final Reconciliation**

In the final reconciliation on the appraisal report the appraiser will evaluate and summarize the approaches to value which were included in the appraisal report.

On appraisals prepared for VA, the market approach will likely reflect the appraiser’s final estimate of value since VA does not require a cost approach and an income approach is only required on

two-to-four-unit properties.

### Appraisal Conditions

#### **As-Is**

The appraisal will be prepared “as-is” if the appraiser finds that the property meets MPRs on origination appraisals.

#### **Subject to Repairs**

The appraisal will be prepared “subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed” if:

- on an origination appraisal, the appraiser recommends that repairs be completed for the property to meet MPRs,
- customer preference items must be completed on a new construction property, or
- alterations are being made to the property.

#### **Subject to Completion**

Proposed construction properties will be appraised “subject to completion per plans and specifications.”

**NOTE:** *When an appraiser observes an item that does not meet VA MPRs, the appraiser must recommend a repair, not an inspection.*

## **Notices of Value (NOVs)**

When the fee appraiser uploads the completed appraisal report into WebLGY, Be In Mortgage’s Staff Appraisal

Reviewer (SAR) or VA staff must review the appraisal and issue a Notice of Value (NOV) to the Veteran.

The NOV will inform the Veteran about the results of the appraisal report, and conditions that must be met for guaranty of the loan. The NOV explains how appraisal reports differ from home inspections and suggests that the Veteran may wish to obtain a home inspection.

Every property eligible for VA’s Lender Appraisal Processing Program (LAPP) should be processed accordingly. If Be In Mortgage, as a LAPP-approved lender, does not process an eligible property under LAPP, the request for VA staff to issue the NOV must include a detailed explanation.

Since the NOV reflects the results of the appraisal review, Be In Mortgage should refer to the NOV, not the appraisal, for the reasonable value, repair requirements, and all other appraisal-related conditions required for the loan to be guaranteed by VA.

### SAR’s Certification

When issuing an NOV in WebLGY, the SAR must electronically certify the following: “I reviewed this

appraisal report to determine the acceptability of the property for VA Loan Guaranty purposes in light of VA minimum property requirements and the appropriateness, completeness, consistency, and accuracy of the fee appraiser's reasonable value determination. In completing this administrative review, I am performing a due diligence function and not acting as, or taking the responsibility of, a cosigner of the report or supervisory appraiser. Any disagreements or comments, etc., resulting from the administrative review of this appraisal are fully explained on the attachment to this report."

By making this certification, together with the certifications already made when initially approved by VA, the SAR is certifying that he/she:

- personally reviewed the appraisal report,
- concurred with the fee appraiser's recommendation, except as noted in WebLGY notes,
- did not exert pressure or undue influence on the appraiser to change information or to reach a predetermined value for the subject property in order to accommodate the sale price or mortgage transaction, and
- determined that the appraiser used methodologies that were appropriate and reasonable in light of industry-accepted appraisal techniques, made conclusions that were consistent, based upon the data in the report, and complied with applicable VA requirements.

### Appraisal Review

After the appraiser uploads the completed appraisal report, the SAR must review the appraisal and the results of the electronic scoring of the appraisal by VA's [Appraisal Management System](#).

The SAR must ensure that:

- the property is eligible, and
- the appraisal report meets VA guidelines.

The SAR must review the appraiser's recommendations for any VA Minimum Property Requirement (MPR) repairs, and ensure that the property meets or will meet VA's MPRs. The SAR must limit repairs required on the NOV to only those repairs that are needed for the property to meet MPRs. SARs must place notes in WebLGY justifying any non-MPR repairs or inspections recommended by appraisers that the SAR has determined are not required on the NOV.

During the review of an appraisal, in most cases, when a question arises, the SAR should first contact the appraiser for any needed clarifications and corrections. The SAR must document any contact with the appraiser and resolution of appraisal-related concerns in WebLGY notes.

- If the appraiser makes any changes to the appraisal report, the revised appraisal report must be uploaded into WebLGY.
- If the question is not resolved after contacting the appraiser, the SAR should email the RLC for assistance. VA staff will assist the SAR in resolving the question concerning the appraisal.

SARs must not issue an NOV for a property that does meet eligibility or VA MPRs. Additionally, VA's Local requirements can be found [here](#).

Once the SAR has determined the appraisal report is acceptable to VA, the SAR must issue the NOV in WebLGY at the appraised value. If contact with the appraiser resulted in the appraiser uploading an amended appraisal report with a changed value, the SAR must issue the NOV at the

changed (current) value.

The SAR is not required to sign the NOV in ink, since the SAR's name and VA-issued ID number are automatically included on the NOV. This constitutes an electronic signature since SARs log into WebLGY with a unique username and password.

The same day the NOV is issued, the SAR must send the Veteran a copy of the NOV together with a copy of the appraisal report.

After the NOV has been issued:

- employees of lenders associated with the case will be able to view and download copies of the appraisal and NOV from WebLGY,
- Veterans may request a waiver of a repair requirement, and
- interested parties may request a reconsideration of value.

### **Appraisal Management System**

When the appraiser uploads the completed appraisal report into WebLGY, VA's Appraisal Management System (AMS) will electronically read and score the appraisal, assisting SARs in quickly assessing appraisal risk, determining property eligibility, ensuring VA policy compliance and identifying over/under-valuations, and appraisal quality issues. SARs must use AMS as a tool to help ensure appraisals are accurate, complete, and that the property is properly valued according to VA-accepted appraisal principles and practices.

As a rules-based system, AMS will assist SARs in finding inconsistencies by flagging items as potentially problematic and determining whether the appraisal is in compliance with VA appraisal requirements, industry-accepted appraisal principles, and Uniform Standards of Professional Appraisal Practice (USPAP).

Alerts will be noted by the AMS based on VA's business rules. All high alerts must be addressed in WebLGY notes. Medium and low alerts do not require a comment but should be carefully reviewed by the SAR. Often the alerts will reflect an NOV condition that must be required, with no clarification needed from the appraiser.

VA will issue a circular periodically describing the AMS scores that will be considered low-risk and high-risk appraisals. SARs may perform a cursory review on low-risk appraisals. High-risk appraisals require a comprehensive review. Sometimes a score of "N/A" will be reported for complex, rural, or new/proposed construction properties due to a lack of market data. While this is not an indication of a high-risk appraisal, a comprehensive review must be performed since the AMS did not return a score within the acceptable range for a cursory review. SARs must indicate whether or not a cursory review was performed in WebLGY with the indicator on the screen where the NOV is issued.

#### ***Cursory Appraisal Review***

Cursory review requirements include:

- reviewing the sales comparison grid,
- confirming that the report contains the [required photographs](#) which accurately reflect



the

appraiser's description of the subject and comparable properties,

- identifying all VA MPRs that must be addressed before the property can become the security for a VA-guaranteed loan,
- reviewing any alerts identified by the AMS, documenting any high alerts in WebLGY notes, and
- identifying any additional conditions that must be included on the NOV.

**NOTE:** Findings in a cursory review may cause the review process to be elevated to a comprehensive review.

### **Comprehensive Appraisal Review**

Comprehensive review requirements include the requirements specified above for a cursory review,

and:

- verifying that the appraisal report is fully completed,
- verifying that the appraisal meets USPAP requirements,
- verifying that the appraisal complies with the Uniform Appraisal Dataset (UAD) requirements,
- determining that the appraiser's methodology is appropriate and that the appraiser's conclusions are consistent, sound, supportable, logical and based upon data in the appraisal report, and
- ensuring that the appraiser's market value estimate and other conclusions are consistent with those

in similar cases recently processed.

If system issues arise and AMS results are not available, the SAR may perform a comprehensive review, noting in WebLGY that AMS results were not available. If WebLGY is not available, the SAR may issue the NOV outside of WebLGY, entering the NOV in WebLGY when the system is back online. A note should be entered documenting that this procedure was followed.

### **NOV Timeliness**

VA is committed to providing expeditious service to Veterans. It is advantageous to Veterans to receive the NOV well ahead of the scheduled loan closing.

The SAR must issue the NOV within five business days from the time the completed appraisal is uploaded into WebLGY, unless there is a delay beyond the SAR's control. Any delays should be explained in WebLGY notes.

Be In Mortgage is responsible for resolving any timeliness problems involving authorized agents and branch personnel. The RLC should be notified when appraiser timeliness expectations are not being met.

### **Validity Period**

NOV is valid for 6 months.

If a Veteran is under contract during the validity period, processing may continue until that transaction is either completed or terminated.

On a case-by-case basis, VA may extend validity periods when requests for such actions are reviewed and found to be appropriate under prevailing conditions.

### **NOV Conditions**

All conditions included on an NOV must be satisfied prior to guaranty of the loan by VA.

While Be In Mortgage may require additional documentation over and above VA requirements, often referred to as “overlays”, items that are not required by VA must not be included on the NOV.

There is a table in the 26-7 that lists the conditions that appear on the NOV form, with details about when each condition is required on the NOV. The NOV letter format is provided in Appendix A at the end of chapter 13 in VA’s Handbook.

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## **Modular Home Eligibility (Discontinued)**

Modular homes are eligible, provided they are covered by a HUD structural engineering bulletin, or constructed to the standards of the State in which the factory is located and receive that State’s approval certification. They are delivered to the building site in sections, but are not attached to a chassis supported by wheels. Modular homes must meet all state and local building codes.

The appraiser will typically treat modular housing and on-frame modular housing in the same manner as conventionally built housing. The appraiser must select comparable sales that would be competing properties on the market which may include modular homes, conventionally built homes, or manufactured homes.

On-frame modular housing is factory built on a permanent chassis. The appraiser must ensure that:

- all running gear is removed,
- the crawl space is covered by a vapor barrier with vented permanent masonry skirting,
- the skirting has an access hatch, and
- the home is secured to a permanent foundation that meets state and local requirements.

An appraisal request involving modular construction must include either

- evidence of coverage by a HUD structural engineering bulletin, or
- a certification of approval by the State in which the unit is fabricated. This requirement will be made a condition of the VA value notice if not submitted with the appraisal request.

## **Minimum Property Requirements**

VA has established Minimum Property Requirements (MPRs) to protect the interest of veterans, lenders, servicers, and VA. Properties must meet these requirements prior to guaranty of the loan by VA. 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.

The appraiser will prepare origination appraisals “subject to” the completion of any MPR repairs that appear to be needed and include the contributory value of the completed repairs in the estimated market value. Liquidation appraisals are prepared “as-is”. Appraisers must not prepare appraisals subject to inspections. The appraiser must recommend repairs, not inspections, for any conditions that do not appear to meet MPRs.

The appraiser should not recommend repairs of cosmetic items, items involving minor deferred maintenance O I O or normal wear and tear, or items that are inconsequential in relation to the overall condition of the property. While minor repairs should not be recommended, the appraiser should consider these items in the overall condition rating when estimating the market value of the property.

Detached sheds or other improvements on the site may be included in value if the improvement meets VA’s MPRs. If the improvement does not meet MPRs it must be excluded from value. If the improvement presents a health or safety hazard, the appraisal must be completed subject to the removal of the improvement.

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 the 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 the required repairs.

Properties not likely to meet VA’s MPRs (list not all inclusive):

- An area subject to regular flooding, whatever the reason, whether or not it is located in an SFHA (Special Flood Hazard Area) designated by FEMA
- A Coastal Barrier Resources System Area. The CBRS is a system of protected coastal areas that includes oceanfront land, the Great Lakes, and Other Protected Areas (OPAs).
- 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, if 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 soils), if 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.
- Any property ownership not fee simple.
- Properties without a permanent heat source.
- Properties without domestic hot water, a continuing supply of safe and potable water for

- drinking and other household uses.
- Properties without sanitary facilities and a safe method of sewage disposal.

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## FEMA Declared Disaster Area Policy

The FEMA Declared Disaster Area Policy applies to all areas eligible for individual assistance due to a federal government disaster declaration.

If the subject property has had an appraisal completed prior to a declared disaster, prior to the end date of a declared disaster, or after a declared disaster with no comments addressing the post-disaster condition of the property from the appraiser, a 1004D or another form of disaster inspection, with photos and comments regarding the impact of the disaster to the property (if any), must be obtained.

The type of disaster will determine whether an interior/exterior or just an exterior inspection is required. If the event was such that the damage will be visible from the street (ex: tornado), an exterior-only inspection is permitted. If the event was one that could cause damage that must be viewed from the interior (for example, flooding), an interior/exterior inspection is required. The inspection may be performed once the risk of damage has passed.

### Appraisal Completed – Loan Not Closed Prior to Disaster

If the property was appraised on or before the date of the declared disaster and not closed prior to that date, the following items must be submitted with the VA guaranty request:

- Lender’s signed and dated certification that “This is to affirm that the property which is security for VA loan number \_\_\_\_\_ has been inspected to ensure that it was either not damaged in the recently declared disaster or has been restored to its pre-disaster condition or better.”
- Veteran’s signed and dated certification that “I have inspected the property located at

\_\_\_\_\_ and find its condition now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses and now wish to close the loan.”

### Decrease in Value After Disaster

If there is an indication that the property value may have declined due to the disaster, despite the completion of repairs, Be In Mortgage must have the VA-assigned appraiser perform a new appraisal. The payment of the appraiser’s fee for this service will be a contractual matter between the buyer and seller.

IRRRs without an appraisal require a property inspection when the subject property is located in a Presidential ly Declared Disaster area, if the closing will occur within 90 days of the disaster incident period end date. The property inspection requirement may be satisfied with the Fannie Mae form 2075 (exterior only property inspection report) or a property inspection prepared by a qualified inspector. If there is any indication of damage or negative impact on marketability, an interior inspection must be performed. Any repairs that are required as a result of the

inspection must be completed prior to closing.

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## Required Repairs

The cost of required repairs can **only** be paid by the veteran when negotiated into the sales price. Any lender- required repairs **cannot** be paid for by the veteran (any repairs required outside of the NOV-related repairs). Any repairs being paid for by the veteran must be reflected in the Purchase Agreement. If the contract reflects “as is” and the NOV subsequently reveals required repairs, an addendum to the contract will be required identifying the repairs, and who is responsible to pay for them.

## Acreage

No maximum number of acres; however, property cannot have agricultural use and comparable sales must have similar acreage.

## Zoning

The property must comply with all applicable zoning ordinances.

If the property does not comply with current zoning ordinances, but is accepted by the local authority, the appraiser must describe the property as “Legal Non-Conforming” and comment on the property’s marketability and any adverse effect this classification may have on value. The appraiser must state whether the dwelling may be legally rebuilt if destroyed.

## Local Housing / Planning Authority

If the property 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 describe the requirements in the appraisal report.

If the appraiser is aware of any repairs that will be required due to local code enforcement, for example, the removal of unpermitted improvements, the appraiser must prepare the appraisal subject to these repairs.

## Properties Listed for Sale within the Last 6 Months (Refinances)

Cash out transactions require the MLS to be cancelled at least six months prior to disbursement or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to loan disbursement. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required. These properties pose an increased risk to Be In Mortgage, therefore may be subject to additional documentation and/or limitations.

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## Attic

Fee appraisers must view the interior of readily accessible attic spaces. The appraiser is not required to climb into the attic. The appraiser is not required to move insulation or personal

items that may hinder visibility. If there is no scuttle or other access to the attic, there is no requirement to provide access.

If a deficient condition (for example, a water-stained ceiling or insufficient ventilation) is apparent, the appraiser must prepare the appraisal subject to the repair.

## **Crawl Space**

Fee appraisers are required to view, but not enter, the crawl space.

The crawl space must:

- have adequate access,
- be clear of 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 must be corrected.

Not all houses with a vacant area beneath the flooring are considered to have a crawl space; particularly if no mechanical systems are present, and there is no reason for access. If the area is properly vented and free of moisture, this condition is acceptable.

## **Roof**

The covering must prevent moisture from entering and provide reasonable future utility, durability, and economy of maintenance. The appraiser must visually examine the roof to determine whether deficiencies present a health and safety hazard or do not allow for reasonable future utility. The appraiser is not required to climb onto the roof. The roof should have a remaining physical life of at least two years.

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

When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report how the condition of the roof was determined. For example, a roof may be covered with snow yet the appraiser observed no evidence of leaks and documentation was provided to the appraiser verifying the age of the roof. If available, other methods such as drones could be utilized to show the area.

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## **Multiple Parcels of Land**

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

More than one parcel or lot may be included as long as all of the property is contiguous and legally marketable. VA does not set a limit on the number of acres that the property may have. If the property being appraised includes more than one parcel, the appraisal must be prepared subject to

placing all of the parcels on one deed.

If a property is divided by a road or waterway, the appraiser must determine the effect on the utility of the property to ensure that the property is a readily marketable, real estate entity.

### **Property Seasoning**

New Construction/less than 1 year old versus existing construction will be determined by the date on the Certificate of Occupancy.

Purchase transactions **do not** require the seller to be in title for a minimum of 90 days to be eligible for VA financing. However, a 12-month chain of title is required on all transactions. Properties that may have multiple title transfers within the last year may require additional documentation or could be deemed ineligible for sale to Be In Mortgage.

### **Termite Inspections**

Appraisers must report any apparent evidence of wood destroying insect infestation, fungus growth or dry rot. The appraisal must be prepared subject to a wood destroying insect inspection if any infestation or damage is apparent, and all damage must be repaired.

If the property is located in an area on the Termite Infestation Probability Map (below) where the probability of termite infestation is "very heavy" or "moderate to heavy" on origination appraisals, a wood destroying insect inspection report must be required on the NOV.

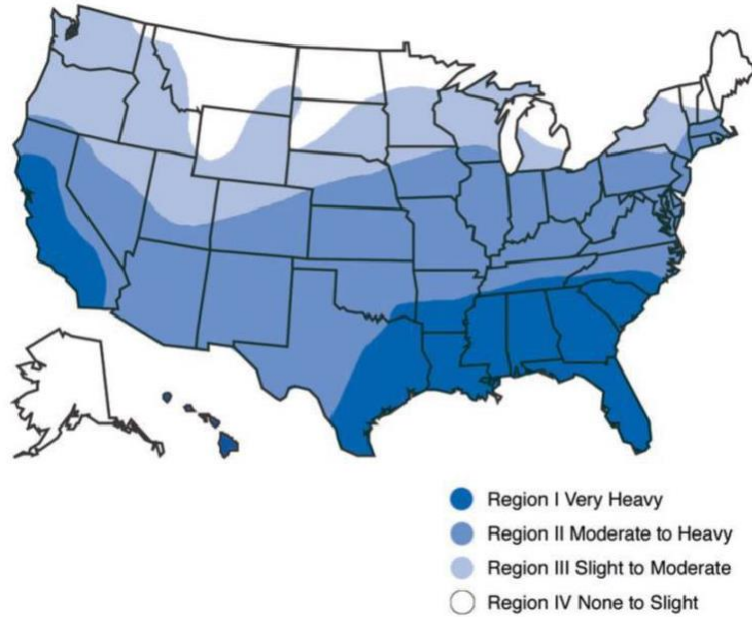
The specific borders for some of the zones are difficult to determine from this map. Additional information may be found on [VA's local requirements by state webpage](#).

Small sheds or other detached, non-residential improvements which were not given value on the appraisal report may be excluded from the inspection report.

A termite inspection is not required on units in high-rise condominiums (units are stacked vertically). For villa and townhome style condominiums where units are side by side, not stacked, if located in a "very heavy" or "moderate to heavy" zone, a termite inspection must be required on the NOV unless the homeowner's association provides evidence of treatment.

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### **Termite Infestation Probability (TIP) Map**



## Water and Sewerage Systems Requirements

The property must have:

- a continuous supply of safe and potable water for drinking, bathing, showering and sanitary uses,
- hot water,
- sanitary facilities, and
- a safe method of sewage disposal.

Given the importance of safe drinking water, appraisers must ensure that accurate water supply information is reported in the appraisal and the Staff Appraisal Reviewer (SAR) must condition the NOV appropriately. If the appraiser is aware of any issues regarding the water supply, the appraiser must comment in the appraisal.

Appraisers must comment and adjust for any market reaction discovered as a result of water contamination, as well as any environmental stigma.

Proper mitigation of lead contaminated water must include a central filtering system which filters all water that could serve the property's occupants. When public water must be filtered, the requirements for [individual water filtering](#), including a Veteran's acknowledgement, must be applied. Information about water filtration is available [here](#).

If public water or sewer is available and the local authority mandates connection, the appraiser must prepare the appraisal "subject to" connection.

For properties on individual water and/or sewer (septic) systems where well water or septic tests or certifications were required, the validity of those tests or certifications is 90 days unless the local health authority indicates otherwise.

All NOVs issued on properties served by individual water and/or sewer systems will require NOV



Item #6 to be checked for connection to public water or public sewer only if the local building, planning, or health authority requires such connection.

### **Individual Water Supply System (Well)**

Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the guidelines established by the Environmental Protection Agency (EPA) will apply.

The appraiser must comment in the appraisal and the Veteran must acknowledge awareness in writing when the water to the property is:

- supplied by dug wells, cisterns, or holding tanks used in conjunction with water purchased and hauled to the site,
- provided with a mechanical chlorinator,
- provided through springs, lakes, rivers, sand-point or artesian wells, or
- supplied with a rainwater catchment system.

The appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures.

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If there is knowledge that the well water may be contaminated;
- If the appraiser suspects a problem and requires a water test;
- When there is evidence of:
  - Corrosion of pipes (plumbing)
  - Areas of intensive agriculture within ¼ mile
  - Coal mining or gas drilling operations within ¼ mile
  - Dump, junkyard, landfill, factory, gas station, or dry-cleaning operation within ¼ mile
  - Unusually objectionable taste, smell or appearance of well water

### **Shared Well**

A shared well refers to a well that serves two or more properties. The shared 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,
- protected by a permanent easement, which allows for maintenance and repair, and
- maintained under a well-sharing agreement containing provisions for the cost of repairs that is binding on the signatory parties and successors in title and has been recorded in public records.

The appraiser must report that the property is served by a shared well and note any readily apparent deficiencies. Be In Mortgage must obtain the shared well agreement and review the agreement to determine eligibility.

The Shared Well agreement must be fully executed (and either recorded or in recordable form) and provided in the loan submission package at time of underwriting. In addition, the

following requirements must be met:

- The quality of the water is found acceptable (documentation from the health department or local authority)
- The well meets local code
- The water supply has sufficient volume or capacity to service all of the properties
- There must be a permanent easement which allows access for maintenance and repair

### Water Testing

Water testing is required in **all** of the above cases. 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 otherwise 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 test completed.

Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the guidelines established by the Environmental Protection Agency (EPA) will apply. The water must be checked for the following contaminants:

- Lead (First Draw)
- Nitrate (as Nitrogen)
- Nitrite (as Nitrogen)
- Total Nitrate/Nitrite
- Total Coliforms
- Fecal Coliforms or E Coli

The Minimum Water Quality Testing Parameters for HUD reflecting the Maximum Contaminant Levels allowed and the required treatments is posted on the Be In Mortgage website.

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### Water Filtration System

If the property has a water filtration system, the Veteran must acknowledge in writing that the water must be continuously treated as required by the local health authority to be considered safe for human consumption and for this to be effective, the system must be inspected and maintained to include filter replacements per the manufacturers' recommendations.

**NOTE:** *An individual water purification system is a system that is needed to make the water safe and meet code when the individual water supply is unsafe for human consumption unless the system is operating properly. This is not a system that is installed to improve the taste or softness of the water. Properties with individual water purification systems can be identified by*

### Individual Sewage System (Septic)

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

Individual pit privies are acceptable where such facilities are customary and installed in accordance with the recommendations of the local health authority.

A well test (or inspection) is required under the following circumstances:

- If mandated by state or local jurisdiction;
- If the appraiser suspects a problem with the system and requires a test;
- Soil percolation problems are common in the area; or
- If there is knowledge there is a problem with the system
- May be required in cases where the property has been vacant
- If inspection is required certification must be provided by one of the following:
  - Health authority approval from the local municipality;
  - A licensed sanitarian

### **Community Water Supply/Sewage Disposal**

A community water/sewage system refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association. The appraiser must note that the property is on a community water/sewage system in the appraisal report.

The water supply must be sufficient in size for the project. Water quality must be approved by the local or state health authority. The sewage system must be adequate in size and properly operated and maintained to prevent it from becoming a menace to public health. Be In Mortgage must obtain evidence of approval of the facilities by the local or state health authority.

A trust deed is required if the local or state authority that approved the system does not:

- enforce compliance with its requirements,
- fix rates, and
- provide prompt relief in case of deficient operation, service, or exorbitant rates.

If the property is serviced by a community well or sewage disposal system, VA requires documentation such as the articles of incorporation or bylaws and/or Community Well agreement that will support the following:

- Service will be continuous and cannot be stopped and/or interrupted.
- The rate of the service, and that it is reasonable
- Identify the property/our borrowers have ownership rights
- The maintenance and expense of the well are properly managed
- That the well has been tested within the last year and meets local or state authority water quality requirements (the most recent test must be provided)
- Evidence of approval of the facilities by the appropriate State or local public utility and/or health authority

The Community Well agreement must be fully executed (and either recorded or in recordable form) and provided in the loan submission package at time of underwriting.

### **Distance Between the Well and the Septic System**

VA has no specific minimum property setback distance between the well and the dwelling or

property line. Additionally, VA has not established a minimum acceptable "separation distance" between an individual well and a septic tank/leach field. However, there should be adequate separation distance between these facilities to preclude contamination of the well water by the septic tank or its leach field. Determinations such as minimum distance from property lines or "acceptable" separation distance between well and septic tank (or septic field) are typically made by the local/county building, planning, and/or environmental health authority.

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## **Access to Property**

Each property must be provided with safe and adequate pedestrian or vehicular access from a public or private street. All streets must have an all-weather surface. Private streets must be:

- Protected by a permanent easement, and
- Maintained by a homeowner's association or joint maintenance agreement.

### **Maintenance Agreement**

If a maintenance agreement does not exist, every effort should be made to obtain the agreement of all owners of properties on the private road to share the cost of maintaining the road.

In the absence of an agreement signed by all owners, particularly those of properties located between the subject property and the public road, an agreement by a Veteran to accept responsibility for a disproportionate share of the road must be reasonable in regards to the distance from the subject property to the public road. The RLC of jurisdiction must be contacted in order to approve the agreement. VA will not accept an agreement in which the Veteran accepts sole responsibility for maintaining an unreasonable distance of the private road as this could create a burden for the Veteran as well as future property owners.

If private street maintenance is covered in the organizational documents for a planned unit development (PUD) or condominium, or by state law, the NOV may be issued without a requirement for further documentation.

## **Access to Living Unit**

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

## **Access to Rear 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:

- Alley
- Easement
- Passage through the subject dwelling

## **Space Requirements**

Each living unit must have sufficient space for:

- living,
- sleeping,
- cooking and dining, and
- sanitary facilities.

Non-standard house styles which may be unique in a market area, for example, log houses, earth sheltered houses, dome houses, and houses with lower-than-normal ceiling heights, must meet any local building codes. The appraiser must consider the marketability of the home in the appraisal.

### **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.

### **Encroachments**

The appraiser must report any apparent encroachments of the subject's dwelling, garage, or other improvements onto an adjacent property, right-of-way, utility easement, or building restriction line and any apparent encroachments of a neighboring dwelling, garage, or other improvements onto the subject property.

The appraiser must notify the lender of the encroachment promptly to provide as much time as possible to resolve the issue.

### **Drainage and Topography**

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.

The appraiser must report any danger due to topographic conditions, such as mudslides from adjoining properties, falling rocks, or avalanches.

### **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.

### **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. If the property is within 100 feet from the nearest boundary of a high voltage electric transmission line easement, the appraiser must comment in the appraisal.

## Utilities

Each living unit must have electricity for lighting and for necessary equipment. Since the appraiser does not perform any operational checks of mechanical systems or appliances, the utilities are not required to be turned on when the appraiser visits the property. Any visible frayed or exposed electrical wires must be repaired.

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

- units in a two to four-unit property may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit, and
- units under separate ownership may share connections from the main to the building line when those connections are protected by an easement 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 a permanent right of access for maintenance and repair of the utilities without trespassing on adjoining properties.

## 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.

The appraiser must notify Be In Mortgage promptly when a hazard is identified, so that the eligibility of the property may be addressed, and depending on the nature of the hazard, to provide as much time as possible to resolve the situation.

## 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. The integrity of the envelope of the structure must not be compromised.

Appraisals must be prepared “subject to” the repair of any defective conditions with the contributory value of the completed repair included in value.

Examples of defective conditions include:

- defective construction,
- poor workmanship,
- evidence of continuing settlement,
- excessive dampness,
- leakage,
- decay, and

- termites.

Mechanical systems must be:

- safe to operate, and

## Mechanical System

- protected from destructive elements.

While the appraiser is not required to test the operation of any mechanical systems, the appraiser should recommend the completion of any repairs that are readily apparent.

### Heating

Heating must be permanently installed and maintain a temperature of at least 50 degrees Fahrenheit in areas with plumbing.

If the dwelling will have a permanently installed, non-electric, non-vented fireplace or other non-vented space heater:

- the NOV must be conditioned to require the Veteran's written acknowledgement that the dwelling contains a non-vented fireplace or space heater which has not been inspected by VA, and
- a licensed heating/air conditioning contractor must certify in writing that the non-vented appliance is equipped with an approved Oxygen Depletion Sensor and meets the local building authority requirements (if there are no local requirements, the installation must meet the manufacturer's recommendations).

In areas with a mild climate, heating may not be required. Air conditioning is not required, but if installed, must be operational. If any needed repairs to the air conditioning equipment are apparent, the appraiser must prepare the appraisal subject to the repair of the air conditioning system by a licensed heating/air conditioning contractor.

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### Leased Mechanical Systems and Equipment

The appraiser must not include the value of any leased mechanical systems or any other leased equipment in the estimated market value as leased items are not suitable security for a loan. This includes but is not limited to fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other alternative energy equipment.

The appraiser must identify leased items in the appraisal report. Some leases may encumber the title making the property less than fee simple. The appraiser must consider any detrimental effect on the value of the property if the leased items are removed by the lessor.

See [Solar Leases and Power Purchase Agreements](#) for additional requirements.

### Basements

The appraiser must report any dampness, or obvious structural problems that might affect the health



and safety of occupants or the soundness of the structure.

If a sump pump is present, the appraiser must recommend repair if it is not hard-wired by an acceptable wiring method or equipped with a factory electrical cord that is connected to a suitable receptacle.

## Swimming Pools

If the pool water contains algae or if the pool has been winterized, and the appraiser cannot determine if the pool equipment is in good working order, the appraiser may complete the appraisal under the extraordinary assumption that the pool and its equipment can be repaired at minimal cost without recommending any repairs.

The appraiser must report readily observable defects including unstable sides and structural issues that would render the pool inoperable or unusable. Depending on the extent of the damage, the appraiser must prepare the appraisal report “subject to” the repair of the pool, and include the pool in value, or prepare the appraisal “subject to” permanently filling in the pool, in accordance with local guidelines, and re-grading the yard, if necessary.

Above-ground pools which include water filtering equipment and decking may be included in value if the appraiser determines that above-ground pools are customary and accepted in the market area.

Swimming pools must be secured in accordance with any local requirements.

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## Burglar Bars

If a property has burglar bars, at least one window per bedroom must have a quick-release mechanism, unless there is an exterior door from the bedroom providing rapid egress.

If the appraiser is not able to confirm that quick release mechanisms are in good working order the appraiser should prepare the appraisal subject to removal of the burglar bars as a safety consideration.

## Lead-Based Paint

If the dwelling or related improvements were built in 1978 or later, the appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements. Interior defective paint on a dwelling built in 1978 or later is normally considered cosmetic.

If the dwelling or related improvements were built before 1978, the presence of lead-based paint must be presumed. Any defective lead-based paint is a safety hazard that must be remediated. The appraiser must clearly identify the location of any defective paint. Economic feasibility is not an acceptable reason for waiver of a repair involving lead-based paint.

Any defective lead-based paint must receive adequate treatment to prevent the ingestion of contaminated paint. **Lead-Based Paint must be abated by a contractor/firm that is an EPA**

**trained/certified professional.** Either:

- the surface requiring treatment must be thoroughly washed, scraped, wire brushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping and loose paint and then repainted with two coats of a suitable nonlead 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 if the integrity of the surface needing treatment cannot be maintained.

The completion of all repairs involving defective lead-based paint must be certified by the VA-assigned appraiser.

## **Radon Gas**

On the NOV that is provided to Veterans with the results of the appraisal, VA recommends testing for radon gas. Radon resistant construction techniques are considered to be applicable for properties located in Radon Zone 1 as designated by the EPA at the following website: <https://geopub.epa.gov/Radon/>. Additional information about radon resistant construction techniques is available at the following link: <https://www.epa.gov/radon/radon-resistant-construction-basics-and-techniques>.

## **Potential Environmental Problem**

The appraiser must report and consider the effect on value of any apparent indication of a potential environmental problem.

Examples include, but are not limited to:

- underground storage tanks,
- slush pits,
- oil and gas wells (operating or abandoned),
- hydrogen sulfide gas emitted from petroleum product wells,
- chemical contamination (including methamphetamine) or
- soil contamination from sources on or off the property.

The appraisal report must be prepared subject to correction of the problem in accordance with any local, state, or federal requirements, or documentation from the appropriate local, state, or federal authority that the condition is acceptable.

## **Stationary Storage Tank**

If the property is located within 300 feet of an above ground or subsurface stationary storage tank with a capacity of 1,000 gallons or more containing flammable or explosive material, the appraiser must report this information in the appraisal. This includes storage tanks for domestic and commercial uses as well as automotive service station tanks.

The appraiser should use comparable sales in similar locations, if available. The SAR must include the information on the NOV, requiring the Veteran's signed acknowledgement to ensure the Veteran is fully informed of the situation.

## Properties Near Airports

Appraisers must be familiar with noise zones and safety-related zones surrounding airports in areas where they perform appraisals for VA. Whenever a property is located near an airport, appraisers must consider the effect on value of any airport noise and select comparable sales, if available, with the same airport influence.

For existing or new construction located in a Clear Zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located near the end of an airport runway and this may have an effect upon livability, safety, value and marketability of the property."

For all properties located in an accident potential zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located in an accident potential zone and this may have an effect upon the livability, safety, value, and marketability of the property."

Airport noise zone maps may be found [here](#).

## Special Flood Hazard Areas

Properties located in a FEMA Special Flood Hazard Area (SFHA) must be covered by a flood insurance policy. Properties located in a SFHA are not eligible if flood insurance is not available.

Based on the appraiser's knowledge of the market area, properties in areas that are subject to regular flooding are not eligible, whether the area has been designated an SFHA or not.

While appraisers must provide flood zone information on the appraisal report, flood zone maps do not typically indicate the location of specific properties. Be In Mortgage is responsible for verifying the flood zone information.

At the Veteran's request, non-residential improvements such as detached garages and small sheds may be excluded from the flood insurance policy if they are also excluded from the appraised value. The cost of flood insurance with and without coverage for the detached building should be compared as excluding a detached building may not be worthwhile.

## Planned Unit Developments (PUDs)

PUDs do not require VA Approval. The estate must not be less than fee simple, title must not be subject to unreasonable restrictions on use and occupancy, and any mandatory homeowner association dues must be subordinate to the VA-guaranteed mortgage. In addition, the AUS findings must reflect the property as a PUD and the PUD rider is required to be executed at closing.

## New Construction

To be eligible for appraisal as "new construction", the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering,

appliances, fixture sand equipment, etc.). Neither construction exhibits nor VA or HUD inspections during construction are required for properties appraised as “new construction”; however, the builder must be on the VA approved builder list. **Properties that are proposed or under construction are ineligible for financing with Be In Mortgage.**

## Stages of Construction

### ***Proposed/Under Construction***

Proposed and under construction properties are processed under the same procedures, and include:

- properties appraised from plans and specifications,
- properties appraised from a completed model, and
- manufactured homes to be placed on a permanent foundation.

**NOTE:** *City Lending Inc does not lend on properties that are proposed/under construction.*

### ***New Construction***

Properties that have not been previously occupied and are less than 1-year old based on the certificate of occupancy date, and properties which are complete except for customer preference items (floor coverings, interior finishings, appliances, fixtures or other equipment).

### ***Existing Construction***

Properties that have been complete for over 1 year, based on the certificate of occupancy date, and properties that are less than 1 year old that have been previously occupied.

## Construction Warranty

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 acknowledgment 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 26-1859, 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

## Radon Gas

On new construction cases, the builder must certify that radon resistant construction techniques

were used, and that construction meets any local or state building codes for radon control.

### Termite Inspections on New Construction Properties

VA requires a termite inspection on new construction properties. The builder must complete the form HUD- NPCA-99-A, Subterranean Termite Protection Builder’s Guarantee, providing a 1-year guarantee and indicating that one of the following accepted treatment methods was used:

- Bait system, or
- Wood (pressure preservative treated wood as outlined in ML 01-04). Under "Type of Treatment", check the box titled "wood" and add statement "Complies with Mortgagee Letter 2001-04 for use of preservative treated wood", or
- Soil (Chemical Soil treatment) - HUD-NPCA-99-B is to be used with form HUD-NPCA-99-A only if the property is treated with a soil termiticide. The licensed pest control company is responsible for completing form HUD-NPCA-99-B, as appropriate, and providing it to the builder who is responsible for distribution. Please see ML99-03, or
- Building using steel, masonry or concrete building components (with only minor interior wood trim and roof sheathing.). Under "Type of Treatment" on form the builder is to add in the space to the right of the box titled "Soil" the statement "Masonry (steel or concrete) construction, no treatment needed. Complies with ML 01-04."

The use of post-construction soil treatment where a chemical termiticide is applied only around the perimeter of the foundation is NOT acceptable.

**NOTE:** All chemical soil treatments, bait systems, and chemical wood treatments must be approved by the Environmental Protection Agency (EPA) and applied in accordance with the EPA

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## Condominiums

*All condos must be approved by VA and meet VA MPRs. A printout from VA’s CPB (Condo/PUD/Builder) is required to evidence the condominium project is approved by VA. Site condominiums are included as VA **does not** recognize these as single-family dwellings.*

*If the word “condo” appears in the legal description, the property will be deemed a condo.*

### **Condominium Development Accepted by VA**

All condominium units, including site condominiums, must be in a condominium development that has been accepted by VA prior to loan guaranty. SARs receiving an appraisal for a condominium unit in a development that has not been at least conditionally accepted by VA may not issue the NOV.

Ensuring that the condominium is accepted by VA before ordering the appraisal is recommended to avoid an unnecessary appraisal fee in the event that the condominium is not accepted by VA.

VA no longer accepts HUD/FHA condominium approvals, as the condominium approval requirements differ from VA’s requirements. VA does not perform “spot” approvals of individual condominium

units within a condominium development.

Be In Mortgage will only approve loans where the project is VA approved.

<https://vip.vba.va.gov/portal/VBAH/Home>

When the required documents are uploaded, the RLC will request a review by VA's legal counsel. The RLC will notify the requester of the results of the review and update the status of the condominium in WebLGY.

## Appraisal Requirements

In most cases, the appraiser will prepare the appraisal on Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report. In the Condominium Appraisal Report, the appraiser will:

- indicate which utilities are included in the monthly homeowner's association fee,
- 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 similar condominium developments,
- recommend a fair assessment if the current assessment is considered inadequate, and
- report any known pending litigation involving the subject condominium development or its homeowner's association.

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## Wood-Destroying Insect Reports

A termite inspection is not required on units in high-rise condominiums (units are stacked vertically). For villa and townhome style condominiums where units are side by side, not stacked, if located in a "very heavy" or "moderate to heavy" zone, a termite inspection must be required on the NOV unless the homeowner's association provides evidence of treatment. See [TIP map](#).

## Insurance Requirements

For condominiums, in addition to \$1 million Liability Insurance / Fidelity Bond Coverage, Be In Mortgage requires the borrower to purchase an HO-6 Insurance Policy.

### Hazard/Liability Insurance (Project Approval)

The homeowners' association is required to:

- Maintain adequate "master" or "blanket" property insurance in an amount equal to 100% of current replacement cost of the condominium exclusive of land, foundation, excavation and other items normally excluded from coverage;
- Maintain comprehensive general liability insurance covering all of the common elements, commercial space owned and leased by the owners' association, and public ways of the condominium.

If the HOA does not maintain 100% coverage, the unit owner may not obtain "gap" coverage to meet this requirement.

### HO-6 (Loan Level)

The unit owner is required to obtain a “walls-in” coverage policy (HO-6 or its equivalent) if the master or blanket policy does not include interior unit coverage. The “walls-in” coverage must be sufficient, as determined by the insurer, to repair the interior of the condominium unit, including additions, improvements, and betterments to restore the unit to its original condition prior to the claim event.

### Fidelity Bond / Fidelity Insurance (Project Approval)

Fidelity Bond Insurance may also be known as “Employee Dishonesty” or “Crime Policy”. For all new and established projects with more than 20 units, the **homeowner’s association** is required to obtain and maintain this insurance.

- The homeowner’s association must maintain this insurance for all officers, directors, and employees of the association and all other persons handling or responsible for funds administered by the association;
- The coverage must be no less than a sum equal to three months aggregate assessments on all units plus reserve funds unless State law mandates a maximum dollar amount of required coverage.

If the homeowner’s association engages the services of a management company, the homeowner’s association must require the **management company** to maintain Fidelity Bond/Fidelity Insurance coverage for its officers, employees and agents handling or responsible for funds of, or administered on behalf of, the owners association. The required coverage must meet the following requirements:

- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy specifically names the management company as an agent or insured;
- OR**
- The homeowner’s association’s Fidelity Bond/Fidelity Insurance policy includes a “Covered Employee” endorsement that states the person employed by the management company performing the services directed and controlled by the homeowner’s association is covered under the homeowner’s association’s policy.

In no event may the aggregate amount of such bonds be less than a sum equal to 3 months aggregate assessments on all units plus reserve funds unless State law requires a maximum amount of required coverage.

### Flood (Project and Loan Level)

The homeowners’ association is required to obtain and maintain:

- Coverage equal to the replacement cost of the project less land costs or up to the National Flood Insurance Program (NFIP) standard of \$250,000 per unit, whichever is less;
- The maximum limit of building insurance coverage of a residential condominium building in a regular program community is \$250,000 times the number of units in the building (not to exceed the building’s replacement cost);
- The homeowner’s association, not the borrower or the individual unit owner, is responsible for obtaining and maintaining adequate flood insurance under the NFIP on buildings located in a Special Flood Hazard Area (SFHA); and

The flood insurance coverage must protect the interest of borrowers who hold title to an individual

unit as well as the common areas of the condominium project.

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## Site Condominiums

A detached condo is not necessarily a site condo. Site condominiums are defined as:

- Single family totally detached dwellings (no shared garages or any other attached buildings such as archways or breezeways), **and**
- Are encumbered by a declaration of condominium covenants or condominium form of ownership, **and**
- The condominium unit consists of the entire structure as well as the site and air space, and are not considered to be common areas or limited common areas, **and**
- Insurance and maintenance costs are totally the responsibility of the unit owner, **and**
- Any common assessments collected will be for amenities outside of the footprint of the individual site.

### Site Condos in all States

Site condos not located in the state of Michigan should continue to be considered as condominiums and meet all applicable requirements. Project approval **is required** for site condominiums in all states other than MI.

**NOTE:** *These cases must also be run through DU as Condominiums*

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## Condominium Conversions

Condo conversions are eligible if the following conditions are met:

- The conversion occurred more than one year before the borrower(s) application for a mortgage;
- Is an established project.
- The Homeowner's Association has been turned over to the unit owners for no less than 12 months.
- Either the borrower or co-borrower were tenants of that rental project prior to conversion; and
- The project meets all other VA requirements for approval and is VA Approved.

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## Credit

*All documentation must be from a reasonably reliable third-party source and must satisfy the requirements of the Ability to Repay Rule.*

## Verification Requirements for Debts and Obligations

All debts and obligations of the borrowers' must be verified and rated. Obtain a credit report with all



the information for all credit bureaus.

For obligations not included on the credit report which are revealed on the application or through other means, a verification of payment history showing the obligation or other written verification must be obtained directly from the creditor, including the payment amount and outstanding balance. Accounts listed as “will rate by mail only” or “need written authorization” must be separately verified.

When a pay stub(s) or LES indicates an allotment, the nature of the allotment must be investigated to determine whether the allotment is related to a debt or other obligation(s). Examples may include 401K obligation or repayment, child care, child support, or other.

For obligations that have not been rated on the credit report or elsewhere, the verification and rating must be obtained directly from the creditor. Include a written explanation for any obligation that is not rated.

Resolve all discrepancies prior to closing. If the credit report, deposit verification, bank statement, or pay stub(s) reveals any debts or obligations which were not divulged by the borrowers):

- obtain clarification as to the status of such debts from the borrower(s), then
- verify any remaining discrepancies with the creditor.

Credit reports and verifications must be no more than 120 days old (180 days for new construction). For automatically closed loans, this means the date of the credit report or verification is within 120 days of the date the note is signed (180 days for new construction).

ECOA prohibits requests for, or consideration of, credit history and liability information of a spouse who will not be contractually obligated on the loan, except:

- if the borrower(s) is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.

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If either of these situations is applicable, Be In Mortgage must:

- Obtain a credit report on the non-purchasing spouse in addition to the Veteran’s credit report.
- Consider the spouse’s credit history in reaching a determination. A Veteran borrower with a satisfactory credit history may be considered a satisfactory risk even though the non-purchasing spouse’s credit may be unsatisfactory.
- Include the monthly payment of the non-purchasing spouse’s debts on the VA Form 26-6393, *Loan Analysis*. For debts such as judgments and unpaid collection accounts, lenders should consider the Veteran’s capacity to address the debt(s).
- Develop the facts surrounding any unsatisfied judgments on the spouse’s credit report, such as where the judgment was filed and whether the parties were married to one another at the time and secure a competent legal opinion whether the judgment may become a lien against the property.
- Exclude the monthly payment on the spouse’s debts from the loan analysis when a reliable source of income for the spouse is verified to reach such a conclusion which is voluntarily

provided.

- Document VA Form 26-6393, *Loan Analysis*, with an explanation of facts and determination when concluding credit worthiness of the Veteran or excluding obligations of the non-purchasing spouse.

## Verification of Alimony and Child Support Obligations

The payment amount of any alimony and/or child support obligation of the borrower must be verified.

Documentation of a borrower's divorce must not be requested unless it is necessary to verify the amount of any alimony or child support liability indicated by the borrower. If, however, in the routine course of processing the loan, Be In Mortgage encounters direct evidence (such as, in the credit report) that a child support or alimony obligation exists, we should make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

Spousal support may be treated as a reduction in income on VA Form 26-6393, *Loan Analysis*. Child support payment is treated as a liability on VA Form 26-6393, *Loan Analysis*.

## Analysis of Debts and Obligations

Significant debts and obligations include:

- debts and obligations with a remaining term of 10 months or more; that is, long-term obligations, and
- 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.

**Example:** Monthly payments of \$300 on an auto loan or lease with a remaining balance of \$1,500, even though it should be paid out in 5 months, would be considered significant. The payment amount is so large as to cause a severe impact on the family's resources during the first, most critical, months of the home loan.

Determine whether debts and obligations which do not fit the description of "significant" should be given any weight in the analysis. They may have an impact on the borrower's ability to provide for family living expenses.

If a married Veteran wants to obtain the loan in his or 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 or her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a borrower. This includes debts that are now delinquent.

## Borrower(s) as Co-Obligor/Co-Signor on a Loan

The borrower(s) may have contingent liability based on co-signing a loan. The loan payments may be

excluded from the monthly obligations factored into the net effective income calculation in the loan analysis if:

- there is evidence that the loan payments are being made by someone else and the obligation is current, and
- there is not a reason to believe that the borrower will have to participate in repayment of the loan.

## Pending Sale of Real Estate

A borrower(s) may have a current home and the sale of the real property is needed to complete the transaction. Be In Mortgage may disregard the payments on the outstanding mortgage(s) and any consumer obligations which the Veteran intends to clear if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose. See [Pending Sale of Real Estate](#) in the Assets chapter for further detail.

## Secondary Borrowing

If the borrower(s) plans to obtain a second mortgage simultaneously with the VA-guaranteed loan, include the second mortgage payment as a significant debt. From an underwriting standpoint, the Veteran must not be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

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## 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, a monthly payment does not need to be considered.

If a student loan is in repayment or scheduled to begin within 12 months from the date of the VA loan closing, the anticipated monthly obligation must be considered in the loan analysis, and the payment from the applicable option below must be utilized. Calculate each loan at a rate of 5.0% of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5.0% = \$1,250 divided by 12 months = \$104.17/month is the monthly payment for debt ratio purposes).

- The payment(s) reported on the credit report for each student loan must be used if the reported payment is greater than the threshold payment calculation above; **or**
- If the payment reported on the credit report is less than the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan. The statement(s) must be dated within 60 days of VA loan closing and may be an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer. At the underwriter's discretion, the credit report may need to be supplemented with this information.

## Loans Secured by Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401(k) loans, or other) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification. The assets required to

secure a loan(s) may not be included as an asset on the VA Form 26-6393, *Loan Analysis*.

Use the current balance times 60 percent minus the loan balance to equal the usable amount to consider as an asset. A statement would only be necessary to verify the amount used as an asset.

### **Open 30-Day Charge Accounts**

An open 30-day charge account is defined as an account in which the borrower(s) must pay off the outstanding balance on the account every month.

For open 30-day charge accounts, determine if the borrower(s) pays the balance in full each month, and has verified funds to cover the account balance in addition to any funds required for closing costs.

- If there are sufficient funds, the payment does not need to be included in Section D of the VA Form 26-6393, *Loan Analysis*, but the obligation should continue to be listed.
- If there are not sufficient funds, a minimum payment of 5 percent of the balance should be considered included in Section D of the VA Form 26-6393, *Loan Analysis*.

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### **VA Form 26-8937, Verification of VA Benefits**

Generally, [VA Form 26-8937](#), Verification of VA Benefits, is not needed unless the COE or new IRRRL case number indicates to submit the form to VA before closing. However, ask the Veteran and any Veteran co-obligors (including spouse if a Veteran) if he or she:

- will be discharging within the next 6 months from the military and has completed a PEB or MEB and will be filing for VA disability while still on active duty,
- has recently filed for VA disability and compensation, or VA pension, and VA has not yet made a determination,
- would be entitled to receive VA disability benefits, but in receipt of retirement pay,
- has received VA disability benefits in the past, or
- is an unmarried surviving spouse of a Veteran (has applied and/or in receipt of DIC who died on active duty or as a result of a service-connected disability).

If the Veteran falls under one of the above categories, see Verification and Analysis of Income of Recently Discharged Veterans or Veterans to be Discharged from the Military.

When VA returns the form and the form indicates that the borrower has any of the following:

- an outstanding indebtedness of VA overpaid education, compensation, or pension benefits,
- an education or direct home loan in default,
- an outstanding indebtedness resulting from payment of a claim on a prior VA home loan, or
- a repayment plan for any of these debts that is current,

Then one of the following must accompany the loan package:

- evidence of payment in full of the debt, or
- evidence of a current payment plan acceptable to VA and evidence that the Veteran executed a promissory note for the entire debt balance.

VA may find a repayment plan acceptable if:

- the Veteran has been satisfactorily making payments on a repayment plan in effect prior to Be In Mortgage's inquiry,
- the Veteran's overall credit history and anticipated financial capacity after the proposed loan is made indicate a reasonable likelihood that the repayment plan will be honored and the outstanding amount of indebtedness is not so large that it would prevent payment in full, within a reasonable period (approximately 1 year), or
- the case involves unusually meritorious circumstances.

### Examples

Consideration would be given to a Veteran with an outstanding/excellent credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to 2 years.

VA will offer special consideration to a Veteran's claim that he or she was not previously aware of an overpayment of benefits.

## What is the Credit Alert Verification Reporting System (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:

- overpayments on education cases,
- overpayments on disability benefits income, and
- claims paid due to home loan foreclosures which resulted in a debt of the government (Generally type 2 VA loans).

### CAIVRS Procedures

A CAIVRS inquiry must be performed for all borrowers and co-borrowers (Veteran or non-Veteran) on all VA loans, including IRRRLs. The one exception to this policy is that CAIVRS is not required for non-purchasing spouses in community property states.

VA assigns a 10-digit VA lender identification number (ID) to each new lender, then automatically forwards the ID number to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS usually between 7 to 10 business days after receiving its VA ID number assignment.

To register for CAIVRS access for first time users, please use the following [link](#).

Please direct questions concerning problems encountered with accessing CAIVRS to [caivrsadmin@hud.gov](mailto:caivrsadmin@hud.gov).

If the borrower(s) is found to have a delinquent federal debt through CAIVRS, the validity and delinquency status of the debt should be verified by contacting the creditor agency using the contact phone number and case number reflected on the borrower's CAIVRS report.

The creditor agency that is owed the debt can verify that the debt has been resolved. Documentation should be included in the loan file and an explanation must be provided on VA Form 26 -6393, *Loan Analysis*. It is not necessary for CAIVRS to update the number if documentation is included in the loan file.

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Once screening is complete, enter the CAIVRS confirmation code on VA Form 26-6393, *Loan Analysis*, in the space to the right of the "no" block in item 46 for purchase and refinances. For IRRRLs, enter the code on VA Form 26-8923, *IRRRL Worksheet*, in the Notes section.

## Borrowers with Presently Delinquent Federal Debts

The necessary title search must be obtained to ensure there are no encumbrances that would preclude the borrower from obtaining a loan.

When CAIVRS or another source indicates that the borrower has a delinquent Federal debt, the following steps must be taken:

- Suspend processing of the loan application to determine the reason for the non-"A" number.
- Give full consideration to the CAIVRS information, and any subsequent clarifying information or documentation provided, in applying VA credit standards. Any non-"A" number received does not automatically disqualify a Veteran from using their home loan benefit; however, Be In Mortgage must document and justify the approval.
- If a previous VA loan is involved that resulted in a debt to the government (due to foreclosures, short sale, deed in lieu, or other), the borrower may contact the VA Debt Management Center at 1-800-827-0648 or at [dmc.ops@va.gov](mailto:dmc.ops@va.gov) to make arrangements to repay the debt.

Generally, only type 2 VA loans (fifth digit of the VA loan number) result in a debt to VA and are reported. The

Veteran's entitlement cannot be restored until the debt to VA is paid in full.

If the fifth digit of the previous loan number is a type 6 VA loan, there is generally a loss to the government and the loss is not reported to CAIVRS. A loss to VA does not need to be repaid; however, the Veteran's previously used entitlement to guarantee the previous VA loan is not restored until the loss is paid in full.

Each agency has their timeliness requirements before removing a non-"A" CAIVRS finding. This does not

preclude the Veteran or borrower from receiving a VA loan if credit standards are met for VA loans.

**Example:** A borrower suffered a loss on a FHA loan home loan 2 years ago. While HUD has not removed the CAIVRS finding as the 3-year waiting period has not passed for FHA, the lender is eligible to continue processing a VA loan without an "A" CAIVRS finding due to the borrower(s) meeting VA credit guidelines for foreclosures and documented in the loan file.

CAIVRS information is only for the lender's and borrower's use in processing the loan application. Only those persons having responsibility for screening borrowers and/or co-borrowers may use CAIVRS. Any other use is unauthorized.

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## Treatment of Federal Debts

A borrower(s) 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 arrangement have been made between the borrower and the Federal agency.

**Example:** A borrower has delinquent taxes and payments have not been made for several years. The establishment of a payment plan after the CAVIRS finding has been addressed may not be sufficient to show a satisfactory payment arrangement to repay the obligation.

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

## Other Documentation Requirements

### Verification of Institutional Mortgage History

A current payoff is required (on all refinance transactions) and:

- For loans being refinanced within 1 year from the date of closing one following is required:
  - A payment ledger documenting all payments; OR
  - Credit supplement that clearly identifies all payments made within the specific timeframe
- For all purchases and refinances seasoned greater than 1 year one of the following is required:
  - Verification of Mortgage dated within thirty days of closing;
  - If mortgage history is current on credit bureau and last reported date is within sixty days, and payoff shows current, no Verification of Mortgage is required. This applies to subject property and any other properties owned. (If mortgage is included as part of a bankruptcy or is otherwise not reported accurately on credit, a payment history/ledger will be required); OR
  - 12 months canceled checks (front and back) or 12 consecutive month's bank statements showing payments.

Perform a manual downgrade to Refer for any mortgage debt with more than 1x30 day late payment in the past 12 months.

### Verification of Rental Payment History

Typically, no Verification of Rent is required, unless a manual AUS (Refer).

### Land Contract/Contract for Deed

- Copy of Land Contract (recorded or unrecorded)
- Last 12 (or from inception of the contract) consecutive months canceled checks (front and back), or bank statements showing payments.

1.2 **NOTE:** All land contract transactions are considered as refinances.

### Lease with Option to Purchase

- A copy of Lease w/Option Agreement, and
- Last 12 consecutive months canceled checks (front and back), or bank statements showing payments.

**NOTE:** All Lease Options are treated as purchase transactions. Any deposit put down at the time agreement was executed can be used toward the down payment, as long as a copy of the cancelled check can be provided as verification. Rent credit can be applied for the amount of rent paid over and above the standard market rents (as evidenced by a comparable rent

### Verification of Significant Non-Mortgage Debt

Obtain direct verification for significant debts not reported on the credit report. Significant means that the debt has a monthly payment exceeding 2 percent of the stable monthly income for all borrowers.

Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts.

### Account Balances

If a mortgage or other significant debt is listed on the credit report as past due and was last updated  $\geq 90$  days, verify current status of past due debt. However, if rating is currently  $\geq 90$  days past due, manually downgrade to **Refer**.

## **Credit Report Standards**

All credit reports since the date of application must be provided to the Be In Mortgage underwriter for review. If a credit report (or multiple reports) exist that were pulled before the credit report being used to decision the file, the underwriter will condition for a copy of each report and analyze the data as a part of the borrower's credit review.

Credit Reports used in analyzing VA loans must be either Three-file Merged Credit Reports (MCR), or Residential Mortgage Credit Reports (RMCR). The credit report must be less than 120-days old (180 days for new construction). For automatically closed loans and prior approval loans, the date of the credit report must be within 120 days of the date the note is signed (180 days for new construction).

If an RMCR is used, the standards applicable to a RMCR include, but are not limited to, the following:

- The report must be prepared by a reputable credit reporting agency.
- Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.

For each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history. The report must name at least two national repositories of credit records contacted for each location in which the borrower has resided during the most recent 2 years (separate repository inquiries are required for any co-borrowers with individual credit records). The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting



Act (15 U.S.C. § 1681) such as bankruptcies, judgments, lawsuits, foreclosures and tax liens. The RMCR must be an original or electronic report, with no erasures, whiteouts, or alterations. The report must contain a 24-month employment and residency history. VA may decline to accept a credit report which does not meet these standards.

If possible, the cost of the credit report must be listed on the credit report. If not possible, an itemized invoice identifying the borrower(s) is required to verify the cost on the Closing Disclosure Statement (CD) when charging the borrower for the credit report.

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## How to Analyze Credit

The borrower's past repayment practices on obligations is the best indicator of his or 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 (and spouse, if applicable) 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 most recent 24-month rental history and any outstanding, assumed, or recently retired mortgages must be verified and rated. Housing expense payment history is often a primary indicator of how motivated the borrower is to make timely mortgage payments in the future.

### Absence of Credit History

For borrower(s) with no established credit history, base the determination on the borrower's payment record on alternative or nontraditional credit directly from the borrower or creditor in which a payment history can be verified. Absence of a credit history is not generally considered an adverse factor.

It may result when:

- borrower(s) has not yet developed a credit history,
- borrower(s) has routinely used cash rather than credit, and/or
- borrower(s) has not used since some disruptive credit event such as bankruptcy or debt pro-ration through consumer credit counseling.

### Accounts in the Spouse's Name

See [Spousal Income](#) for ECOA and consideration of the spouse's credit history.

### Adverse Credit Data

In circumstances not involving bankruptcy, satisfactory credit is generally considered to be re-established after the borrower(s), have made satisfactory payments for 12 months after the date the last derogatory credit item was satisfied. If a credit report reveals numerous unpaid collections and/or accounts that are not being paid timely, including some which have been outstanding for many years, then once the borrower has satisfied the obligations, and then makes timely payments on subsequent obligations for at least 12 months, satisfactory credit is considered re-established.

### Collection Accounts

Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. 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 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 re-established satisfactory credit in order to be considered a satisfactory credit risk.

While VA does not require that collection accounts be paid-off prior to closing if the borrower's overall credit is acceptable, an underwriter must address the existence of the collection account(s) with an explanation on VA Form 26-6393, *Loan Analysis*, for excluding the negative credit history they represent.

If the collection account is listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount.

### Charged Off Accounts

These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s).

### Disputed Accounts

Be In Mortgage may consider a Veteran's claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment.

The underwriter should document the reason(s) for not considering an account on VA Form 26-6393, *Loan Analysis*.

### Judgments

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.

A history of timely payments would be generally considered as making 12 payments to reestablish credit.

However, in certain cases when a judgment has only been in place for a few months, an underwriter could justify on VA Form 26-6393, *Loan Analysis*, a shorter repayment history if the documentation indicates the borrower immediately addressed the judgment after it was filed and began a repayment plan.

### Payoff of Unpaid or Untimely Debts

For unpaid or debts that have not been paid in a timely manner, pay-off of these debts after the acceptability of a borrower's credit is questioned does not alter the unsatisfactory record of payment. A period of making timely payments on subsequent obligations for at least 12 months, then satisfactory credit is considered re-established.

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**Consumer Credit Counseling Plan**

If a borrower(s) has prior adverse credit and are 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 borrower(s) has good prior credit and are 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 borrower entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

**Bankruptcy**

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

***Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law (Petition under Chapter 7 of the Bankruptcy Code):***

- If the bankruptcy was discharged more than 2 years ago from the date of closing for purchases and refinances, it may be disregarded.
- If the bankruptcy was discharged within the last 1 to 2 years, it is probably **not** possible to determine that the borrower or spouse is a satisfactory credit risk unless both of the following requirements are met:

Requirement	Explanation
1	The borrower(s) had obtained consumer items on credit after the bankruptcy and has satisfactorily made the payments over a continued period.
2	The bankruptcy was caused by circumstances beyond the control of the borrower 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 discharged within the past 12 months, it will generally not be possible to determine that the borrower(s) is a satisfactory credit risk.

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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 all four of the following are met:

Requirement	Explanation
1	The borrower obtained a permanent position after the business failed.

2	There is not any derogatory credit information prior to the self-employment.
3	There is not any derogatory credit information subsequent to the bankruptcy.
4	Failure of the business was not due to the borrower’s misconduct.

***Bankruptcy Petition Under Chapter 13 of the Bankruptcy Code***

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a 2 to 3-year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the borrower(s) has finished making all payments satisfactorily, the lender may conclude that the borrower has re-established satisfactory credit.

If the borrowers) 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.

**Foreclosures**

The fact that a home loan foreclosure (or deed-in-lieu or short sale in lieu of foreclosure) exists in a borrower(s) history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the foreclosure.

You may disregard a foreclosure finalized more than 2 years from the date of closing. If the foreclosure was finalized within the last 1 to 2 years from the date of closing, it is probably **not** possible to determine that the borrower(s) is a satisfactory credit risk unless both of the following requirements are met:

- The borrower(s) has obtained consumer items on credit subsequent to the foreclosure and has satisfactorily made the payments over a continued period, and
- The foreclosure was caused by circumstances beyond the control of the borrower (s) such as unemployment; prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified.

If a foreclosure, deed in lieu, or short sale process is in conjunction with a bankruptcy, use the latest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit. If there is a significant delay in the transfer of title, contact the RLC of jurisdiction for guidance.

**Deed in Lieu or Short Sale**

For a deed in lieu or short sale, develop complete information on the facts and circumstances in which the borrowers) voluntarily surrendered the property. If the borrower’s payment history on the property was not affected before the short sale or deed in lieu and was voluntarily communicating with the servicer or holder, then a waiting period from the date transfer of the property may not be necessary.

If the foreclosure, deed and lieu or short sale was on a VA-guaranteed loan, then a borrower may not have full entitlement available for the new VA loan. Ensure that the borrower's COE reflects sufficient entitlement.

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## Housing Payment History

### Purchases

1x30 on housing payment history (all residences collectively) is permitted in the last 12 months.

### Cash Out Refinances and/or Refer Recommendations

A 0x30 housing payment history on all residences in the last 12 months is required (if applicable).

**NOTE:** *Timeshares are considered as consumer debt, and not real estate. Therefore, any adverse credit on a timeshare should not be considered when analyzing mortgage*

## Hardship Modification

### Purchases

A previous hardship modification does not render a borrower ineligible for financing. However, short sale seasoning requirements must be met.

### Refinances

A Mortgage that has been modified must utilize the payment history in accordance with the modification agreement for the time period of modification in determining late housing payments.

## Credit Score

Be In Mortgage requires a minimum credit score of 600. The minimum required score is 600 for loans up to \$1,000,000, and 700 for loans from \$1,000,001 to \$1,500,000. Manual underwriting is not permitted on scores < 600. Be In Mortgage will take the middle score from the three reporting credit repositories. If only 2 of 3 scores report, the lower of the 2 scores will be used. Borrowers with only 1 credit score may be considered with traditional credit depth. Be In Mortgage does not underwrite loans for borrowers with only non-traditional credit.

## Valid Credit Score

Validating credit scores is subjective, and it typically requires 2-4 tradelines to validate a credit score depending on depth of credit, the type of tradeline, and length of time established. If you are in doubt, email our scenario help desk ([scenario@beinmortgage.com](mailto:scenario@beinmortgage.com)), submit your scenario through our help desk. Submission of a full credit package including all income and asset information for underwriter review may be required.

## Credit Inquiries within 90 Days of Report Date

All credit inquiries dated within the last 90 days of report date must be addressed by the borrower(s). An itemized list detailing each inquiry must be provided (date, creditor, and outcome), along with a satisfactory explanation for each inquiry. A blanket statement addressing

all inquiries at once is unacceptable. If any new debt was incurred, provide evidence of terms for inclusion in debt ratio.

### **Accounts with No Monthly Payment Reported**

For revolving and installment debt, Be In Mortgage will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided (for revolving accounts, the greater of 5% of the balance or \$10 will be used).

### **Projected Obligations**

If a debt payment (excluding a student loan) is scheduled to begin within twelve months of the mortgage loan closing, the anticipated monthly obligation will be included in the DTI unless the borrower provides written evidence that the debt will be deferred for 12 months from loan closing. Be In Mortgage will use 5% of the monthly balance if the credit report does not reflect a monthly payment or satisfactory documentation of the monthly payment cannot be provided. Similarly, balloon notes, “12 months same as cash”, etc. will be considered in the DTI.

### **Payment Plans**

Be In Mortgage will accept payment plans (in lieu of payoff) for collections/charge-offs, tax liens, etc., if the payment arrangement has been established for at least 12 months. However, if the borrower has the ability to pay the account off with loan proceeds, account must be paid in full. Borrower must provide monthly repayment plan, acceptable 12- month payment history reflecting payments made according to plan with no history of late payments (no 30+ day late payments), and borrower must qualify with monthly payment.

### **Subordinating a Lien**

If a lien is being subordinated, Be In Mortgage will require a fully executed subordination agreement prior to closing. Tax liens may be subordinated, provided there is an acceptable payment plan in place for a minimum of 12 months. CLTV cannot exceed 90% on refinances, and 100% on purchases.

### **Be In Mortgage In file Credit Reports**

Be In Mortgage will pull a single-bureau, in-file credit report 10 days prior to closing, when the credit report used to underwrite the loan exceeds 60 days at closing. Any changes in payments or balances will require the liabilities to be updated, and the AUS must be rerun with the most current information available – loan must still receive an acceptable decision. If any derogatory credit is found since the date of the tri-merge credit used to underwrite the loan, a **new** tri-merge credit report must be pulled and attached to the AUS findings so the delinquency can be factored into DU’s decision.

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## **Employment/Income**

*Generally, borrowers must be employed for 2 years in the same line of work and have at least 12 month on the current job. In most circumstances, employment less than 12 months is not considered stable and reliable; however, it may be considered stable and reliable if the individual facts warrant such a*

*conclusion. Income less than 12 months will be considered on a case-by-case basis; however, no less than 6 months will be accepted.*

*City Lending Inc will use a college degree and/or transcripts to document previous history, if dated within 6 months of current employment start date. Large fluctuations in income are ALWAYS subject to underwriter discretion.*

**City Lending Inc will do a phone verification of employment on all loans within 10 days of closing.**

*When 4506T results are required (see tax transcript session), results must be obtained by City Lending Inc.*

## **Documentation Requirements**

All documentation must be from a reasonably reliable third-party source and must satisfy the requirements of the Ability to Repay Rule.

### **Effective Income**

Income is considered effective when it is determined to be verifiable, stable and reliable, and anticipated to continue for the foreseeable future.

To determine whether income is stable and reliable, the probability of continued employment must be determined through examination of the:

- borrower's past employment record,
- borrower's training, education, and qualifications for his or her current position, and/or
- type of employment.

Only verified income can be considered in the repayment calculation.

### **Spousal Income**

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as you would the income of a Veteran borrower that will be obligated on the loan. However, to ensure compliance with the Equal Credit Opportunity Act (ECOA), do not ask questions about the income of the borrower's spouse unless the:

- spouse will be contractually liable,
- borrower is relying on the spouse's income to qualify,
- borrower is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse, or
- borrower resides and/or the property is in a community property state.

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

The non-purchasing spouse's (NPS) credit history does not need to be considered; however, the NPS' liabilities must be considered to determine the extent of the household liabilities.

## **Income from Non-Military Employment**

Verify a minimum of 2 years of employment. Generally, in the borrower's current position, 2 years of employment is a positive indicator of continued employment.

If the borrower has been employed by the present employer less than 2 years:

- verify prior employment, plus present employment covering a total of 2 years, or
- provide an explanation of why 2 years of employment could not be verified,
- compare any different types of employment verifications obtained (such as Verification of Employment (VOE), paystub(s), W2s, and tax returns) for consistency, and
- clarify any substantial differences in the data that would have a bearing on the qualification of the borrower(s).

Additionally, any [VA Form 26-8497](#), *Request for Verification of Employment* (VOE) may be an original, faxed, or emailed copy of the original. The requirements for obtaining a paystub have not changed. Hence, the paystub may be an original or a copy certified by Be In Mortgage to be a true copy of the original.

Be In Mortgage may not charge a fee to obtain the employment verification information.

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## **Borrowers Employed for Less Than 12 Months**

Generally, employment of less than 12 months is not considered stable and reliable. However, Be In Mortgage may consider the employment stable and reliable if the facts and documentation warrant such a conclusion.

Determine whether the borrower's past employment, training, and/or education equipped him or her with particular skills that relate directly to the duties of their current position.

If the probability of continued employment is high based on these factors, then Be In Mortgage may consider including the income in the total effective income.

An explanation of why income of less than 12 months duration was used must be documented on the [VA 26-6393](#), *Loan Analysis*.

If the probability of continued employment is good, but not well supported, Be In Mortgage may utilize the income if the borrower has been employed at 12 months, to partially offset debts of 6 to 24 months duration. An explanation of why income was used to offset debts must be documented on the [VA 26-6393](#), *Loan Analysis*.

## **Recent 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 related field.

Favorable consideration may not be possible for changes with no apparent betterment to the borrower and/or changes from one line of work to another.

If the lender includes the borrower's income, an explanation of why income of short-term employment was used, must be documented on VA Form 26-6393, *Loan Analysis*.

City Lending will be reviewing the following documentation for wage earners with new job within the prior 12 months of application and new job showing an abrupt increase in income more than 30%

### **New Job within the prior 12 months Documentation**

- Last 60 days Bank Statements showing paychecks amounts been deposited.
- Paychecks amounts must match amounts deposited on the bank statements.
- Last year W2 transcripts (Only if W2 is for then the new Job used for income calculation)
- All requirements are waived if VVOE or WVOE is obtained through any of our TPR Vendors through an electronic verification.
  - True Works
  - Finicity
  - The Work Number

### **New Job showing increase in income Documentation (more than 30%)**

- Document increase in income, ex (Colle transcripts, Education certificates, documented prior experience)

## **Verifying Previous Employment**

No VOE is required if the borrower has been with the same employer for 1 year, and W2 Forms for 1 previous year have been collected.

No W2 Forms are required for a borrower on active duty.

No W2 Forms are required if all of the following are met:

- Borrower is with the same employer  $\geq 2$  years
- Employer phone contact verifies the length of employment and current status (still employed)
- The borrower is not self-employed or commissioned.
- Bonus, overtime, or secondary income is not needed to qualify
- Stable monthly income is to be determined by using current base pay only (rather than total earnings)
- Borrower signs one of the following for the previous 2 tax years:
  - Form 8821, and
  - Form 4506.

## **Hourly or Salaried Employees**

### **Standard Documentation**

Acceptable verification consists of:

- VA Form 26-8497, Request for Verification of Employment, or any format which furnishes the same information as VA Form 26-8497, plus
- Paystub(s) covering the most recent 30-day period with YTD information, if the employer normally provides one to the applicant.
  - Bonus and overtime information must also be included, if applicable
- If the employer does not indicate the probability of continued employment on the VOE, Be In Mortgage is not required to request anything additional.

The date of the VOE and paystub must be within 120 days of the date the Note is signed.

The VOE must be an original document or an electronic copy. The paystub(s) may be an original, electronic, or a copy certified by Be In Mortgage to be a true copy of the original document.

### **Alternative Documentation**

Alternative documentation may be submitted in place of a VOE if Be In Mortgage concludes that the applicant's income is stable, reliable, and anticipated to continue during the foreseeable future; that is, if the applicant's income qualifies as effective income. 2 years employment with the same employer is not required to reach this conclusion.

Alternative documentation consists of:

- Paystubs covering at least the most recent 30-day period with year-to-date information.
  - Bonus and overtime information must also be included, if applicable
- W-2 forms for the most recent 2 years, and/or
- Telephone verification of the applicant's current employment.

Document the date of the verification and the name, title, and telephone number of the person with whom employment is verified. If the employer is not willing to give telephone verification of applicant's employment or the pay stubs or W-2 forms are in any way questionable as to authenticity, use standard documentation. Alternative documentation cannot be used.

Paystub(s) and W-2 forms may be originals, electronic, or copies certified by the lender to be true copies of the originals.

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### **Income from Overtime, Part Time Jobs, Second Jobs, and Bonus**

Generally, such income cannot be considered stable and reliable unless it has continued and is verified for 2 years. To include income from these sources as income:

- the income must be consistent,
- there must be a reasonable likelihood that it will continue in the foreseeable future based on its 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 an arrangement.

Be In Mortgage may use this income, if not eligible for inclusion in income, but verified for at least 12 months, to offset debts of 6 to 24 months duration. An explanation of why the income was used to offset must be documented on VA Form 26-6393, *Loan Analysis*.

## Seasonal Employment

Additional documentation for a borrower(s) employed in building trades or other seasonal or climate- dependent work must provide, in addition to the [standard documentation](#) (VOE and pay stub(s)), the following:

- Documentation of the borrower’s total earnings year-to-date,
- Signed and dated individual income tax returns for the previous 2 years, and
- If borrower works out of a union, evidence of the union’s history with the borrower.

## Unemployment Benefits Income

Unemployment compensation cannot be used to qualify the borrower unless it is clearly associated with seasonal employment that is reported on the borrower’s signed federal income tax returns and is expected to recur.

## Commission Income

Verify commission income by obtaining the VOE or other written verification which provides the following:

- The actual amount of commissions paid year-to-date,
- The basis for payments (salary plus commission, straight commission, or draws against commission, or other), and
- When commissions are paid bi-weekly, monthly, quarterly, semiannually, annually, or other.
- Individual income tax returns signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).

### Analyze Income Derived from Commissions

Generally, income from commissions is considered stable when the borrower has obtained such income for at least 2 years. Employment for less than 2 years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Employment of less than 1 year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less than 1-year cases.

One exception is an automobile lease or loan payment. An automobile lease or loan payments are not subtracted from the borrower’s income; they are considered part of the borrower’s recurring monthly debts/obligations in Section D on VA Form 26-6393, *Loan Analysis*.

## 1099 Employees

Provide one of the following:

- Last two years tax returns and one computer-generated pay stub no more than 30 days old at time of closing, showing year-to-date earnings.
- Last two years tax returns and a signed Verification of Employment no more than 90 days old at time of closing, showing year-to-date earnings.

## Automobile Allowances

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.

However, if the borrower reports an allowance as part of monthly qualifying income, it must be

determined if the automobile expense reported on IRS Form 2106 should be deducted from income or treated as a liability.

If the reported expense is less than the automobile allowance, the amount can be treated as income and added to borrower's monthly income. If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on VA Form 26-6393, *Loan Analysis*.

Likewise, any other similar type of allowance received by the borrower should be considered with regards to the tax returns for determination of an offset of the corresponding obligation, as income, or as an expense.

## Self-Employed

Any individual who has a 25% or greater ownership interest in a business is considered to be self-employed. Even if the income from the self-employed borrower's business is not used for qualification purposes, the business must still be analyzed to ensure that it will not negatively affect the borrower's personal income or assets.

Obtain a current financial statement in an industry recognized accounting format including:

- Year-To-Date Profit and Loss statement (if the most recent year's tax return has not yet been prepared, provide a profit and loss statement for that year),
- current Balance Sheet, and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).
- If the business is a corporation or partnership, include copies of the signed federal business income tax returns for the previous 2 years with all applicable schedules, and a list of all stockholders or partners showing the interest each holds in the business.
- Business tax returns are not required with an Approve/Accept recommendation if all of the following conditions are met:
  - Borrower proves ownership of the business for at least the past 5 years
  - Individual tax returns reflect consistent income for the past 2 years
  - Funds for down payment or closing costs are not from the business

The financial statements must be sufficient for an underwriter to determine the necessary information for loan approval.

Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income.

The lender may require an accountant or Certified Public Accountant-prepared financial statements if needed to make such a determination due to the nature of the business or the content of the financial statements.

### Analyze Income Derived from Self-Employment

Generally, income from self-employment is considered stable when the borrower has obtained such

income for at least 2 years. Less-than-2-years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Less-than-1-year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less-than-1-year cases.

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 it is difficult to determine the probability of continued operation, obtain documentation on the viability and potential future earnings, and an explanation of the function and financial operations of the business from a qualified party.

### **Deductions and Expenses Claimed on Tax Returns**

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

Business or roll over losses must be considered from all tax returns.

What is reported to the IRS on a joint return must be used when applying for a federally guaranteed loan.

On a joint tax return, the loss must be deducted from the borrower's income in both community and non-community property states.

On a joint tax return, when a borrower and co-borrower have been faced with business losses, the Veteran/borrower and his/her spouse may want to consider both being on the loan in order to potentially qualify. The credit of both borrowers will be considered.

### **Alimony/Child Support/Maintenance Income**

Verify the income if the borrower wants it to be considered. The payments must be likely to continue for at least 3 years from the anticipated closing date 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 decree,
- the length of time the payments have been received,
- the regularity of receipt, and
- the availability of procedures to compel payment.

The borrower (and spouse, if applicable) do not have to divulge information on the receipt of child support, alimony, or separate maintenance. However, for this income to be considered in the loan analysis, it must be divulged and verified. Income cannot be discounted because of sex, marital status, age, race, or other prohibited bases under ECOA.

The following must be provided:

- Proof of deposits on bank statements for 3 months, and
- Front page and details of support payments from the divorce decree, indicating evidence of at least 3 years continuance.

**Note:** Child support may be grossed-up under the same provisions as nontaxable income sources.

## Social Security Income

Social Security income must be verified by the Social Security Administration (SSA) or from Federal tax returns. If any benefits expire within the first full three years of the loan, the income may *only* be considered as a compensating factor.

- Be In Mortgage will obtain a complete copy of the current awards letter.
- Not all Social Security income is for retirement-aged recipients; therefore, documented continuation is required.

**NOTE:** Some portion of Social Security income may be grossed-up if deemed nontaxable by the IRS.

## Social Security (Long-Term) Disability Income

A borrower receiving Social Security income as a result of a long-term disability does not have a defined expiration date and must be expected to continue. The required documentation to verify the amount of the monthly benefit is:

- a copy of the Social Security Disability Income (SSDI) award letter; **or**
- current bank statement reflecting direct deposit of benefit and previous year's 1099; **or**
- current bank statement reflecting direct deposit of benefit and previous year's tax return reflecting receipt of benefit.

## Social Security Income Received for a Child

SSI received for a child requires documentation the income will continue for at least the first full three years of the loan (from loan closing date) or the income may only be considered as a compensating factor. Documentation required:

- The child's Award Letter; **and**
- Birth certificate reflecting the child is  $\leq 14$  years old (if the child is 15 or older there is not a 3-year continuance of income)

## Retirement

Retirement income must be verified from the former employer, or from Federal tax returns. If any retirement income, such as employer pensions or 401(k) distributions, will cease within the first full three years of the mortgage loan, the income may *only* be considered as a compensating factor.

## Active Military Borrower's Income

For active-duty military borrowers, a Leave and Earnings Statement (LES) is required instead of a VOE. The LES must be an original, electronic, or a copy certified by Be In Mortgage to be a true copy of the original.

The LES must furnish the same information as a VOE and must be no more than 120 days old (180 days for new construction), from the date of closing.

For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).

In addition, identify service members who are within 12 months of release from active duty or the end of their contract term. For an enlisted service member, find the date of expiration (ETS) of the borrower's current contract for active service on the LES. For National Guard or Reserve members, find the ETS of the borrower's current contract on the LES. Also, if a National Guard or Reserve member is currently serving on active duty, also identify the expiration date of the current active-duty tour. If the date is within 12 months of the projected date that the loan will close, the loan package must also include one of the following items, or combinations of items, to be acceptable:

- documentation that the servicemember 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
- documentation that the servicemember has already re-enlisted or extended his/her period of active-duty service 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 and/or verification of military retirement income following the release from active-duty service, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- a statement from the servicemember that he/she intends to re-enlist or extend his/her period of active-duty service to a date beyond the 12-month period, **plus** (1) a statement from the servicemember's commanding officer confirming that the servicemember is eligible to re-enlist or extend his/her active-duty service as indicated, **and** (2) the commanding officer has no reason to believe that such re-enlistment or extension of active-duty service will not be granted, or
- documentation of other unusual strong positive underwriting factors, such as a down payment of at least 10 percent from the borrower's own assets (not a gift), a minimum of 6 months PITI, in cash, after the down payment from the borrower's own assets (not a gift) or 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 servicemember is needed to qualify.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

**Example:** An Active-Duty Veteran's LES indicates her ETS date listed on her LES is 171031 (October 31, 2017) and the projected date of closing is October 1, 2017. Therefore, one of the above items is needed to verify future income since her ETS date is less than 12 months from the projected date of closing.

**Example:** A member of the Reserves has been called to Active Duty. The ETS date on his LES

indicates 181031 (October 31, 2018); however, his active-duty orders indicate his active-duty tour will not exceed the next 60 days. Therefore, since he will be leaving active duty before 12 months of the projected closing date, the active-duty income cannot be considered, and his civilian employment and drill duty will need to be considered.

**Example:** An Active-Duty Veteran's LES indicates his ETS date is less than 1 month from the anticipated date of closing, and he indicates he will be receiving military retirement and has accepted civilian employment. Verify his future retirement income from the Department of Defense and verify future civilian employment with the Veteran's new employer.

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### **Analysis of Base Pay**

Consider the borrower's base pay as stable and reliable unless the borrower is within 12 months of release from active-duty service. Analyze the additional documentation submitted. If the borrower will not be re-enlisting, determine whether the borrower's anticipated source of income is stable and reliable, and/or unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

### **Analysis of Military Quarters Allowance/ Basic Allowance for Housing (BAH)**

Include a military quarters allowance in effective income if properly verified. In most areas, there will be an additional variable housing allowance, which can also be included. The military quarters and variable housing allowances are not taxable income. The lender must verify the amount of BAH the Veteran will receive. The BAH amount will change from one duty station to another.

### **Verification and Analysis of Basic Allowance for Subsistence (BAS) and Clothing Allowances**

Any subsistence (rations) and clothing allowances are indicated on the LES. The lender may include verified allowances in effective income. These allowances are not taxable income. The clothing allowance generally appears on the LES as an annual amount. Convert the annual amount to a monthly amount for the Loan Analysis.

### **Verification and Analysis of Other Military Allowances**

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, how long the borrower has received it and the continuance into the foreseeable future.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the borrower's assigned duties. Such allowances include, but are not limited to:

- proficiency pay, such as linguistic, parachute, scuba, flight or hazard pay, and
- overseas or combat pay (sea pay, submarine, etc.)



All types of allowances above are subject to periodic review and/or testing of the recipient to ascertain whether eligibility for such pay will continue. Only if it can be shown that such pay has continued for a prolonged period and can be expected to continue because of the nature of the recipient's assigned duties, should the income be added to base pay. Contact the borrower's chain of command if there are questions regarding the continuance of the income.

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If the duration of the military allowance cannot be determined, this source of income may still be used to offset short term obligations of 6 to 24 months duration.

Consult the IRS to determine if any allowances for pay are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

## Income and Analysis of Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be used if the borrower has served in such capacity for a period of time sufficient to indicate a good probability that such income will continue beyond 12 months. The total period of active-duty and reserve service may be helpful in this regard. Otherwise, this income may be used to offset obligations of 6 to 24 months duration.

### Income from Recently Activated Members of the Reserve or National Guard

Be In Mortgage must 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 an activated Reserves/National Guard member applies for a loan, they must present orders indicating their current active-duty tour is not to exceed 12 months.

**Example:** The borrower's full-time civilian employment is \$3,000 per month. The borrower's current income from the Reserves due to activation is \$3,500 per month and orders are for 12 months. Since the borrower's full-time civilian employment is only \$3,000 per month, the \$3,000 should be used to qualify the borrower.

There are not any 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, and make the best decision for each loan regarding the use of income in qualifying for the loan.

It is very important that loan files be carefully and thoroughly documented, including any reasons for using or not using Reserve/National Guard income in these situations. The goal is to provide the Veteran their benefit without placing him/her in a financial hardship.

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## Verification and Analysis of Income of Recently Discharged Veterans or Veterans to be Discharged from the Military

See [Income from Non-Military Employment](#) for verification requirements.

Obtain verification that any of the following income types apply:

- employment income,
- retirement income, and/or
- VA disability income.

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance.

VA disability income verification will be placed on the COE. However, there are some instances where this income is not placed on the COE which may include if the Veteran:

- will be discharging within the next 6 months from the military and has completed a Physical Exam Board (PEB) or Medical Review Board (MEB) and will be filing for VA disability while still on active duty,
- has recently filed for VA disability and VA's Compensation Service has not yet made a determination and would be entitled to receive VA disability benefits,
- would be entitled to receive VA disability benefits, but for the receipt of retired pay,
- has received VA disability benefits in the past, or
- is an unmarried surviving spouse of a Veteran who is eligible for or receiving qualifying Disability and Indemnity Compensation (DIC), or
- is in receipt of a VA nonservice connected pension, or
- has a VA-appointed Fiduciary to handle financial matters.

If the Veteran falls under one of the above categories, perform the following:

- Submit by fax VA Form 26-8937, *Verification of VA Benefits*, to the VA Regional Loan Center (RLC) where the subject property is located. VA will complete and return the form to the lender by return fax.
- Provide any supporting documents, including the COE, if it states to send VA 26-8937, *Verification of Benefits to VA*, to verify a Veteran's monthly income from VA.

Please note that if VA's Compensation Service has not yet issued a memo rating and/or completed a claim for a Veteran, then the amount the Veteran may receive in the future cannot be determined until the claim has been completed.

Until the Veteran begins receiving the monthly award, the amount cannot be placed on the COE. A VA awards letter can be used to verify the amount and date a future monthly VA compensation award will begin. However, the COE may be updated to reflect if the Veteran is exempt from paying the VA funding fee on a future disability award.

The loan cannot be submitted for prior approval, or approved under the automatic procedure, until Be In Mortgage obtains the completed form from VA when the Veteran or surviving spouse is under one of the above categories. Be In Mortgage must maintain the completed form with the loan

package.

If the form indicates that the borrower receives a non-service-connected pension or has a VA Fiduciary, the loan cannot be closed automatically. The loan must be uploaded in WebLGY for prior approval.

VA must review, underwrite, and issue a Certificate of Commitment before the loan can close. VA's Pension Service may also have to review and/or approve the application in addition to Loan Production. The VA RLC will coordinate with the Pension Service upon receipt of the underwriting package. Allow for additional processing time of a prior approval loan application when Compensation and/or Pension Service must also review.

### **Analysis of Prospects for Continued Employment**

Cases involving recently discharged Veterans often require the underwriter to exercise a great deal of judgment and flexibility 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. If the duties the borrower performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue. Most cases fall somewhere between these extremes. Fully develop the facts of each case to make a determination.

### **Leave and Earnings Statement (LES)**

The Leave and Earnings Statement (LES) is a comprehensive statement which shows the service member's leave and earnings for the month. The LES is divided into three major areas: Entitlement, Deductions, and Allotments. Each area categorizes what the service member has earned for the month.

The service member has the option of receiving his or her pay one or two times a month. If they select to receive their pay twice a month they will receive "Advice of Payment" (AOP). The AOP provides the service member a brief view of their semi-monthly pay on the 15th of each month. The service member will then receive an "End of the Month" (EOM) LES statement capturing all the monthly entitlements, deductions, allotments, and any appropriate details.

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The LES also records and maintains the service member's leave information, tax withholding information, and Thrift Saving Plan (TSP) Information. Active-duty service members are able to go on myPay and request copies of their LES for the past 12 months. Reserve and National Guard can request copies for the past 3 months. However, service members may go into their servicing finance office and request a copy of their LESs.

## **Foster Care Income**

Verify the foster care income with letters of verification from the organizations providing the income, and document that the borrower has a two-year history of providing foster care services. Foster care income must be likely to continue for the next three years. **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.**

## Non-Taxable Income

Tax-free income may be grossed up for purposes of calculating the DTI ratio **only** – not residual income. This is a tool that may be used to lower the debt ratio for Veterans who clearly qualify for the loan. Grossing up non-taxable income involves adjusting the income upward to a pre-tax or gross income amount, which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income.

When entering non-taxable income into an LOS, make sure to use the actual income not the grossed-up amount, as DU will calculate residual income automatically. The grossed-up income **cannot** be used to calculate residual income. If grossing up income to qualify, note the calculation and the resulting ratio in the Remarks section of the VA Loan Analysis Worksheet (VA Form 26-6393).

Some examples of non-taxable income include:

- Social Security
- Child Support
- Foster Care
- Military Allowances, such as:
  - Basic Allowance for Housing (BAH)
  - Basic Allowance for Subsistence (BAS)
  - Clothing allowances
  - Hazard pay
  - Rations allowance
  - Combat pay
  - Flight pay
  - Overseas pay, etc. (Also, see above Military Income)

**NOTE:** All of these income types require a minimum 3-year continuance to be used for qualifying.

To determine the borrower's tax rate from the previous year, take the borrower's taxable income (from page 2 of the 1040 and the 1040A, or page 1 of the 1040EZ) and their filing status (single, married filing jointly, married filing separately, head of household), and compare it against a tax rate table for the applicable year. This will provide the rate that the borrower's taxable income is taxed at, and therefore what percentage their non-taxable income may be grossed up by.

## Short Term Disability/Workman's Comp

Not eligible. No Exceptions.

## Maternity Leave

If the borrower **will** return to work as of the first mortgage payment date, the borrower's regular

employment income may be used for qualifying. If the borrower **will not** return to work as of the first mortgage payment date, the lender must use the **lesser** of the borrower's regular employment income or maternity leave income (if any).

If it is determined a borrower will be on maternity leave at the time of closing and that borrower's income is needed to qualify for the loan, the lender must confirm the effective income used for qualifying is supported and employment will continue as described below:

- The borrower must have a stable employment and income *history* that meets standard eligibility requirements; **and**
- The borrower must provide written confirmation of his or her intent to return to work and the agreed upon date of return as evidenced by documentation provided by the employer.

Information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period would conclude the borrower's income may not be used as effective income for qualifying.

A verbal verification of employment is required to be obtained within 10 business days of closing. If the employer confirms the borrower is on maternity leave, and the return-to-work date is consistent with the documentation provided, this is sufficient to consider the borrower as employed.

Income must be verified accordingly with:

- the amount and duration of the borrower's "maternity leave income," which may require multiple documents or sources depending on the type and duration of the leave period; **and**
- the amount of the "regular employment income" the borrower received prior to the maternity

**Note:** *Income verification may be provided by the borrower, by the borrower's employer, or by a third-party employment verification vendor.*

leave. Regular employment income includes, but is not limited to, the income the borrower receives from employment on a regular basis that is eligible for qualifying purposes (for example, base pay, commissions, and bonus)

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## Rental Income

When all or a portion of the borrower's income is derived from rental income, documentation and verification of the income are necessary to determine the likelihood of continuance.

### Verification of Multi-Unit Property Securing the VA Loan

The Veteran/borrower must occupy one unit as his/her residence.

For purposes of determining the VA guaranty, reference only the One-Unit Limit column in the FHFA Table

"Fannie Mae and Freddie Mac Maximum Loan Limits for Mortgages", located [here](#).

### **Verification**

Verify:

- cash reserves totaling at least 6 months mortgage payments (principal, interest, taxes, and

- insurance
- PITI), and
  - documentation of the applicant’s prior experience managing rental units and/or use of a property management company to oversee the property.

### ***Analysis***

Include the prospective rental income in effective income only if:

- evidence indicates the applicant has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least 6 months mortgage payments are available.

If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit.

Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower’s own funds, not a gift.

Cash proceeds from a VA regular “Cash-Out” refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower’s account before the new VA loan closes.

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the lease or rental agreement, unless a greater percentage can be documented (existing property).

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## **Verification of Rental Offset of the Property Occupied Prior to the New Home**

### ***Verification***

Obtain a copy of the rental agreement on the property, if any.

### ***Analysis Using Rental Offset of the Property Occupied Prior to the New Loan***

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, Be In Mortgage may still consider the prospective rental income for offset purposes. Provide a justification on VA Form 26-6393, *Loan Analysis*.

Reserves are not needed to offset the mortgage payment on the property the Veteran occupies prior to the new loan.

**Example:** The Veteran’s current home has a VA mortgage with a monthly PITI payment of \$1,000. Bonus entitlement is being used to purchase a new primary residence and the Veteran will rent the previous home for \$1,200 monthly upon closing of the new home. The payment of \$1,200 can

be used to offset the existing mortgage payment, if all the above conditions are met. The additional rent received in excess of the mortgage payment cannot be used as effective income.

### **Rental of Other Property Not Securing the VA Loan**

#### ***Verification***

Obtain the following:

- documentation of cash reserves totaling at least 3 months mortgage payments (principal, interest, taxes, and insurance - PITI), and
- individual income tax returns, signed and dated, or Be In Mortgage-obtained tax transcripts, plus all applicable schedules for the previous 2 years, which show rental income generated by the property.

If the borrower has multiple properties, the borrower must have 3 months PITI documented for each property to consider the rental income.

If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, hazard insurance, flood insurance, homeowner's association fees, and any other recurring fees should be documented for the property(ies).

Equity in the property cannot be used as reserves.

Cash proceeds from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

Gift funds cannot be used to meet reserve requirements.

#### ***Analysis***

Each property(ies) must have a 2-year rental history itemized on the borrower's tax return.

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

If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income.

If rental income will not, or cannot be used, then the full mortgage payment should be considered, and reserves do not need to be considered.

### **Section 8 Income**

Section 8 income may not be used to qualify.

### **Temporary Boarder Income**

The verification of temporary boarder rental income requires the following:

- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and
- the rental cannot impair the residential character of the property and cannot exceed 25 percent of the total floor area.

### Analysis of Temporary Boarder Rental Income

Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide a justification on VA Form 26-6393, *Loan Analysis*.

PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

### **Other Types of Income**

While not all types of income can be listed, documentation of income must support the history of receipt and the likelihood or continuance of the income for at least 3 years from the anticipated closing date to include in effective income. Otherwise, consider whether it is reasonable to use the income to offset short-term obligations of 6 to 24 months duration.

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

- pension or other retirement benefits,
- disability income,
- dividends from stocks or other,
- interest from bonds, savings accounts, or others,
- royalties,
- notes receivable, and
- trusts

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance. A COE will generally have the amount of VA disability income listed. A VA award letter or bank statement may also verify the current monthly amount received.

Be In Mortgage may include verified income from public assistance programs in effective income if evidence indicates it will likely continue for 3 years or more.

Be In Mortgage may include verified income received specifically for the care of any foster child(ren), only to balance the expenses of caring for the foster child(ren) against any increased residual requirements. See [Foster Care Income](#).

**Example:** The borrower(s) receive a stipend paid by the county or State for two foster children living in the residence. Instead of considering a family size of four, a family size of two should be used to determine the residual income requirement.

Do not include temporary income items such as VA educational allowances (including the Post 9/11 GI Bill benefit) and unemployment compensation in effective income. **Exception:** If unemployment compensation is a regular part of a borrower’s income due to the nature of his/her employment (for example, seasonal work), it may be included.

A borrower in receipt of VA Pension or Disability benefits with Aid and Attendance should be



discussed with the VA Pension Service, VA Compensation Service, or the VA Hospital where the property is located, to determine if the income is likely to continue for the foreseeable future.

If a borrower has a contract for employment in a foreign country (whether or not the employer is a US company or corporation), the income can be used if it is verified, stable, and reliable. While some contracts are renewed yearly, consider the borrower's past employment history and the likelihood of the contract being extended.

Income that is paid by a foreign employer or government in foreign currency should be converted to US dollars.

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## Ineligible Income Sources

Income derived from an activity that is deemed illegal by federal or state law (for example, income derived from a business that is legal by state law but illegal by federal law) cannot be considered.

## Income Transcript Verification

4506T results (IRS transcripts) will be requested on every loan that is registered with Be In Mortgage, unless it qualifies for the [W2 transcript waiver](#). These are reviewed to verify that the income documentation supplied matches the information provided to the IRS for the last 2 years of income used to qualify.

### Full Tax Return Transcripts (1040s)

When tax returns are required and must be verified, the Underwriter must also look for items that may not have been disclosed, such as Unreimbursed Business Expenses, self-employed earnings, and/or mortgage interest deductions where no real estate ownership appears on the 1003.

**NOTE:** *If 2023 income is being used to qualify, it is acceptable to proceed with 4506T results showing no record of return found until June 1st.*

- If 2023 income is derived from tax returns and being used to qualify, but cannot be verified through 4506T results, the tax returns must be brought to the borrower's local IRS office to be signed and stamped as evidence the returns provided to Be In Mortgage are the same as the ones filed with the IRS. **OR**, if tax returns were filed by a licensed CPA, it is acceptable to obtain a letter along with copies of the tax returns directly from the CPA confirming returns have been filed with the IRS. However, neither of these options are acceptable if borrowers have not filed tax returns for the last 2 years.
- If, upon underwriter review of the income documentation, it is determined that the 2023 earnings must be considered in qualifying the borrower, then 2023 transcripts are required.

Effective June 1<sup>st</sup> 2024, 2023 tax information is required to be verified. For Borrowers with a documented extension to file, it is acceptable to receive results that state "No Record of Return Found".

### W2 Transcript Waiver

Be In Mortgage will not require IRS tax transcripts when all qualifying income is comprised

exclusively of W2 wage earner income and/or fixed income reported on a 1099 (social security, VA benefits) that does not need to be grossed up, unless required by the AUS.

If the income must be grossed up in order to qualify, the borrower is self-employed or works for family, owns rental properties, or otherwise does not meet the waiver criteria described above, Be In Mortgage's standard transcript policy applies.

If tax returns are provided or required for any reason, transcripts are required.

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## Timing of Tax Returns

When using tax returns to verify income, the following documentation requirements will apply. Only income that can be verified via 4506T can be used for qualifying. In cases where the 4506T results are unable to be obtained due to taxes having been recently filed, the IRS response to the request must reflect "No Record of Return Found". In these cases, the following options are available, and can be considered as "verified" for qualification purposes:

- Copies of the most recent year's signed return, stamped as received and signed by the borrower's local IRS office.
- If tax returns were filed by a licensed CPA, it is acceptable to obtain a letter, along with copies of the tax returns directly from the CPA, confirming returns have been filed with the IRS.

**NOTE:** Large increases in income that cannot be validated through a tax transcript may only be considered for qualifying on a case-by-case basis and are subject to

When an IRS Form 4506T request returns one of the following messages:

- "Due to limitations, the IRS is unable to process this request. The IRS will mail a notification to the borrower to explain this reason; please contact your borrower",
- "Rejection Code 10", or
- other verbiage related to a "limitation" precluding completion of the request, the following steps may apply:
  - Be In Mortgage must retain the determination from the IRS that their request cannot be processed, with a code of "Unable to Process" or "Limitation"
  - The applicant may request their tax return transcripts and deliver them to Be In Mortgage. Information on how to request transcripts by mail is available at <http://www.irs.gov/individuals/get-transcript>
  - The applicant must request the previous (one or two, per Be In Mortgage policy) years of complete tax return transcripts. If the applicant has not filed their 2020 taxes, Be In Mortgage must retain:
    - Transcripts for the previous (one or two, per Be In Mortgage policy) tax years,
    - Evidence of the applicant's request for an extension,
    - Documentation of 2020 earnings, and
    - Current income documentation as required per guidelines.

IRS transcripts are required as part of a complete loan application package. The above guidelines are only valid for lender requests that the IRS will not process due to the recent data breach or confirmed identity theft. These guidelines **do not** apply to "rejected" requests from the IRS due

to misspelled names or incorrect/transposed data.

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### Additional Documentation Requirements

- When using tax returns to verify income, and it is between the tax filing date (typically April 15<sup>th</sup>) and the extension expiration date (typically October 15<sup>th</sup>), the borrower must provide:
  - Copy of the filed extension. Be In Mortgage will review the total tax liability reported on IRS Form 4868 (Extension to File) and compare it with the borrower's tax liability from the previous two years as a measure of income source stability and continuance. An estimated tax liability that is inconsistent with previous years may make it necessary for Be In Mortgage to require the current returns in order to proceed.
  - Current year Profit & Loss Statement, executed by the borrower
  - Year-End Profit & Loss Statement for prior year, executed by the borrower
  - Tax returns for the previous 2 years
- After the tax return extension expiration date, loan is not eligible without prior year tax returns
- When tax returns provided were filed within 90 days of the application date and reflect that the borrower had underpaid throughout the year, proof of payment and source of funds are required to document that the tax liability has been fully satisfied. Any excessive tax liability outside of 90 days is subject to underwriter discretion.
- If the 4506T results reflect a borrower with a Schedule C business that the underwriter was previously unaware of, complete tax returns do not have to be obtained if:
  - The Schedule C business reflects positive income, **or**
  - The Schedule C business reflects a loss that fits in the borrower's ratios

Business must be added to the 1003 so the findings consider the self-employment and provide an accurate recommendation.

**NOTE:** *This only applies to Schedule C businesses, **not** Schedule E. If the Schedule E reflects any information (partnership, S Corporation, or rental properties) that the underwriter was previously unaware of, complete personal tax returns (and possibly business tax returns)*

## **Income Tax and Social Security Deductions**

Determine the appropriate deductions for Federal income tax and Social Security using the "[Employer's Tax Guide](#)", [Circular E](#), issued by the Internal Revenue Service (IRS).

Determine the appropriate deductions for state and local taxes using similar materials provided by the states. The following website provides a listing of state Department of Revenue links: <https://us.aicpa.org/research/external-links/taxesstatesdepartmentsofvenue> . Click on the state of your choice to arrive at the state web page. At this point, each state appears to have information under different titles and in different locations within their website.

The income tax should be based upon the borrower's residence and what is documented in the guide to the IRS, and not solely the amount claimed on the paystub.

An active-duty service member's LES may have a different state tax deduction than the state where the active-duty service member will be purchasing a residence or refinancing. Select the state

listed on the LES for the state taxes to be considered in state tax deductions.

The lender may consider the borrower's potential tax benefits from obtaining the loan (for example, mortgage interest deduction) in the analysis. To do so:

- determine what the borrower's withholding allowance will be, using the instructions and worksheet portion of IRS Form W-4, Employee's Withholding Allowance Certificate, and
- apply that withholding number when calculating Federal and state income tax deductions on VA Form 26 - 6393, *Loan Analysis*, then document the change in deductions in Item 47, Remarks, on VA Form 26-6393, *Loan Analysis*.

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## Assets

### Assets and Amount of Cash Required for Closing

The borrower(s) must have sufficient cash assets to cover:

- any closing costs, prepaids, or discount points which are the borrower's responsibility and are not financed into the loan, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA (i.e. negative equity).

VA does **not** require the borrower(s) to have additional cash to cover a certain number of mortgage payments, unplanned expenses or other contingencies on the residence, or refinance of the Veteran's residence.

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.

Reserves are required for borrowers using [rental income](#) to qualify. A rental offset does not require additional assets to cover PITI.

The assets securing a loan(s) against deposited funds (signature loans, cash value life insurance policies, 401(k) loans, other) may not be included as an asset on the VA Form 26-6393, *Loan Analysis*.

### Verification of Assets and Cash to Close Requirements

Verify all liquid assets owned by the borrower(s) 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 (significant assets). Use VA Form 26-8497a, *Request for Verification of Deposit*, or electronic, or certified copies of the borrower's last two bank statements.

Verifications must be no more 120 days old (180 days for new construction). For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).

## Pending Sale of Real Estate

In some cases, the determination that the income and/or assets of borrowers are needed to qualify for the loan depends upon the sale of presently the borrower's owned real property.

The sale proceeds may be necessary to:

- clear the outstanding mortgage(s) against the property,
- pay outstanding consumer obligations,
- make a down payment or pay closing costs on the VA loan, and/or
- restore previously used VA entitlement.

Evidence that the sale has been completed should be included in the closing package to verify proceeds from the sale. As an alternative, the Veteran may sell the property with the buyer assuming the outstanding mortgage obligation.

## Borrower's Own Funds to Close

Be In Mortgage follows AUS findings for acceptable documentation. All documentation must be from a reasonably reliable third-party source and must satisfy the requirements of the Ability to Repay Rule.

### Bank Statements

Provide bank/asset statements covering the most recent 1-month period in lieu of a VOD.

When using bank statements dated within 60 days of closing, [large deposits](#) must be explained and documented.

### Verification of Deposit

When using a VOD, a two-month average balance must be reflected (current balance must show sufficient funds required). Large increases must be explained and documented.

**NOTE:** Any depository account that is not solely in the borrower's name must be accompanied by a written statement signed by the non-borrower party listed on the account granting full access and use of the funds.

## Large Deposits

Be In Mortgage will:

- obtain an explanation and documentation for recent large deposits in excess of 1% of the appraised value, and
- verify that any recent debts were not incurred to obtain part, or all, of the required cash investment on the property being purchased.

## Gift Funds

A gift can be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction. A gift letter must:

- specify the dollar amount of the gift,
- include the donor's statement that no repayment is expected, and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

An acceptable Gift Letter is located on Be In Mortgage's intranet. A different form may be used, providing it contains all the same information.

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Be In Mortgage must verify that sufficient funds to cover the gift have been transferred to the borrower's account, or will be documented as received by the closing agent at the time of closing.

Acceptable documentation includes the following:

- evidence of the borrower's deposit,
- a copy of the donor's funds by check/electronic transfer to the closing agent, or
- the CD showing receipt of the donor's funds.

Gifts refer to the contributions of cash or equity with no expected or implied repayment of the funds to the donor by the borrower.

### **Donor's Source of Funds**

Cash on Hand is not an acceptable source of donor gift funds.

An acceptable Gift Letter is located on Be In Mortgage's intranet. A different form may be used, providing it contains all the same information.

### **Gifts of Equity**

Gifts of Equity are not permitted.

## **Gift Funds/Grants by Charitable Organizations**

Gifts administered by charitable organizations are acceptable. The gift from the charitable organization to the homebuyer must meet VA requirements and the transfer of funds must be properly documented. Gifts from charitable organizations where the seller makes a contribution are not acceptable.

## **Collateralized Loans**

Funds can be borrowed for the total required investment as long as satisfactory evidence is provided that the funds are fully secured by an asset. Such assets may include stocks, bonds, real estate (other than the property being purchased), etc. In addition, certain types of loans secured against deposited funds, such as the cash value of life insurance policies, loans secured by 401(k)s, etc, in which repayment may be obtained through extinguishing the asset, do not require consideration of a payment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included as assets to close or otherwise considered as available to the borrower.

An independent third party must provide the borrowed funds. The seller, real estate agent or lender, or other interested third party may not provide such funds. Unacceptable borrowed funds include cash advances on credit cards, borrowing against household goods and furniture, and other similar unsecured financing.

## Sale of Personal Property

If the borrower intends to sell personal property items (cars, recreational vehicles, stamps, coins, baseball card collections, etc.) to obtain funds required for closing, the borrower must provide a satisfactory estimate of their worth, in addition to conclusive evidence the items have been sold. The estimated worth of the items being sold may be in the form of published value estimates, such as those issued by automobile dealers, philatelic or numismatic associations, or a separate written appraisal by a qualified appraiser with no financial interest in the loan transaction. Only the lesser of this estimate of value or the actual sales price is considered as assets to close.

## Cash Saved at Home

Borrowers who have saved cash at home and are able to demonstrate adequately the ability to do so are permitted to have this money included as an acceptable source of funds to close the mortgage. To include such funds in assessing the homebuyer's cash assets for closing, the money must be verified -- whether deposited in a financial institution or held by the escrow/title company -- and the borrower must provide satisfactory evidence of the ability to accumulate such savings.

The asset verification process requires the borrower to explain in writing how such funds were accumulated (borrower must provide a budget) and the amount of time taken to do so. We will determine the reasonableness of the accumulation of the funds based on the borrower's income stream, the time period during which the funds were saved, the borrower's spending habits, documented expenses, and the borrower's history of using financial institutions. (All other factors being equal, individuals with checking and/or savings accounts are less likely to save money at home than an individual with no history of such accounts.)

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## Refinance Transactions

### Mortgage Payoffs

All refinance transactions will require current payoff statements for all liens on title to reflect the loan is current at time of closing (should not reflect more than 59 days of interest). However, paying off an existing FHA loan, where it is permitted for the servicer to collect a full 30 days of interest if payment in full is received after the required monthly payment due date, may result in a full two months' worth of interest on the payoff. As long as the mortgage is current, this would be considered acceptable.

### Payoff Used for Mortgage Amount Calculation

The amount of the existing first mortgage may include the interest charged by the servicing lender when the payoff will not likely be received on the first day of the month. In determining the existing debt as part of the mortgage amount calculation, accrued late charges and escrow shortages may be included. Fax fees and delinquent interest may **never** be included.

Prepaid expenses may include the per diem interest to the end of the month on the new loan, hazard insurance premium deposits, monthly mortgage insurance premiums and any real estate tax deposits needed to establish the escrow account regardless of whether the lender

refinancing the existing loan is also the servicing lender for that mortgage.

### Short Payoffs

Not eligible on refinance transactions

## **Subordinate liens**

Subordinate liens, including credit lines, regardless of when taken, may remain outstanding (but subordinate to the VA-guaranteed mortgage) and are subject to 90% CLTV. A copy of the current note is required and the borrower must qualify with the scheduled monthly payments. A subordination agreement will be required. Modified existing subordinate liens are acceptable and are not considered a new subordinate lien.

New subordinate liens may be placed behind the VA-guaranteed mortgage and are subject to 90% CLTV. The borrower must qualify with the scheduled monthly payments.

## **Property Listed for Sale**

Property may not have been listed for sale a minimum of six months prior to disbursement or the loan is subject to a maximum 70% LTV. In all circumstances, listing agreements must be cancelled prior to disbursement. The listing agreement, evidence of cancellation, and signed/dated explanation from the borrower with the reason why the property was for sale is required. These transactions pose additional risk to Be In Mortgage and therefore may be subject to additional documentation and/or limitations.

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## **Refinance Seasoning Requirements**

This section provides a snapshot of the eligibility requirements for non-IRRRL refinance loans. For further direction/detail on these criteria, refer to the applicable sections of this document or the GNMA APMs.

- The borrower has made at least six consecutive monthly payments on the loan being refinanced beginning with the payment made on the first payment due date; <sup>1,2</sup>
- The payments must be full monthly payments; <sup>2</sup> and
- The note date of the new mortgage must be at least 210 days after the date the first payment was due on the mortgage being refinanced. <sup>3</sup>

<sup>1</sup>Ginnie Mae APM 17-06 [APM 17-06](#)

<sup>2</sup>Ginnie Mae APM 18-04 [APM 18-04](#)

<sup>3</sup>VA Circular 26-19-22 (as confirmed by Cleveland RLC on 1/7/2021)

## **Cash Out Refinances**

On December 17, 2018, VA published interim final rule (AQ42) in the federal register setting forth requirements relating to cash-out refinance loans. AQ42 amends VA regulations pertaining to all cash-out refinancing loans. This includes refinancing of construction loans (construction-to-perm loans), regardless of whether there is a change in the principal loan amount. The rule is effective on February 15, 2019 and applies to VA cash out refinance loans taken on/after this date. It was announced in [Circular 26-19-05](#) on February 14, 2019, and later amended with [26-19-05 Change 1](#) on February 15.



VA has separated cash out refinances into two distinct types:

- Type I Cash Out Refinance: a refinancing loan in which the loan amount (including the VA funding fee) does not exceed the payoff amount of the loan being refinanced
- Type II Cash Out Refinance: a refinancing loan in which the loan amount (including the VA funding fee) exceeds the payoff amount of the loan being refinanced

### **Eligibility Requirements**

All cash out refinances with application dates taken on/after February 15, 2019 that do not meet the applicable requirements as described below will not be eligible for guaranty by the VA:

#### ***Loan to Value (LTV)***

*This requirement applies to both Type I and Type II refinances, whether VA to VA or Non-VA to VA.*

For applications taken on/after August 26, 2019, the LTV may not exceed 90%, including the VA Funding Fee. Inclusion of any funding fee that is financed, in part or in whole, cannot cause the loan to exceed the reasonable value of the property.

To calculate the LTV, divide the total loan amount (including the VA Funding Fee, if any), by the reasonable value of the property determined by the appraiser.

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#### ***Net Tangible Benefit (NTB) Standards***

*This requirement applies to both Type I and Type II refinances, whether VA to VA or Non-VA to VA.*

The Net Tangible Benefit standards apply to all cash out refinancing loans. It consists of the NTB Test, the Loan Comparison, and the Home Equity Disclosure. All 3 features of the NTB standards are contained in the VA Cash Out Refinance Net Tangible Benefit Disclosure and Certification, which will print out of LQB.

VA requires Be In Mortgage to generate this disclosure twice; once within three business days from the initial date of the loan application, and again at loan closing. The borrower must certify receipt of both disclosures via signature, e-signature, email from borrower certifying receipt, email read receipt, etc.

For the initial disclosure within 3 days of application, Be In Mortgage shall provide a reasonable estimate of the required information. The final NTB Disclosure and Certification provided at loan closing shall be accurate with respect to the new loan information. For a detailed (though not all-inclusive) list of items that may be used to document all required loan features, refer to [VA Circular 26-19-05](#).

### **NTB Test**

The NTB Test requirement is met if the refinancing loan satisfies **at least one** of the following:

- The new loan eliminates monthly mortgage insurance; or
- Loan term of the new loan is less than the loan term of the loan being refinanced; or
- Interest rate of the new loan is less than the interest rate of the loan being refinanced.

*NOTE: If the loan being refinanced had an adjustable interest rate or was modified, the current interest rate must be used when determining if this requirement has been met; or*

- The monthly P&I payment of the new loan is less than the monthly P&I payment of the loan being refinanced; or
- The Veteran's monthly residual income is higher as a result of the new loan (residual income, including refinancing monthly PITI payment vs. current residual income, including monthly PITI payment of the loan being refinanced). In cases where T&I amounts are changing between the application date and the closing date of the refinance transaction, the new T&I amount will be used in determining residual income for both the current and refinanced loan); or
- The new loan is used to pay off the Veteran's interim construction loan; or
- The new loan LTV is equal to or less than 90 percent of the reasonable value of the home, i.e.  $LTV \leq 90\%$ ; or
- Refinance of an adjustable-rate mortgage to a fixed-rate mortgage.

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### Loan Comparison Disclosure

Be In Mortgage must provide the Veteran a comparison of the new loan to the existing loan being refinanced.

- Refinancing loan amount (including VA funding fee, if financed into the loan) vs. the payoff amount (including fees, escrow shortages, and prorated interest) of the loan being refinanced.
- Interest Rate
- Mortgage Loan Type (i.e., fixed, adjustable)
- Loan term of the refinancing loan vs. the remaining term of the loan being refinanced. The term may be expressed in months or years and months.
- The total payments the Veteran will have paid after making all payments (principal and interest) as scheduled on the refinancing loan vs. the total remaining payments the Veteran will have paid after making all remaining payments of principal, interest, and mortgage insurance (if applicable) as scheduled on the loan being refinanced.
- LTV of the refinancing loan vs. loan payoff (including fees, escrow shortages, and prorated interest) to current value of the loan being refinanced.

### Home Equity Disclosure

Be In Mortgage must disclose the amount of home equity being removed from the home as a result of the new loan to the Veteran.

#### ***Loan Seasoning***

*This requirement applies to both Type I and Type II refinances, whether VA to VA or Non-VA to VA.*

A loan is considered seasoned if **both** of the following conditions are met as of the date of loan closing:

- The due date of the first monthly payment of the loan being refinanced was 210 days or more prior to the closing date of the refinancing loan; **and**
- Six monthly payments have been made on the loan being refinanced.

For loans being refinanced within 1 year from the date of closing, Be In Mortgage must obtain a payment history/ledger from the servicing lender documenting all payments, unless a credit

bureau supplement clearly identifies all payments made in that timeframe. This must be retained in the loan file.

### ***Fee Recoupment***

*This requirement applies to Type I refinances **only**, and only on VA to VA transactions.*

Be In Mortgage must certify that the recoupment period of fees, expenses, and closing costs (included in the loan and paid outside of closing) does not exceed 36 months from the date of the loan closing.

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The recoupment period is calculated by dividing all fees (not including VA Funding fee), expenses, and closing costs included in the loan and paid outside of closing by the reduction of monthly principal and interest (P&I). If the loan being refinanced has been modified, the reduction of monthly P&I should be computed using the modified monthly P&I of the loan being refinanced.

Escrow and prepaid expenses, such as insurance, taxes, special assessments, and HOA fees shall be excluded from the recoupment calculation. VA allowable fees offset by lender credits and/or premium pricing may also be excluded from the recoupment calculation.

### ***Interest Rate Reduction***

*This requirement applies to Type I refinances **only**, and only on VA-to-VA transactions.*

If the loan being refinanced is a fixed rate mortgage, the applicable option below must be satisfied.

#### **Fixed Rate to a Fixed Rate**

A 0.5% reduction in interest rate is required.

#### **Fixed Rate to an ARM**

A 2.0% reduction in interest rate is required.

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## **Texas Refinances**

When refinancing a borrower's primary residence (homestead) in Texas, it first has to be determined whether or not the property is eligible for maximum financing based on the borrower's current liens. In Texas, there are 3 different types of refinances:

- A 50(a)(4) loan is a rate/term refinance of a loan that **is not** currently an equity loan subject to 50(a)(6) restrictions
- A 50(f)(2) loan is a rate/term refinance of a loan that is currently an equity loan subject to 50(a)(6) restrictions
- A 50(a)(6) loan is a cash out refinance of the borrower's homestead, and is considered to be a home equity loan

**Texas 50(a)(6) transactions are not permitted on VA loans.** Be In Mortgage will only approve purchases, 50(a)(4) refinances, and 50(f)(2) refinances.

Because incidental cash back to the borrower is not permitted on a 50(a)(4) or a 50(f)(2) refinance in Texas, Be In Mortgage considers the following practices unacceptable:

- Including Fees Paid Outside of Closing in the Loan Amount  
Per Texas requirements, a fee that is paid outside of closing cannot be financed into the loan amount. When cash back is considered a refund for fees paid outside of closing (POC), Be In Mortgage has essentially financed POC fees into the new loan amount. Additionally, Be In Mortgage requires that in order for fees to be included in the loan amount, the fee must be reasonable, incurred, and be a necessary closing cost (i.e. required to **close** the transaction).
- Principal C u r t a i l m e n t s /Reductions  
Applying a principal curtailment/reduction (normally the amount of the POC fees) results in a reduction to the principal amount of the loan as listed on the CD; however, the principal amount of the loan as listed on the loan documents – the amount the borrower is obligated to pay – has not been reduced.
- Increasing Payoff Amounts for the Purpose of Reducing Cash Back  
Reducing cash back to the borrower by increasing payoff amounts on the CD results in prohibited cash back to the borrower in the form of a payoff refund.

### 50(f)(2)

Due to the legislation changes that took effect on January 1, 2018, the “Once a Home Equity, always a Home Equity” limitation no longer applies, and the refinance of a home equity loan as a rate/term refinance, called a 50(f)(2), is now allowed. Additional restrictions beyond the typical allowance for a 50(a)(4) loan apply.

To be eligible as an (f)(2) transaction:

- The refinance loan must close at least one year after the (a)(6) home equity loan was closed;
- No additional funds are advanced other than funds to refinance the existing debt, actual closing costs, and required reserves;
- The transaction cannot exceed 80% LTV/CLTV/HCLTV of the fair market value of the subject property and;
- A new 12-Day Disclosure, the (f)(2) Disclosure, providing the borrower with their rights associated with an equity or non-home equity loan is required.
  - The (f)(2) Disclosure must be provided within 3 business days after the owner submits the loan application, **and**
  - May not be provided to the property owner prior to 1/1/2018, **and**
  - Must be provided to the property owner at least 12 days prior to loan close.
- The file must also contain a separate affidavit signed by the borrower at closing, the Owner’s Affidavit

of Compliance, acknowledging that the requirements of Texas Section 50(f)(2) have been met.

- No attorney certification is required
- Non-occupant coborrowers are permitted

**NOTE:** A full interior/exterior appraisal is required to verify fair market value of the subject property. A PIW may not be exercised.

### Owerty Liens

The State of Texas is a Community Property State. Therefore, married couples who own a primary residence with a homestead exemption are both entitled equal rights to the equity in their home. An Owelty Lien is a financeable lien on a homestead property.

### ***Owelty Lien Components***

All of the following specific elements must exist in order for an Owelty Lien to be properly established.

- Correct legal description (as opposed to merely the legal or common address) in the decree and in the Special Warranty Deed
- Clear awarding of the property to the grantee, subject only to the Owelty interest.
- Dollar amount of the grantor’s “interest”
- Use of the word “interest”, and not the word “equity”, when specifying the grantor’s agreement for

a buyout.

- This is not an automatic disqualifier, but the Owelty does not represent equity, it represents interest.

### ***Debt Responsibility after a Divorce in Texas***

A Divorce Decree does not release a spouse from the obligation to the lender, even if the decree awards the property and the debt to the other spouse. If both spouses are on the mortgage, they are both responsible for the debt. Late payments or derogatory reporting will negatively affect both spouses’ credit reports.

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### ***An Equitable Work-Around: The Owelty Lien***

An Owelty of Partition is a vehicle used to allow one co-owner of a property to buy the interest of the other co-owner(s). Common examples are divorces, probates, and division of co-owned assets by people who are not partners.

In an Owelty Lien, borrowers can get cash out of their home to pay off a spouse in the process of a divorce, and the LTV can exceed the standard Texas cash out limit of 80%. In addition, borrowers can use a Special Warranty Deed to remove just the interest of the departing spouse in the property, or a Special Warranty Deed with Encumbrance for Owelty of Partition when conveying interest with a dollar amount payable to the grantor.

For an Owelty of Partition to properly be ordered, the owners must be co-tenants. If the court vests title in one party and divests the other, they are no longer co-tenants and no Owelty of Partition can be ordered. A court-imposed lien does not extend to the interest already owned by the acquiring party. Only an Owelty Lien can reach that interest.

### ***Owelty Lien Requirements***

A couple must be divorced and have a divorce decree in order to use an Owelty Lien. The divorce decree must award homestead that was community property to one party and order payment of a specific dollar amount for the partition to the other party. The divorce decree must impose an Owelty Lien on the entire homestead property.

Couples who are in the process of divorce, and only have a separation agreement, do not qualify for an Owelty Lien. The home is still considered the homestead as long as they are married, and a

spouse cannot convey his/her homestead under the Texas Constitution 50(c).

### **Loan Specifics**

- If the existing lien is not a 50(a)(6) lien (such as a 50(f)(2)), a refinance to pay off the existing lien and the Owelty lien does not make this transaction subject to 50(a)(6) restrictions (providing no cash out is given to borrower)
- If the existing lien is subject to Section 50(a)(6), then all 50(a)(6) requirements apply, including the maximum LTV of 80%. An Owelty lien does not supersede the restrictions imposed on a cash out refinance.
- In situations where the subject property is subject to an existing Texas 50(a)(6) lien, the new loan could be underwritten in a number of ways, depending upon the identity of the owner(s) and the intended occupancy of the property:
  - If the existing owner on title will continue to own and occupy the property as the primary residence (as in a divorce buy-out situation), the new loan must be underwritten and closed as a Texas 50(a)(6) loan.
  - If the existing/title owner passes away and the borrower (one of the heirs of the property) intends to purchase other co-heir's interest in the property with the loan proceeds from Be In Mortgage, the new loan should be underwritten as a GSE Limited Cash Out refinance (with zero cash out to borrower at closing) and is not subject to 50(a)(6) requirements.

**NOTE:** As a reminder, 50(a)(6) refinances may only be closed as Conventional loans.

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## **Purchase Transactions**

### **Fully Executed Residential Purchase Agreement**

All purchase transactions require this document to be signed by ALL parties. The current owner of record must execute as the seller of subject property. All borrowers on the loan application must sign the agreement. All sellers that sign purchase agreements must be authorized by that entity.

If any changes to the purchase agreement occur, see [Revisions Due to Sales Contract Amendments](#).

### **Earnest Money Deposit (EMD)**

Follow AUS findings regarding documentation requirements for the EMD.

### **Amendatory Clause/VA Escape Clause**

The Amendatory Clause is intended to ensure that prospective homebuyers with VA guaranteed loans receive important information in a timely manner about the house to be purchased. If buyers have not received information about the appraised value of the home they intend to buy, the buyers are not obligated to buy the home. The borrower (buyer) and seller must execute this document. Please refer to our website for a copy of this form.

**NOTE:** This disclosure is not required on properties owned by banks or Agencies, or REO properties being disposed of by a lender.

## Real Estate Certification

This disclosure is signed by ALL parties involved in the transaction: borrower, seller, real estate agent or broker. It certifies that the terms and conditions of the sales contract are true to the best of their knowledge. Please refer to our website for a copy of this form.

## Reacquisition of a Formerly Owned Property

Be In Mortgage is unable to finance the acquisition of a property that the borrower (or their spouse) has had previous ownership in, that resulted in foreclosure or short sale activity, where they relinquished their ownership interest but did not change their residency. Be In Mortgage considers this as unacceptable property flipping.

## Paying Debt at Closing

Be In Mortgage will require a current payoff/statement for any liabilities being paid at closing on a purchase transaction.

The title company/escrow company will be required to include all debt being paid at closing on the CD and disburse funds accordingly.

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## Short Sales

Be In Mortgage will accept purchase transactions where the seller is selling the home under a “short sale” agreement with their current lender. Be In Mortgage must be provided the fully executed short sale approval letter, and the requirements set forth by the current lender must be met prior to closing.

## Seller Contribution/Concessions

Maximum seller concessions are 4%. Any seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive and is unacceptable for VA-guaranteed loans.

A seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional, and which the seller is not customarily expected or required to pay or provide.

Seller concessions may include, but are not limited to:

- Payment of ease-in funds to reduce the borrower’s monthly payment,
- Payment of funding fee,
- Payment of prepaid items (i.e., tax and insurance escrow, prepaid interest, etc.),
- Payment of extra discount points to provide a permanent interest rate,
- Buy-down
- Gifts (such as a television set or microwave oven),
- Personal property items (i.e., lawn tractor, oriental rug), and
- Payoff of credit balances or judgments on behalf of the buyer

If a seller is leaving personal property items (i.e., a lawn tractor), the appraiser must comment on how that affects the value of the real estate property and should provide an estimate of value for the personal property item (to determine if the seller contribution limit has been exceeded, as this is considered an “excessive” seller contribution).

**NOTE:** VA does not object to seller-paid advanced payments of recurring HOA dues or taxes that come due **during the first year of the mortgage**. In any event, the borrower’s cash investment must not be reduced as the result of advanced payments paid by the seller. Additionally, the borrower must qualify with the HOA or taxpayment.

Seller concessions **do not** include the items shown below, as these are considered seller contributions:

- Payment of the borrower’s closing costs, or
- Payment of points as appropriate to the market. Be In Mortgage considers 2% as normal for the market.

Normal discount points and payment of the buyer’s closing costs are not considered in the total concessions when determining the 4% limit.

### **Determining Property Taxes on New Construction Dwellings**

On newly constructed properties, realistic estimates of the property taxes that reflect the value of the improvements once they are assessed by the units of government to which those taxes are paid must be used. Such estimates may be obtained from reliable sources such as the appraiser, comparable sales data, or the assessor’s office.

### **Property Flipping**

Purchase transactions **do not** require the seller to be in title for a minimum of 90 days to be eligible for VA financing. However, a 12-month chain of title is required on all transactions. Properties that have multiple title transfers within the last year may require additional documentation, or could be deemed ineligible for sale to Be In Mortgage.

### **Prior Sales**

To be evidenced by the most recent Warranty Deed from the seller’s acquisition of the property that reflects the dollar amount of the sale or the certificate of foreclosure on bank owned properties.

### **Homebuyer Assistance Programs (HAPs)**

VA permits Veteran purchasers to utilize HAP services when obtaining a VA home loan. Both government and private entities administer HAPs.

Be In Mortgage is not required to obtain VA approval of such programs before closing the loan. Homebuyer assistance programs that are administered by a state, county, or municipal government entity have blanket approval for use with VA loans. These state and local programs are not to be confused with the Department of Defense HAP.

When making a VA loan involving an HAP, Be In Mortgage must ensure the following:

- The borrower(s) meet(s) VA credit standards,



- Be In Mortgage obtains a VA appraisal, and
- The property must meet VA minimum property standards

If the sales price of the property exceeds the VA reasonable value of the property, VA will only allow HAP assistance in the form of a grant to pay the difference. Otherwise, the Veteran must pay the difference of price over value from his or her own funds without borrowing.

HAPs often require buyers to occupy the property for a specified period of time. Be In Mortgage must, at closing, obtain the borrower's acknowledgement of this requirement and retain a copy of the signed acknowledgement.

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Veteran-borrowers are not allowed to pay certain closing charges when a one-percent loan origination fee is charged. Since HAPs are designed to assist low to moderate income buyers, Veteran-borrowers may not be charged unallowable fees and use HAP funds to offset these charges since this practice dilutes the assistance that the HAP was intended to provide.

## **12-Month Chain of Title**

To be evidenced by the most recent Warranty Deed from the seller's acquisition of the property that reflects the dollar amount of the sale.

## **Reimbursement of Buyer-Paid Costs**

Seller concessions may be used to reimburse the buyer for out of pocket expenses paid in advance (POC), such as appraisal fees. The source of funds used to pay for those fees must have come from the buyer's own personal funds in order to be reimbursed.

POC fees paid by credit card cannot be returned to the customer at closing or credited towards the borrower's cash investment.

In order to apply seller concessions toward POC fees, documentation is required to support the funds used came from the borrower's own personal funds (e.g. bank statement showing debit or check clearing account).

After Minimum Contribution Requirements are validated (if there is a down payment), the borrower may receive a refund of their earnest money deposit, POC deposits, or tax pro-rations (credit card payments may not be refunded). Any remaining excess funds must be applied as a principal reduction.

## **Seller Utilizing a Relocation Company**

When the seller enlists the assistance of a Relocation Company for the sale of the subject property, the relocation agreement must always be reviewed by Be In Mortgage prior to closing. There are multiple ways the transaction can be consummated, and it is very important to have a clear understanding of which of the below-mentioned methods is being used.

### Relocation Company Takes Power of Attorney

The most common circumstance is where the Relocation Company signs the purchase agreement as the seller and will sign the closing documents on behalf of the vested owner. In this instance, a Power of Attorney executed by the vested owner(s), authorizing the relocation company to sign on their behalf (the vested owner will reflect as the seller on the HUD-1 statement) will be required. The Power of Attorney must be executed and dated prior to the execution of the purchase agreement (unless the relocation agreement states that a Power of Attorney will be prepared to consummate the closing). *There must be documentation allowing someone else the right to sell the property.*

### Double Escrow

Another common occurrence involving relocation companies is where the Relocation Company will be the seller reflected on the HUD-1 settlement statement. In this circumstance, the title commitment should have a requirement for the current vested owners to deed the property to the Relocation Company, and another requirement for the Relocation Company to deed the property to our borrower. This is the only time a “double escrow” is acceptable, and not considered property flipping.

### Relocation Company Acts as Seller without Taking Title

In certain geographical areas (i.e. Michigan), it may be common practice for the Relocation Company to negotiate and execute the purchase agreement and HUD-1 at closing as the seller, and to receive the proceeds from the sale of the property without actually taking title. This option is acceptable only if all of the following fully executed documents are reviewed and approved by the underwriter prior to closing:

- **Warranty Deed Reflecting the Vested Owner with Buyer Info Left Blank:** This is a deed executed by the vested owners, which is held in escrow by the title company until a buyer is found and the sale is closed.
- **Appointment of Special Agent and Assignment of Proceeds:** This document is executed by the vested owner authorizing the Title Company/Closing Agent to complete the appropriate information on the blank deed and other pertinent documentation. This also directs the Title Company/Closing Agent to allow the Relo Company to receive all proceeds.
- **Special Power of Attorney:** This document is executed by the vested owner authorizing the Relo Company to sign/execute all documents necessary to consummate the sale (i.e. Purchase Agreement, closing docs, etc.). This document should also reference the blank deed that will be completed when a buyer is found and the sale is closed.
- **Relocation Agreement:** This is the agreement between the vested owner and the Relo Company that will describe the terms of the sale of the subject property. This document is essential in determining the legitimacy of the transaction to avoid potential unethical property flipping schemes.

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## General Provisions

### Documentation Requirements

All documentation must be from a reasonably reliable third-party source and must satisfy the requirements of the Ability to Repay Rule.

## Citizenship

Citizenship of the United States is not required for eligibility. Borrowers must be one of the following: a U.S. Citizen, a lawful Permanent Resident Alien, or a lawful Non-Permanent Resident Alien. We will lend under the same terms and conditions for all three designations. A mortgage to a non-U.S. citizen who has no lawful residency status in the United States is not eligible.

### Permanent Resident Aliens

Non-United States citizens who hold acceptable evidence of permanent residency issued by the U.S. Citizenship and Immigration Services (USCIS) are considered Permanent Resident Aliens. Lawful Permanent Resident Aliens must have any of the following:

- A legible copy of the front and back of the Permanent Resident Card/Alien Registration Card (USCIS Form I-551) otherwise known as a “Green Card”. While the Green Card itself states “Do Not Duplicate” for the purpose of replacing the original card, U.S. Citizenship and Immigration Services (USCIS) allows photocopying of the Green Card. Making an enlarged copy or copying on colored paper may alleviate any concerns the borrower may have with photocopying.
- A legible copy of the unexpired foreign passport that contains an unexpired stamp reading “Processed for I-551. Temporary Evidence of Lawful Admission for Permanent Residence. Valid until (MM-DD-YY). Employment authorized”.
- Any other evidence of permanent residency issued by the INS

### Non-Permanent Resident Aliens

Non-United States citizens who are permitted to reside in the United States on a temporary basis and may have been granted authorization to work in the U.S. by the U.S. Citizenship and Immigration Services (USCIS) are considered Non-Permanent Resident Aliens. Lawful Non-Permanent Resident Alien status must have the following:

- A legible copy of a valid (unexpired), acceptable visa (a copy of valid work permit only is unacceptable) with a copy of the I-94 Arrival/Departure Record. The I-94 indicates immigration status. In order for us to have the most recent and accurate property Visa class, it is important to copy the Arrival/Departure Record and not just the Visa since the Non-Permanent Resident Alien’s status can change (for example, from student to worker). The Visa must evidence one of the following Visa classes:
  - A Series (A-1, A-2, A-3)
  - E-1
  - G Series (G-1, G-2, G-3, G-4, G-5)
  - H-1B, H-2A, H-2B, H-3
  - L-1
  - O-1A, O-1B, O-2
  - TN, TC – See NAFTA below.

### Additional Immigration Status

Loans to non-citizens who have lawful residency in the United States or have been granted political asylum require underwriting to Non-Permanent Resident Aliens guidelines. Asylees and refugees

must provide their Arrival and Departure Records (Form I-94) and copies of their employment authorization documents. A grant of asylum is for an indefinite period.

### North American Free Trade Agreement (NAFTA) Workers

Canadian and Mexican citizens who are working in the United States under the terms of NAFTA must be treated as Non-Permanent Resident Aliens when determining their eligibility. They must meet the standard requirements established for Non-Permanent Resident Aliens. NAFTA workers must provide a NAFTA Worker's Visa (see above TN and TC Visa classifications).

### Diplomatic Immunity

Due to the inability to compel payment or seek judgment, transactions with individuals who are not subject to United States jurisdiction **are not eligible**. This includes embassy personnel with diplomatic immunity. Verification the borrower does not have diplomatic immunity will be determined by reviewing the Visa, passport or the U.S. Department of State's Diplomatic List at [www.state.gov/s/cpr/rls/dpl/](http://www.state.gov/s/cpr/rls/dpl/).

## Social Security Number

A valid Social Security Number is required for all borrowers. Evidence of social security number must be provided in each case file. An Individual Tax Identification Number (ITIN) is not acceptable.

## Translated Documents

All documents of foreign origin must be filled out in English, or a complete and accurate translation from an acceptable source must be provided for each document.

## Legal Name

Each borrower must use their legal name when applying for a mortgage. Review the following list of documents to ensure the borrower's name is consistent:

- Loan application (1003)
- Credit Report
- DU/LP findings

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Be In Mortgage requires that all pertinent loan documentation be prepared in the borrower's legal name. In most cases the name reflected on the driver's license is utilized to determine the borrower's legal name. However, in those instances where there is a variance between the driver's license, Social Security card, income, and asset documents, the underwriter will exercise due diligence to determine all documents belong to one and the same person.

### Married Names

If a borrower has recently married or is married during loan processing, the new married name, if applicable, will be utilized for all pertinent loan documentation. Be In Mortgage will require a copy of the marriage license if the new name is not reflected on both the driver's license and the social

1.2 **NOTE:** In all of the above cases, an AKA/FKA affidavit containing **all** name variations will be required at closing. 00

security card.

## Multiple Properties

When multiple properties are owned, all mortgages must be current at time of closing. Also, if borrower is purchasing a new home (as owner occupied); however, is not selling current residence, Be In Mortgage may consider the subject as non-owner occupied if the value of the subject is not greater than current residence (case by case).

## Age of Borrower

There is no maximum age limit for a borrower. The minimum age is 18.

## Power of Attorney (at Closing)

VA will allow a veteran to use an attorney-in-fact to execute closing documents necessary to obtain a VA- guaranteed loan. This enables active-duty servicepersons stationed overseas, and other veterans who cannot be present to execute loan documents, to obtain VA loans.

The veteran must execute a specific power of attorney which is valid and legally adequate. The veteran's attorney-in-fact may use this power of attorney to apply for a [Certificate of Eligibility](#) and initiate processing of a loan on behalf of the veteran.

To complete the loan transaction using an attorney-in-fact, ensure that the specific power of attorney complies with state law to the extent that:

- the mortgage can be legally enforced in that jurisdiction, and
- clear title can be conveyed in the event of foreclosure.

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To complete the loan transaction using an attorney-in-fact, VA also requires the veteran's written consent to the specifics of the transaction. This requirement can be satisfied by either:

- the veteran's signature on both the sales contract and the Uniform Residential Loan Application, as long as the veteran's intention to obtain a VA loan on the particular property is expressed somewhere in those documents, or
- a specific power of attorney or other document(s) signed by the veteran, which encompasses the following elements:
  - **Entitlement:** A clear intention to use all or a specified amount of entitlement.
  - **Purpose:** A clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing.
  - **Property Identification:** Identification of the specific property.
  - **Price and Terms:** The sales price, if applicable, and other relevant terms of the transaction.
  - **Occupancy:** The veteran's intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).

In addition, at the time of loan closing, Be In Mortgage must:

- verify that the veteran is alive, and, if on active military duty, not missing in action (MIA), and
- make the following certification:

*“The undersigned lender certifies that written evidence in the form of correspondence from the veteran or, if on active military duty, statement of his or her commanding officer (including statement of person authorized to act for said officer), affirmatively indicating that the veteran was alive and, if the veteran is on active military duty, not missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed on the veteran’s behalf by the attorney-in-fact.”*

It must always be verified that the veteran is alive at the time of loan closing, whether or not the veteran is still in the military. If the lender has difficulty obtaining verification that a service person in a combat area is alive and not in MIA status, the lender may request that VA obtain the necessary information on its behalf. VA may deny guaranty on a loan if the lender failed to properly verify the veteran’s status and the veteran was deceased (or MIA) at the time the loan was closed.

## Rescission

Be In Mortgage will not waive a borrower's three-day right to rescind. No exceptions.

## Taxes and Insurance Escrows

Escrows for taxes and insurance (including flood insurance, if applicable) are required on all VA loans.

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## Flood Insurance

Be In Mortgage requires flood insurance for all properties that are located within a flood zone. If flood insurance is not available in certain flood hazard areas because the community does not participate in the National Flood Insurance Program (NFIP), Be In Mortgage will not finance properties located in those areas.

Be In Mortgage requires flood policies to either be from the NFIP, or be a policy that meets the NFIP requirements, such as those issued by licensed property and casualty insurance companies that are authorized to participate in the NFIP's "Write Your Own" program. Flood policies from a private insurer are not permitted.

The minimum amount of flood insurance required for most first mortgages secured by one- to four-unit properties, individual PUD units, and certain individual condo units (such as those in detached condos, townhouses, or rowhouses) is the lowest of:

- 100% of the replacement cost of the insurable value of the improvements;
- the maximum insurance available from the NFIP, which is currently \$250,000 per dwelling; or
- the unpaid principal balance of the mortgage

**All structures on the mortgaged property must be covered.** Flood insurance premiums **must** be escrowed, regardless of LTV and/or state law. The only exception to this requirement is if the property has adequate flood insurance coverage provided by a condominium association, homeowners association, or similar group, and the premium is paid by the group as a common expense.

## Hazard Insurance

For a first mortgage secured by a property on which an individually held insurance policy is maintained, coverage equal to the lesser of the following is required:

- 100% of the insurable value of the improvements, as established by the property insurer; or
- the unpaid principal balance of the mortgage, as long as it at least equals the minimum amount—80% of the insurable value of the improvements—required to compensate for damage or loss on a replacement cost basis. If it does not, then coverage that does provide the minimum required amount must be obtained.

**NOTE:** Unless a higher maximum is required by state law, the maximum deductible is 5% of the policy face amount.

## Non-Homestead Property Taxes

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

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## Title Companies/Settlement Agents

We do not use an approved title company list. However, we reserve the right to refuse any title company/settlement agent. A loan-specific Insured Closing Protection Letter must be received prior to closing along with specific wiring instructions.

## Title Requirements

### Redemption Periods on Title

Be In Mortgage will not accept an unexpired redemption period exception on the final title policy. This guidance applies when the seller is an entity other than the individual with redemption rights.

### Schedule B

All exceptions reflected in Schedule B of the preliminary title report that may impact lien position must be addressed and/or cleared to ensure the final title policy will reflect the loan in first lien position.

## Delinquent Property Taxes

Any delinquent property taxes being paid at closing on a refinance transaction will be considered a cash-out transaction. Transactions with severely delinquent property taxes must be manually underwritten and are subject to underwriter discretion.

## Verifications

Verification forms (VOEs/VODs/VORs, etc.) must pass directly between the broker and the provider. Verifications must be addressed to the employer or financial institution and may not be directed to an individual (such as may be directed to Account Verification Department or Human Resources but not to John Doe). No document used in the processing or underwriting of a loan may be handled or transmitted by or through the borrower, a real estate agent or any other

interested third party to the transaction. The Verification of Deposit (VOD) and Verification of Employment (VOE) may be faxed documents or printed pages from the Internet if they clearly identify their sources (e.g., contain the names of the borrower's employer or depository/investment firm). The document must contain all headers/footers. Fax transmissions must clearly identify the source and a printed web page also must show its uniform resource locator (URL) address as well as the date it was printed. Verifications obtained through third party vendors such as The Work Number are acceptable.

## Age of Documents

Unless otherwise stated below, or the nature of the document is such that its validity for underwriting purposes is not affected by being older than the number of prescribed days (e.g. divorce decrees, tax returns), all credit documents must be dated within 120 days of the date the Note is signed.

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Closing Protection Letters are valid for 30 days unless the body of the CPL states a different validity period. Termite Certs are valid for 90 days.

Notices of Value (NOVs) are valid for 6 months.

Certificates of Eligibility (CoEs) are valid for 6 months prior to the date of closing.

## Electronic Signatures

Be In Mortgage can accept digital signatures as an original or wet signature as defined by the Electronic Signatures in Global and National Commerce Act, commonly referred to as the E-Sign Act, on origination documents (application, application disclosures, etc).

All loan submissions using eSign must include a Disclosure Tracking Summary or Disclosure Tracking Detail. If the Disclosure Tracking Detail indicate that disclosures were either not delivered in a timely manner to ensure compliance with federal and state regulations, or not in compliance with the eSign Act, the loan is ineligible for delivery to Be In Mortgage.

### Ineligible Documents for eSignature

The following documents require wet signatures:

- Any closing documents or documents that require notarization or witnesses, including Power of Attorney
- SSA-89

## Trusts

A beneficial interest in a revocable Family Living Trust that ensures that the Veteran, or Veteran and spouse, have an equitable life estate, provided the lien attaches to any remainder interest and the trust arrangement is valid under state law.

## LDP/SAM Lists

Be In Mortgage will examine HUD's Limited Denial of Participation (LDP) list and the General Services Administration (GSA) Office of Governmentwide Policy's System for Award Management



(SAM) on all loans. The SAM replaced the GSA list as of October 31, 2012 and consolidates multiple legacy systems into one source of information. This review will be documented in the file and on the VA Loan Analysis. If the name of the borrower, seller, listing or selling real estate agent, or loan officer appears on either list, the application is not eligible.

The LDP list may be checked by going to [https://www5.hud.gov/ecpcis/main/ECPCIS\\_List.jsp](https://www5.hud.gov/ecpcis/main/ECPCIS_List.jsp), and the SAM list by going to <https://sam.gov/reports/fal/standard>

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## Debt-to-Income Ratios / Qualifying Ratios

The VA qualifies the Veteran borrower on a single ratio (no housing ratio), as well as residual income. Residual income is the balance available for family living expenses after deducting income and social security taxes, debts, job related expenses, obligations, and monthly shelter expenses (maintenance and utility costs) from the borrower's income.

VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and so on) to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio greater than 41 percent requires close scrutiny, unless:

- the ratio is greater than 41 percent solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on "grossing up" of the tax-free income.), or
- residual income exceeds the guideline by at least 20 percent.

Loans closed automatically with a debt-to-income ratio greater than 41 percent:

- Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless residual income exceeds the guideline by at least 20 percent.
- The statement must include the reason(s) for approving the loan and list the compensating factors justifying approval of the loan.

See [Residual Income](#).

## Non-Purchasing Spouse

On a purchase transaction, a non-purchasing spouse may appear on the security instrument or otherwise take title to the property at loan settlement. No other party (including a common law spouse) may appear on the security instrument or otherwise take title to the property on a VA purchase/loan. On a purchase or refinance transaction, if required by state law (dower right/homestead states) in order to perfect a valid and enforceable first lien, the non-purchasing spouse may be required to sign either the security instrument and/or other documentation evidencing that he or she is relinquishing all rights to the property. If the non-purchasing spouse executes the security instrument for such reasons, he or she is not considered a borrower for our purposes and need not sign the loan application.

Where there are non-purchasing spouses who sign security instruments relinquishing their rights to the property pursuant to applicable state laws, these non-purchasing spouses do not have to sign the mortgage note. Signing the security instrument for such purposes does not make the non-purchasing spouse a co-borrower.

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Except for the obligations specifically excluded by state law, the debts of the non-purchasing spouse must be included in the borrower's qualifying ratios if the borrower resides in a community property state, or if the property to be insured is located in a community property state. Although the non-purchasing spouse's credit history is not to be considered a reason for credit denial, a credit report that complies with the VA requirements must be obtained for the non-purchasing spouse in order to determine the debt-to-income ratio / residual income.

**NOTE:** A signed letter addressing all inquiries on the non-borrowing spouse's credit report must be provided.

Any New Debt Must be documented for Inclusion in the debt Ratio

Mortgages in the name of the non-purchasing spouse (the person named on the Note is not our borrower) must be verified as paid as agreed. Any delinquency on the mortgage history in the most recent 12 months must be evaluated when determining the credit worthiness of the borrower.

### VA Policy Limiting the Number of Mortgages per Borrower

There is no limit to the number of VA mortgages the borrower may have, but the borrower must have available entitlement.

### Cash Out and Principal Curtailments

When a principal curtailment is permitted, all excess amounts must be clearly reflected on the Closing Disclosure as a principal reduction.

Product	Max Cash to Borrower <sup>1</sup>	Max Principal Curtailment (due to changes in payoff figures, closing costs, etc)	Max Premium Pricing Curtailment
Purchase	\$0	n/a	\$2,500
IRRRL	\$500 <sup>2</sup>	Prohibited	

<sup>1</sup>Closing costs paid out of the borrower's own funds may be reimbursed at closing, and are not considered cash out. <sup>2</sup>Loan amounts must be properly calculated for the specified loan programs. If the cash to borrower is outside of the guidelines, the loan amount must be corrected.

### Debt-to-Income Ratios / Qualifying Ratios

The VA qualifies the Veteran borrower on a single ratio (no housing ratio), as well as residual income. Residual income is the balance available for family living expenses after deducting income and social security taxes, debts, job related expenses, obligations, and monthly shelter expenses (maintenance and utility costs) from the borrower's income.

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VA's debt-to-income ratio is a ratio of total monthly debt payments (housing expense, installment debts, and so on) to gross monthly income. It is a guide and, as an underwriting factor, it is secondary to the residual income. It should not automatically trigger approval or rejection of a loan. Instead, consider the ratio in conjunction with all other credit factors.

A ratio greater than 41 percent requires close scrutiny, unless:

- the ratio is greater than 41 percent solely due to the existence of tax-free income (Put notation regarding the tax-free income in the loan file or calculate an adjusted, smaller ratio based on "grossing up" of the tax-free income.), or
- residual income exceeds the guideline by at least 20 percent.

Loans closed automatically with a debt-to-income ratio greater than 41 percent:

- Include a statement justifying the reasons for approval, signed by the underwriter's supervisor, unless residual income exceeds the guideline by at least 20 percent.
- The statement must include the reason(s) for approving the loan and list the compensating factors justifying approval of the loan.

See [Residual Income](#).

## Compensating Factors

Compensating factors that may be used to justify an approval of a mortgage loan with ratios exceeding the benchmark guidelines are listed below. Any compensating factors used to justify mortgage approval must be supported by documentation and listed on the Loan Analysis Worksheet (VA Form 26-6393):

- The borrower has successfully demonstrated the ability to pay housing expenses equal to or greater than the proposed monthly housing expense for the new mortgage over the past 12-24 months, with little or no increase in monthly shelter expense.
- The borrower makes a large down payment (ten percent or more) toward the purchase of the property.
- The borrower has demonstrated an ability to accumulate savings and a conservative attitude toward the use of credit.
- Previous credit history shows that the borrower has the ability to devote a greater portion of income to housing expenses.
- The borrower receives documented compensation or income not reflected in the effective income, but directly affecting the ability to pay the mortgage, including food stamps and similar public benefits.
- There is only a minimal increase in the borrower's housing expense.
- The borrower has substantial documented cash reserves (at least 3 months' worth) after closing. In determining if an asset can be included as cash reserves or cash to close, the asset must be liquid or readily convertible to cash, and can be done so, absent retirement, death, or job termination (only 60% of the vested balance of a 401(k) / retirement account may be used). Funds borrowed against these accounts may be used for loan closing but are not to be considered as cash reserves. Assets such as equity in other properties and the proceeds from a cash-out refinance are not to be considered as cash reserves. Gift funds that remain

in the borrower's account following closing, subject to proper documentation, may be considered as cash reserves when the loan application is scored through TOTAL Scorecard.

- Conservative use of consumer credit / minimal credit user.
- Long-term employment
- The existence of a large equity position in refinance loans.
- High Residual Income.
- The borrower has substantial non-taxable income (if no adjustment was made previously in the ratio computations and the income was not "grossed up").
- The borrower has potential for increased earnings, as indicated by job training or education in the borrower's profession.
- The home is being purchased as the result of relocation of the primary wage earner, and the secondary wage earner has an established history of employment (yet has not secured new employment), is expected to return to work, and reasonable prospects exist for securing employment in a similar occupation in the new area. The availability of such possible employment must be documented in the loan file.

## Solar Panels

When considering properties with solar panels, Be In Mortgage must take into consideration ownership of the solar panels and any liens upon the property relating to debt or lease payments used to obtain the solar panels. For example, solar panels not owned by the Borrower can be financed via several types of agreements such as lease agreements or a power purchase agreement (PPA). Be In Mortgage must review any UCC-1 Financing Statement or lease agreement associated with the solar panels to determine if liens are against the real estate or against the solar panels themselves. The property must maintain access to electrical utilities consistent with community standards. Be In Mortgage must adhere to the following requirements when solar panels are present on the Mortgaged Premises based on whether the solar panels are leased, financed or owned:

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	<b>Solar Power Purchase Agreement (PPA)</b>	<b>Solar Panel Lease</b>	<b>Solar Panels Financed as Personal Property</b>	<b>Solar Panel Financed as a Fixture to Real Estate</b>	<b>Solar Panels Owned Free and Clear</b>
<b>Description</b>	The Borrower purchases power produced by the solar panels, and the Borrower is not the owner of the solar panels.	The Borrower does not own the solar panels and the Borrower pays monthly lease payments to have access to the solar panels.	The Borrower owns the solar panels, purchased the solar panels with a note/security agreement and is entitled to power produced by the panels.		Borrower owns the solar panels and has no related debt.
<b>Title</b>	UCC-1 Financing Statement or lease agreement associated with the solar panels recorded in the applicable land records and claiming an interest in the solar panels but not the real estate; the Seller does not need to obtain a subordination agreement of the UCC-1 Financing Statement.		UCC-1 Financing Statement recorded against title to the Mortgaged Premises, creating a lien on the real estate itself (i.e., claiming an interest in both the solar panels and the real estate, not just the solar panels); it must be subordinated or released.		There must be no UCC-1 Financing Statement or notice recorded against the Mortgage Premises.  In the event there is a UCC-1 Financing Statement, it must be released.
<b>Appraisal</b>	The solar panels must not be included in the appraised value of the property.  The appraiser must comment on the marketability of the home with solar panels present and identify solar panels and system features.		The solar panels must not be included in the appraised value of the property if the lender may repossess the solar panels for default on the financing terms.		Be In Mortgage must ensure the appraiser has recognized the existence of the solar panels and considered the solar panels in the appraiser's opinion of the market value of the property.

<b>Debt payment-to-income (DTI) ratio</b>	<p>Lease payments for solar panels may be excluded from the monthly DTI ratio if the lease:</p> <ul style="list-style-type: none"> <li>• Provides for delivery of a specific amount of energy for an agreed upon payment during a given period, and</li> <li>• Includes a production guarantee under which the Borrower is compensated on a prorated basis when the energy produced by the solar panels is less than the level required by the lease agreement.</li> </ul> <p>Payments for solar panels subject to a PPA or similar type of agreement may be excluded from the monthly DTI ratio if the payment is calculated based only on the generated energy</p>	<p>Payment to solar company or lender is included in the DTI ratio</p>	<p>Payment to solar company or lender is included in the DTI ratio</p>	<p>N/A – no payment required</p>
<b>Total loan-to-value (TLTV) ratio</b>	<p>Not included in the TLTV ratio</p>	<p>Included in the TLTV ratio</p>		<p>N/A</p>
<b>Obtain a copy of the lease, PPA or note/security agreement</b>	<p>Damage that occurs as a result of installation, malfunction, or the removal of the solar panels is the responsibility of the owner of the equipment. The owner must be obligated to repair the damage and return the improvements to their original or prior condition. In the event of foreclosure, the Seller/Service may:</p> <ul style="list-style-type: none"> <li>• Terminate the lease agreement or PPA and require the owner of the equipment to remove the panels and supporting equipment.</li> <li>• Become the beneficiary of the Borrower’s lease agreement or PPA without incurring a transfer fee; or</li> <li>• Enter into a new lease agreement or PPA with the owner of the equipment under terms no less favorable than the existing lease agreement or PPA</li> </ul>			<p>N/A</p>
<b>Homeowner’s Insurance</b>	<p>The owner of the solar panels agrees to not be a loss payee (or named insured) on the homeowner’s insurance policy covering the property.</p>			<p>N/A</p>

**Solar Leases and Power Purchase Agreements**

Solar Leases and Power Purchase Agreements are agreements that are similar to renting a solar panel system. Under these arrangements, the solar leasing company owns and maintains the solar

panel system. These differ from PACE/Hero loans as they are not collected as special assessments by the taxing authority. Instead, the borrower pays the leasing company directly, which generally places a lien (UCC filing) on title.

### **Solar Lease & PPA Facts**

Term Length: Residential solar leases are usually for 20 to 25 years.

Performance & Maintenance: The leasing company will monitor the system's performance to ensure that it is operating correctly for the duration of the lease. They are also responsible for maintaining and repairing it, although solar panels require little to no maintenance over their lifetime.

Buying the System: The solar panel system can be bought at any time during the lease term, at the price defined in the contract or its fair market value, whichever is higher.

Selling the Home: If the property is being sold, the remainder of the lease can be transferred to the homebuyer, or the system can be bought from the leasing company by the seller and included in the sale of the property.

At the End of the Term: When the agreement ends, the system can either be bought outright, the leasing company can remove it, or the system can be left in place and the agreement renewed with the owner.

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## **Program Specifics**

### **Broker Approval**

Each broker (referred to as “Agent” by VA) must contact the VA office with jurisdiction over its home office to obtain a VA lender ID number if it does not already have one. This number is used as the agent’s identifier in all VA lending transactions. In addition, you must be approved with Be In Mortgage to submit VA loans.

The broker must provide the following information to Be In Mortgage:

- Copy of Veteran’s Administration approval of Agent reflecting VA Lender ID number.
- List of geographic areas (states) in which the agent will be originating VA loans (must be licensed in states).
- Main Contact of Agent – name, address and phone number (should be someone at agent’s main office).
- Corporate Check in the amount of \$100 made payable to the Department of Veterans Affairs.

Be In Mortgage will then submit this documentation to VA to obtain their recognition of the broker as an Agent for Be In Mortgage.

## Required Forms

### Origination Forms

Loan cannot be underwritten without these forms. These forms are required in addition to the standard required forms/disclosures such as the Loan Application, HUD/VA Addendum to the Loan Application, Good Faith Estimate, Borrower Cert/Auth, etc.

#### ***Loan Analysis Worksheet – VA 26-6393***

Used by underwriter to analyze applicant's income, expenses and creditworthiness, and indicate the credit decision. For detailed directions on how to complete and analyze Form 26-6393, see Chapter 4, Sections 9 and 10 of the 26-7 (2019 revision).

#### ***Request for Determination of Reasonable Value – VA 26-1805***

Used to order appraisals for the purchase of VA REO transactions. Form must be completed and submitted to VA (see [Appraisal](#) section). Most appraisals are ordered through VA's webLGY.

#### ***Counseling Checklist for Military Homebuyers – VA 26-0592***

Active-duty military borrowers and their lenders must sign this form to certify that the borrower has received counseling on homeownership and the loan obligation.

#### ***Compliance Inspection Report – VA 26-1839***

Used by the VA Appraiser to report property inspection results as required by the VA Notice of Value (NOV).

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#### ***Request for Certificate of Eligibility – VA 26-1880***

Veteran's application for a Certificate of Eligibility (CoE) and/or Restoration of Entitlement. The Veteran must submit proof of military service (DD-214) or any existing CoE with the application.

#### ***Request for Certificate of Eligibility Unmarried Surviving Spouse – VA 26-1817***

Application for VA Eligibility used by an un-remarried surviving spouse of a deceased Veteran (that died as a result of a service or service-connected causes).

#### ***Federal Collection Policy Notice – VA 26-0503***

This form is not needed when a Uniform Residential Loan Application (URLA) and the Department of Housing and Urban Development (HUD)/VA Addendum are used as the information is incorporated in those forms. If the URLA and HUD/VA Addendum are not used on an IRRRL, Form 26-0503 is required.

#### ***Debt Questionnaire – VA 26-0551***

Veteran-borrower completes and signs the form to provide information on prior VA loans and potential indebtedness to the Federal Government. All loan submissions must include this form.

#### ***Reservist/National Guard Certification***

All Veteran borrowers must complete and execute the Reservist/National Guard Certification.



When activated with the Reserves or Guard, Veterans whose loans are in process or ready to close may be subject to a sharp reduction in income. It's important to recognize that activated reservists whose incomes are reduced may be unable to qualify for the loan they're seeking. Therefore, except in cases where the Veteran is currently serving on active duty and qualifying income is derived from such service, Be In Mortgage must ascertain if the Veteran has been notified of a mobilization of his or her unit. If the Veteran is in a unit with actual orders for mobilization, the loan must be underwritten on the basis of the Veteran's income on active duty.

#### ***VA 3-Year Hybrid ARM Disclosure***

Program disclosure for Hybrid ARM; all loan submissions of the 3/1 Hybrid ARM must include the appropriate ARM Disclosure.

#### ***VA 5-Year Hybrid ARM Disclosure***

Program disclosure for Hybrid ARM; all loan submissions of the 5/1 Hybrid ARM must include the appropriate ARM Disclosure.

#### ***VA ARM Certification***

Certification the Veteran borrower received both the ARM Program disclosure and the Consumer Handbook on Adjustable-Rate Mortgages is required. All loan submissions of the 3/1 and 5/1 Hybrid ARM must include this certification.

#### ***VA Notice to Homeowner***

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran borrowers must execute notification prior to or at the time of loan closing.

#### ***Veterans Certification***

Veterans must complete and sign this disclosure. If Veteran responds "yes" to any of the questions numbered 1 through 4, then the Verification of Benefit Related Indebtedness form must be sent to the VA regional office for completion. The Veteran must complete the nearest living relative information. All loan submissions must include this form.

### **Closing Forms**

#### ***Report and Certification of Loan Disbursement – VA 26-1820***

Used to report all closed home loans (both automatic and prior approval) to VA and request guaranty.

#### ***VA Notice to Homeowner***

VA Notice of Assumption of VA Guaranteed Mortgages. Veteran borrowers must execute notification prior to or at the time of loan closing.

### **Miscellaneous Forms**

#### ***Certificate of Release or Discharge from Active Duty – DD Form 214***

The Defense Department issues to each Veteran a DD-214, identifying the Veteran's condition of discharge - honorable, general, other than honorable, dishonorable or bad conduct. Before January 1, 1950, several similar forms were used by the military services, including the WD AGO 53, WD AGO 55, WD AGO 53-55, NAVPERS 553, NAVMC 78PD, and the NAVCG 553. This form is required for the Veteran to obtain a Certificate of Eligibility. While not required on every transaction, the DD-214 is required in cases of recently discharged Veterans and documents a 2 year employment history.

## Other Important Links/Documents

[VA Regional Loan Centers \(RLCs\)](#)

[2024 VA County Loan Limits](#)(These limits apply to all loans closed 1/1/2024 through 12/31/2024)

*\*Same as the FHFA's limits. For purposes of determining the VA guaranty (for loans closed prior to 2020 and/or to veterans with partial entitlement and/or loan amounts less than or equal to \$144,000), reference only the one-unit limit, regardless of the number of units in the subject property.*

### ***How to read an Active Duty Leave & Earnings Statement (LES)***

For interactive explanation/understanding of the LES for Army, Navy, Air Force, Reserves/National Guard, or for the Civilian Pay Interactive LES, click [here](#).

### ***Federal Income Tax Chart***

<http://www.irs.gov/pub/irs-pdf/p15.pdf> The "Employer's Tax Guide," Circular E, issued by the Internal Revenue Service. Use the income tax withholding from gross wage charts for monthly payroll.

### ***Department of Revenue/State and Local Income Tax information***

<http://www.aicpa.org/yellow/yptsgus.htm>

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## **Eligibility Requirements**

### **Veteran Eligibility Rules/Documentation Requirements**

#### **Veterans Discharged from Regular Military**

For Veterans that have been discharged from regular military, the *Certificate of Release or Discharge From Active Duty* (DD Form 214) will generally contain all the information needed for VA to make an eligibility determination for persons who served in a regular component of the Armed Forces. The regular Armed Forces include active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard.

Be In Mortgage will require a legible copy of DD Form 214 for all recently discharged Vets (or if needed to document a 2 year employment history). Persons separated from military service after January 1, 1950 should have received DD Form 214. Persons separated after October 1, 1979 should furnish Copy 2, 4, 8, or any copy of a DD Form 214 that includes character of service and separation reason. Persons separated from active duty before January 1, 1950 received documentation other than DD Form 214.

To be acceptable, the DD Form 214 should indicate the length of service and character of service. A DD Form 215 is issued to correct any incorrect information on a DD-214. If a DD-215 is submitted, the DD-214 must also be included.

### **Veterans Discharged from the Reserves/National Guard**

For Veterans that have been discharged from the Reserves/Guard, there is no one form used which is similar to DD Form 214. Selected Reserve describes a member or unit with the Ready Reserve designated by their respective services and approved by the Joint Chiefs of Staff as so essential to initial wartime missions that they have priority over all other reserves.

The National Guard is a unique element of the U.S. Military that serves both community and country. Any state governor or the President of the United States can call on the Guard in a moment's notice.

Discharged members of the Army or Air National Guard may submit NGB Form 22, *Report of Separation and Record of Service*, and NGB Form 23B, *Retirement Points Summary Statement*, with the COS document. Members of the Reserves should submit their points statement with COS.

Typically, all members of the Reserves and/or Guard receive an annual retirement point summary that indicates the level and length of participation at or near the Veteran's anniversary date. The applicant should submit the latest such statement received along with evidence of honorable service. This is required for all recently discharged Vets (or if needed to document a 2 year employment history).

### **Active-Duty Service Personnel**

Veterans still on active duty must provide a current Statement of Service letter, signed by or at the direction of, the adjutant, personnel office, commander of the unit, or higher headquarters to which they are attached.

The *Statement of Service* is required as proof of service when a Veteran is serving on active duty. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer-generated. The statement of service must clearly show the following:

- Veteran's full name,
- Social Security Number (SSN),

- Date of Birth (DOB),
- The entry date on active duty,
- The duration of lost time, if any, and
- The name and point of contact of the command or unit.

### Reservists

Individuals who are still members of the Reserves/Guard must provide a *Statement of Service* signed by, or by the direction of, the adjutant, personnel office or commander of the unit or higher headquarters to which they are attached.

The *Statement of Service* is required as proof of service when a reservist continues to serve in the selected reserves. There is no one form used uniformly by the military for a statement of service. While statements of service are typically on military letterhead, some may be computer generated. The statement of service must clearly show the following:

- Veteran's full name,
- Social Security Number (SSN),
- The entry date of applicant's Reserve/Guard duty, and
- The unit must state the creditable (actually drilled) years served in the Reserves or National Guard.

If called to active duty, a copy of the orders must accompany the SOS with the name and point of contact for the command or unit.

The statement must clearly indicate that the applicant is an "active" reservist or National Guard member and not just in a control group (inactive status).

If Veterans cannot locate proof of service, they can request military documents either through the National Archives, <http://www.ebenefits.va.gov/>, or by completing SF- 180, *Request Pertaining to Military Records*. The completed form should be submitted to the appropriate address shown. It should not be sent to VA.

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In many cases, VA internal systems will have sufficient information to make the eligibility determination for those who served on active duty. Lenders and Veterans should not delay requesting a COE pending receipt of requested military documents.

Members of the Reserves or National Guard who are not otherwise eligible for home loan benefits are eligible for VA loans. They must have completed six (6) years of service in the Selected Reserve and must have been honorably released unless continuing to serve in the Selected Reserve. The Selected Reserve includes reserve components of the Armed Forces, the Army National Guard and the Air National Guard. A reservist who has been discharged from the Reserves or National Guard due to a service-connected disability prior to completing six (6) years of service is also eligible.

Members of the Reserves or National Guard, mobilized under Title 10, are eligible once they have served at least 90 days. Once they are mobilized and served the required time, they are considered “regular” Veterans.

**NOTE:** An online printout of the Statement of Service is insufficient documentation. The actual Statement of Service, signed by the commanding officer, must be provided due to missing

### **Certification of Military Reservist Status**

If the borrower is in the reserves, Be In Mortgage must be notified if the borrower’s status has been activated to active duty. If the borrower’s status changes prior to the loan closing, Be In Mortgage must be notified as it could affect the underwriting of their mortgage loan.

For all loan applications, Veteran borrowers must complete the *VA Certification of Military Status* and indicate the following:

- If they are currently in the military reserves, and
- Whether or not they have been activated to active duty.

**NOTE:** The Underwriter will verify this information has been completed.

### **Unmarried Surviving Spouses**

Some spouses of Veterans may have home loan eligibility. The conditions to determine if the spouse qualifies are as follows:

- The unmarried surviving spouse of any Veteran who died as a result of service or service-connected causes (there is no time requirement for length of service), and
- The spouse of an active-duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. (Eligibility under this MIA/POW provision is limited to one (1) time use only.)

The *Request for Determination of Loan Guaranty Eligibility – Unmarried Widows and Widowers* (VA Form 26-1817) must be completed and forwarded to the VA Eligibility Center. Eligibility determinations for unmarried surviving spouses may take considerably longer to process than others. [Back to Top](#)

A loan obtained with a surviving spouse *Certificate of Eligibility* requires an affidavit at closing that the surviving spouse is not married.

**NOTE:** A surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003, may be eligible for the home loan benefit. Applications from surviving spouses who remarried before December 16, 2003 are ineligible

### **Spouses of Service Personnel Missing in Action or Prisoners of War**

The spouse of any member of the Armed Forces on active duty who is listed as Missing in Action, or captured or interned in the line of duty, and has been so listed for a total of more than 90 days,

is eligible for one guaranteed loan for the acquisition of a home.

Eligibility automatically terminates when the service personnel is no longer listed as Missing in Action or as a Prisoner of War.

A loan obtained with a surviving spouse *Certificate of Eligibility* requires an affidavit at closing that the surviving spouse is not married.

### **Veteran with Non-Veteran/Non-Spouse**

Be In Mortgage will not finance a VA loan for a Veteran with a Non-Veteran/Non-Spouse either in title or on the loan (including “common law marriages”). A Veteran and a Non-Veteran other than a spouse may be eligible under VA guidelines; however, **VA will only guaranty the portion of the loan that is allocable to the Veteran’s interest in the property.** Transactions involving a Veteran who will hold title with another party that is not his/her spouse, are considered [Joint Loans](#) by VA, even if the other party will not be an applicant/borrower on the loan. No portion of the guaranty applies to the portion of the loan allocated to the non-Veteran. In the event of a foreclosure where a loss is sustained, the mortgagee must absorb any loss attributable to the non-Veteran’s portion. **Generally, this does not provide enough coverage for the lender on the loan and is not eligible for financing.**

For example, if the transaction has a sales price/loan amount of \$100,000 with the Veteran and a non-Veteran/non-spouse holding title, the Veteran’s interest in the property would be 50%. The loan guaranty certificate would only show a loan amount of \$50,000 and VA’s guaranty would only apply to that amount.

### **Two or More Veterans that are Not Married**

In Circular 26-19-13, the VA clarified that if the borrowers are two unmarried Veterans that both want to use their entitlement, the loan no longer has to be submitted to VA for prior approval. These transactions may be underwritten and closed by Be In Mortgage.

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### **Military Personnel within 12 Months of Active-Duty Release**

A Veteran borrower or reservist who is within 12 months of release from active duty as of the anticipated date of loan closing requires certain specific information.

An enlisted Veteran borrower’s *Leave and Earnings Statement* (LES), an officer’s orders, or a member of the National Guard or Reservist’s current contract will show the date of expiration of the Veteran’s current contract for active service. If that date is within 12 months of the anticipated date that the loan will close, the loan package submitted for approval must include one (1) of the following:

- Documentation that the Veteran or reservist has in fact 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 release from active duty, including the date employment will begin and earnings must be included, 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 following the projected loan closing date, **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 as indicated, **and**
  - That the commanding officer has no reason to believe that such reenlistment or extension of active duty will not be granted.

Documentation of other unusually strong, positive underwriting factors may also be used as compensating factors, such as:

- A down payment of a least 10%
- Significant cash reserves
- 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.

## Joint Loans

"Joint loan" generally refers to a loan for which the:

- Veteran and other person(s) are liable, and
- Veteran and the other obligor(s) own the security.

A joint loan is a loan made to the:

- Veteran and one or more non-Veterans (not spouse),
- Veteran and one or more Veterans (not spouse) who will not be using their entitlement,
- Veteran and the Veteran's spouse who is also a Veteran, and both entitlements will be used

A loan involving a Veteran and his or her spouse will not be treated as a "joint loan" if the spouse is:

- not a Veteran, or
- a Veteran who will not be using his or her entitlement on the loan.

A loan to a Veteran and fiancé who intend to marry prior to loan closing and take title as Veteran and spouse will be treated as a loan to a Veteran and spouse (conditioned upon their marriage), and not a joint loan.

### Veteran/Non-Veteran Joint Loan

Common meaning: A loan involving one veteran and one nonveteran (not spouse).

For purposes of applying the principles explained in this section, this term will also be used to

represent any other type of joint loan involving at least one Veteran using his or her entitlement, and at least one other person not using entitlement (can be a Veteran or a non-Veteran, but not a spouse).

### ***Examples***

- Three Veterans using entitlement and one non-Veteran
- One Veteran using entitlement and four non-Veterans
- Two Veterans using entitlement and two Veterans not using entitlement.

### **Two Veterans Joint Loan**

Commonly meaning a loan involving two Veterans who are not married to each other, and both are using their entitlement. For purposes of applying the principles explained in this section, this term will also be used to represent any other type of joint loan involving only Veterans, each of whom uses his or her entitlement.

This may also include loans to the following:

- The Veteran and the Veteran's spouse who is also a Veteran, if both entitlements will be used.
- Entitlement and funding fees are separate. Funding fees are always calculated equally by the number of people on the loan. It is based on each Veteran paying their equal share of the loan.
- On a Veteran/non-Veteran loan, the funding fee is based on half of the base loan amount, down payment, and sales price for the correct funding fee charge.
- VA will only guarantee the Veteran's portion of the total loan amount.

***NOTE:*** *A loan to two veterans that are not married but are both using their entitlement is the only type of non-spouse joint loan permitted by City Lending Inc (prior approval not required).*

### **Prior Approval Requirements**

Any joint loan for which the Veteran will hold title to the property and any person other than the Veteran's spouse must be submitted for prior approval. **Be In Mortgage does not permit Joint Loans that require VA Prior Approval.**

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Any loan for which the Veteran and Veteran's spouse will hold title to the property: whether or not the spouse also uses entitlement, may be closed automatically by the lender with automatic authority. This type of joint loan does not have to be submitted for prior approval.

## **Certificate of Eligibility**

The Certificate of Eligibility (COE) provides verification of the amount of the Veteran's available entitlement, verification of exempt/non-exempt from the VA Funding Fee, and the amount of VA monthly service-connected disability compensation. A Certificate of Eligibility is required on all purchase and cash-out transactions and is utilized to calculate the Veterans Entitlement. See



Entitlement Code chart below.

To obtain a COE, use VA's online application to obtain the COE. Go to [VA's Information Portal](#) and select WebLGY from applications, then select Eligibility and follow the prompts. In many cases, COE can be generated in seconds. If not, select a link to submit an electronic application. This method allows you to upload supporting documentation, if necessary, and submit an application electronically to the Eligibility Center. Order the COE before ordering the VA appraisal. If the COE is issued with reduced entitlement and restoration is needed, use the "Correct COE" function to request an updated COE.

Veterans may also apply for a COE online. For more information, visit the VA website at <https://benefits.va.gov/homeloans/> Obtain a Prior Loan Validation through WebLGY by selecting Eligibility from the toolbar and then Prior Loan Validation. If the Prior Loan Validation is unsuccessful, submit an electronic application to require a Certificate of Eligibility.

Once a COE is issued there may be conditions on the COE which must be met in order to receive a guaranty. The conditions that could appear on the COE are:

- Active- Duty Service Member (ADSM) - Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of date of note is required. This COE is not valid if the ADSM was discharged after the date of the certificate. In this instance, a new COE must be obtained.
- Funding Fee – Please fax a copy of [VA Form 26-8937](#) to the Regional Loan Center (RLC) of Jurisdiction. Please have the lender contact the RLC for loan processing.
- Funding Fee – Veteran is not exempt from funding fee due to non-service connected pension. Loan application will require prior approval processing by VA.
- Reserve or National Guard Member – Valid unless discharged or released subsequent to the date of this certificate. A certification of continuous service in the Selected Reserve or National Guard as of the date of the note is required.
- Reserve/National Guard Funding Fee – Entitlement is based on service in the Selected Reserve and/or National Guard so an increased funding fee is required.
- Refinance Restoration – Restored entitlement previously used or charged for a VA Loan Identification Number (LIN) as shown here is available only for use in connection with the property which secured that loan.
- One-Time Restoration – Entitlement previously used for a VA LIN has been restored without disposal of the property, under provision of 38 U.S.C. 3702 (b)(4). Any future restoration requires disposal of all property obtained with a VA loan.
- Subsequent Use Funding Fee – Entitlement code of "5" indicates previously used entitlement has been restored. The Veteran must pay a subsequent use funding fee on any future loan unless the Veteran is exempt.
- Surviving Spouse – Eligibility of the surviving spouse and the validity of guaranty entitlement hereby evidenced will be null and void if any change in marital status occurs, subsequent to the date of this COE and prior to the date a loan to the widow or widower is closed, unless the lender making the loan was not aware of any change in marital status and

obtained on the date the loan closed an affidavit from the surviving spouse in the form prescribed by the Secretary.

- Prisoner of War/Missing in Action (POW/MIA) – This certificate evidences eligibility under 38 U.S.C 3701 (b)(3) of the individual named as the spouse of a Servicemember missing in action or prisoner of war. Any unused entitlement will terminate automatically upon the receipt of official notice that the Servicemember is no longer in a category specified in 38 U.S.C. 3701 (b)(3) or upon dissolution of marriage.
- Paid-in-Full Loan – Entitlement charged on a paid-in-full loan cannot be restored until the Veteran applies for restoration of entitlement. The lender shall submit the application electronically through VA’s Automated Certificate of Eligibility (ACE) online application.
- Foreclosed Loan – Entitlement charged on a foreclosed loan cannot be restored until VA’s loss on the loan has been fully repaid. Information about repayment of the loss may be obtained by contacting an RLC.

### Funding Fee Field

The “funding fee” field appears near the top of the COE. The exemption status, either “exempt”, “non-exempt” or “contact RLC” will appear to the right of this field:

- Exempt status indicates a Veteran is exempt from paying the funding fee.
- Non-exempt status indicates a Veteran is not exempt from paying the funding fee.
- Contact RLC indicates a system-generated determination is not available, or any loan may need to be submitted to VA as prior approval.

All “conditions” appearing near the middle portion of the COE must be complied with.

Be In Mortgage may rely on the “exempt” status appearing next to the “funding fee” field for verification of the funding fee exemption. If the dollar amount is different than what is shown on the COE, use the most recent bank statement or award disability award letter for verification. Additionally, on COEs with an “exempt” status, lenders may treat any service-connected disability income amount appearing in the “condition” section of the COE as verified income. There is no need to fax in VA Form 26-8937 to confirm the status or amount showing on the COE.

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### Entitlement Codes

Entitlement Codes:	Era	Era Date	Time Required
01	World War II	09/16/40 - 07/25/47	90 days
08	Post-World War II	07/26/47 - 06/26/50	181 days
02	Korean War	06/27/50 - 01/31/55	90 days
03	Post-Korean	02/01/55 - 08/04/64	181 days

04	Vietnam War	08/05/64 - 05/07/75 <u>Note:</u> The Vietnam Era began 02/28/61 for those individuals who served in the Republic of Vietnam.	90 days
09	Post-Vietnam	05/08/75 - 09/07/80 05/08/75 - 10/16/81 09/08/80 - 08/01/90 10/17/81 - 08/01/90	Enlisted - 181 days Officers - 181 days Enlisted - 2 years* Officers - 2 years* <u>*Note:</u> The Veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime).
10	Persian Gulf War	08/02/90 - present	2 years <u>*Note:</u> The Veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime).

### Entitlement Codes for Other People

Entitlement Code	Other Eligible Persons	Time Required
None	Active-Duty Member <u>Note:</u> Certificate only valid while Veteran remains on active duty	90 continuous days (181) during peacetime).
11	Reserves/National Guard	6 years in Selected Reserves (unless active duty under Title 10 or 90 continuous days
06	Un-remarried Surviving Spouse	There is no time requirement. Veteran must have died on active duty or from a service-connected disability.
07	Spouse of POW/MIA	Veteran must have been POW or MIA 90 days.
05	Entitlement Restored	Time required remains as per tables.

### **Entitlement**

Entitlement is the amount available for use on a loan. The amount of basic entitlement is \$36,000. This may be reduced if a Veteran has used entitlement before which has not been restored. The amount of basic entitlement will be displayed near the center of the COE. For example, it may say:

“THIS VETERAN’S BASIC ENTITLEMENT IS \$ \_ \_ .  
TOTAL ENTITLEMENT CHARGED TO PREVIOUS VA LOANS IS \$ \_\_\_\_\_.”

**Loans Closed Without Full Entitlement and/or Less Than \$144,001**

For loans greater than \$144,000, bonus entitlement may be available. For loans greater than \$144,000, but less than \$647,200, the entitlement is 25 percent. For loans greater than \$647,200, the maximum entitlement is 25 percent of the loan limit, which can vary by county. Loan limits by county can be found [here](#). Please note county limits can change yearly. VA will post the limits for each year on their website as they change.

The Veteran may have entitlement for loans greater than \$144,000, as the COE does not reflect the bonus entitlement. Instead, an asterisk by the word “available” refers to a note, which explains the possibility of additional entitlement.

If the Veteran previously used entitlement which has not been restored, available entitlement is reduced by the amount used on the prior loan(s). Be In Mortgage has three options in this situation:

- Make the loan knowing that VA’s guaranty is limited to the amount of available entitlement, or
- Have the Veteran apply for restoration of previously used entitlement, or
- The Veteran may provide a down payment in conjunction with their remaining entitlement.

Complete the VA Entitlement Worksheet to assist in determining the maximum mortgage loan amount and the amount of down payment or equity required for Veterans with full or partial entitlement. **The guaranty percentage can never be less than 25%, in compliance with GNMA requirements.**

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 \$647,200	25% of the loan amount with a maximum of \$137,062

**NOTE:** The Veteran must provide a written statement regarding membership in the Reserve or National Guard.

**Loans Closed for \$144,001 or Greater with Full Entitlement**

The Blue Water Navy Vietnam Veterans Act of 2019 allows veterans with full entitlement the maximum amount of guaranty (25%) for a loan above \$144,000, without respect to the County Loan Limits. Use the VA Entitlement Worksheet to determine whether the County Loan Limits are a factor in determining guaranty.

**Restoration of Previously Used Entitlement**

Entitlement previously used in connection with a VA home loan may be restored under certain circumstances. Once restored, it can be used again for another VA loan. Restoration of previously

used entitlement is possible if:

- property which secured the VA-guaranteed loan has been sold, and the loan has been paid in full; or
- eligible Veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming Veteran, substituting his/her entitlement, must also meet occupancy, income, and credit requirements. This should be completed before requesting the Loan Guaranty Certificate in WebLGY, on the new loan.

### ***Special Restoration Cases***

In addition to the basic restoration criteria outlined above, a Veteran may obtain restoration of the entitlement used on a prior VA loan under any of the following circumstances:

- Regular “cash-out” refinance where the prior VA loan has been paid in full and the Veteran has made application for a refinance loan to be secured by the same property which secured the prior VA loan. This includes refinancing situations, in which the prior loan will be paid off at closing from a VA refinancing loan on the same property, or
- One-time restoration where the prior VA loan has been paid in full, but the Veteran has not disposed of the property securing the loan. The Veteran may obtain restoration of the entitlement used on the prior loan in order to purchase a different property, one time only. Once such restoration is used, the Veteran’s COE will indicate the one-time restoration. The COE will also advise that any future restoration (purchase or cash-out refinance) will require disposal of all property or properties obtained with a VA loan.

For example, a Veteran used all his entitlement to purchase a home for \$453,100 in a non-high-cost county in Maryland. Prior to job relocation to GA, he refinanced the loan to a non-VA loan. The loan was paid in full; however, he still owned the property. He now wants to purchase a home in GA and applies for a one-time restoration. This is possible. If the Veteran wants to use the benefit in the future for another purchase or regular “cash-out” refinancing, both properties would have to be disposed of before entitlement can be restored.

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## **Funding Fee**

The Veteran must pay a funding fee on all VA loans. The funding fee is a one-time, up-front charge applied as a percentage to the Base Loan Amount. The funding fee may be financed in whole (rounded to the nearest \$1.00) or paid in cash, unless VA has exempted the Veteran.

The funding fee is a one-time fee that is charged at closing. The funding fee is not refundable, even if the Veteran refinances to another VA loan at a later date. There are no monthly premiums on the funding fee.

In some cases, the loan amount may exceed the applicable LTV by the amount of the funding fee; however, it cannot exceed the VA County Loan Limits. If the purchase price and base loan amount exceeds the VA County Loan Limits and the borrower is making a cash down payment, the VA Funding Fee can be financed in.

The Certificate of Eligibility must be reviewed closely to verify if the borrower has previously used his/her eligibility as noted by the appropriate Entitlement Code (see [Entitlement Codes](#)).

All Veterans must pay the VA funding fee except the following:

- A veteran who is receiving disability compensation (or who, but for the receipt of retirement pay or active service pay, would be entitled to receive compensation)
- A surviving spouse of any veteran (including a person who died during active military, naval, or air service) who died from a service-connected disability. The surviving spouse must be in receipt of Dependency and Indemnity Compensation (DIC).
- A veteran who is rated eligible to receive compensation resulting from a pre-discharge disability examination or rating or based on a pre-discharge review of existing medical evidence that results in the issuance of a memorandum rating before the loan closing takes place.
- Members of the Armed Forces who are serving on active duty and provide, on or before the date of loan closing, certificate or military orders of having been awarded the Purple Heart

**NOTE:** Exemption is verified by the VA Benefit-Related Indebtedness Letter (VA Form 26-8937). The funding fee **cannot** be waived under any circumstances without VA's executed statement of the Veteran's exempt status on the VA Benefit-Related Indebtedness Letter

### Funding Fee Exemption Determination

Ensuring that the funding fee exemption information is up to date at the time of closing is essential to avoid incorrect charges to exempt Veterans. Lenders must not advise Veterans who believe they are exempt from paying the funding fee to close on a loan without first establishing their funding fee exemption status and request a funding fee refund at a later date. The veteran's funding fee exemption status must be established before closing.

For all loans, if the COE does not show that the Veteran is exempt from paying the funding fee, Be In Mortgage must ask the Veteran if he or she has a claim for compensation pending with VA. If so, Be In Mortgage must obtain an updated COE no earlier than 3 days before the loan closing using the COE "Correct" function in WebLGY. Instructions for the "Correct" function are found in the "Quick Reference Document for Correct Certificate of Eligibility" available here. Step-by-step instructions are available on the VA's Lender Resource webpage in the Lender's COE tutorial.

Be In Mortgage must ask the Active Duty Servicemember if he or she has a pre-discharge claim pending. If so, the Regional Loan Center (RLC) must be contacted immediately by email to request assistance in obtaining a proposed or memorandum rating in the event that the Servicemember may be exempt from paying the funding fee as noted in Item 2 above. While Form 26-8937, Verification of VA Benefits, may be submitted, an alert to the RLC by email is also required to

ensure the RLC is aware of the need for the proposed or memorandum rating. If a proposed or memorandum rating is not obtained and a closing takes place, the Servicemember is not eligible for funding fee exemption.

### Requirements

For loans closed on/after January 1, 2020, the following table summarizes funding fee rates for the most common types of loans for all veterans (Regular Military, Reserves, and National Guard).

Type of Loan	Down payment	Percentage for First Time Use	Percentage for Subsequent Use
Purchase	None	2.30%	3.60%
	5% but less than 10%	1.65%	1.65%
	10% or greater	1.40%	1.40%
Cash Out Refinance	n/a	2.30%	3.60%
IRRRL	n/a	0.50%	0.50%

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For loans closed prior to January 1, 2020, the following tables show the required funding fee percentages according to type of Veteran, down payment, and use of prior entitlement.

Purchase Loans			
Type of Veteran	Down Payment	Percentage for First-Time Use	Percentage for Subsequent Use
Regular Military (Active Duty or Veteran)	0 – 4.99%	2.15%	3.30% <sup>1</sup>
	5 – 9.99%	1.50%	1.50%
	10% or more	1.25%	1.25%
Reserves/National Guard	0 – 4.99%	2.40%	3.30% <sup>1</sup>
	5 – 9.99%	1.75%	1.75%
	10% or more	1.50%	1.50%

<sup>1</sup> the higher subsequent use fee does not apply if the Veteran’s only prior use of entitlement was for a manufactured home loan not titled as real estate (real property).

<b>Cash-Out Refinance Loans</b>		
<b>Type of Veteran</b>	<b>Percentage for First-Time Use</b>	<b>Percentage for Subsequent Use</b>
<b>Regular Military (Active Duty or Veteran)</b>	2.15%	3.30% <sup>1</sup>
<b>Reserves/National Guard</b>	2.40%	3.30% <sup>1</sup>

<sup>1</sup> The higher subsequent use fee does not apply if the Veteran’s only prior use of entitlement was for a manufactured home loan not titled as real estate (real property).

<b>IRRRLs</b>	
<b>Type of Veteran</b>	<b>Percentage for Subsequent Use</b>
<b>Either type (Regular Military or Reserves/National Guard)</b>	0.50%

### **Veteran/Borrower (Eligible/Ineligible)**

#### **General Information**

Eligibility for the VA home loan benefit can only be determined by VA and must be evidenced by a VA Certificate of Eligibility (COE). Once it is determined the Veteran is eligible for the benefit, the loan must be underwritten to determine whether the Veteran is eligible for the loan. VA loans are generally made only to a Veteran and their spouse (if married). See below for other Veteran/Borrower combinations.

More than four (4) borrowers to a transaction not allowed.

#### **Eligible Veteran/Borrower Combinations**

- Veteran
- Veteran and non-Veteran spouse (must be married – common law spouses not eligible)
- Two Veterans who are married to each other where only one Veteran will be using entitlement.
- Two Veterans who are married to each other where each Veteran will be using entitlement.
- Un-remarried surviving spouse of an eligible Veteran who died due to service-connected injuries (if determined to be eligible by a VA-issued COE)
- Spouse of an active-duty service person who has been listed as MIA or POW for more than



90 days (if determined to be eligible by a VA-issued COE)

### VA Prior Approval (Also see [Joint Loans](#))

The following borrower combinations require prior approval by VA, and are therefore not eligible transactions through Be In Mortgage:

- A Veteran and an unmarried co-borrower (which includes a common law spouse)
- Same sex married couples.

### Ineligible Veteran/Borrower Combinations

Any type of borrower not listed as eligible, including but not limited to:

- Veteran and non-Veteran who is not the Veteran's spouse (because VA will only issue guaranty on the Veteran's portion of the loan)
- Any individual without a valid U.S. Social Security Number
- Individuals with a U.S. Individual Taxpayer Identification Number (ITIN). An ITIN is formatted like a

SSN but begins with "9". No valid SSN begins with a 9

- Non-occupying Veteran
- Foreign Nationals and borrowers with diplomatic immunity (see [Citizenship](#))

**NOTE:** *Personal occupancy is required for single Veterans, whether or not the Veteran is on active duty. No family member or person other than the Veteran's spouse can satisfy the occupancy requirement for the Veteran. The property must be occupied within 60 days of loan closing.*

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### Occupancy

Owner occupied, primary residence only. Below are acceptable scenarios for meeting owner occupancy status:

- The spouse or dependent child may certify occupancy for a veteran who is on active duty and cannot personally occupy the dwelling 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.
- 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 no need to have a spouse certify occupancy.

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## **Fees and Charges**

VA policy has evolved around the objective of helping the Veteran to use his or her home loan benefit; therefore, VA regulation limits the fees that the Veteran can pay. There is no leeway on Veteran- paid fees and charges as shown below when making VA loans. Whenever a charge relates to services performed by a third party, the amount paid by the borrower must be limited to the actual charge of that third party.

The table below details the **allowable** fees that a veteran may pay, providing they are reasonable and customary.

<b>Allowable Charge</b>	<b>Description</b>
<b>Appraisal and Compliance Inspections</b>	VA Appraisal fee and a Compliance Inspection fee. A 2 <sup>nd</sup> appraisal fee is allowed if the Veteran is requesting a reconsideration of value. However, for properties in the state of California, borrowers are not permitted to pay for more than one appraisal on a property in a
<b>Recording Fee</b>	Recording fees, recording taxes, or other charges related to recording
<b>Credit Report/AUS</b>	The policy for both credit report charges and AUS charges require substantiated evidence with corresponding invoices. The combined total for all credit reports cannot exceed \$100. The combined total for AUS submissions cannot exceed \$100. The only time where both a credit report and an AUS can be charged to the Veteran is on AUS “Refer” cases. A maximum total of \$100 still applies for the combined total of the credit report and AUS charges. VA only permits the Veteran to pay for the credit report invoiced amount, not any additional costs that the lender may incur through other parties for obtaining the credit report.
<b>Prepaid Items</b>	The veteran can pay that portion of taxes, assessments and similar items for the current year chargeable to the borrower, and the initial deposit for taxes and insurance.
<b>Hazard Insurance</b>	Hazard and Flood insurance premiums, if required
<b>Flood Determination Zone</b>	The Veteran may only pay the actual amount charged for a flood zone determination, if made by a 3 <sup>rd</sup> party who guarantees the determination. The Veteran may also pay a charge for a Life-of-Loan Determination service purchased at loan origination.
<b>Survey</b>	The veteran can pay a survey charge if desired by the veteran or required by the lender, except for a condominium loan, which must have the prior approval of the VA before charging the survey
<b>Title Examination and Title Insurance</b>	The veteran may pay a fee for title examination and title insurance. If the lender decides that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the veteran. A fee for a Closing Protection Letter
<b>Special fees Mailing for</b>	<b>On refinances only</b> , the veteran can pay charges for Federal Express, Express Mail, or a similar service

<b>VA Funding fees</b>	Unless exempt, each veteran must pay the VA funding fee
<b>Mortgage Electronic Registration System</b>	Veterans may pay a one-time MERS fee
<b>Other Fees Authorized by VA</b>	Additional fees may be charged to veterans only if specifically authorized by the VA. The lender may submit a written request to the Regional Loan Center for approval
<b>Pest Inspection Fee</b>	<b>On refinances only</b> , a pest inspection fee may be charged to the veteran, except in limited circumstances. See <a href="#">Unallowable Fees</a>
<b>Well &amp; Septic Inspection</b>	This may be charged to the veteran, regardless of whether it is on the
<b>Origination Fee</b>	A flat fee, referred to as an Origination Fee, not to exceed 1%, may be charged. This flat charge is intended to cover all of Be In Mortgage’s costs which are not reimbursable as itemized fees. Non-reimbursable fees that are not included in the flat fee are considered
<b>Discount Points</b>	Bona fide discount points are permitted
<b>Water and Sewer Test</b>	May be paid for by veteran, if they agree

### Unallowable Fees

VA regulations limit charges “made against or paid by” the borrower. The one percent (1%) flat fee charged by the broker is intended to cover all of the costs and services which are not reimbursable as itemized fees and charges. If the full one percent loan origination fee is charged, unallowable fees cannot be charged. For example, if a \$1,000 loan origination fee is charged on a \$100,000 loan, the maximum allowable origination fee has been charged, and no unallowable fees can be charged (such as doc prep). However, if an \$800 loan origination fee is charged on a \$100,000 loan, up to \$200 in unallowable fees (such as doc prep) may be charged. In all cases, the aggregate of the loan origination fee and the unallowable fees cannot exceed the 1% threshold.

The following list provides examples of items that **cannot be charged** to the veteran as itemized fees and charges; instead, they must be paid out of the broker’s flat fee or by some party other than the veteran. An unallowable fee paid by a party other than the broker does not have to be included in the 1% calculation.

- Document preparation fees;
- Tax service fees;
- Settlement or closing fees;
- Postage, mailing, or overnight fees;
- Loan application, processing, and underwriting fees;
- Notary fees;
- Trustee fees or charges;
- Conveyance fees, or a charge for preparing loan papers;
- Attorney fees (other than for title work for the mortgage commitment);
- Pest Inspection fees (on a purchase transaction), with the exception of states listed on [VA's State Deviations Table](#). As of April 16, 2018, veterans with properties located in the following states **may** be charged for a pest inspection on a purchase: AL, AR, AZ, CA, FL, LA, MS, OK, TX;
- Photographs;

- Fees charged by Realtors, Loan Brokers or other third parties whether affiliated with the vendor or not;
- Consulting and referral fees charged by loan brokers, finders or other third parties;
- Lender-requested appraisal for reconsideration of value;
- Lender inspections (except in construction loans);
- Commitment or marketing fees of a secondary purchaser, and preparation and recording of assignment of mortgage fees for the purchaser;
- Escrow fees or charges;
- Amortization schedules, pass books, and membership entrance fees; and
- Interest rate lock-in fees.

If one of the above fees is accidentally charged to a borrower obtaining a loan guaranteed by the Veterans Administration, Be In Mortgage will have to reimburse the borrower at closing.

**NOTE:** The 1% origination fee is calculated on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds, **except on IRRRLs**. On an IRRRL, the 1% origination fee is based on the existing VA loan balance, minus any cash payment from the veteran (line 3 of VA Form 26- 8923, Interest Rate Reduction Refinancing Loan Worksheet).

## Grossing Up Non-Taxable Income

Tax-Free income may be “grossed up” for purposes of calculating the DTI ratio only (not residual income). This is a tool that may be used to lower the debt ratio for Veterans who clearly qualify for the loan. “Grossing up” involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income. Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower’s actual income. Do not add non-taxable income to taxable income before “grossing up.” If “grossing up” is used, indicate such and provide the “grossed up” ratio in item 47, of the “Remarks” section of the VA Loan Analysis Worksheet (VA Form 26-6393).

To determine the tax rate from the previous year (using 2012 tax returns), take line 61 from page 2 of the 1040 (**total tax**) and divide by line 43 (**taxable income**). In the example below, the borrower’s total tax from line 61 was \$186. When that figure is divided by the borrower’s taxable income per line 43 (\$1866), you get 0.10, or 10%. Therefore, the non-taxable income on this loan is only permitted to be grossed up by 110%.

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## Maintenance and Utility Costs for All Regions

VA has established a nationwide figure of 14 cents per square foot. For example: 1500 square foot home x .14= \$210.00 /mo maintenance utilities. This is to be entered in box 19 (Maintenance & Utilities) of the VA Loan Analysis Worksheet (VA Form 26-6393).

The Monthly Maintenance & Utility figure is used to calculate residual income only and is not calculated in the DTI.

## Residual Income

Residual income equals gross income less the following items listed below:

- PITI
- HOA
- Maintenance and utilities
- Federal, state, local and Social Security/Medicare taxes
- Revolving and installment debts
- Alimony/child support
- Job related expenses (childcare expenses, travel, meals, etc.), and
- Negative rental income.

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 applicant for support. For example, children from a spouse’s prior marriage who are not the applicant’s legal dependents.

**Exception**

The lender may 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.

As examples:

- A spouse not obligated on the note, who has stable and reliable income sufficient to support his or her living expenses, or
- A child for whom sufficient foster care payments or child support is received regularly. A key to the geographic regions is listed in the tables below:

<b>Table of Residual Incomes by Region For loan amounts of \$79,999 and below</b>				
<b>Family Size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
<b>1</b>	\$390	\$382	\$382	\$425
<b>2</b>	\$654	\$641	\$641	\$713
<b>3</b>	\$788	\$772	\$772	\$859
<b>4</b>	\$888	\$868	\$868	\$967
<b>5</b>	\$921	\$902	\$902	\$1,004
<b>over 5</b>	Add \$75 for each additional member up to a family of seven.			

<b>Table of Residual Incomes by Region For loan amounts of \$80,000 and above</b>				
<b>Family Size</b>	<b>Northeast</b>	<b>Midwest</b>	<b>South</b>	<b>West</b>
<b>1</b>	\$450	\$441	\$441	\$491
<b>2</b>	\$755	\$738	\$738	\$823
<b>3</b>	\$909	\$889	\$889	\$990
<b>4</b>	\$1,025	\$1,003	\$1,003	\$1,117
<b>5</b>	\$1062	\$1,039	\$1,039	\$1,158
<b>over 5</b>	Add \$80 for each additional member up to a family of seven			

**Key to Geographic Regions Used in the Preceding Tables**

<b>Northeast</b>	Connecticut	New Hampshire	Pennsylvania
	Maine	New Jersey	Rhode Island
	Massachusetts	New York	Vermont
<b>Midwest</b>	Illinois	Michigan	North Dakota
	Indiana	Minnesota	Ohio
	Iowa	Missouri	South Dakota
	Kansas	Nebraska	Wisconsin
<b>South</b>	Alabama	Kentucky	Puerto Rico
	Arkansas	Louisiana	South Carolina
	Delaware	Maryland	Tennessee
	District of Columbia	Mississippi	Texas
	Florida	North Carolina	Virginia
	Georgia	Oklahoma	West Virginia
<b>West</b>	Alaska	Hawaii	New Mexico
	Arizona	Idaho	Oregon
	California	Montana	Utah
	Colorado	Nevada	Washington
			Wyoming

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## IRRRLs

### Minimum Credit Score

A minimum 600 is required for loans up to \$1,000,000, and a 700 is required for loans from \$1,000,001 to \$1,500,000.

### Maximum Loan Amount

Use [VA Form 26-8923](#) to determine maximum loan amount. The maximum loan amount is the existing VA loan balance plus the following:

- any late charges, plus
- allowable fees and charges (includes up to two discount points), plus
- the VA funding fee.

An LTV is not calculated unless discount points are charged. Loan-to-value is calculated by dividing the VA base loan amount (excluding the funding fee, if any) by the value determined in one of the methods listed in the [Appraisal](#) section.

**NOTE:** *There is no maximum dollar amount for VA loans. Since an IRRRL rolls the above items into the new loan, and VA guarantees at least 25% of the loan amount (without regard to the veteran's entitlement), the new loan amount may be more than the limits established by the secondary market. It is City Lending Inc's responsibility to ensure it has a marketable loan.*

### Available Terms

- Fixed rate: 15, 20, 25, and 30 year
  - 15 and 30 year fixed rate terms available for High Balance

### Maximum Loan Term

The maximum loan term is the original term of the VA loan being refinanced plus 10 years, but not to exceed 30 years 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.

### **Funding Fee**

The Funding Fee for all IRRRLs is 0.5%. The Funding Fee Exemption Status on IRRRLs is displayed in webLGY at the time the case number is ordered.

### **AUS**

Loans will be manually underwritten. AUS findings are not run.

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### **Requirements**

- A copy of the veteran's current Note or mortgage statement is required to document the same borrowers are currently obligated. If the statement is provided, the borrower(s) must be clearly identified, and the PITIA must be itemized to ensure an accurate loan comparison.
- A Certificate of Eligibility (CoE) is now required, except in the following three situations:
  - The veteran has already been determined to be exempt from the funding fee as evidenced on IRRRL assignment screen in WebLGY
  - The entitlement encumbered on the loan being refinanced belongs to the surviving spouse of a veteran
  - The entitlement encumbered on the loan being refinanced belongs to a veteran who has since passed away, and the IRRRL borrower is spouse who was also a coborrower on the loan being refinanced

**NOTE:** *The spouse of a veteran who is now deceased will not be considered exempt from the VA Funding Fee unless (s)he is in receipt of DIC. City Lending Inc must remit VA Form 26-8937, Verification of VA Benefits, to the RLC of jurisdiction to verify a surviving spouse's exempt status.*

- A Net Tangible Benefit to the borrower as described [below](#) must be documented.
- Seasoning requirements as described [below](#) must be met
- The recoupment period for fees and charges must not exceed 36 months. The system will calculate recoupment using the calculation that is to be displayed on the Loan Comparison Statement provided to the veteran. In the event that recoupment calculation exceeds 36 months, use the [IRRRL Eligibility Worksheet](#), Statutory Recoupment Calculation tab to determine whether the loan recoups costs within 36 months using the statutory calculation (excludes prepaid expenses and the funding fee) and meets other IRRRL requirements.
  - Evidence the loan meets recoupment requirements must be provided to VA
  - Refer to [Recoupment Requirements](#) below for further detail

**NOTE:** *If an appraisal is required due to discount points, and the Veteran pays for it, the cost must be included as a part of the recoupment.*

### At-a-Glance Eligibility

This subsection provides a snapshot of the eligibility requirements for IRRRLs. For further

direction/detail on these criteria, refer to the applicable sections of this document, Agency guidance, or the GNMA APM.

- The borrower has made at least six consecutive monthly payments on the initial mortgage beginning with the payment made on the first payment due date; <sup>1</sup>
- the payments must be full monthly payments; <sup>2</sup>
- the borrower must not have any 30-day late mortgage payments on the subject property in the past six months; <sup>3</sup>
- the note date of the new mortgage must be at least 210 days after the date on which the first monthly payment was due on the mortgage being refinanced; <sup>4,5</sup>
- the new mortgage must provide the borrower a net tangible benefit<sup>5</sup>;
- all fees and incurred costs shall be recouped on or before the date that is 36 months after the date of the mortgage Note<sup>4,5</sup>

<sup>1</sup>Ginnie Mae APM 17-06

<sup>2</sup>Ginnie Mae APM 18-04

<sup>3</sup>VA Circular 26-16-3, Exhibit A FAQ #6, FAQ #8,

<sup>4</sup>Ginnie Mae APM 19-05

<sup>5</sup>VA Circular 26-19-22

## Fee Recoupment

Recoupment describes the length of time it takes for a Veteran to pay for certain fees, closing costs, and expenses that were necessitated by the refinance loan. The recoupment standard applies to all IRRRLs. This includes, but is not limited to, IRRRLs where the principal balance is increasing, the term of the loan is decreasing, or where the loan being refinanced is an adjustable-rate mortgage (ARM).

Be In Mortgage, any broker or agent of Be In Mortgage, and any servicer or issuer of an IRRRL, must ensure, and certify to VA, that:

- For an IRRRL that results in a lower monthly principal and interest (P&I) payment, the recoupment period of fees, closing costs, and expenses (other than taxes, amounts held in escrow, and the VA funding fee) incurred by the Veteran, does not exceed 36 months from the date of the loan closing.
- For an IRRRL that results in the same or higher monthly P&I payment, the Veteran has incurred no fees, closing costs, or expenses (other than taxes, amounts held in escrow, and the VA funding fee).

Be In Mortgage must upload the following documentation during the Loan Guaranty Certificate (LGC) process to certify that fee recoupment has been met:

- If the recoupment period shown on the final loan disclosure outlined [below](#) is **36 months or less**, Be In Mortgage may upload this disclosure.
- If the recoupment period shown on the final loan disclosure outlined [below](#) is **more than 36 months**, Be In Mortgage must provide documentation showing the recoupment calculation outlined [here](#).

For an IRRRL that results in the same or higher monthly P&I payment, Be In Mortgage must submit to VA evidence that the Veteran has incurred no fees, closing costs, or expenses (other than taxes,



amounts held in escrow, and the VA Funding Fee).

### **Calculating Recoupment (Statutory)**

Recoupment is calculated by dividing all fees, expenses, and closing costs, whether included in the loan or paid outside of closing (i.e., an appraisal fee), by the reduction of the monthly P&I payment. The VA funding fee, escrow, and prepaid expenses, such as, insurance, taxes, special assessments, and homeowners' association (HOA) fees, are excluded from the recoupment calculations. See [Exhibit B](#) to Circular 26-19-22 for more specific instructions and examples.

### **Net Tangible Benefit**

A loan that provides a net tangible benefit (NTB) means that it is in the financial interest of the Veteran. The following NTB standards are required:

### **Fixed Rate to Fixed Rate IRRRLs**

In cases where the loan being refinanced has a fixed interest rate and the refinance loan will also have a fixed interest rate, the refinance interest rate must be not less than 0.50 percent (50 basis points) lower than the interest rate of the loan being refinanced. For example, if the interest rate of the loan being refinanced is 3.75 percent (fixed), then the interest rate of the refinance loan may not be greater than 3.25 percent (fixed).

### **Loan Seasoning**

Loan seasoning refers to the age of the loan being refinanced. If the loan being refinanced is not seasoned on or before the date that the refinance loan closes, VA cannot guarantee the refinance loan.

### **Calculating Loan Seasoning**

The due date of the first payment is used to determine loan seasoning. A loan is considered seasoned if both of the following conditions are met as of the date of loan closing:

- The due date of the first monthly payment of the loan being refinanced is 210 days or more prior to the closing date of the refinance loan; and
- Six consecutive monthly payments have been made on the loan being refinanced.

***Example:** The loan being refinanced closed on March 8, 2019. The first payment is due May 1, 2019. If the Veteran makes six consecutive monthly payments, the loan being refinanced will be seasoned on November 27, 2019.*

Evidence confirming that the loan being refinanced was properly seasoned must be retained in the loan file. Such evidence could include, for example, a payment history/ledger documenting all payments, or a credit bureau supplement that clearly identifies all payments made in that timeframe.

### **Disclosure**

Be In Mortgage must make certain disclosures when originating IRRRLs. We should twice present the Veteran with a comparison of the refinance loan to the loan being refinanced. The loan comparison statement will provide the Veteran with up-front information about the overall cost of

the refinance, thereby helping the Veteran make an informed decision about whether to proceed with the refinance.

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### Timing of Disclosures

Be In Mortgage should present the Veteran with the comparison statement within 3 business days from the initial date of the loan application and again at loan closing. For example, the Veteran completed/submitted the loan application to the lender on August 5, 2019. The lender must present the comparison statement to the Veteran no later than August 8, 2019.

### Content

The loan statement must include the following information relating to the loan being refinanced and the refinance loan (the IRRRL): VA Loan Identification Number (LIN); Loan Amount; Loan Term; Monthly Payment; Interest Rate; and Borrower Name(s). The statement must also show the recoupment period (in months) for all fees, expenses, and closing costs, (including taxes, amounts held in escrow, and the VA funding fee), whether included in the loan or paid outside of closing.

It is important to note that the recoupment calculation for the purposes of the comparison statement differs from the recoupment calculation discussed [above](#). Namely, the comparison statement will gauge how the Veteran's payment of taxes, amounts held in escrow, and the VA Funding Fee affect the cost of the new refinance loan. As discussed above, the Act excludes such items from the 36 -month recoupment calculation that affects whether VA can guarantee a refinance loan. To complete the recoupment calculation for the purposes of the comparison statements:

- Add the following items from the Loan Estimate (initial disclosure) or Closing Disclosure (final disclosure): origination charges, services you cannot shop for, services you can shop for, taxes, other government fees, and the VA funding fee.
- Subtract any lender credits.
- Divide that amount by the decrease in monthly P&I payment. Please note that the monthly P&I payment is calculated using the total loan amount, including any financed VA funding fee.

**NOTE:** *If the IRRRL results in the same or increased monthly P&I payment, the lender should still complete the items in the first two bullets and present the Veteran with the total costs*

### Veteran Certification

The Veteran must communicate to the lender that he/she received the comparison statements, e.g. via written letter, e-signature, email from the Veteran certifying receipt, system time/date stamp where the Veteran certified receipt, etc. For example, on September 1, 2019, a Veteran could communicate to the lender that he/she received the comparison statements on both occasions, e.g. on August 1, 2019 (one day after submitting the loan application) and August 20, 2019 (date of closing). Lenders should retain evidence of such communications in the loan file.

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## **Cash Back to Borrower at Closing**

Generally, no cash back to the borrower is permitted at closing. However, in a limited number of

situations, the borrower may receive up to \$500 cash at closing due to any of the following situations:

- Computational errors,
- Changes in final pay-off figures,
- Up-front fees paid for the appraisal and/or credit report that are later added into the loan, and
- Refund of the escrow balance on the old loan. (This often occurs when a party other than the present holder originates the loan)

If any of the above circumstances result in the borrower receiving more than \$500 cash back, the loan amount must be recalculated by the underwriter.

## Documentation Requirements

Limited credit information and underwriting is permitted.

**NOTE:** A borrower with a recent Chapter 13 bankruptcy may need approval of the trustee for the new loan.

### Credit

A minimum 600 is required for loans up to \$1,000,000, and 700 is required for loans from \$1,000,001 to \$1,500,000. This must be documented by a mortgage-only credit report from all 3 repositories. No mortgage delinquency is permitted in the last 12 months.

### Income

No income documentation is required. However, in all cases, a Verbal VOE is to be completed within 10 days of the Note.

### Ratios

Ratios are not determined.

### Occupancy

Owner occupied properties only.

### Appraisal

No appraisal is required when discount points are not charged. However, a loan-to-value determination must be made when discount points are charged on a fixed-to-ARM transaction. These appraisals will not be ordered through WebLGY or the VA Fee Panel. Be In Mortgage should use our appraisal management and assignment process to complete a value determination.

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Acceptable forms of appraisal reports are:

- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae 2055)
- Uniform Residential Appraisal Report (Fannie Mae 1004)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075)
- Individual Condominium Unit Appraisal Report (Fannie Mae 1073)
- Other industry accepted appraisal reports for manufactured and multi-unit homes

If Be In Mortgage requires the Veteran to pay for the cost of the appraisal, the cost must be included as part of the recoupment cost. The Veteran may only be charged a reasonable and customary amount, and only charged for one appraisal.

After obtaining the VA Loan Identification Number (LIN), Be In Mortgage has the ability to upload the appraisal report in WebLGY. If the appraisal is not uploaded prior to loan guaranty, it must be uploaded to the correspondence link of the VA LIN in WebLGY.

We must pay close attention at the time of guaranty to WebLGY messages. Loans that do not meet the requirements of all applicable guidance will not be eligible for guaranty. WebLGY will prevent guaranty of loans that do not meet recoupment, net tangible benefit, and loan seasoning requirements. VA will be performing file audits to ensure that lenders are complying with the new law.

## CAIVRS

Be In Mortgage must perform a CAIVRS screening on all obligors on the loan.

Once screening is complete, enter the CAIVRS confirmation code on VA Form 26-8923, *IRRRL Worksheet*, in the Notes section.

## Title/Lien Requirements

The IRRRL must replace the existing VA loan as the first lien on the same property. Any second lienholder would have to agree to subordinate to the first lien holder.

- The borrower cannot pay off liens other than the existing VA loan from IRRRL proceeds
- The veteran (or surviving co-obligor spouse) must still own the property

## Underwriting of IRRRLs When Obligors Have Changed

Although VA does not require any credit/income documentation or re-underwriting of IRRRLs when there has been a change in obligors, Be In Mortgage will:

- Check mortgage payment record in lieu of obtaining a full credit report
- For death or divorce cases, obtain a statement from the obligor(s) on the ability to make payments on the new loan without the co-obligor's income
- Obtain a statement about the addition of a different spouse, change in number of dependents, as applicable

Be In Mortgage must be satisfied that the lower payment and interest rate, and the minimum 25% guaranty compensate for no re-underwriting on the new loan when there has been a change in obligors.

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## High Balance

## Maximum Guaranty

### Loans Closed without Full Entitlement

While VA does not have a maximum loan amount, there are effective “loan limits” for high-cost counties. The limits are derived by considering both the median home price for a county and the Freddie Mac conforming loan limit. To aid in determining the maximum guaranty, VA has created a Loan Limit chart:

Loan Amount	Maximum Guaranty	Special Provisions
See below	The lesser of: <ul style="list-style-type: none"> <li>• 25 percent of the loan amount, or</li> <li>• 25 percent of the VA county loan limit</li> </ul> <i>*required 25% down payment on any amount over the county loan limit</i>	Minimum guaranty of 25 percent on IRRRLs

**NOTE:** The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds. **For purposes of determining the VA guaranty, reference only the one-unit limit, regardless of the number of units in the subject property.**

### Loans Closed with Full Entitlement

The Blue Water Navy Vietnam Veterans Act of 2019 allows veterans with full entitlement the maximum amount of guaranty (25%) for a loan above \$144,000, without respect to the County Loan Limits. Use the VA Entitlement Worksheet to determine whether the County Loan Limits are a factor in determining guaranty.

## Available Terms

15 and 30 year fixed

## Minimum Credit Score

- 600 for loans from \$647,200 to \$1,000,000
- 700 for loans from \$1,000,001 to \$1,500,000

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## Loan Amount

Be In Mortgage will allow a maximum loan amount of \$1,500,000, inclusive of the funding fee.

A high balance loan is defined as a single family forward mortgage loan with an original principal balance (minus the amount of any upfront mortgage insurance premium) that exceeds the following limits:

Maximum Loan Amounts (Net of any Financed MIP or Guaranty Fee)	
Units	Amount

1	\$647,200
2	\$828,700
3	\$1,001,650
4	\$1,244,850

### Maximum DTI

- 50%, regardless of AUS findings, for loans up to \$999,999
- 43%, regardless of AUS findings, for loans from \$1,000,000 to \$1,500,000

### AUS Requirements

Must receive an Approve/Eligible recommendation.

### Escrow of Funds

VA may permit the escrow of funds necessary to complete the unfinished work later, and still issue evidence of guaranty. An escrow involves the following:

- withholding 1 1/2 times the dollar amount necessary to complete the postponed items (as estimated by a third party) from the proceeds due the seller at closing,
- holding the escrowing funds in a proper, secure manner, and
- releasing the funds once the postponed items have been satisfactorily completed.

To establish an escrow, the following must apply:

- construction of the dwelling must be complete, and the house must be suitable for immediate occupancy,
- postponement of the improvements must be beyond the control of the builder/seller,
- the duration of the postponement must not be unreasonable (usually 90 to 120 days), and
- the amount escrowed must be at least 1 1/2 times an estimate of the amount needed to complete the work.

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When setting up an escrow holdback, the following documentation is required for the Underwriter's review and

approval, specific to the holdback, before the loan is cleared to close:

- Two (2) itemized bids from a licensed contractor that clearly identify each item to be completed, including:
  - an itemized estimation of costs.
  - A copy of the contractor's current license.
  - The appraisal detailing the required work.
  - Any other specific documentation as required by the loan type.

The amount of repairs will be determined by the underwriter, and multiplied by 110% to arrive at the total escrow figure. The borrower must have sufficient funds documented to establish the repair escrow account.

## When Escrow is not Required

Be In Mortgage is not required to escrow funds when:

- the incomplete work is limited to the installation of landscaping features due to inclement weather (lawns, shrubbery, etc.),
- the estimate of the cost to complete the work is not greater than \$2,500, and
- there is adequate assurance that the work will be completed timely and satisfactorily (usually 90 to 120 days).

## General Procedures

No prior approval of VA is required to escrow funds. Be In Mortgage is responsible for establishing escrows in accordance with the guidelines. We are also responsible for assuring that the postponed work is completed. Once the loan closes, VA will randomly monitor cases to ensure completion of escrowed items.

After the loan is closed, and the required funds are escrowed, Be In Mortgage will upload the closed loan package into WebLGY for issuance of guaranty, with:

- lender evidence of an escrow agreement, or
- a completed VA Form 26-1849, *Escrow Agreement for Postponed Exterior Onsite Improvements*

## Completion of Repairs

Generally, all repairs are to be completed by the borrower within 90 days of closing. Upon completion of the work (and prior to the repair escrow deadline), Be In Mortgage will work directly with the customer and the contractor to document all the work has been completed. We will then order the Appraisal Update and/or Completion Report (Form 1004D), indicating all on-site alterations and repairs have been acceptably completed. Be In Mortgage will pay for the inspection of the completed repairs with the Appraisal Re-inspection Fee collected at closing (funds will not come from the repair escrow account).

**NOTE:** *The final inspection is required to be completed by the original VA appraiser.*

Be In Mortgage may only release funds when repairs and improvements per the draw request meet all federal, state, and local laws, codes, and ordinances, including any required permits and inspections. Once the work is satisfactorily completed, Be In Mortgage will then disburse the escrow to compensate the borrower or the contractor, as appropriate. Release of funds must be evidenced by either:

- Be In Mortgage's completion of VA Form 26-1839, *Compliance Inspection Report*, indicating the postponed work has been satisfactorily completed, or
- If the postponed work is minor, uncomplicated, and not involving structural issues, we must provide a written certification indicating that the work has been completed, as well as a statement from the veteran- purchaser that he or she is satisfied with the work.

If actual repair costs are less than the amount escrowed, the balance of the escrow will be applied to reduce the outstanding principal balance of the mortgage, without exception. If the escrow is inadequate, or if additional items requiring repair are discovered at some subsequent date, it is the borrower's responsibility to bear the additional cost. If the borrower fails to complete the required repairs within 90 days of closing (or such additional time as is determined reasonable), or

the repairs are unsatisfactory, Be In Mortgage must apply the escrow amount to reduce the outstanding principal balance of the mortgage.

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## Automated Underwriting Systems / Desktop Underwriter

### General AUS Information

VA has approved Freddie Mac's Loan Prospector, Fannie Mae's Desktop Underwriter, and VA approved proprietary lender AUS systems to use in connection with VA-guaranteed home loans. These systems incorporate VA's credit standards and processing requirements.

Lenders may use certain reduced documentation requirements on cases processed with approved AUS. The level of reduced documentation depends on the risk classification assigned. The systems use different terminology such as Approve or Accept. The tables in this section give a general description of documentation waivers. Please note that the documentation requirements are the same for these cases as for non-AUS cases, except for any differences cited in the tables.

Automated systems do not approve or disapprove loans. They merely determine a risk classification. It is still the lenders underwriter's decision whether or not to approve the loan.

It is imperative that the data entered into the Automated Underwriting System be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. 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.

### Underwriter's Certification

Because the AUS will be making the determination that the loan satisfies credit and income requirements, cases receiving an "Accept" or "Approve" rating will not require the underwriter's signature on VA Form 26 -6393, *Loan Analysis* (items 49 through 53). However, the file must still contain the Lender's Certification.

### Approve/Eligible Risk Classification

If the AUS using DU rates the mortgage loan application as an Accept or Approve, based on the analysis of the credit and capacity to repay and certain other loan characteristics, the loan is eligible for VA guarantee provided:

- The data entered the AUS is true, complete, properly documented, and accurate; and
- The entire loan package meets all other VA requirements (except for those specifically not required because the loan was evaluated by an AUS). VA requires adherence to all eligibility rules and the documentation requirements described elsewhere in the Fannie Mae Guide to Underwriting with DU and the VA Lenders Handbook.

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## Approve/Ineligible Recommendation

The AUS may also provide Approve/Ineligible recommendations. Loans receiving this recommendation have been determined to have met VA's threshold but do not meet certain VA eligibility requirements. The AUS findings will provide detailed information advising why the loan did not meet VA's eligibility requirements, such as: loan amount exceeds the VA maximum, insufficient funds for closing, etc.

Loans that receive a recommendation of Approve/Ineligible may still be eligible for VA guarantee. To achieve eligibility status, we must analyze the findings report and determine that the reason for the ineligibility is one that can be resolved in a manner complying with VA underwriting requirements. Loans that receive a recommendation of Approve/Ineligible will receive the benefit of all other Accept or Approve documentation and credit policy revisions.

The broker may also need to correct the issue(s) that caused the loan to be ineligible and resubmit the loan to attempt to obtain an Accept/Approve recommendation, such as when a mortgage amount exceeds statutory limits.

## Refer/Eligible Classification

Be In Mortgage must conduct a manual underwriting review according to VA requirements for all loan applications that generate a Refer rating. The Be In Mortgage underwriter must determine if the borrower is creditworthy in accordance with VA standard credit policies and requirements. It is VA policy that no borrower will be denied a VA-guaranteed mortgage loan solely on the basis of a risk assessment generated by the AUS.

## System Overrides and Manual Downgrades

A system override and/or manual downgrade of an Accept/Approve to a Refer classification may be required if a particular loan application variable is revealed during loan processing.

A system override occurs when a loan application variable triggers a requirement (a "review rule") that an underwriter review the loan file. A manual downgrade becomes necessary if additional information, not considered in the AUS decision, affects the overall insurability or eligibility of a mortgage otherwise rated as an Accept or Approve. Both system overrides and manual downgrades may be triggered by inaccuracies in credit reporting, by eligibility issues, when a case file cannot be documented according to the AUS Findings, and for other reasons including the unlikely failure of the AUS to recognize a derogatory credit variable. Unless specifically permitted to continue to use the Accept/Approve documentation class, such as following a favorable resolution of a credit issue due to an error in reporting, Be In Mortgage must document as a Refer risk class and is accountable for the credit and ratio warranties on these loans.

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## Upfront Disclosure Policy

At the time of loan submission, Be In Mortgage requires evidence that initial disclosures were delivered to the borrower within compliance. The date indicated on the disclosures must reflect they were prepared / delivered in compliant timeframes. The broker must submit copies of all VA, Federal, state, and local disclosures which will be monitored on every transaction. Be In Mortgage complies with Federal, state, and local policies and procedures such as Fair Housing, ECOA, SAFE Act, TILA-RESPA, MDIA, etc.

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