



# VA Matrix

revised 4/11/2019

This matrix is intended as an aid to help determine whether a property/loan qualified for certain financing. It is not intended as a replacement for VA guidelines. Users are expected to know and comply with VA requirements.

Note: This matrix includes overlays, which may be more restrictive than VA requirements. A thorough reading of this matrix is recommended

## Program Qualifications

- Purchase or refinance program designed for Owner Occupied, single family residences using a VA insured home loan

Purchase Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV Including FF	AUS Findings Required
<b>Primary Residence Purchase</b>				
600	1-4	100%	Maximum LTV plus the amount of the FF	Approve/Eligible*
<b>Primary Residence Purchase with Manual Underwrite</b>				
600	1	100%	Maximum LTV plus the amount of the FF	Refer/Eligible*
<b>Primary Residence – Purchase Manufactured Home</b>				
600	1	100%	Maximum LTV plus the amount of the FF	Approve/Eligible *(2)
<b>Borrower with One Credit Score</b>				
600	1-4	100%	Maximum LTV plus the amount of the FF	Approve/Eligible* (1)
<b>Borrower with No Score (manual underwrite)</b>				
N/A	1	100%	Maximum LTV plus the amount of the FF	Refer/Eligible* (1)

\* AUS findings refer to DO/DU or LP findings

- Borrower must have acceptable nontraditional tradelines as outlined in Eligibility Requirements below
- Manual Underwriting permitted on Manufactured Home Purchase with Management Approval
- Purchase Loans eligible for manual underwriting, but must meet manual underwriting criteria. 600 – 619 scores require pre-review to confirm eligible for the program prior to submission to underwriting.

## Maximum Loan Amount

Continental US Units	Conforming	
	Lowest Maximum (Floor)	Highest Maximum (Ceiling)
1	\$484,350	\$726,525
2	\$620,200	\$930,300
3	\$749,650	\$1,124,475
4	\$931,600	\$1,397,400

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Refinance Eligibility Matrix – Loan Amount & LTV Limitations				
Minimum Credit Score	Units	Max Base LTV	Total LTV with FF	AUS Findings Required
<b>Primary Residence Refinance</b>				
600	1-4	100% (3)	Maximum LTV with amount of the FF	Approve/Eligible*
<b>Primary Residence Manual Underwrite</b>				
600	1 - 2	100%(3)	Maximum LTV with amount of the FF	Refer/Eligible*
<b>Primary Residence IRRRL</b>				
600	1-4	100% (3)	Maximum LTV with amount of the FF	N/A
<b>Primary Residence Cash Out Refi (any property type)</b>				
600	1-4	100% (3)	Maximum LTV with amount of the FF	Approve/Eligible*
<b>Primary Residence – Manufactured Home</b>				
600	1	100% (3)	Maximum LTV with amount of the FF	Approve/Eligible (1) (2)
<b>Borrowers with No Score or One Score eligible</b>				
N/A	1	100%	Maximum LTV with amount of the FF	N/A (1)

\* AUS findings refer to DU or LP findings

1. Borrower must have acceptable nontraditional tradelines as outlined in Eligibility Requirements below
2. Manual Underwriting permitted on Manufactured Home Purchase with Management Approval.
3. Subject to restrictions. See Refinance section under Eligibility Requirements. LTV on refinance loans may not exceed 100% and must be inclusive of the funding fee.
4. \*Refinances eligible for manual underwriting but must meet manual underwriting criteria. 600 – 619 scores require pre-review to confirm eligible for the program prior to submission to underwriting.

## Product Description

Fixed Rate 15- and 30-year term; fully amortized

## Eligibility Requirements

<b>Appraisal Requirements</b>	LAPP Notification of Value(NOV) to be issued by LAPP approved underwriter via WebLGY
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	<p>Note: Appraisers must look for and report evidence of wood destroying insect infestation, fungus growth, and dry rot. This is in addition to any VA requirement for an inspection of the property by a wood destroying insect inspector (Lender manual 12.06)</p> <p>Note: The ECOA Valuations Rule requires copies of appraisals and other written valuations be delivered to borrower promptly upon completion, or three (3) business days before consummation, whichever is earlier.</p> <p>VA requires a copy of the agreement of sale or sales contract be provided to the fee appraiser by the requester of the VA appraisal immediately upon assignment, but not later than 1 business day after the date of assignment.</p> <p><u>If the agreement of sale/sales contract is amended during the appraisal process (prior to the Effective Date of the appraisal), the lender/requester must provide the updated contract to the appraiser to ensure the appraiser has the opportunity to consider any changes and their potential impact on value.</u></p> <p><u>If the agreement of the sale/sales contract is amended subsequent to the Effective Date of the appraisal, but prior to loan closing, the lender must use due diligence in determining whether the amendment(s) could reasonable be thought to affect the estimated value of the property being used as security for the loan. If so, the lender must forward the amended agreement of sale/sales contract to the VA fee appraiser for consideration.</u></p> <p><u>If the lender fails to perform said due diligence in reviewing any subsequent agreement of sale/sales contract amendment(s), and/or fails to forward the contract amendment appropriately, said loan may be subject to adjustment (Circular 26-14-29, Change 1, dated 1-27-15)</u></p>
<b>Appraiser Requirements</b>	VA Approved/VA Fee panel appraisers selected automatically via VA Portal
<b>MAX CLTV</b>	Per VA Handbook
<b>MAX LTV</b>	<p>1 – 4 Units</p> <ul style="list-style-type: none"> <li>➢ 100% of the VA reasonable value (NOV) not to exceed purchase price (Purchase &amp; Rate/Term)</li> <li>➢ Basic Entitlement must be met in the amount of \$36,000</li> <li>➢ Bonus Entitlement is available for loans closed on or after 1/1/09</li> <li>➢ Important – Ginnie Mae’s required minimum 25% guaranty must be met. This may be satisfied by a combination of VA entitlement and equity (if refinance).</li> </ul>
<b>Guaranty/Entitlement</b>	<p>Regardless of the LTV, the veteran must have sufficient entitlement to guaranty the loan. Link to county loan limits for VA Guaranty:  <a href="http://www.benefits.va.gov/homeloans/purchasecolanlimits.asp">http://www.benefits.va.gov/homeloans/purchasecolanlimits.asp</a></p> <p>Effective January 1, 2015, VA’s effective guaranty limits have been reset to FHFA’s limits          Note: The VA county loan limits (for guaranty purposes) do not apply to IRRRLs. VA will guarantee 25 percent of the principal balance on an IRRLL, regardless of whether the loan exceeds the limit for the particular county.</p> <p>Financing above the VA county loan limits is permissible but will require the borrower to make a down payment or to have equity, which when added to the amount of their available VA guaranty, equals at least 25% of the gross loan amount, including the funding fee.</p>

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	VA Loans with partial entitlement are allowed per VA guidelines. Must meet VA guaranty and GNMA guaranty requirements. See worksheet for calculations of loan amounts.
<b>Borrower Eligibility</b>	<p>VA guidelines apply</p> <ul style="list-style-type: none"> <li>➤ Must be a veteran who served the minimum duty with other than a dishonorable discharge</li> <li>➤ Active duty with at least 181 days of duty</li> <li>➤ Un-remarried surviving spouse of eligible veteran (COE)</li> <li>➤ Reservists/National guard</li> <li>➤ Certificate of Eligibility must have sufficient entitlement to meet minimum 25% guarantee</li> <li>➤ Joint loans involving a veteran and a non-veteran who is not the veterans' spouse (VA approval required see <i>Special Requirements/Restrictions</i> for more details)</li> <li>➤ Joint loans involving two unmarried veterans (VA prior approval required. Refer to <i>Special Requirements/Restrictions</i> for specifics)</li> <li>➤ Inter Vivos Revocable Trust is allowed for owner occupied property only</li> <li>➤ Note: A power of attorney is not allowed for properties held in a trust</li> </ul> <p>Ineligible</p> <ul style="list-style-type: none"> <li>➤ Non-permanent resident aliens</li> </ul>
<b>Geographic Locations/Restrictions</b>	<p>Eligible states are as follows:  <b>All states except</b> for NY, MA, VT, CT, ME, RI, NH, VA, AK, HI – Delegated Only, Washington D.C.</p> <p>Additional Transactions as follows</p> <ul style="list-style-type: none"> <li>➤ Texas Cash Out 50(a)(6) is ineligible</li> <li>➤ State specific regulatory requirements supersede all underwriting guidelines set forth by FSB</li> </ul>
<b>Co-borrowers</b>	<p>All borrower must occupy the subject property (exceptions may be available) and meet VA requirements</p> <p style="text-align: center;">◆ See Underwriting – <i>Prior Approval section for further details</i></p>
<b>SSI/Non-Taxable Income</b>	<p>Will be grossed up as allowed per the tax income chart available at the IRS. Max percentage allowed is 115%. Only allowed to be grossed up if the fixed income is not taxed on the tax returns.</p>
<b>Assets</b>	<p><b>Cash to Close</b></p> <ul style="list-style-type: none"> <li>➤ Must have sufficient liquid assets to close</li> </ul> <p><b>Minimum Borrower Investment</b></p> <ul style="list-style-type: none"> <li>➤ No minimum borrower investment is required for total loan amounts up to \$453,100 (subject to entitlement)</li> <li>➤ For 2-4-unit dwellings, if the total loan amount is greater than the limit for a 1-unit dwelling, a down payment may be required. Refer to Maximum Total Loan Amount and LTV Limitations</li> </ul> <p><b>Seller Contributions</b></p> <ul style="list-style-type: none"> <li>➤ Seller can pay 100% discount points and borrower's non-recurring closing costs</li> <li>➤ Seller can provide an additional amount not to exceed 4% of the estimated reasonable value to assist the borrower's payment of prepaid expenses and funding fee</li> </ul> <p><b>Gifts</b></p>

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	<ul style="list-style-type: none"> <li>➤ Acceptable</li> <li>➤ Gift of Equity is acceptable but cannot be applied as down payment purposes to reduce VA Funding Fee</li> </ul> <p><b>Down Payment Assistance Programs</b></p> <ul style="list-style-type: none"> <li>➤ Eligible – must be approved by FSB and allowed by VA</li> </ul> <p><b>Cash Reserves</b></p> <ul style="list-style-type: none"> <li>➤ 1 unit - no reserves required</li> <li>➤ 2-4 units when rental income <b>is not being used to qualify</b> - no reserves required</li> <li>➤ 2-4 units when rental income <b>is being used to qualify</b> - 6 months reserves required</li> <li>➤ <b>Retaining current principal residence as 2nd Home</b> – refer to Special Requirements/Restrictions</li> <li>➤ <b>When converting current principal residence to rental property</b> – refer to Special Requirements/Restrictions</li> <li>➤ <b>When the pending sale of the other real estate is scheduled after the purchase date of the current principal residence;</b> refer to Special Requirements/Restrictions when rental income from other real estate owned by borrower is used to qualify. – 3 months reserves required</li> </ul> <p><b>Footnotes</b></p> <p>Non-liquid accounts must be discounted by 30% of vested value to be used to meet reserve requirements</p> <p><b>Gifts</b></p> <ul style="list-style-type: none"> <li>➤ Eligible to use toward all down payment, closing costs and prepaids</li> <li>➤ Gift given in the form of Cash are not allowed</li> <li>➤ Gift of equity can only come from a family member</li> </ul> <p><b>Documentation Required for Gift Funds</b></p> <ul style="list-style-type: none"> <li>➤ Documentation of gift funds must include:             <ul style="list-style-type: none"> <li>• Gift letter executed by party providing gift and borrower receiving gift</li> <li>• Copy of cancelled check or wire receipt if being sent directly to title company for the closing</li> <li>• Copy of donor’s bank statement to prove they had funds to give. Large deposits will need to be sourced accordingly. Bank statement must show the withdrawal of gift funds.</li> <li>• Copy of borrower’s bank statement to show deposit of funds (not required if wire is sent directly to the title company and proof of wire is provided). Gaps in bank statements are not allowed. Please provide the full printout from the bank from the date of the last bank statement provided. Large deposits outside of the gift deposit will need to be sourced.</li> </ul> </li> </ul> <p><b>Down Payment Assistant Programs</b></p> <ul style="list-style-type: none"> <li>➤ Single Family, One unit Only</li> <li>➤ Second Trust Deed provided by Government Entity</li> </ul>
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- Non-Profit Organizations – Not Allowed
- Must provide the “complete” documents outlining the terms for the DPA 2<sup>nd</sup>
- Terms have to be provided to FSB to calculate into housing and debt to income ratios and/or verify that the second is a “silent second”.

### **Net Proceeds from the sale of Current Home**

If the closing on the current home is taking place before the loan will close with FSB, a copy of the fully executed Closing Disclosure from the sale/closing must be presented to underwriting showing the proceeds.

If the closing will be simultaneous, a Preliminary Closing Disclosure from the title company that is closing the transaction showing the expected proceeds from the sale. This needs to be as accurate as possible as any changes in the proceeds upon a Final Closing Disclosure will result in the file being sent back to underwriting for updating.

The underwriter will PTF for the Final Closing Disclosure to be provided at closing for the current home.

### **Earnest Money Deposit**

Cancelled check for earnest money deposit on purchase contract required for sourcing. If cancelled check is not available, bank statement showing withdrawal will be acceptable.

If the EMD check clears after the date of the bank statements provided and the cancelled check is provided, the funds showing on the bank statement will be reduced by the EMD amount.

### **Large Deposit Definition**

For recently opened accounts and recent individual deposits that total more than 1 percent of the purchase price or appraised value (whichever is lower) the deposits must be sourced and documented. The LO must also verify that no debts were incurred to obtain part or all of the cash to close needed. Large Deposits are at the discretion of the underwriter for sourcing. 1% references the aggregate total of deposits outside of identifiable payroll deposits and/or 1% for a single deposit.

Patterns of a deposit that are both recurring and non-payroll related will require an explanation and sourcing.

### **Joint Funds Access**

For any VA loan, if the Borrower does not hold the deposit account solely, all non-borrower parties on the account must provide a written statement that the Borrower has full access and use of the funds.

### **Retirement Accounts**

When using a retirement account for assets, reserves or down payment funds, the most recent available statement (monthly or quarterly) must be provided. 60% of the funds available on the statement will be used towards assets less any outstanding loan balances against the account.

	<p>If the borrower is drawing against the account for funds to close, evidence of liquidation is required to include:</p> <ul style="list-style-type: none"> <li>▪ Terms of withdrawal</li> <li>▪ Proof of amount withdrawn</li> <li>▪ Copy of check provided to borrowers</li> <li>▪ Copy of bank statement in deposited account to show updated funds available.</li> </ul> <p><b><u>Bank Printouts</u></b>          These are acceptable; however, FSB does require the following for printout statements:</p> <ul style="list-style-type: none"> <li>▪ May be Online statements or from the bank</li> <li>▪ If bank – teller must stamp, sign and date</li> <li>▪ No gaps in history. When presenting a printout in conjunction with a bank statement, no gaps between the two are allowed.</li> <li>▪ Statements must include borrower name, account number, depository name at a minimum</li> <li>▪ A partial account number may be present on the statement, but must be identifiable as the borrowers account through matching numbers to a full account statement or cancelled check</li> </ul> <p><b><u>Bank Statements</u></b>          Two months’ bank statements must be presented with initial submission. No gaps between the statements are allowed.</p> <p>Statements with NSF or Overdraft fees showing will require a LOX as to the reason for the over drafting of the account. NSF fees will require a manual downgrade.</p> <p>If FSB has been provided bank statements, a VOD to update cash to close will be allowed. A standalone VOD is not allowed and can only be used to follow up with provided bank statements.</p>
<p><b>Escrow Accounts for Taxes and Insurance</b></p>	<p>Escrow accounts are always required on an VA loan. No exceptions.</p> <p><b><u>Property Taxes</u></b>          When calculating, escrow set up for property taxes, FSB will require certain parameters to insure accuracy.</p> <ul style="list-style-type: none"> <li>• All tax amounts are to show on the title commitment or tax certificate.</li> <li>• Tax amounts must show without excess exemptions applied. If an exemption will be in effect when the borrower takes possession of the home, we must have documentation that the title company will file the exemption at closing. If the title company cannot provide this confirmation, the exemption must be removed and tax calculation showing at the worst-case scenario for escrow set up and DTI calculation.</li> <li>• For New Construction, the title company must provide an estimate of the property taxes based on the appraised value of the home. A state/county approved calculator for property taxes will be allowed but the calculation must be based on appraised value.</li> </ul>

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	<p><b><u>Homeowners Insurance</u></b>                  Homeowners insurance must have the following on the declarations page:</p> <ul style="list-style-type: none"> <li>• Property address to match appraisal address exactly</li> <li>• Deductible to be indicated on dec page – cannot exceed 5% of dwelling or \$5000 whichever is less</li> <li>• Borrowers names to match 1003 and be spelled correctly</li> <li>• Mortgagee Clause to read exactly:                      Flanagan State Bank                      ISAOA                      333 Chicago Road                      PO Box 302                      Paw Paw, IL 61353</li> <li>• Loan number to be on policy</li> <li>• Dwelling coverage to be indicated. Must cover loan amount. If a manufactured home, exceptions may apply</li> <li>• Effective date and expiration date to be on or before closing date</li> <li>• Must show policy is effective for 1 year if a purchase</li> <li>• If a refinance and policy will expire before first payment is made, FSB will need proof of what the new premium will be upon renewal</li> <li>• Must have invoice or paid receipt for premium in file prior to closing</li> <li>• Condo must have HO-6 insurance to cover 20% of appraised value</li> <li>• Condo insurance must show unit owner name and unit. Must have \$1,000,000 in building coverage and liability coverage??</li> </ul> <p>Coverage must be bound prior to closing. A quote can be used for initial underwriting but will not be accepted for final approval.</p> <p><b><u>Flood Insurance</u></b>                  Dwelling to cover loan amount. Unless loan amount is over \$250,000. \$250,000 is the max FEMA allows. VA requires total estimated cost new on cost approach section of appraisal.</p> <ul style="list-style-type: none"> <li>➤ Flood zone to be indicated and must match flood zone on appraisal and flood cert.</li> <li>➤ Unless a higher maximum amount is required by state law, the maximum allowable deductible is \$5000</li> <li>➤ All the other homeowner’s insurance requirements apply to flood insurance as well, see above.</li> </ul>
<b>Credit</b>	VA Credit Standards apply  <b>Housing (Mortgage/Rental) Payment History (PITI) is inclusive of all liens regardless of position, as well as all occupancy types.</b> <ul style="list-style-type: none"> <li>➤ AUS Approve loans – Credit evaluated by AUS (LP or DO/DU)</li> <li>➤ AUS Refer and manually underwritten loans</li> </ul>

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- For purchase transactions: 12-month housing payment (mortgage/rental) history via a credit report, cancelled checks or VOM to reflect no more than 0 x 30 in the previous 12 months.

Minimum Credit Score Requirements

See Eligibility Matrix

Derogatory Accounts

FSB will review the file as a whole to determine if outstanding collection and charge off accounts will require payment or may remain open. Regardless of debt determination, the credit history that derogatory accounts present must still be included in the analysis of the file. The underwriter has the final determination and the file must contain:

- 1) LOX for all derogatory credit showing on report to help the underwriter determine if a pattern exists or if circumstances were out of the borrower's control
- 2) Supporting documentation for the LOX provided, if noted within the letter. The explanation and supporting documentation must be consistent with other credit information in the file.

Underwriting will review the information to determine if the collection accounts and charge offs were a result of 1) the borrower's disregard for financial obligations; 2) the borrower's inability to manage debt; or 3) extenuating circumstances.

Collections & Disputed Accounts

Follow applicable VA Guides

Borrower with one Credit Score

- DU Approve/Eligible or LP Accept decision required; a manual underwrite may be allowed with management approval
- Credit data is available from one repository and credit score is obtained from that repository
- A three in-file merged credit report was ordered
- If manual underwrite is allowed, up to 3 additional credit tradelines may be requested by the underwriter to show credit depth.

Borrower with No Credit Score

**Ineligible for refinance loans. Purchase only!**

Follow applicable VA Guidelines:

- Non-traditional credit report is required and must be reported as supplement on the credit report
- Min of 3 tradelines required with a 12-month recent history. No late payments. If housing history available, this must be included as one of the tradelines
- No open collections or judgments in the past 24 months except medical
- Ratios max 41%, no exceptions
- 1 months' reserves required, must be borrower's own funds (cannot be a gift or borrowed)

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- Credit Score must be showing as N/A or not scored due to no history. If negative accounts show on the report, the credit will not be accepted as this is not a true no score borrower
- Homebuyer education is required. This course can be through MGIC, HUD, or other free course. It must provide a certification of completion.

### Judgments

No open judgments allowed. Must be paid in full prior to clear to close. No exceptions. This includes judgments showing on title or credit report. Recorded lien release or credit supplement is acceptable for documenting.

Lien may be paid at closing if documentation of sufficient funds to do so can be provided prior to closing for underwriting approval. Sufficient funds will include enough to pay lien (as proven by a payoff statement), down payment, cash to close as needed per CD/1003.

### Tax Liens

Tax liens may remain unpaid if the borrower has entered into a valid repayment agreement and has made at least 3 months of timely payments. Payments may not be prepaid. The IRS agreement and payment history must be presented to underwriting. The final approval of allowing the lien to remain open and not be paid in full prior to closing will be a management decision. It will depend on the overall file profile. The borrower must have good to excellent credit and several compensating factors at a minimum.

### Bankruptcy

#### CH 7

- Min 2 years from discharge date with AUS approve/eligible
- Re-established credit needed. UW reserves right to request as applicable

#### **CH 13 – currently in CH 13**

- CH 13 does not disqualify a borrower from financing a VA loan
- Borrower can currently be in CH 13 and finance a VA loan
- The borrower's payment performance has been satisfactory, and all required payments have been made on time.
- BK payment must be verified and included in DTI
- Borrower must have written permission from the court to enter into the mortgage transaction. Terms of mortgage must be approved, and this written permission provided to the underwriter prior to a clear to close
- Full set of BK papers are required\*\*
- If the loan is during a BK, this will be a manual underwrite and adjustments will apply. An approve/eligible will not be received until the CH 13 has been discharged for 2 years.

#### **CH 13 – Discharged and within 2 years of event date**

- CH 13 must be discharged
- Full payment history for payment on CH 13 required
- Full set of BK papers needed with discharge paper\*\*
- Re-established credit needed. This may be provided in traditional trade lines or non-traditional tradelines

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- Manual underwriting guidelines apply

Bankruptcy papers will be required to support significant events dates. If a property is identified as included in a bankruptcy, a sheriff's sale deed will be needed to show proper time period has elapsed to allow borrower to qualify for the loan.

### Credit Counseling

See CH 13 guidelines – with the only difference being that the Credit Counseling Agency must provide written permission to enter into a mortgage transaction

### Foreclosure

2 year waiting period from the date of the Recorded Sheriff's Deed transferring the property from the borrower's name. Proof of this date will be required

### Short Sale

Borrower current at the time of Short Sale

- A borrower is considered eligible for a new VA mortgage if, from the date of loan application for a mortgage loan all mortgage payments due on the prior mortgage were made within the month due for the 12-month period preceding the short sale, and
- All installment and revolving debt payments for the same time period were also made within the month due
- CAIVRS is clear

Borrower in Default at the time of Short Sale

- A borrower in default on his or her mortgage at the time of the short sale (or pre-foreclosure) is not eligible for a new VA loan for 2 years from the date of the pre-foreclosure sale.

### Higher Priced Mortgage Loans (HPML) – Allowed per Reg. Z

FSB will require a derogatory credit letter to accompany each file that explains all derogatory credit, regardless of the age, that shows on the credit report.

### Letters of Explanation Guidance

FSB will require LOX's for derogatory credit as follows:

For Manually Underwritten files: All derogatory credit for the most recent 24 months on the report and any public records or major derogatory events (such as foreclosure) will need to be addressed. FSB is looking for a reasonable explanation that shows the situation was out of the borrower's control, how the borrower resolved the situation and that the situation was resolved and did not occur again. It must show that the reason was not due to financial mismanagement. Financial Mismanagement will not allow for a loan approval.

For loans with an AUS approval: Only major items and public records will require an LOX to be completed. Foreclosure, short sale and deed in lieu of are considered major items.

LOX's should be included in the original submission to assist the underwriter with the approval/denial decision.

**Inquiry Letter Guidance**

All files will require a letter from the borrower that explains the inquiries showing on the credit report. We will require all inquiries for the past 90 days from the date the report is pulled to be addressed. The inquiry should state the reason it was pulled and if new credit was opened. If new credit was acquired, FSB will need the terms of the new credit that shows the payment, term of the credit and if installment or revolving credit. If this new account shows on the credit with this information, please use the letter to reference the tradeline. The letter should include the submitting bank or broker's inquiry. All letters must be signed by the borrower.

**Soft Pull Reports**

FSB pulls a "soft pull" credit report during the final review of the loan. As the file is being prepped to clear to close a single bureau report is pulled that will verify if new credit has been acquired during the process or if existing balances on credit have increased dramatically. If either of these situations occur, the loan will not be cleared to close until terms of the new credit have been verified or the updated balances on the reports for the existing credit maintain the approved DTI ratios needed for final approval. Additional inquiries on the soft pull will require an additional LOX per the Inquiry Letter Guidance shown above.

Credit reports charged to veterans are limited to the actual invoice price charged to the lender, not to exceed a maximum combined total of \$100 charge must be substantiated with an invoice.

AUS fees charged to veterans are limited to actual evaluation fee charged to the lender in lieu of a credit report charge not to exceed a maximum total of \$100. Charge must be substantiated with an invoice

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

See Circular 26-14-36, dated 11-18-14.

**IRRRL-Housing (Mortgage/Rental) payment history requirements**

- All loans must be current
- For the subject loan being refinanced, the veteran has not been more than 30 days past due during the 6 months preceding the new loan's closing date:
- Loans where the P&I increases more than 20% require credit report or tri-merged in-file

	<p><b>Minimum FICO Score requirements – please reference section 600-619 Credit Score Requirements.</b></p> <ul style="list-style-type: none"> <li>• Minimum 600 score required</li> <li>• Use the middle score of 3 repositories or lower score of 2 repositories to determine eligibility</li> <li>• If a tri-merged credit report is provided, the report must be analyzed to ensure there are no serious delinquent obligations in the last 12 months. Loans may be subject to further review and 12-month income documentation.</li> </ul>
<p><b>Community Property States</b></p>	<p><b><u>Non-Borrowing Spouse</u></b>          The mortgagee must obtain a credit report for a non-borrowing spouse who resides in a community property state, or if the subject property is located in a community property state. The credit report must indicate the non-borrowing spouse’s SSN, where an SSN exists, was matched with the SSA, or the mortgagee must either provide separate documentation indicating that the SSN was matched with the SSA or provide a statement that the non-borrowing spouse does not have an SSN. Where an SSN does not exist for a non-borrowing spouse, the credit report must contain, at a minimum, the non-borrowing spouse’s full name, date of birth, and previous addresses for the last two years.</p> <p><b><u>Non-Purchasing Spouse in a Community Property State</u></b>          Community Property States are as follows.          Arizona          California          Idaho          Louisiana          Nevada          New Mexico          Texas          Washington          Wisconsin</p> <p><b>If property is located in a community property state, or the borrower resides in a community property state, the following requirements apply</b></p> <ul style="list-style-type: none"> <li>➤ A credit report for the non-purchasing spouse is required to determine any joint or individual debts. The spouse’s authorization to pull a credit report must be obtained. If the spouse refuses to provide authorization for the credit report, the loan must be rejected</li> <li>➤ Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against him/her.</li> <li>➤ Credit Company should be given non-purchasing spouse information: Name(s), address, birth date and any other significant information requested in order to do the records check.</li> <li>➤ The debts of the non-purchasing spouse must be considered in the qualifying ratios. If the debts are the sole responsibility of the non -purchasing spouse, do not consider debt in the DTI. Refer to the chart below for obligations specifically excluded by state law for AZ, NV and WI.</li> </ul>

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	<ul style="list-style-type: none"> <li>➤ The greater of the monthly payment amount or 5% of the outstanding balance if minimum payment is not reflected on credit report if the non-purchasing spouse must be included in the qualifying ratios</li> <li>➤ All defaulted federal debt, open judgments and liens, including those of the non-purchasing spouse, must be satisfied prior to or at closing.</li> <li>➤ Disputed debts of the non-purchasing spouse need not be counted provided the file contains documentation to support the dispute.</li> <li>➤ Credit history of the non-purchasing spouse should not be the basis for declining the loan</li> </ul> <p><b><u>Mortgage Application</u></b></p> <ul style="list-style-type: none"> <li>➤ The mortgagee must have a licensed party identified on the URLA and is held accountable for the mortgage loan origination. This includes borrower self-completed mortgage applications.</li> <li>➤ Non-Borrowing Spouse Community Property State:             <ul style="list-style-type: none"> <li>▪ The debt of a Non-Borrowing Spouse must also be included on the URLA if the borrower resides in or the property to be purchased is located in a community property state.</li> <li>▪ The mortgagee must obtain a non-borrowing spouse’s consent and authorization where necessary to :                 <ul style="list-style-type: none"> <li>❖ Verify specific information required to process the mortgage application, including the consent to verify their SSN with the Social Security Administration (SSA).</li> </ul> </li> </ul> </li> </ul>
<p><b>Manual Underwriting Criteria &amp; 600 – 619 Credit Score Guidelines</b></p>	<p><b><u>General Manual Guidelines Must meet following requirements:</u></b>          These are applicable for 620 and above credit scores that receive and AUS Refer/Eligible.</p> <ul style="list-style-type: none"> <li>➤ DTI not to exceed 41%</li> <li>➤ 1 month’s reserves required</li> <li>➤ 120% of Residual Income required per VA</li> <li>➤ Manual Adjustment on rate sheet applicable</li> <li>➤ Credit Letters of Explanation required – must be detailed and reference items on credit report</li> <li>➤ Compensating factors must be present – underwriter may request as needed to alleviate risk in file</li> <li>➤ 100% payment shock = risk. Several compensating factors must be present to overcome.</li> <li>➤ Rental history, if available, must be documented</li> <li>➤ Additional conditions will apply based on loan characteristics and borrower profile.</li> </ul> <p><b><u>600 – 619 Credit Score Overlays</u></b>          This score range requires a pre-review of the file before submission to Underwriting. Please follow these steps to complete the pre-review and get confirmation the file will be accepted into underwriting. <i>IF the pre-review is not completed prior to submission, the file will be rejected pending the confirmation of the pre-review.</i></p>

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Steps to complete the pre-review:

1. Complete cover sheet specific to 600 – 619 program
2. Email or upload to system file the 1003, credit report, DU findings and LOX for derogatory credit and any other relevant information
3. Email [scenarios@flanagansatebank.com](mailto:scenarios@flanagansatebank.com) to have the file reviewed.
4. Within 24 hours or less, you will be supplied a denial or acceptance of your loan from FSB
5. Upload the review notice with your submission
6. Please note that the adjustment to the rate for credit scores in this range is -3.5

Overlays**All standard VA guidelines must be met in addition to these specific overlays**

- 1-year minimum job time WITH SAME EMPLOYER.
- Homebuyer Education is required and must go through a satisfactory course
  - If the borrower currently has a mortgage or has had a mortgage within the most recent 2-year period that has been paid as agreed successfully, the requirement for Homebuyer Education can be waived. The reviewer reserves the right to require Homebuyer Education depending on the overall credit profile.
- Max ratios – 41%
- 2 months' reserves for PITI required.
- All collections that are open and active within the most recent 12 months must be paid in full prior to closing. Medical collections may still be disregarded per VA guidelines\*\*
- No open judgments of any kind allowed, including tax liens
- No IRS back payment on taxes allowed
- Self-employed borrowers, including Sch C, Sch E, Sch F and 1099 employees must have 2 FULL years of documented self-employment history through 2 years of tax returns.
- Commission, bonus and overtime income must have a full 2 years to use. No exception to this and must be documented with a full/written VOE.
- LOX on derogatory credit and to include all derogatory credit that shows on credit report. If LOX identifies financial mismanagement, loan will be declined.
- 120% of Residual Income required
- Rental History must be supplied, if available

\*\*FSB reserves the right to require ANY collection to be paid that might have a future effect on our first lien position or the borrower's ability to repay the loan. This includes collections that are outside of this 12-month period identified in our guidelines.

Additional Important Details for Manual Loans and 600-619 Credit Score Loans:

- For loans that are  $\leq$  \$75,000, the file must be Borrower Paid Compensation
- For loans that are MANUFACTURED HOMES and the loan amount is  $\leq$  100,000, then loan must be Borrower Paid Compensation

If for any reason the loan fails QM/ATR Points and Fees test, FSB will be obligated to deny the file.

**600 – 619 Guidelines for Refinance Loans – applicable guidelines shown above for 600-619 will remain applicable.**

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	<p>In general, the guidance written for a Purchase loan within this score range will apply. Special attention will be given to the following and the prequal written accordingly:</p> <ol style="list-style-type: none"> <li>1) Homebuyer Education may still be required. This will depend on the circumstances of the loan and the credit profile of the borrower. If the current mortgage is paid as agreed for 12 months, the reviewer may consider waiving the requirement for HB Education. However, the rest of the credit must be taken into consideration and carefully reviewed to see if the borrower could benefit from the information and guidance contained in the HB Education course.</li> <li>2) Cash out loans – will be carefully considered and evaluated with close attention to usage of the cash out. An LOX explaining what the cash out will be used for must be included in all prequal reviews.</li> </ol>
<p><b>Escrow Holdback</b></p>	<p>Escrow repair holdback agreement to be fully executed by all parties contributing to the holdback and the Originating Loan Officer. Updated form is available at <a href="http://www.fsbtpo.com">www.fsbtpo.com</a>.</p> <ul style="list-style-type: none"> <li>➤ Allowed up to \$5000. Max amount must include bid for repairs and 150% of bid</li> <li>➤ Can only include repairs noted by the appraiser to bring home to meet MPR requirements.</li> <li>➤ Escrow Holdback Agreement must be signed by the borrower and seller (as applicable) and Loan Officer</li> <li>➤ Final Inspection and final invoice required to release funds</li> <li>➤ Repairs not to exceed 30 days to complete from closing date or weather break, as applicable</li> <li>➤ Repairs can only be completed by a licensed contractor or if state does not require licensing, contractor must be verifiable and have valid insurance.</li> <li>➤ Repairs cannot be completed by the borrower – no exceptions</li> <li>➤ <b>Loan must be locked for enough time to cover the repairs/renovations and release of the funds</b></li> <li>➤ <i>Management approval is required to use an escrow holdback with a VA loan</i></li> </ul> <p><b><u>Weather related repairs may be acceptable but must be completed at the first available opportunity or a penalty may be incurred.</u></b></p> <ul style="list-style-type: none"> <li>➤ Weather related repairs will require 2 bids from licensed contractors. If licensing is not required in a state, the bids must be from a professional contractor. Valid insurance may be requested from the contractor.</li> <li>➤ The higher bid will be used for the holdback.</li> <li>➤ 150% of the higher bid will be used, regardless of who is providing the funds at closing.</li> <li>➤ A Final Inspection for the repairs will be required to release funds</li> <li>➤ Final Inspection with Final Invoices to be sent to <a href="mailto:rebeccamoorehead@flanaganstatebank.com">rebeccamoorehead@flanaganstatebank.com</a> for approval to release funds</li> <li>➤ All VA loans must be locked for enough time to cover the repairs/renovations and release of funds</li> <li>➤ Management approval is required to use an escrow repair holdback with a VA loan</li> </ul>

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	VA loans do not allow the repair amounts to be included in the loan amount. All funds must come from the buyer or seller or a combination of the two.
<b>Escrow Waivers</b>	Ineligible
<b>Financing Types</b>	Purchase Refinance – Cash out IRRRL  Ineligible – Construction to perm
<b>Credit Report</b>	Full tri-merge report required Credit report age max of 90 days from date of report
<b>Resources</b>	The Appraisal System – order case numbers, appraisals and obtain Automated COE VA Portal <a href="https://vip.vba.va.gov/portal/VBAH/Home">https://vip.vba.va.gov/portal/VBAH/Home</a> VA Lenders Handbook <a href="http://www.benefits.va.gov/warms/pam26_7.asp">http://www.benefits.va.gov/warms/pam26_7.asp</a> VA Lender Resources <a href="http://benefits.va.gov/homeloans/lenders.asp">http://benefits.va.gov/homeloans/lenders.asp</a> VA Regional Loan Centers <a href="http://www.homeloans.va.gov/rlcweb.htm">http://www.homeloans.va.gov/rlcweb.htm</a> VA Forms <a href="http://www.va.gov/vaforms/">http://www.va.gov/vaforms/</a>
<b>Limitations on Other Real Estate Owned</b>	Refer to <i>Special Requirements/Restrictions and Assets</i> (located at the end of this document.) regarding converting current principal residence to rental property or second homes
<b>Loan Amount</b>	Min. Loan Amount: \$35,000 Max Loan Amount: Determined by VA County Limits
<b>Mortgage Insurance</b>	See <i>VA Funding Fee</i>
<b>Occupancy</b>	<b>Primary Residence</b> In cases where a Veteran is unable to occupy the property because of his/her active duty status as a member of the Armed Forces, certification of occupancy by the Veteran's spouse is sufficient. Under P.L. 112-154, the occupancy requirement is also considered met if a dependent child occupies, or will occupy, the property as a home and the Veteran's attorney-in-fact or the dependent child's legal guardian makes the occupancy certification. The new VA Form 26-1820 accommodates this change (see Circular 26-12-9) <b>Second Home and Investment Property</b> ➤ A Property with an existing VA loan that is currently used as a <b>Second home</b> or <b>Investment property</b> may be refinanced with a VA IRRRL (streamline) so long as veteran certifies that he or she previously occupied the property as his or her home. (VA Lender's Handbook Ch.3, 5-a)
<b>Prepayment Penalty</b>	None
<b>Property Types</b>	Eligible Properties ➤ 1-4 Units ➤ 2-4 Units (see <i>Special Requirements/Restrictions</i> for guidelines) ➤ Condos – VA Approved Only (Florida Condos Ineligible) ➤ PUDs ➤ Modular Housing ➤ Manufactured Homes – See <i>Manufactured Home</i>  Ineligible Properties

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	<ul style="list-style-type: none"> <li>➤ Condo Hotels</li> <li>➤ Co-ops</li> <li>➤ Leasehold properties</li> <li>➤ Unique properties such as dome homes, log cabins, earth berms and underground homes</li> </ul>
<b>Qualifying Rate and Ratios</b>	<p><b>Qualifying Ratios</b>                  Qualify at note rate                  AUS Approve loans - Ratios evaluated by AUS                  ** Ratios will be limited to 50% with an AUS approval. Ratios that exceed 50% with AUS approval must receive management approval to proceed. Compensating factors must be present for management approval to be given.</p> <p>Management approval may be received prior to loan being underwritten. Please send 1003, credit and any additional information that will assist with the management approval to <a href="mailto:scenarios@flanaganstatebank.com">scenarios@flanaganstatebank.com</a> to received management approval prior to underwriting of the file. If ratios go up during the underwriting of the file, the underwriter will send to management review after all PTC conditions have been received on the file.</p> <p>AUS Refer loans - 41%                  The DTI ratio of 41% may be exceeded provided this ratio does not exceed 50%                  DTI Ratios &gt;41% &lt;=50% require residual income exceeding 120% in addition to significant documented compensating factors such as:</p> <ul style="list-style-type: none"> <li>• Excellent credit history</li> <li>• Conservative use of consumer credit</li> <li>• Minimal consumer debt</li> <li>• Long-term employment</li> <li>• Significant liquid assets</li> <li>• Sizable down payment</li> <li>• The existence of equity in refinancing loans</li> <li>• Little or no increase in shelter expense</li> <li>• Military benefits</li> <li>• Satisfactory homeownership experience</li> <li>• Tax credits for child care</li> <li>• Tax benefits of home ownership</li> <li>• High residual income</li> </ul>
<b>Secondary Financing</b>	<p>Allowed.</p> <p>Secondary financing cannot be used to offset required down payment, pay closing costs or cover any portion of the purchase price that exceeds the reasonable value (NOV).</p> <p>No cash back to the veteran from the VA first mortgage or second mortgage is permitted on a purchase.</p> <p>Secondary financing on refinance or IRRRL loans is permitted</p>

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	<p>The second lien should not restrict the veteran's ability to sell the property (i.e. assumability feature)</p> <p>For new subordinate financing (purchase only) the total CLTV should never exceed 100% of the lesser of the sales price or appraised value</p> <p>Secondary financing must meet requirements in VA Lender Handbook, Secondary Borrowing, Ch. 9, Section 4</p> <p><b>Down Payment Assistance Programs</b> Eligible per VA guidelines and FSB approval</p>
<b>Certificate of Eligibility</b>	A COE is required for purchase loans and rate/term refinances.
<b>IRRRL</b>	<p>To calculate correct loan amount use VA form 26-8923 IRRRL Worksheet.</p> <p>Eligible after 6 months of payments have been made</p> <p>Minimum Credit Score required is 600</p> <p>Max LTV/CLTV per VA Guidelines</p> <p>Mortgage only credit report with scores is needed</p> <p><b>Benefit To Borrower</b> A significant benefit to the veteran must be documented to proceed with the IRRRL</p> <p><b>Assets</b> If funds are required for closing, most recent bank statement reflecting sufficient funds is required</p> <p><b>Current Employment</b> Wage earner: Verbal VOE required</p> <p>Self Employed: Most recent year's filed Federal tax returns and evidence of good standing</p> <p>Mortgage history: 0x30 in last 24 months</p> <p>No appraisal or AVM is required.</p> <p>Subordinate financing allowed per VA. Subordinate fees may not be financed into the IRRRL.</p> <p>Loan not to be ran through DU/LP. Findings not needed.</p>
<b>Refinance – Cash Out</b>	<p><b>Loan seasoning must be met to proceed with a refinance loan:</b></p> <p><b>VA will not guarantee a refinance loan if the loan being refinanced has not been properly seasoned. This requirement applies to all cash out loan types. A loan is considered seasoned on the later of the date that is:</b></p>

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- 210 days after the first monthly payment is made, and
- 6 monthly payments have been made on the loan

Effective 2/15/19 and after, VA will no longer guaranty refinancing loans when the LTV exceeds 100%. If the Veteran chooses to close a loan in which the loan amount exceeds 100% of the reasonable value of the property (as determined by the NOV), the Veteran must pay the amount which exceeds 100% of the property value at loan closing.

**LTV Calculation for Cash Out Loans:** divide the total loan amount (including VA Funding Fee, if applicable) by the reasonable value on the NOV (Notice of Value) of the property determined by the appraiser.

**Types of Cash Out Loans:**

*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 the VA funding fee) exceeds the payoff amount of the loan being refinanced.

**Appraisal**

- A new appraisal completed by a VA approved or VA fee panel Appraiser is always required.
- VA LAPP approved Underwriting Consultant will issue the Notice of Value
- Copy of the signed Notice of Value must remain in the loan file

**Cash-Out**

- Subject property must have an existing lien
- No seasoning on first mortgage or junior liens
- New loan amount may include the following.
  - Payoff of existing liens
  - Reasonable discount points
  - Allowable fees and charges (other than funding fee)
  - Cash back to the borrower
    - ◆ Cash back greater than \$150,000 is eligible and requirements are as follows:
    - ◆ FSB's Credit Management review is required
    - ◆ Minimum credit score 720 or program minimum, whichever is higher
    - ◆ Reduce maximum LTV by 10% or maximum of 70% LTV whichever is less
- Premium pricing permitted
- All VA refinance loans that fall under Section 50(a)(6) of the Texas Constitution are ineligible

**Housing History**

- All loans must be current

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## Refinance of Installment Land Sales Contract or Contract for Deed

Loan amount may not exceed the lesser of:

- VA reasonable value or,
  - The sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (excluding VA Funding fee) and discount points
- Processed as a cash-out refinance transaction except the max LTV is 100%, excluding the VA Funding Fee
  - No cash back to borrowers

## Net Tangible Benefit Test (NTB)

Lenders must ensure that all cash-out refinancing loans pass a NTB, which includes providing the Veteran with the following information no later than the third business day after receiving the Veteran's loan application, and again at loan closing:

- The refinancing loan satisfies at least one of the following 8 NTB:
  - (1) The new loan eliminates monthly mortgage insurance, whether public or private, or monthly guaranty insurance
  - (2) The term of the new loan is shorter than the term of the loan being refinanced
  - (3) The interest rate on the new loan is lower than the interest rate on the loan being refinanced
  - (4) The payment on the new loan is lower than the payment on the loan being refinanced
  - (5) The new loan results in an increase in the borrower's monthly residual income
  - (6) The new loan refinances an interim loan to construct, alter or repair the home
  - (7) The new loan amount is equal to or less than 90 percent of the reasonable value of the home or
  - (8) The new loan refinances an adjustable rate loan to a fixed rate loan
- A comparison of key loan characteristics or terms for the existing and refinancing loan including:
  - 1) Refinancing loan amount vs the payoff amount of the loan being refinanced
  - 2) Loan type (i.e., fixed, adjustable) of the refinancing loan vs the loan being refinanced
  - 3) Interest rate of the refinancing loan vs the loan being refinanced
  - 4) Loan term of the refinancing loan vs the loan being refinanced
  - 5) The total the Veteran will have paid after making all payments (principal and interest), and the mortgage insurance, as scheduled, for both the refinancing loan and the loan being refinanced
  - 6) LTV of the refinancing loan vs the loan being refinanced
- An estimate of the home equity being removed from the home as a result of the refinance and explain how the removal of the home equity may affect the Veteran

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	<p><b>Fee Recoupment</b> This requirement only applies to Type I Cash Out refinancing loans made to refinance an existing VA loan. The recoupment period of all fees, closing costs, expenses (other than taxes, escrow, insurance and like assessments) and incurred costs must not exceed 36 months from the date of loan closing. The lender must certify the recoupment period to VA to obtain a Loan Guaranty Certificate.</p> <p><b>Recoupment Calculation</b> Divide all fees, closing costs, expenses and incurred costs (excluding taxes, escrow, insurance and like assessments), by the reduction of the monthly principal and interest payment as a result of the refinance. If the loan being refinanced has been modified, the principal and interest reduction must be computed/compared to the modified principal and interest monthly payment</p>
<p><b>High Cost Mortgage Loans</b></p>	<p>FSB does not originate or purchase high-cost mortgage loans (12 CFR 1026.32)</p>
<p><b>Underwriting</b></p>	<p>Underwritten by a VA AUS &amp; LAPP approved underwriter</p> <ul style="list-style-type: none"> <li>• AUS Approve Loans- may follow documentation requirements</li> <li>• AUS Refer and manually underwritten loans-must follow manual underwriting requirements</li> <li>• Refer to <i>Credit</i> for requirements &amp; <i>Manual Underwriting</i> Section</li> <li>• If loan requires VA's prior approval, additional underwriting turnaround time is required as the file will be sent to VA to complete the prior approval.</li> </ul> <p><b>VA Prior Approval Required For</b></p> <ul style="list-style-type: none"> <li>• Joint loans involving the Veteran and one or more non-veterans (not spouse)</li> <li>• Joint loans involving two or more veterans who intend to use their entitlement and take title jointly. (not on IRRRL loans)</li> <li>• Loans to veterans in receipt of VA non-service related pension (not on IRRRL loans)</li> <li>• Loans to veterans rated incompetent by VA (not on IRRRL loans)</li> </ul> <p><b>VA Reserves for National Guard Certification</b></p> <ul style="list-style-type: none"> <li>• All veteran applicants whose income is being used to qualify for the loan transaction must complete and sign a <b>VA Reserves or National Guard Certification</b></li> </ul> <p><u>Property Flipping</u> When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in their sole discretion reserves the right to condition for additional information and collateral support to include desk review, or additional appraisal in order to support value. There is a not a specific VA requirement. A copy of the divorce decree is required when the loan file indicates income or liability due to divorce.</p> <p><u>Inspection Documents</u> Underwriter May request a copy of any inspection where repairs or remediation (monetary or other) are specified in a purchase contract, regardless of whether repairs have been completed.</p> <p>Eligible for submission to DU or LP Manual underwriting allowed with management approval</p>

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	<p>Standard Waiting Periods for Derogatory Events Shortened time periods due to mitigation/extenuating circumstances are not allowed.</p>
<p><b>Debts/Liabilities</b></p>	<p><b>General Information</b> Significant debts and obligations of the applicant(s) must be verified.</p> <p>When a paystub or LES statement indicates an allotment or garnishment, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt.</p> <p>CAIVRS report must be clear.</p> <p>Judgements must be paid in full. Judgments may not be open at closing.</p> <p><b><u>Co-Signed installment loans</u></b> The applicant may have a contingent liability based on co-signing a loan. If:</p> <ul style="list-style-type: none"> <li>• There is evidence that the loan payments are being made by someone else for a period of 12 months</li> <li>• There is no reason to believe that the applicant will have to participate in repayment of the loan, then</li> <li>• The lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis.</li> </ul> <p><b><u>Business Debt in Borrower’s Name</u></b> When business debt is reported on the borrower’s personal credit report, the debt must be included in the DTI calculation, unless the mortgagee can document that the <i>debt is being paid by the borrower’s business</i>, and the <i>debt was considered in the cash flow analysis of the borrower’s business</i>. The debt is considered in the cash flow analysis where the borrower’s business tax returns reflect a business expense related to the obligation, equal to or greater than the amount of payments documented as paid out of company funds. Where the borrower’s business tax returns show an interest expense related to the obligation, only the interest portion of the debt is considered in the cash flow analysis.</p> <ul style="list-style-type: none"> <li>➤ Mortgagee must document that the debt is paid out of company funds (e.g., 12 months cancelled checks) and that the debt was considered in the cash flow analysis of the borrower’s business.</li> </ul> <p><b><u>30-Day Accounts</u></b> The mortgagee must verify the borrower paid the outstanding balance in full on every 30-Day Account each month for the past 12 months. 30-Day Accounts that are paid monthly are not included in the borrower’s DTI. If the credit report reflects any late payments in the last 12 months, the mortgagee must utilize 5 percent of the outstanding balance as the borrower’s monthly debt to be included in the DTI.</p> <ul style="list-style-type: none"> <li>➤ Use the credit report to document the balance and document that funds are available to pay off the balance in excess of the funds and reserves required to close the mortgage.</li> </ul> <p><b><u>Liabilities – General Guidelines</u></b></p>

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	<p>True co-signed (guarantor) accounts do not have to be included in the debt if underwriter verifies both 12 months on time history and that the payments are being made by the primary obligor.</p> <p>If the credit report does not reflect a monthly payment on any open revolving account, then mortgagee must use the payment shown on the current account statement or 5% of the outstanding balance.</p> <p>Lease payments (particularly auto leases) should typically be included in the DTI regardless of the remaining term</p> <p><b><u>Authorized User</u></b> Accounts for which the borrower is an authorized user must be included in a borrower's DTI ratio unless the mortgagee can document that the primary account holder has made all required payments on the account for the previous 12 months. If less than three payments have been required on the account in the previous 12 months, the payment amount must be included in the borrower's DTI.</p> <p><b><u>Delinquent Federal Tax Debt</u></b> Borrowers with delinquent Federal Tax Debt are ineligible.</p> <ul style="list-style-type: none"> <li>➤ Tax liens may remain unpaid if the borrower has entered a valid repayment agreement with the federal agency owed to make regular payments on the debt</li> <li>➤ The borrower has made timely payments for at least three months of scheduled payments</li> <li>➤ The borrower cannot prepay scheduled payments to meet the required minimum of three months of payments</li> <li>➤ Mortgagee must include the payment amount in the agreement in the calculation of the borrower's DTI ratio</li> <li>➤ Mortgagee must include documentation from the IRS evidencing the repayment agreement and verification of payments made, if applicable</li> </ul> <p><b><u>Tax Liens</u></b> Tax liens may remain unpaid if the borrower has entered a valid repayment agreement with the lien holder to make regular payments on the debt and the borrower has made timely payments for at least three months of scheduled payments. The borrower cannot prepay scheduled payments to meet the required minimum of three months of payments. The payment amount in the agreement must be included in the borrower's DTI. The lien holder must subordinate the tax lien to the FHA-insured mortgage.</p>
<p><b>Student Loan Debt</b></p>	<p>If student loan repayment is scheduled to begin within 12 months of the date of the VA loan closing, Lenders should consider the anticipated monthly obligation in the loan analysis. If the borrower is able to provide evidence that the debt may be deferred for a period of time outside that timeframe, the debt need not be considered in the analysis. Documentation should be provided to confirm.</p> <p><b>If payment already established or to begin within 12 months:</b> Determine the "threshold" payment of 5% of outstanding loan balance divided by 12. If payment on credit report is higher than threshold payment, then use the payment shown on the</p>

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	<p>credit report. If the actual payment is lower than threshold payment lender may use it IF the Veteran provides a statement from the loan servicer documenting the terms and loan payment.</p> <p><b>If payment to be deferred:</b> Do not count the payment if deferred for more than 12 months from loan closing date. Documentation of the deferment dates for each student loan to be excluded must be provided.</p> <p><b>If payment has been reduced:</b> Same guidance as “If payment already established”.</p>
<b>Income</b>	Follow VA Handbook guidance
<b>Documentation</b>	<p>Document as determined by AUS findings, VA Manual and FSB guidelines.</p> <p>Credit docs expire after 90 days</p> <p><i>Note on Documentation: Please do not highlight with colored highlighter and copy or scan document. The documents are difficult to read for our underwriters and staff.</i></p> <p>Electronic Signatures are allowed on initial disclosures and re-disclosures. They are not allowed for closing disclosures/packages.</p> <p>Documents required in order to underwrite the full file are as follows.</p> <ul style="list-style-type: none"> <li>➤ VA Case Number Assignment Screen to confirm new case number</li> <li>➤ Automated Certificate of Eligibility printed from the VA ACE system</li> <li>➤ VA Form 26-1880, Request for Certificate of Eligibility for VA Home Loan Benefits, with supporting evidence of service</li> <li>➤ Original, signed and fully completed Uniform Residential Loan Application (FNMA 1003)</li> <li>➤ Original HUD/VA Addendum to the URLA (VA Form 26-1802a)</li> <li>➤ VA Loan Analysis Worksheet (VA Form 26-6393)</li> <li>➤ VA Loan Summary Sheet (VA Form 26-0286)</li> <li>➤ Notice of Value completed and signed by LAPP Approved Underwriter or issued by the VA</li> <li>➤ CAIVRS information must be checked</li> <li>➤ Residual income requirements must be met</li> <li>➤ Nearest living relative Information</li> <li>➤ Initial Loan Estimate</li> <li>➤ Affiliated Business Disclosure</li> <li>➤ Child Care Letter</li> <li>➤ Provide all other applicable VA related forms</li> </ul> <p>All veteran applicants whose income is being used to qualify for the loan transaction must complete and sign a VA Reserves or National Guard Certification.</p> <ul style="list-style-type: none"> <li>➤ The VA Underwriter must then use this information to determine the veteran-borrower’s true monthly qualifying income and service pay</li> </ul> <p>Verification of VA Benefit (VA Form 26-8937) required if borrower or co-borrower is:</p> <ul style="list-style-type: none"> <li>➤ A surviving spouse of a veteran who died on active duty or as a result of a service connected disability</li> </ul>

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- Submit form to the VA Regional Loan Center having jurisdiction over property state.
- Cannot issue final loan approval until VA completes and returns the form
- Cannot submit loan to the VA for prior approval unless completed form is received from the VA
- If automated Certificate of Eligibility shows the veteran is exempt from paying the funding fee, VA Form 26-8937 is not required.

The following documents will be required at closing

- Federal Collection Policy Notice (VA Form 26-0503) or the HUD/VA addendum to the URLA
- VA Transmittal List VA Form 26-0285
- Counseling Checklist for Military Homeowners VA Form 26-0592
- Report and Certification of Loan Disbursement VA Form 26-1820

Title commitment must be within 30 days of closing. A gap letter is acceptable for use.

CPL must be within 30 days of closing with a gap letter being acceptable.

Homeowners Insurance must be valid for 1 year for purchase transactions at the time of closing. Binder/Policy must include FSB's mortgagee clause, policy number, premium amount, and dwelling coverage to be at least loan amount unless it meets certain exceptions, if the loan will close in our name. If the loan will close in the Correspondent Accounts name, the mortgagee clause must reference their company name. A quote is acceptable for initial underwriting of the file, but for a file to receive CTC a binder or policy must be in the file.

Flood Insurance – amount of coverage must be equal to the lesser of either:

- The outstanding balance of the mortgage, less estimated land costs, or

The max amount of the NFIP insurance available with response to the property improvements

#### **Power of Attorney**

POA's must be reviewed by management on all loans using this feature. Please email POA for review to [mtgsupportcenter@flanaganstatebank.com](mailto:mtgsupportcenter@flanaganstatebank.com) prior to CTC.

#### **New Construction Requirements**

VA requirements can be found in the VA Handbook. This is a summary of the requirements needed for new construction properties. To review the full guidelines, please view the handbook following this link:

[http://benefits.va.gov/warms/pam26\\_7.asp](http://benefits.va.gov/warms/pam26_7.asp). Requirements may be adjusted according to meet the requirements of the NOV at the time of approval.

- VA Form 26-1859 – 1-year Warranty of Completion of Construction plus not inspected Acknowledgement 12a
- Builder's Certification of Plans, Specifications and Site (Form HUD-92541)
- Building Permit and Certificate of Occupancy
- Builder signed certifications for EEC/CABO, Lead/Water Distribution and Off-site Improvements, if applicable (VA Not Inspected Acknowledgement for New Construction form)

	<ul style="list-style-type: none"> <li>➤ Termite Soil Report NPCA 99a and 99b (Borrower to write on report they did not have to pay for the termite report and sign the report)</li> <li>➤ Additional certifications may be required and must be on lender or builder letterhead</li> <li>➤ 10-year Home Owners Warranty if local authority does not make required inspections plus Not Inspected Acknowledgement 12b</li> <li>➤ Copy of construction plans and specs</li> <li>➤ VA Builder ID – please reference the “<i>How To Obtain a VA Builder ID</i>” instructions!</li> </ul> <p>**If Manufactured Home – Foundation Inspection/Engineers Report is required          ***Reminder – manufactured homes in a flood zone are not eligible for financing with FSB</p>
<p><b>Divorce/Child Support</b></p>	<p><b><u>Child Support – Receipt of to use for income qualification</u></b>          Receipt of child support must show as consistent and stable to be considered as qualifying income. To document this, FSB will require the following:</p> <ol style="list-style-type: none"> <li>1) Proof of terms of child support. This must be verified through a divorce decree or court order. If the original divorce decree amounts have adjusted, we will still require the original documentation along with the most recent updates to the child support amount.</li> <li>2) If a Divorce Decree is not applicable to the situation, then the court documentation showing the original notice to pay child support should be supplied.</li> <li>3) If the support is altered in any way over time, it must be in writing through the court and the updates provided with the original court order/divorce decree.</li> <li>4) Agreements between parties outside of the court system will not be accepted due to the fact the court order takes priority until satisfied.</li> <li>5) Proof of 6 months’ receipt of the payments by the borrower, co-borrower or non-occupant spouse (as applicable). This information must be supplied regardless of how the payment is paid. If through the state, a pay history from the state is sufficient. If paid through another means, we must have documentation to support the receipt of the funds. Cash payments are typically not accepted as they cannot be documented. If the payments are not received consistently, the child support cannot be used as income.</li> <li>6) If the child support is a Voluntary Agreement and not court ordered, FSB will accept this situation with the following:             <ol style="list-style-type: none"> <li>a. 12 months’ proof of receipt. The amount must be consistent throughout the history of the payments. Any non-payment or skipped months will not be considered consistent.</li> <li>b. Written agreement must be provided that is dated prior to the start of the payment of child support.</li> </ol> </li> </ol> <p><b><u>Child Support – payment of and included as a debt in the liabilities section of 1003</u></b>          It must be established that this debt is not delinquent in any way. This is not to be treated any differently from any other debt that exists or could exist for the borrower. Determination of this can be established by the following:</p>

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	<p>The mortgagee must verify and document the monthly obligation by obtaining the official signed divorce decree, separation agreement, maintenance agreement or other legal order.</p> <p><b>Garnished payments/Payments made through State</b></p> <ul style="list-style-type: none"> <li>• The Mortgagee must also obtain the Borrower's paystubs covering no less than 28 days to verify whether the borrower is subject to any order of garnishment relating to the Alimony, Child Support, and Maintenance.</li> <li>• Amount noted on paystubs or other documentation being used to verify payment amount must match the amount on the court documentation.</li> </ul> <p><b>Not Garnished/Not Paid through state</b></p> <ul style="list-style-type: none"> <li>• Satisfactory payment history to be established.</li> <li>• Proof of 3 months payments made as agreed for the most recent time period.</li> <li>• If any inconsistency in payment history, underwriter may require up to a 12 month history to verify consistency of overall history of payment with no delinquency.</li> <li>• Amount being paid for support must match the amount required in the court documents</li> </ul> <p><b>Collection/Delinquency</b></p> <p>For Child Support payments that have collections reporting or delinquency reporting, FSB will require proof that the account has been paid as agreed and is in good standing at the time of the loan. Proof of 3 months of satisfactory payments for the most recent time period must be supplied.</p>
<p><b>Manufactured Home</b></p>	<p><b>Appraisal</b></p> <p>Full interior and exterior appraisal must be completed (Manufactured Home Appraisal Report Form 1004C required)</p> <p>Appraiser should use three comparable sales of similar manufactured homes A detailed and supported cost approach to value is required on all MFH appraisals</p> <p>The following are ineligible.</p> <ul style="list-style-type: none"> <li>➢ If the site or manufactured home is substantially non-conforming with the neighborhood it is ineligible</li> <li>➢ Creating comparable sales by combining vacant land sales with the contract purchase price of the home is prohibited. (This may be used as additional supporting documentation only.)</li> <li>➢ Manufactured homes located in a flood zone</li> <li>➢ No manufactured homes in condo projects</li> <li>➢ MFH may not have been re-sited</li> <li>➢ No MFH on leased land</li> </ul> <p><b>FSB will not finance manufactured homes in a Flood Zone</b></p> <p><b>Construction Status</b></p> <p>Construction status is determined at time of appraisal. New Construction refers to properties that are proposed, under construction, or were completed within one year as defined below:</p>

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- **Proposed** – no concrete or permanent material placed. Digging of footing and placement of re-bar is not considered permanent
- **Under construction** – Refers to the period from first placement of permanent material to 100% completion (finalized and ready to occupy, with no certificate of occupancy (CO) issued)
- **Existing (completed) for less than one year** – Refers to properties which are 100% complete, legally occupiable (CO issued), but never occupied. The one-year new construction period runs from the date the CO is issued for up to 12 months

**Please note: FSB does not offer construction loans of any type. The only acceptable property type FSB will lend on is Existing(completed) for less than one year or Existing property older than 1 year.**

### Documentation

Evidence of surrender of certificate of title or that no certificate was issued, refer to individual state requirements. The FNMA *Titling Manufactured Housing* website has additional information pertaining to state requirements:

<https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/manufachousing/titlingmanufhsing.jsp>

- Confirm property is legally classified as real property, on a permanent foundation, and owner owns both land and MFH
- ALTA Endorsement 7, 7.1, or 7.2 or any other endorsement required for manufactured homes to be treated as real property
- Deed of Trust (or other security instrument) must include a comprehensive description of the manufactured home and the land in the property description section or on a separate attached rider. The description must include the serial or VIN number for each unit/section; make, model, size, and any other information required by applicable law to definitively identify the manufactured home.
- Affidavit of Affixture – Borrower and Lender must sign and notarize acknowledging their mutual intent that the manufactured home be a permanent part of the real property securing the mortgage. Affidavit must be recorded simultaneously with security instrument.
- Limited Power of Attorney pertaining to title issues and foreclosure must be signed with closing documents

### Financing Details

Purchase Transaction:

- An existing manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date, otherwise property is considered new construction
- The LTV ratio for a loan secured by a manufactured home that already exists on its foundation will be based on the lowest of:
  - The sales price of the manufactured home and land or
  - The current appraised value of the manufactured home and land.

### Rate & Term Refinance or Limited Cash-Out Refinance Transaction:

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	<ul style="list-style-type: none"> <li>➤ The manufactured home must have been permanently attached to its foundation for a minimum of 12 months prior to the loan application date</li> <li>➤ A limited cash-out transaction involves the payoff of an existing mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered as separate liens). The maximum LTV ratio will be based on the lower of:             <ul style="list-style-type: none"> <li>• The current appraised value of the manufactured home and land; or</li> <li>• If the manufactured home was owned by the borrower for less than 12 months on the loan application date and:</li> </ul> </li> <li>➤ If the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale), or</li> <li>➤ If the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.</li> <li>➤ Owner occupied properties located in Texas             <ul style="list-style-type: none"> <li>• If the first or second Texas Section 50(a)(6) loan is being paid off, regardless of whether the borrower is getting any cash back, the loan is restricted to the Texas Home Equity product and is ineligible.</li> <li>• If the first mortgage is not a Texas Section 50(a)(6) loan and the second mortgage is a Texas Section 50(a)(6), the second lien may be subordinated and is considered a rate and term refinance. The second lien must be subordinate to the first mortgage and a subordination agreement must be executed. Borrower cannot receive any cash back from first mortgage transaction.</li> <li>• If a Texas Section 50(a)(6) second lien is being paid off, the loan is restricted to the Texas Home Equity product and is ineligible.</li> <li>• The title policy will reference Texas Section 50(a)(6) and is ineligible.</li> </ul> </li> </ul> <p><b>Property Requirements:</b></p> <ul style="list-style-type: none"> <li>➤ The land where the manufactured home rests must be fee simple</li> <li>➤ The MFH must be a single family dwelling legally classified as real property</li> <li>➤ The towing hitch, wheels, and axles must be removed</li> <li>➤ The MFH must assume the same characteristics of a site-built housing</li> <li>➤ The MFH must have sufficient square footage, room dimensions to be acceptable to purchasers in the subject market area</li> <li>➤ The MFH must have been built in compliance with Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976 as amended and in force at the time the home is manufactured,</li> <li>➤ and additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280 as evidenced by:</li> <li>➤ HUD Data Plate/Compliance Certificate – A paper document located on the interior of the subject property that contains, among other things, the manufacturer’s name and trade/model number. In addition to the data required by Fannie Mae, the data plate includes pertinent information about the unit factory-installed equipment; and</li> </ul>
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- HUD Certification Label (sometimes referred to as a HUD “seal” or “tag”) – A metal plate located on the exterior of each section of the home
- The appraisal form 1004C must indicate evidence of both the HUD Data Place/Compliance Certificate and the HUD Certification Label
- The MFH must be attached to a permanent foundation system
- The MFH must be permanently connected to the septic or sewage system
- The MFH must be permanently connected to all necessary utilities (water, electricity, gas service, etc.)
- The MFH must not have been installed or occupied previously at any other location or site
- The MFH must not have any additions or structural modifications to the original structure – this includes a garage, deck or room addition. Exceptions available case by case based on the property. See Foundation Certification section below.
- This includes additional room count or additional living area square footage which is not allowed
- Typical porches and decks installed at time of siting, as well as adjacent carports and garages are allowed

### Foundation Certification

- For both FHA and VA loan programs, a foundation certification by a licensed engineer is required.
- Certification must state foundation is in compliance with the Permanent Foundation Guide for Manufactured
- Housing and contain engineer’s signature and seal.
- If there are additions to the original structure, the foundation certification must state that these additions do not affect the structural integrity of the home. FSB does not guarantee that the home will qualify with the additions as this is an investor overlay and underwriting will have to review prior to final approval of the loan.

### Property Types

#### Eligible

- Single Family Manufactured House with minimum requirements as follows:
  - Doublewide
  - 620 minimum square feet
  - 20 foot minimum width

#### Ineligible

- VA does not insure mortgages on manufactured homes built prior to June 15, 1976
- Condo manufactured housing
- Co-op manufactured housing
- HUD Repo’s
- Leasehold property
- MFH in parks
- MFH that has been moved from original installation(re-sitting)
- MFH in PUDs
- Single wide manufactured housing
- Homes with effective ages that are significantly lower than the mortgage term offered

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	<p>The <b>Certification Label</b> (also known as a HUD tag) is a metal plate that is affixed to the outside of the manufactured home.</p> <p>HUD Labels (Tags) verification is required</p> <p>HUD does not reissue tags for manufactured homes. However, the Department can issue a letter of label (tag) verification for units for which it can locate the necessary historical information. The label numbers can be found on a data plate, a paper label affixed inside the home and is the size of a standard sheet of paper (8 ½” x 11”) inside the home in one of three locations: on or near the main electrical panel, in a kitchen cabinet, in a bedroom closet. The data plate has a map of the United States to let the consumer know the Wind Zone, Snow Load, and Roof Load for which their home was built.</p> <p>You may request letters of label verification from the Institute for Building Technology and Safety (IBTS), by visiting IBTS’ website at <a href="http://www.ibts.org/services/services-in-the-public-good/cert-label-verification.html">http://www.ibts.org/services/services-in-the-public-good/cert-label-verification.html</a>. You may also contact IBTS’ Label Department at 703-481-2010 or via fax at: 703-437-6894.</p> <p><b>VA</b></p> <p>In cases involving a <i>used</i> manufactured home moved to the purchaser’s lot to be affixed to a permanent foundation, all of the following additional manufactured home inspection reports are required to ensure the safety of the dwelling:</p> <ul style="list-style-type: none"> <li>➤ Water-Plumbing Systems Inspection Report, VA Form 26-8731a</li> <li>➤ Electrical Systems Inspection Report, VA Form 26-8731b</li> <li>➤ Fuel and Heating Systems Inspection Report, VA Form 26-8731c, and</li> <li>➤ Certification that the roof was coated after set-up on the site.</li> </ul> <p>These reports must be completed by qualified third-party inspectors, for example, experienced plumbers, electricians, heating and air-conditioning contractors and manufactured home service personnel, following the installation and setup of the manufactured home on the lot. The roof coating certification can be made by the lender.</p>
<p><b>Special Requirements/Restrictions</b></p>	<p><b>NOTE: The Energy Efficient Mortgage Program is not available.</b></p> <p>Form 4506-T must be processed prior to underwriting.</p> <ul style="list-style-type: none"> <li>➤ A new IRS Form 4506 T is required to be signed with the closing package as well as at application even when the form has been processed.</li> </ul> <p><b>CAIVR System</b></p> <p>Access the FHA Connection to check CAIVRS for all borrowers on the transaction: Borrowers, co-borrowers and cosigners, if applicable</p> <p><b>2-4 Unit Properties</b></p> <p>Prospective rental income may only be included in effective income if <i>both</i> of the following are met:</p> <ul style="list-style-type: none"> <li>➤ Evidence indicates the borrower has a reasonable likelihood of success as a landlord</li> </ul>

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	<ul style="list-style-type: none"> <li>• Documentation to support the borrower's prior experience managing rental units or other background involving both property maintenance and rental must be provided</li> <li>• It can be verified that borrower has cash reserves totaling minimum 6 months PITI</li> </ul> <p>➤ The amount of rental income to include in effective income is based on 75% of either</p> <ul style="list-style-type: none"> <li>• Verified prior rent collected on the units of existing properties <b>OR</b></li> <li>• The appraiser's opinion of the subject property's fair monthly rental for new construction</li> </ul> <p><b>Converting Current Principal Residence to Rental Property</b></p> <ul style="list-style-type: none"> <li>➤ Obtain a copy of the rental agreement on the property, if any</li> <li>➤ 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. (Document market conditions in the loan file)</li> </ul> <p><i>This rental income may <b>not</b> be included in effective income.</i></p> <ul style="list-style-type: none"> <li>➤ Obtain a working knowledge of the local rental market. If there is no lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes. (Document market conditions in the loan file)</li> </ul> <p>The above documentation will be supplied through an appraisal of the subject and a Market Rent Analysis form completed by the appraiser.</p> <p><b>Pending Sale of Real Estate</b></p> <ul style="list-style-type: none"> <li>➤ Qualify veteran with both PITIA for Pending Sale and PITI for new property</li> <li>➤ Omit PITI of Pending Sale from qualifying DTI, if financing contingencies to purchase home have been cleared and documented and cash reserves described below are met.</li> <li>➤ When pending sale of other real estate is scheduled after the purchase date of current principal residence. – 6 months reserves required for both properties <b>OR</b> 2 months reserves required if 30% equity in existing residence is documented</li> </ul> <p><b>Joint Loans</b></p> <ul style="list-style-type: none"> <li>➤ Joint loans must be underwritten by lender and then forwarded to the VA for final approval before closing</li> <li>➤ A joint loan is a loan made to:             <ul style="list-style-type: none"> <li>• The veteran and one or more veterans (not spouse) who will not be using their entitlement</li> <li>• The veteran and one or more veterans (not spouse) <b>ALL</b> of whom will use their entitlement.</li> <li>• Example: Two unmarried veterans</li> <li>• The veteran and the veteran's spouse who is also a veteran and both entitlements to be used</li> </ul> </li> <li>➤ A loan involving a veteran and his/her spouse <b>will not</b> be treated as a joint loan if the spouse is not a veteran or is a veteran who will not be using his/her entitlement on the loan</li> </ul>
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**Spousal Income Qualification in Jurisdictions that Recognize Same-Sex Marriage (Circular 26-13-18)**

VA will now review applications for the home loan guaranty benefit submitted by married same-sex couples. On a case-by-case basis, VA will determine whether same-sex married couples can use both spouses' incomes to qualify for a loan.

Lenders receiving loan applications from same-sex married couples should forward the following information to the appropriate VA Regional Loan Center for further review:

1. Date and State of marriage;
2. State of residence at time of marriage;
3. State where subject property is located;
4. Current State of residence; and
5. Estimated date of loan closing.

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

**Maintenance and utility costs for all regions:**

14 cents per square foot

Example: 1500 square foot home X .14 = \$210.00 / mo

**VA Geographic Regions for Residual Income Guidelines**

Midwest	South	West	Northeast
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Illinois Indiana Iowa Kansas Michigan Minnesota Missouri Nebraska North Dakota Ohio South Dakota Wisconsin	Alabama Arkansas Delaware District of Columbia Florida Georgia Kentucky Louisiana Maryland Mississippi North Carolina Oklahoma Puerto Rico South Carolina Tennessee Texas Virginia West Virginia	Alaska Arizona California Colorado Hawaii Idaho Montana Nevada New Mexico Oregon Utah Washington Wyoming	Connecticut Maine Massachusetts New Hampshire New Jersey New York Pennsylvania Rhode Island Vermont
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## VA Residual Income Calculation Charts

Table of Residual Incomes by Region For loan amounts of \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
over 5	Add \$75 for each additional member up to a family of 7.			

Table of Residual Incomes by Region For loan amounts of \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1062	\$1,039	\$1,039	\$1,158
over 5	Add \$80 for each additional member up to a family of 7.			

### Water/Sewer Connection Requirements (VA Circular 26-13-24)

For properties served by individual water and/or sewer systems, connection to public water and/or public sewer will only be mandatory when such connection is required by the local

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

### **Wood Destroying Insects/Organism Requirements**

Inspections are required if:

- Evidence of active infestation
- Mandated by the state or local jurisdiction
- Customary to the area
- At lender's discretion
- If the property is located in an area where the probability of termite infestation is "very heavy" or "moderate to heavy" according to the Termite Infestation Probability Map published in the Council of American Building Officials (CABO) One and Two Family Dwelling Code.

Link to TIP Zones map: <http://www.npmapestworld.org/techresources/hud.cfm>

### **Wood Destroying Insect Inspection Report**

- When required, the inspection must be performed by a qualified pest control operator (inspector must be affiliated with pest control company) who meets all requirements for pest control operators with the state in which the property is located

### **Inspection reports are valid for VA purposes for 120 days from the date of inspection**

When required, the inspection must be performed by a qualified pest control operator (inspector must be affiliated with pest control company) who meets all requirements for pest control operators with the state in which they property is located.

### **All VA refinance loans that fall under Section 50(a)(6) of the Texas Constitution are ineligible**

- If the loan being paid off through the refinance is an existing VA loan, this must be the same loan indicated on the COE. In some cases a copy of the note may be required to verify the case number.
- Entitlement is the guaranty or insurance benefit available to an eligible veteran.
- 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.
- Ginnie Mae Guaranty of at least 25% is required.
- The 25% guaranty may be satisfied through a combination of available entitlement plus equity in the property.

### **IRRRL Eligible Borrowers**

- Generally, the parties obligated on the original VA loan must be the same parties on the new loan and the veteran must still own the property. However, some ownership

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changes may be eligible. A change in mortgagors is eligible with proper documentation as follows.

Existing VA Loan	New Loan	Yes/No
Unmarried Vet	Veteran & New Spouse	Yes
Unmarried Vet	Spouse only (deceased veteran)	No
Vet	Different veteran who has substituted his/her entitlement	Yes
Vet & Spouse	Divorced veteran only	Yes
Vet & Spouse	Veteran & Different Spouse	Yes
Vet & Spouse	Spouse only (deceased veteran)	Yes
Vet & Spouse	Divorced spouse only	No
Vet & Spouse	Different spouse only (deceased veteran)	No
Vet & Non-Vet (joint obligors)	Veteran only	Yes
Vet & Non-Vet (joint obligors)	Non-Veteran only	No

**Term Increase**

- The term of the new loan may not exceed the original term by more than 10 years, subject to the maximum term of 30 years and 32 days

**Interest Rate Decrease**

- The interest rate of the new loan must be less than the interest rate of the existing NA loan unless refinancing an ARM to a fixed rate.

**Payment Increase**

- P&I payment must be less than the P&I payment of the existing VA loan **unless:**
  - **Refinancing an ARM to a Fixed Rate; OR**
  - **The term of the new loan is less than the term of the existing VA loan**
- If the P&I increases by 20% or more the veteran’s ability to repay must be demonstrated.

**General Guidelines**

- The loan being paid off through the refinance must be the loan indicated on the IRRRL Case number. In some cases, a copy of the note may be required to verify the VA loan number.
- The minimum guaranty on an IRRRL is 25% regardless of the dollar amount of guaranty being transferred from the prior loan
- If the veteran is deceased and the surviving spouse was a co-obligor, the spouse is considered a veteran for the IRRRL
- Surviving spouse must own the property

**Fees Ineligible to be Financed in Loan Amount**

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	<ul style="list-style-type: none"> <li>• Flat fees charged by second lien holders to subordinate existing secondary financing. Veteran must pay with own funds.</li> <li>• Processing type fees such as “Subordination prep” charged by closings agents or other third parties to process subordination is ineligible to be charged to Veteran.</li> </ul>																																																																					
<p><b>VA Funding Fee</b></p>	<p>VA Funding Fee applies unless veteran is exempt. See VA Funding Fee Table for specific percentages</p> <p>The Funding Fee is calculated on the veteran’s portion of the loan. If a reduced funding fee percentage is required as a result of a down payment requirement, the veteran benefits from this reduction as the funding fee will be calculated on his/her portion of the loan</p> <p>Down payment must be made in liquid funds. Gift equity, borrowed funds or seller-equity is not an acceptable down payment to reduce the funding fee.</p> <table border="1" data-bbox="467 695 1572 1520"> <thead> <tr> <th colspan="3">VA Funding Fee Table – Loan Fee Structure for VA – Guaranteed Loans</th> </tr> <tr> <th></th> <th>Veteran</th> <th>Reservist/National Guard</th> </tr> </thead> <tbody> <tr> <td colspan="3"><b>First Time Use</b></td> </tr> <tr> <td>Down Payment</td> <td></td> <td></td> </tr> <tr> <td>    <i>Less than 5% (1)</i></td> <td>2.15%</td> <td>2.40%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td>    <i>At least 5% but less than 10%</i></td> <td>1.50%</td> <td>1.75%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td>    <i>10% or more</i></td> <td>1.25%</td> <td>1.5%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td colspan="3"><b>Second and Subsequent Use</b></td> </tr> <tr> <td>Down Payment</td> <td></td> <td></td> </tr> <tr> <td>    <i>Less than 5% (1)</i></td> <td>3.30%</td> <td>3.30%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td>    <i>At least 5% but less than 10%</i></td> <td>1.50%</td> <td>1.75%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td>    <i>10% or more</i></td> <td>1.25%</td> <td>1.50%</td> </tr> <tr> <td>        *11/22/11 through 9/30/17</td> <td></td> <td></td> </tr> <tr> <td colspan="3"><b>Refinancing Loans</b></td> </tr> <tr> <td>Interest Rate Reduction (IRRRL)</td> <td>.50%</td> <td>.50%</td> </tr> <tr> <td colspan="3"><b>Other</b></td> </tr> <tr> <td>Assumptions</td> <td>.50%</td> <td>.50%</td> </tr> <tr> <td>Service Connected disabled Veterans</td> <td>0.00%</td> <td>0.00%</td> </tr> </tbody> </table> <p>(1) Includes “cash out” refinancing loans regardless of LTV</p>	VA Funding Fee Table – Loan Fee Structure for VA – Guaranteed Loans				Veteran	Reservist/National Guard	<b>First Time Use</b>			Down Payment			<i>Less than 5% (1)</i>	2.15%	2.40%	*11/22/11 through 9/30/17			<i>At least 5% but less than 10%</i>	1.50%	1.75%	*11/22/11 through 9/30/17			<i>10% or more</i>	1.25%	1.5%	*11/22/11 through 9/30/17			<b>Second and Subsequent Use</b>			Down Payment			<i>Less than 5% (1)</i>	3.30%	3.30%	*11/22/11 through 9/30/17			<i>At least 5% but less than 10%</i>	1.50%	1.75%	*11/22/11 through 9/30/17			<i>10% or more</i>	1.25%	1.50%	*11/22/11 through 9/30/17			<b>Refinancing Loans</b>			Interest Rate Reduction (IRRRL)	.50%	.50%	<b>Other</b>			Assumptions	.50%	.50%	Service Connected disabled Veterans	0.00%	0.00%
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<p><b>Property Flipping</b></p>	<p>When the Seller of the property has been on title less than 90 days extra diligence must be taken with the transaction. Underwriter in its sole discretion reserves the right to condition for additional information and collateral support to include desk review, field review, or additional appraisal in order to support value. There is not a specific VA requirement.</p>																																																																					

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# VA Matrix

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