

VA Fixed Rate Mortgage

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Brief Overview of the Product:

The VA Fixed Rate Mortgage Program is available to Veterans and Reservists, offering financing up to 100% of the reasonable value of the property, with less restrictive qualifying terms than conventional mortgages. Standard VA loans allow for loan amounts up to \$322,700, which may include the VA Funding Fee.

Third Party Originations:

Third Party originations are permitted on this product.

National City Bank Originations:

National City Bank originations are permitted on this product.

Terms, Program Types, Investor/SSI Codes:

Terms:

15 or 30 Years for Purchases and Cash-Out Refinances
15 to 30 Years for Interest Rate Reduction Refinances

Product Codes:

	<u>Investor Code</u>	<u>SSI Code</u>
15 Year Fixed	VA15	118
30 Year Fixed	VA30	302
30 Year Fixed W/Buydown (purchase only)	VABD30	495

Maximum Loan Amounts and LTVS:

Units	Type of Transaction	Maximum LTV*	Max Ln Amt
1-4	Purchase	<ul style="list-style-type: none"> 100% of Reasonable Value ** Plus VA Funding Fee 	\$322,700
1-4	IRRRL (Interest Rate Reduction Refinance Loan)	<ul style="list-style-type: none"> Existing VA loan balance Plus the cost of any energy efficiency improvements up to \$6,000 Plus Allowable fees and charges Plus up to 2 Discount Points Plus VA Funding Fee 	\$322,700
1-4	Cash-Out Refinance	<ul style="list-style-type: none"> 90% of the VA Reasonable Value, Plus the cost of any energy efficiency improvements up to \$6,000 Plus VA Funding Fee 	\$322,700
1-4	Loan to Refinance - A Construction Loan or; - An installment land sales contract, - A loan assumed by the Veteran at an interest rate higher than that for the proposed refinancing loan	The Lesser of <ul style="list-style-type: none"> VA reasonable value OR sum of the outstanding balance of the loan plus allowable closing costs and discounts, (For construction loans, "balance of the loan" includes the balances of the construction financing and lot liens , if any) Plus the cost of any energy efficiency improvements up to \$6,000 Plus VA Funding Fee. 	\$322,700

*In addition to the factors listed in the table, the maximum loan amount will also be based upon the Veteran's available Entitlement as stated on the Certificate of Eligibility (see Certificate of Eligibility / Veteran's Entitlement section below)

****Loan amount with no money down and full entitlement is \$240,000 plus funding fee.**

Certificate of Eligibility / Veteran's Entitlement:

Certificate of Eligibility:

- In order to be eligible, Veterans must meet standard VA criteria based on service time, status, era and dates of service (The VA criteria may be found on the back of VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty Entitlement).
- Eligible Veterans will receive a Certificate of Eligibility upon discharge, provided they meet eligibility requirements per the VA Form 26-1880
 - Eligible Veterans will receive a "light green" Certificate of Eligibility with no Expiration Date.
 - Eligible Selective Reserves or National Guard Veterans who have available entitlement under Public Law 03-446 will receive a "buff colored" Certificate of Eligibility which will show an expiration date. Although expiration dates on COEs may vary, all reservists are eligible until September 30, 2009.
- For Veterans not possessing an original COE, the lender may access the Automated Certificate of Eligibility (ACE) system the following way:
 - Go to the TAS URL at <http://tax.vba.va.gov/TAS/index.html>.
 - Click on the ACE link.
 - In the paragraph about ACE, there will be a link to the actual ACE log-in page.
 - Once logged in, click on REQUESTORS and select the function that you need.
 - If eligibility cannot be established, a refer message will instruct the lender to submit a completed VA Form 26-1880 to VA for processing.
- For Reservists/Guard members not possessing an original COE must complete the VA Form 26-1880 and submit the form to VA.
- The original COE or the COE from the website is required to be in the loan file at the time of closing.

Veteran's Entitlement:

- The COE will show the amount of "entitlement" or "eligibility" available to the Veteran
 - The maximum loan entitlement available to any Veteran is \$36,000.
 - An additional \$24,000 of entitlement is available for loans of more than \$144,000 for purchases and IRRRLs, only.
- In order to meet Secondary Marketing requirements, the Veteran must have entitlement available in an amount equal to 25% of the loan amount. The loan amount calculation for ensuring 25% coverage on purchases and cash-out refinances is as follows:

75% x (the lesser of purchase price or appraised value) + available entitlement = maximum base loan amount

- For IRRRLs the entitlement is transferred from the old loan to the new loan, therefore the calculation is not necessary.
- For purchase transactions the maximum entitlement is \$60,000.
- For cash-out refinances the maximum entitlement is \$36,000 even for loans greater than \$144,000.00
- The VA Funding Fee may be added to the maximum loan as long as the loan does not exceed \$322,700 for purchase, IRRRLs and cashout refinance transactions.
- Any required downpayment based on the calculation above must be paid in cash from the Veteran's verified liquid assets. Subordinate financing may NOT be used to cover down payment.
- If a Veteran refinances a VA loan with a conventional loan, this can be done only once. The law permits restoration without disposal of the property one time only. Any future restorations would require disposal of all properties obtained with a VA guaranteed loan.

Temporary Buydowns:

- Purchases and Refinances
- Qualify at the note rate
- Maximum reduction in interest is two percent below the Note rate.
- Maximum increase of one percent per year, annually.
- There must be evidence that the payment increases will not adversely affect the Veteran's ability to meet the increased payment. This evidence can be in the form of verified raises/advancement potentials or the ability to manage finances by a greater portion of income being devoted to housing expense, and
- Substantial assets must be available to cushion the effects of the increase,

Qualifying Rate, Conversion Option, Index, Margin and Assumptions:

ARM loans are not permitted under the VA Mortgage Program, therefore, Qualifying Rate, Conversion Option, Index and Margin are not applicable.

Loan Assumption:

Assumable under the following conditions:

- Loan must be current
- The prospective purchaser will assume full liability for repayment of the loan
- The prospective purchaser qualifies from a credit standpoint.
- The Borrower does not have to be a veteran.
 - If the assumptor is a veteran, he may wish to substitute his/her entitlement. This procedure must be requested from VA.

Eligible States:

All states are eligible with the following exceptions:

- **For Third Party Originated Mortgages, refer to Procedures for additional State restriction.**
- **Montana:** Properties exceeding 40 acres are ineligible
- **Texas:** Cash-Out Refinances are not permitted

Eligible Borrowers:

Eligible Veteran/Borrower Combinations:

- Veteran (single or married)
- Veteran and non-Veteran Spouse
- 2 Veterans who are married to each other
- Unmarried surviving spouse of an otherwise eligible veteran

Revocable Family Living Trust:

- A Revocable Family Living Trust is acceptable to VA as long as:
 - The subject property must be a one-family primary residence that is occupied by the veteran or veteran and spouse establishing the trust.
 - The trust must be established by a written document during the lifetime of the veteran establishing the trust to be effective during his/her lifetime
 - The trust must be one in which the individual establishing the trust has reserved to himself/herself the right to revoke the trust during his/her lifetime
 - The primary beneficiary of the trust must be the individual establishing the trust. If the trust is established jointly by more than one individual, there may be more than one primary beneficiary--as long as the income or assets of at least one of the individuals establishing the trust will be used to qualify for the mortgage and that individual will occupy the security property and sign the mortgage instruments
 - The trust document must name one or more trustees to hold legal title to, and manage, the property that has been placed in the trust. The trustees must include either the individual establishing the trust (or at least one of the individuals if the trust is jointly held) or an institutional trustee that customarily performs trust functions in the relevant state
 - The trustee(s) must have the power to mortgage the subject property for the purpose of securing a loan to the party (or parties) who are the "Borrower(s)" under the mortgage note
 - Full title to the subject property must be vested in the trustee(s) of the Inter Vivos Revocable Trust; there may be no other owners
 - The title insurance policy must assure full title protection and must state that the title to the subject property is vested in the trustee(s) of the Inter Vivos Revocable Trust. It must not list any exceptions with respect to the trustee(s) holding title to the subject property or to the trust
 - The mortgage must be underwritten as if the individual(s) establishing the trust were the Borrower(s) or Co-borrower if there are additional individuals whose income or assets will be used to qualify the mortgage

Revocable Family Living Trust (continued):

- The closing documents must be executed as follows:
 - ⇒ Each trustee and each individual establishing the trust whose income or assets were used to qualify for the mortgage must separately execute the mortgage note and any necessary addendum.
 - ⇒ The trustee(s) of the revocable trust must also execute the security instrument (mortgage or deed of trust) and any applicable rider.
 - ⇒ Each individual establishing the trust whose income or assets were used to qualify for the mortgage must acknowledge all of the terms and covenants contained in the security instrument and any necessary rider and agree to be bound by placing his/her signature after a statement of acknowledgement on such document.
 - ⇒ Any other party required to sign either the promissory note or the security instrument must also execute the applicable document(s). Exhibit A includes the form of signature for the trustee(s) and the statement of acknowledgement for each individual establishing the trust whose income or assets were used to qualify for the mortgage.
 - ⇒ The closing agent will be responsible for making any modifications that are needed to conform these signature forms to those that are customary for the state.
- Trustees may be excluded from personal liability under the mortgage instrument subject to:
 - ⇒ Under the mortgage note, institutional trustees and individual trustees (other than individuals serving as trustees whose income or assets were used to qualify for the mortgage, including individuals who established the trust) may be excluded from personal liability.
 - ⇒ Under the security instrument, institutional trustees and individual trustees (other than individuals serving as trustees who both established the trust and whose income or assets were used to qualify for the mortgage) may be excluded from personal liability.
- For all mortgages made to a revocable trust, a Revocable Trust Rider will be required as additional mortgage documentation. A sample Rider is enclosed (Exhibit B). The Rider is to be executed by the trustee(s) and by any other party required to sign the security instrument and acknowledged by each individual establishing the trust whose income or assets were used to qualify for the mortgage.
- Due to the number of states in which we do business, we will hold responsible the Closing Agent to appropriately modify the Revocable Trust Rider and the form of signature(s) required on the Note and Security Instrument to reflect the requirements of the applicable state law. Minor variances based on individual state laws will be acceptable as long as our rights as the creditor are fully protected. The title insurers must be willing to provide full title insurance coverage without exception for the trust or the trustees for revocable trusts in that state.

Ineligible Veteran/Borrower Combinations:

- 2 Veterans that are NOT married to each
- Veteran and a non-veteran (who is not the spouse of the veteran)
- Remarried surviving spouses of otherwise eligible veterans
- All other Veterans not meeting the eligibility requirements of the VA Form 26-1880.

Eligible Properties:

Please call to inquire about eligibility if your property type is not reflected.

Eligible Properties:

- Primary Residences 1-4 Units
- Condos
- PUDS
- Townhouses
- Manufactured Housing

Eligible Properties:

(continued)

Ineligible Properties:

- Second Home
- Investments
- Condos with Leaseholds
- Singlewide Manufactured Homes
- Manufactured Homes in Ground Lease Communities
- Native American Leasehold Estates
- Cooperatives
- Working Farms
- Orchard

Property Considerations:

Condo Requirements:

Condominiums must be approved by VA. A list of approved Condos may be found at <http://condopudbuilder.vba.va.gov>. Select "All Users" and the system will guide you.

- See chapter 16A in the new VA Handbook for full Condo requirements (The Handbook can be found on the VA web site www.homeloans.va.gov/handbook.htm).
- California Condominium delivery fees do not apply to this product. TMO users: See Procedures for special coding requirements to ensure the delivery fee does not get charged.

Condos must meet the following additional requirements since they are Common Interest Communities:

- The estate must not be less than fee simple, except under certain circumstances
- Title must not be subject to unreasonable restrictions on use and occupancy, except under certain circumstances
- Certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property.
- Mandatory Homeowner Association Assessment must be subordinate to the VA-guaranteed mortgage

NOTE: see **38 CFR 36.4350** a, b and c for the exceptions to the above. This can be found on the VA web site.

PUD Requirements:

PUDs are no longer required to be approved by VA but must meet the requirements listed below. A list of currently approved PUDs may be found at <http://vaas.vba.va.gov/prod/vaas/indexnew.cfm>. Select "All Users" and the system will guide you.

PUDs not approved by VA may still be approved by the VA (See chapter 16A in the new VA Handbook for PUD requirements, the Handbook can be found on the VA web site www.homeloans.va.gov/handbook.htm).

PUDs must meet the following requirements since they are Common Interest Communities:

- The estate must not be less than fee simple, except under certain circumstances
- Title must not be subject to unreasonable restrictions on use and occupancy, except under certain circumstances
- VA will not consider certain minor title limitations to the extent described, as materially affecting the value of the property.
- Mandatory Homeowner Association Assessment must be subordinate to the VA-guaranteed mortgage

NOTE: see **38 CFR 36.4350** a, b and c for the exceptions to the above. This can be found on the VA website.

Log Homes/Unique Properties

- Must be structurally sound
- Must be readily marketable

Property Considerations: (continued)

Properties with Legal Non-Conforming Zoning

If the appraisal indicates a property's zoning is of a legal non-conforming (grandfathered use) nature, one of the following must be obtained:

- The appraiser must address the issue within the body of the appraisal,, specifically state the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter of addendum from the appraiser must be obtained addressing the issue, specifically stating the property may be rebuilt "as is" in the event of a loss and indicate the source of the information, OR
- A letter from the county or governing municipality must be obtained stating the property may be rebuilt "as is" in the event of a loss.

Manufactured Housing Requirements:

- **Maximum Loan Amount**

Allowable Loan Purpose	The loan amount is limited to:
To purchase a manufactured home to be affixed to a lot already owned by the veteran	The lesser of: <ul style="list-style-type: none"> • The sum of the purchase price plus the cost of all other real property improvements, OR • The total reasonable value of the unit, lot, and real property improvements, PLUS • The VA Funding Fee
To purchase a manufactured home and a lot to which it will be affixed	The lesser of: <ul style="list-style-type: none"> • The total purchase price of the manufactured home unit and the lot plus the cost of all other real property improvements, OR • The purchase price of the manufactured home unit plus the cost of all other real property improvements plus the balance owned by the veteran on a deferred purchase money mortgage or contract given for the purchase of the lot, OR • The total reasonable value of the unit, lot, and property improvements, PLUS • The VA Funding Fee.
To refinance an existing loan on a manufactured home and purchase the lot to which the home will be affixed	The lesser of: <ul style="list-style-type: none"> • The sum of the balance of the loan being refinanced plus the purchase price of the lot, not to exceed its reasonable value plus the costs of the necessary site preparation as determined by VA plus a reasonable discount on that portion of the loan used to refinance the existing loan on the manufactured home plus authorized closing costs, OR • The total reasonable value of the unit, lot, and real property improvements, PLUS • The VA Funding Fee.
An IRRRL to refinance an existing VA loan on a permanently affixed manufactured home and lot	The sum of: <ul style="list-style-type: none"> • The balance of the VA loan being refinanced, PLUS • Allowable closing costs, PLUS • Up to 2 discount points, PLUS • The VA Funding Fee. NOTE: This is the only type of permanently affixed manufactured home loan that does not require full underwriting and an appraisal.

- **Manufactured Housing**

- All manufactured home loans must receive an Accept or Approve from LP or DU.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.
- Must be considered and taxed as real property at closing. The loan may not close as personal property and convert to real property after closing.
- The home must be permanently affixed to a foundation that adheres to state and local building codes. The transportation devices (wheels, axles, and trailer hitch) must be removed (as documented by a copy of Engineer's report). For existing construction, If the fee appraiser has reasonable doubts as to the acceptability of the foundation system where there are no local requirements, a statement from a registered professional engineer is acceptable.

Property Considerations: (continued)

Manufactured Housing (continued):

- All VA appraisal requirements must be met as documented in the VA appraisal guide
- The appraisal must state that the property has been built to conform to the Federal Manufactured Home Construction and Safety Standards established by HUD in 1976. Homes constructed prior to this time, or not in accordance with this standard, are unacceptable.
- Must be constructed after 6/15/76 and bear the seal showing conformance with the Federal Manufactured Home Construction and Safety Standards; The removal of the HUD label or frame is illegal per the HUD Title 6 regulations.
- The land and improvements must be included under one mortgage or deed of trust.
- The manufactured home must be at least 22 feet wide; Singlewides are not acceptable
- Primary residences only
- Manufactured homes in ground lease communities are unacceptable.

- **Manufactured Housing - Foundation Requirements**

- The following table lists each foundation component and any related requirements for “proposed or under construction” cases.

Foundation Component	Requirements
Piers and Footings	The load-bearing piers and footings must <ul style="list-style-type: none"> • be of sufficient size and number to distribute the weight of the manufactured home evenly • be of materials acceptable to the building authority having jurisdiction, and • (where applicable) have footings which extend below the frost line.
Concrete Slabs or Continuous Footings	Concrete slabs or continuous footings are acceptable in areas where their use is permitted by local building authorities. Steel anchorage devices must be cast into the concrete slab or footing and be capable of providing holding strength to resist horizontal and uplift forces.
Anchoring Devices	Anchoring devices, adequate to resist all loads, must <ul style="list-style-type: none"> • be attached to the main frame of the unit by a bolted, welded, or mechanical connector • be placed at every supporting pier or as specified by the manufacturer, and • extend into the pier footing. • Anchoring straps or cables affixed to ground anchors, other than pier footings, will not meet this requirement.
Hurricane Ties	Properties located in Wind Zone II or III (wind speeds in excess of 80 mph) must be provided with diagonal hurricane ties which have been properly engineered for the location, and comply with the requirements of the building authority having jurisdiction. Important: The installation procedures included in both the manufacturer's foundation instructions and <i>NCS BCS Handbook A225.1</i> are not generally adequate for manufactured homes in these areas.
Permanent Perimeter Enclosure	A permanent perimeter enclosure (not “skirting”) with a continuous foundation-type footing will be required only when specifically required by the local building authority. When required, it must be <ul style="list-style-type: none"> • designed to resist all forces which cause frost heave, soil settlement, or the shrinking or swelling of expansive soils without transmitting the movement or effects to the manufactured home, and • properly secured to the perimeter of the manufactured home to exclude entry of vermin and water, and provide ventilation and a means of access to the crawl space.
Moisture and Humidity Reduction	The reduction of moisture and humidity in an enclosed under floor space is required. Except in arid regions with dry soil conditions, a continuous moisture barrier that covers the natural or excavated ground surface within the perimeter enclosure of the home must be installed. Provisions should also be made to prevent water from entering the crawl space and for the control and diversion of surface water away from the manufactured home.

Eligible Properties:**(continued)****Property Considerations: (continued)****Leaseholds:**

Leasehold estates must meet the following conditions:

- Must be running or renewable at the option of the lessee for a period of not less than 14 years from the maturity of the loan, or to any earlier date at which the fee simple title will vest in the lessee.
- Must be assignable or transferable.
- Manufactured homes in ground lease communities are unacceptable.

Number of Properties Owned/Financed:

- Primary Residences:
 - There is no limit to the number of properties owned or financed
- Investment Properties and Second Homes:
 - The maximum number of financed properties, regardless of lender, for any Borrower(s) will be limited to ten (10) including the Borrower's primary residence. In addition, the maximum aggregate loan balance for any Borrower(s) on all second home/investment properties will be limited to \$2,000,000, regardless of the investor. Privately financed properties and land contracts are also included in the maximums.

Appraisal/Survey/Inspection Requirements:**Appraisal:**

The appraisal of any property eligible to be security for a VA loan can be processed by the lender under the LAPP program except the following (which must be submitted to the VA for issuance of a CRV):

- Master appraisals
- Foreclosure appraisals
- Those involving partial release of VA loan security
- Those involving HUD value determinations

The information in the report must be accurate, internally consistent, written in clearly understandable language, fully supported, and sufficiently documented to VA standards.

- The LAPP or CRV for **existing** or **new construction**, the report must be dated within 120 days, but no more than six (6) months before the note date
- For **proposed** or **under construction**, the report must be dated with 120 days, but no more than twelve (12) months before the note date.
- If the appraisal (LAPP or CRV) is greater than 120 days old, the original appraiser or a qualified appraiser must certify that the subject property has not declined in value since the date of the original appraisal.
- **New construction** is defined as properties that are fully completed or completed except for customer preference items, and are less than one year old and have never been owner-occupied.
- See Procedures for approval requirements for IRRRLs.
- Properties appraised in "Fair Condition" are unacceptable. The property must be brought up to at least "Average Condition" and meet VA MPRs prior to loan closing., prior to closing. A final inspection showing the work has been completed must be included in the file. Lenders and fee appraisers should use their own letterhead when certifying that required repairs have been satisfactorily completed. Escrow holdbacks may be permitted. Refer to Procedures for details.

Survey:

If the title company insuring the mortgage requires a survey to remove exception to survey matters, the survey must conform to the requirements of the title insurance company's standards, or any applicable legal standards relating to surveys.

Inspection:

A whole house inspection is not required by VA, however is suggested. Other inspections may be required at the discretion of the Underwriter or the Appraiser.

Escrow:

An escrow account must be established for real estate taxes, hazard insurance and if applicable, flood insurance.

VA Funding Fee:

Private mortgage insurance is not required on VA loans, however a Funding Fee is required in most cases.

The VA Funding Fee may be added to the maximum loan as long as the loan does not exceed \$322,700.

- Federal law requires all Veterans to pay a Funding Fee, with the following exceptions:
 - Loans made to veterans receiving compensation for service-connected disabilities or
 - Veterans who, but for receipt of retirement pay, would be entitled to receive compensation for service-connected disabilities, or
 - Loans to surviving spouses of veterans who died in service or from service-connected disabilities.
 - VA form 26-8937 Verification of VA Benefit-Related Indebtedness must be completed by the VA for Veterans exempt from the Funding Fee
- The Funding Fee may be paid in cash or financed, or a combination of the two.

Calculation

The funding fee is calculated based upon the loan amount and whether the Veteran is a first-time or subsequent user (See IRRRL section below for exceptions). Depending on the amount of Eligibility the Veteran has, the loan amount may be for 100% of sales price of the property (or appraised value, if lesser) or the sales price/appraised value less any down payment.

Funding Fee for Veterans - First-time Use

The funding fees for veterans who have not previously obtained a VA loan and whose loan eligibility is not derived from six (6) years of service in the Selected Reserve are:

- 2.00% of the loan amount for loans with a downpayment of less than 5%
- 1.50% of the loan amount for loans with at least a 5% downpayment
- 1.25% of the loan amount for loans with at least a 10% downpayment

Funding Fee for Reservists and National Guards - First-time Use

The funding fees for veterans whose eligibility for benefits is based on 6 years of service in the Selected Reserve or National Guard are:

- 2.75% of the loan amount for loans with a downpayment of less than 5%
- 2.25% of the loan amount for loans with at least a 5% downpayment
- 2.00% of the loan amount for loans with at least a 10% downpayment

Funding Fee for IRRRLs – First Time and Subsequent Use

- 0.5% of the amount computed on line 14 of VA Form 26-8923, IRRRL Worksheet for both Veterans and Reservists.

Funding Fee for Cash-Out Refinances- First Time Use

- 2.00% for first-time use (2.75% for Reserves/National Guard)

Funding Fees for All Subsequent Use Loans (Except IRRRLs)

Veterans using the any loan program for the second and subsequent times will pay the following funding fees:

- 3.00% of the loan amount for all cash-out refinances, and purchase money loans with a downpayment of less than 5%
- 1.50% of the loan amount (2.25% for Reserves/National Guard) for loans with at least a 5% downpayment (N/A to cash out refinances)
- 1.25% of the loan amount (2.00% for Reserves/National Guard) for loans with at least a 10% downpayment (N/A to cash out refinances)

Funding Fees for Other Types of loans (Either Type of Veteran, First or Subsequent Use)

- 1.00% for Assumptions

Refinance Requirements:

Cash-Out Refinance:

Any refinance transaction that does not meet the requirements for an IRRRL is considered a cash-out refinance and must meet the following conditions:

- Complete credit package is required.
- Maximum loan amount is \$322,700.
- The new loan is limited to 90% of the LAPP/CRV plus the cost of any energy-efficient improvements (See VA Handbook section 7.03) plus the VA Funding Fee
 - Loans to refinance construction loans, installment land sale contracts and loans assumed by veterans at interest rates higher than that for the proposed refinance will base their loan amounts on the lesser of the following:
 - ⇒ The VA reasonable value plus the VA Funding Fee, OR
 - ⇒ The sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee) and discounts.
 - The CLTV is not limited as long as the LTV does not exceed 90% and the second lien holder agrees to subordinate.
- Borrower must qualify on ratio, residual and credit basis.
- There must be an existing lien on the subject property, the veteran may not refinance a home owned free and clear.
- The property must be owner-occupied by the Veteran as his principal residence.
- Re-warranting of Condo and PUD projects (based on current information) is required
- Surviving spouses of veterans are not eligible for cash-out refinances.

Interest Rate Reduction Refinances (IRRRL) Requirements

A Veteran is permitted to refinance a current VA loan at a lesser rate of interest based on the following provisions:

- The new loan is limited to a maximum of the balance of the old loan, allowable fees, closing costs, prepaids, up to 2 discount points, and funding fee.
 - If necessary, the refinancing loan amount must be rounded down to avoid the payment of cash to the Veteran.
 - The only situations which come about at closing which may result in the borrower receiving cash are as follows:
 - ⇒ Computational errors
 - ⇒ Changes in final pay-off figures
 - ⇒ Up-front fees Paid for the appraisal and /or credit report that are later added into the loan, AND
 - ⇒ Refund of the escrow balance on the old loan. This often occurs when a party other than the present holder originates the loan.
- Second liens may be subordinated without regard to combined loan-to-values
 - No proceeds may be allowed to payoff secondary liens or other debts.
- The term of the new loan for an IRRRL may be up to 10 years longer than that of the original loan subject to the maximum of 30 years.
- If the Veteran is deceased, the surviving spouse is considered a Veteran for the purpose of refinancing, providing spouse was a co-obligor. Such surviving spouse **must** own and occupy the property to be refinanced.
- If the existing loan was assumed by a veteran who substituted his/her entitlement, the Veteran transferee may refinance the loan as an IRRRL.
- The dollar amount of guaranty applicable to the old VA loan is essentially transferred to the new loan. There will be no additional charge to the Veteran's remaining loan entitlement in connection with the refinancing loan.
 - VA will automatically provide 25% guaranty.
- The existing VA loan must be current.
- A loan which is delinquent (more than 30 days) must be submitted to VA on a prior approval basis with the following additional information:
 - Explanation for loan delinquency, including documentation to support the explanation, and evidence that the cause of delinquency has been resolved.
 - Credit Report (in-file is acceptable).
 - Current paystub and telephone verification of current employment (if not employed, evidence of source of income such as disability, etc.).
 - Completed VA Form 26-6393, Loan Analysis.
 - 12 month pay history of current mortgage if not on credit report.
- The loan being refinanced must be the same home that is secured by the entitlement used on the Certificate of Eligibility. Proof must be obtained such as a note, HUD-1, or any other document which shows the LH# of the used entitlement is the same as the LH# on the Certificate of Eligibility (COE).

Refinance Requirements:

(continued)

Interest Rate Reduction Refinances (IRRRL) Requirements (continued)

- The Veteran must own the property securing the loan to be refinanced
 - If the property is not going to be owner occupied by the Veteran, a written statement that the property was once owner occupied by the Veteran must be provided.
- See Procedures for Appraisal requirements for IRRRLs.
- Condo and PUD projects do not have to be re-warranted.
- The principal and interest payment on the new loan must be less than the principal and interest of the loan being refinanced **UNLESS**:
 - The VA ARM is being refinanced to a fixed rate loan.
 - Term of new loan is shorter than the term of the previous VA guaranteed loan.
 - Energy efficient improvements are included in the IRRRL (see Section 7.03 of the VA Handbook)
 - **NOTE:** Lender must certify the veteran is able to make the new payment amount in cases where the PITI is increasing by 20% or more

Subordinate Financing:

Secondary Financing is acceptable as long as:

- The veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA **and**
- The requirements detailed below are met:
 - Documentation is required disclosing source, amount and repayment terms of the second mortgage and agreement to such terms by all obligors.
 - The second mortgage must be subordinated to the VA guaranteed loan. The second mortgage must be in a junior lien position relative to the VA loan.
 - Proceeds of the second mortgage may be used for a variety of purposes, including but not limited to the following:
 - ⇒ Closing costs, or
 - ⇒ A down payment to meet secondary market requirements
 - ⇒ **MAY NOT** be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over VA's reasonable value.
 - There can be no cash back to the veteran from the VA first mortgage or a second mortgage obtained simultaneously.
 - The veteran must qualify for the second mortgage that is underwritten as an additional recurring monthly obligation.
 - The rate on the second mortgage may exceed the rate on the VA-guaranteed first. However, it may not exceed industry standards for second mortgages. – (“Rule of thumb” is that second mortgages are one or two percent above the market interest rates for first mortgages.)
 - The second mortgage should not restrict the veteran's ability to sell the property any more than the VA first mortgage, that is, it should be assumable by creditworthy purchasers.
 - There should be a reasonable grace period before
 - ⇒ A late charge comes due, or
 - ⇒ Commencement of foreclosure proceedings in the event of default
 - To calculate CLTV: Divide the sum of the first lien mortgage and the total HELOC credit line limit and any other secondary financing by the lower of the sales price or appraised value.
- On IRRRLs, and Cash-Out Refinances, second lien may remain in place without regard to total indebtedness as long as it is subordinated to the new first lien

Documentation Options:

Full/Alt Documentation is required.

See the Refinance Requirements Section of these guidelines for Streamlined Documentation requirements.

TMO Users: Refer to Procedures for information regarding coding the Qualifying Income Field.

Underwriting:

- All loans will be underwritten to VA guidelines.
 - Regardless of the LP/DU score, the borrower(s) must have the required amount of residual to be a have a saleable loan.
- The use of FNMA/FHLMC waivers **is not** permitted with this product.
- Provide a clear CAIVRS # on each applicant and any co obligor. An applicant cannot be considered a satisfactory credit risk if he/she has a judgment lien against his/her property for a debt owed to the Government until the judgment is paid or otherwise satisfied.

Submission:

We have delegated underwriting authority.

Submit your original package to your local underwriting center.

- Except for cases specifically precluded from automatic processing, such as joint loans, the only cases submitted to VA for prior approval should be those in which the underwriter firmly believes approval can be justified, in spite of the fact that the specific facts of the case appear to preclude approval. In such instances, the underwriter will be expected to include a detailed explanation of why the loan should be approved by VA along with a thorough justification for not approving the loan on the automatic basis. It will not be sufficient to justify submitting the loan to VA solely to comply with the veteran's or the real estate agent's request to do so.

Use of Automated Underwriting:

- Any documentation relief can be utilized on this product
- Regardless of the LP/DU score, the loan **must** meet the minimum amount of residual required by VA. See "Residual Income" section of these guidelines.
- Any appraisal relief cannot be utilized on this product.
- Any A- offerings cannot be used.

Credit Scores:

Minimum credit score:

Selecting the Score:

We require the "Middle/Lower then Lowest" method to be used when selecting the credit score. To use the "Middle/Lower then Lowest" method, the Underwriting Score for each Borrower must be determined.

If three usable FICO scores are received for a Borrower, the Underwriting Score selected would be the middle score. If two of the scores are the same, that score should be used.

If only two usable FICO scores are received for a Borrower, the lowest of those two scores would be that Borrower's Underwriting Score.

This procedure to establish Underwriting Scores should be used for each Borrower on the loan. Once the Underwriting Score for each Borrower is determined, the lowest of these scores should be used (if more than one Borrower is on a loan) to determine if minimum FICO requirements are met as listed in the Credit Score Requirements section above.

Qualifying Ratios:

- The qualifying ratios are as follows: 41%
 - A second level signature is required if ratio exceeds 41% and there is less than the 120% required residual (see residual income section), regardless of the AU decision.
- **Contingent Liabilities:** The contingent liability section applies to all Loan Prospector loans not eligible for Accept Plus Documentation or for Non-Loan Prospector Mortgages:
 - **Mortgage Assumptions:** If the borrower is listed as a borrower on a mortgage that has been assumed by another, a copy of the documents transferring the property and any assumption agreement executed by the transferee are required. As long as the borrower no longer owns the property, the contingent liability can be disregarded, without having to document the most recent 12 months' payment history.
 - **Court-Ordered Assignments of Debt:** If a secured debt or mortgage has been assigned by court order (i.e. divorce decree) to another person, the contingent liability can generally be disregarded, even debts that are now delinquent. The documentation of the most recent 12 months' payment history is not required, however, the appropriate pages from the court documents (i.e. separation agreement or divorce decree) must be supplied as well as the transfer of title (if applicable).
 - **Other Credit Liabilities:** If the Borrower is a co-signer on a debt for another person, the underwriter must determine who actually makes the payments on the debt when deciding whether the contingent liability needs to be included in the Borrower's debts.
 - To disregard the liability, evidence must be obtained to show timely payments are being made by someone other than the Borrower and document who makes the payments by obtaining copies of cancelled checks or a statement from the creditor. The documentation obtained must cover at least the most recent 12 months.
 - If the payments on the contingent liability have not been timely over the most recent 12 months, the liability must be included in the Borrower's qualifying ratios.
- **Excluding Prior Home PITI Payment and/or Bridge Loan Payment From Monthly Debt to Income Calculation:** This debt can be excluded provided all of the following are met:
 - A copy of the executed sales contract on the prior home is supplied
 - A copy of a lender's loan commitment to the buyer of the prior home is supplied (if the contract includes a financing contingency)
 - The Borrower must have reserves of 6 months' PITI payments covering any liens on the prior residence

Non-Occupant Co-Borrowers:

Not Permitted

Residual Income:

- Residual Income is the amount of income available for family support after taxes and Social Security expense has been subtracted from the gross income and after the house payment and other long-term debt has been paid. (This remaining income (residual income is the amount remaining to be used for groceries, insurance, utilities, medical, etc.).
- Formula for residual income is the total gross monthly income **minus** the following:
 - Federal, State, and Local taxes
 - Social Security expense
 - Total housing expense
 - ⇒ Calculate maintenance and utility costs using 14 cents per square foot
 - Long-term Debt
- Tax-free income may **not** be grossed up for calculating residual income.
- Count ALL members of the household without regard to the nature of the relationship when determining "family size".
- Regardless of the LP/DU score, the loan **must** meet the minimum amount of residual income as determined by VA. (See Residual Charts on the next page)

Underwriting:**(continued)****Residual Income:****(continued)**

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 \$80 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	\$1,062	\$1,039	\$1,039	\$1,158
Over 5	Add \$80 for each additional member up to a family of 7			

Key to Geographic Regions Used in the Preceding Tables

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

Income Requirements:

Employment must be verified for a minimum of two years and documented according to the Documentation Options section.

Income From Non-Military Employment can include the following:

- **Salaried Employed Borrower**
 - A written VOE, or
 - Paystubs covering at least the most recent 30-day period, **and**
 - W-2 forms for the previous 2 years, **and**
 - A telephone verification of the applicant's current employment documenting the date of verification and the name, title, and telephone number of the person with whom employment was verified.
- **Building Trades/Seasonal or Climate-Dependent Work:**
 - Provide documentation evidencing total earning YTD
 - 2 years federal income tax returns required.
 - Union employees must provide evidence of a history with the union

Income Requirements: (continued)**Income From Non-Military Employment (continued):**

- **Employed for less than 12 months** – not considered stable and reliable, however, it may be considered stable and reliable if the individual facts warrant such a conclusion.
 - Carefully consider the following:
 - ⇒ Employer's evaluation of the probability of continued employment.
 - ⇒ Applicant's training and/or education. (This applies mostly to skilled positions. Examples include nurse, medical technician, lawyer, paralegal and computer systems analyst.)
 - If the probability of continued employment is high, based on these factors, then the lender may give favorable consideration to including the income in total effective income:
 - If the probability of continued employment is good, but not as well supported or employment will be terminated at some point in the future which can be reasonably estimated, the lender may still consider the income of an applicant who has been employed at least 6 months to partially offset debts of 10 to 24 months duration.
- **Income from Overtime, Part-time, Second Jobs, and Bonuses**
 - Must be verified for two (2) years
 - Must be regular and predictable
 - Must be a reasonable likelihood that it will continue in the foreseeable future
 - If received < 24 months but > 12 months, may be used to offset debts of 10 to 24 months duration. Include an explanation.
- **Commission**
 - When all or a major portion of the applicant's income is derived from commissions, obtain the following documentation:
 - ⇒ Written VOE or other written verification which provides the following:
 - ✓ Actual amount of commissions paid year-to-date
 - ✓ Basis for payment (salary plus commission, straight commission, or draws against commission)
 - ✓ When commissions are paid (monthly, quarterly)
 - ⇒ Individual income tax returns, signed and dated, plus all applicable schedules for the previous **two years**
 - Less than two years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
 - Less than one year is not acceptable as stable
- **Self-Employed Borrowers:** A borrower who has an ownership interest of 25% or more in a business is considered to be self-employed.
 - Must have been established for a minimum of 2 years. A shorter timeframe will be considered on a case-by-case basis.
 - Must have a signed 4506.
 - Copies of the past two years' signed and dated individual federal income tax returns are required.
 - A year-to-date Profit and Loss Statement and current Balance Sheet are required.
 - If the business is a corporation or partnership
 - ⇒ Copies of the signed federal business income tax returns for the previous two years plus all applicable schedules, and
 - ⇒ List of all stockholders or partners showing the interest each holds in the business
 - Less than two years cannot usually be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
 - Less than one year is not acceptable
- **Alimony, Child Support and Separate Maintenance Payments:**
 - Factors used to determine whether the payments will continue include, but are not limited to
 - ⇒ Whether the payments are received pursuant to a written agreement or court decree
 - ⇒ The length of time the payments have been received
 - ⇒ The regularity of receipt, and
 - ⇒ The availability of procedures to compel payment.
- **Automobile or Similar Allowances**
 - Appropriate to use such income to offset a corresponding car payment.

Income Requirements: (continued)

- **Other Types of Employment Income:**
 - Includes but not limited to the following:
 - ⇒ Pension or other retirement benefits
 - ⇒ Disability income
 - ⇒ Dividends from stocks
 - ⇒ Interest from bonds, savings accounts, etc. and
 - ⇒ Royalties
 - If it is reasonable to conclude that other types of income will continue in the foreseeable future, include it in effective income.
 - Otherwise, consider whether it is reasonable to use the income to offset obligations of 10 to 24 months duration.
- **Trailing Co-Borrower Income:**
 - Not allowed

Income From Military Employment:

A military LES (Leave and Earnings Statement) is required instead of a VOE (VA Form 26-8479)

- **Service members who are within 12 months of release** from active duty or end of contract term.
 - Find the date of expiration of the applicant's current contract for active service on the LES or on Officer's Orders
 - For National Guard or Reserve member, find the expiration date of the applicant's current contract
 - If the date is within 12 months of the anticipated date that the loan will close, include one of the following four items, or combination of items to be acceptable:
 - ⇒ Documentation that the service member has already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan, OR
 - ⇒ Verification of a valid offer of local civilian employment following the release from active duty. All data pertinent to sound underwriting procedures (date employment will begin, earnings, and so on) must be included, OR
 - ⇒ A statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the 12 month period, PLUS a statement from the service member's commanding officer confirming that:
 - ✓ The service member is eligible to re-enlist or extend his/her active duty as indicated AND
 - ✓ The commanding officer has no reason to believe that such re-enlistment or extension of active duty will not be granted, OR
 - Documentation of other unusually strong positive underwriting factors, such as
 - ⇒ A down payment of at least 10%
 - ⇒ Significant cash reserves, and
 - ⇒ Clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active duty service member is needed to qualify.
- **Military Quarters Allowance** may be used when:
 - The applicant's duty assignment clearly qualifies the applicant for quarters allowance.
 - When VA has established that the waiting list for on-base housing in a particular geographic area is so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future.
 - VA issues a release to all lenders in the jurisdiction to inform them of its determination.
- **Subsistence and Clothing Allowances**
 - Any subsistence (rations) and clothing allowances are indicated on the LES.
- **Other Military Allowances**
 - Verification of the type and amount of the military allowance, and how long the applicant has received it.
 - Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the recipient's assigned duties
 - ⇒ If duration of the military allowance cannot be determined, this source of income may still be used to offset obligations of 10 to 24 months duration.

Income Requirements: (continued)**Income From Military Employment (continued):**

- **Income from Service in the Reserves or National Guard**
 - Income derived from service in either Reserves or National Guard may be included in effective income if the length of the applicant's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue.
 - Otherwise, this income may be used to offset obligations of 10 to 24 months duration.
- **Recently Discharged Veterans**
 - If the applicant has been employed in a position for only a short time, obtain a statement from the employer that the applicant is performing the duties of the job satisfactorily and the probability of continued employment is favorable.
 - Cases involving recently discharged veterans often require the underwriter to exercise a great deal of flexibility and judgment in determining whether the employment income will continue to the foreseeable future. This is because some veterans may have little or no employment experience other than their military occupation. Continuity of employment is essential for a veteran with no retirement income or insufficient retirement income to support the loan obligation.
 - If the duties the applicant performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.
 - If the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability.

Other Income:

- **Rental Income for Multi-Unit Property Securing the VA Loan**
 - Include the prospective rental income in effective income only if
 - ⇒ Evidence indicated the applicant has a reasonable likelihood of success as a landlord AND
 - ⇒ Cash reserves totaling at least 6 months PITI are available
 - The amount of rental income to include in effective income is based on 75% of
 - ⇒ Verified prior rent collected on the units (existing property) OR
 - ⇒ The appraiser's opinion of the property's fair monthly rental (proposed construction)
- **Rental of the Property Applicant Occupied Prior to the New Loan**
 - Obtain a copy of the rental agreement on the property, if any
 - Use the prospective rental income only to offset the mortgage payment on the rental property and only if there is no indication that the property will be difficult to rent.
 - This rental income may **not** be included in effective income.
- **Rental of Other Property Not Securing the VA Loan**
 - Document cash reserves totaling at least three (3) months mortgage payments AND
 - Individual income tax returns, signed and dated, plus all applicable schedules for the previous two (2) years, which show rental income generated by the property.

Asset Requirements:

Veterans may borrow up to 100% of the reasonable value of the property as determined by VA. If the purchase price or cost is more than VA's reasonable value, the Veteran must certify that he or she has paid or will pay the difference in cash from his or her own resources.

- **Reserve Requirements:**
 - There is not a standard reserve requirement except for 2 situations:
 - ⇒ 6 months PITI if the property securing the VA loan is a multi-unit property
 - ⇒ 3 months PITI if the rental income is from a property other than the property securing the VA loan
- **Assets will be needed for the following:**
 - Closing costs or points which are the applicant's responsibility and are not financed in the loan
 - The difference between the sales price and the loan amount if the sales price exceeds the reasonable value established by VA.

Underwriting:**(continued)****Asset Requirements: (continued)**

- **Verification of Assets**
 - Verify all liquid assets owned by the applicant or spouse to the extent that they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis (significant assets)
 - Written VOD **OR**
 - Original or certified true copies of the applicants last two (2) bank statements.
- **Gift Fund Requirements:**
 - Gift funds are allowed with no exception, including Non-Profit Organizations such as Nehemiah, AmeriDream or any other program to which the seller contributes the funds.
 - List donor's name, address, phone number, relationship to Borrower and dollar amount of gift on application or gift letter. If provided in a gift letter, the donor must sign it.
 - If sufficient funds required have not been verified in Borrower's accounts, document transfer.

Interested Party Contributions:

- Sales Concessions may not exceed 4% of the value - any amount over 4% must be subtracted from the purchase price and value in determining the LTV.
- Concessions include payment by the seller of the buyer's VA funding fee, prepaid taxes and insurance, gifts such as a television set or microwave oven, extra discount points paid to provide permanent interest rate buydowns, escrowed funds to provide temporary interest rate buydowns or the payoff of credit balances on behalf of the buyer. (This list is not all inclusive)
- Normal discount points and payment of the buyer's closing costs will not be considered a concession for purposes of determining if total concessions are within the established limit.

Non-Arms Length Transaction:

Primary Residences: VA does not specifically address Non-Arms length transactions in their guidelines in relation to Primary Residences. However, Underwriters should scrutinize very closely loans that are Non-Arms length transactions. This includes, but is not limited to, transactions in which the Borrower is affiliated in some way with the Builder, Developer, or Property Seller.

Closing Requirements and Special Forms:**Manufactured Homes:**

- You must use a special closing addendum when the property type is marked as Manufactured Housing. You must print the forms from the Product Information section of the Website. The forms are located within the "Miscellaneous Forms, Information and Miscellaneous Bulletins" folder.
- The state may require additional requirements, so please check with your title company for additional restrictions/requirements when preparing a closing package for this property type.
- The closing instructions must state that we require the property to be taxed as real estate and hold first lien position.
- The VIN (vehicle identification number) must be on the title policy and on the Alta 7 endorsement
- The manufactured home must be described in the Security Instrument and the description should contain the year, make-model and HUD serial number(s) for each section of the unit.
- Must obtain an insured closing protection letter from each agent (unless prohibited by state law).
- Refinance transactions: Check with the closing agent to make sure existing loan is titled as real property.
- All other standard closing requirements must be met.

Closing Requirements and Special Forms:**(continued)****Use the most current version of the following forms:**

- VMP Form number 5G Multistate Note or the appropriate state specific 5G Note.
- VMP Form number 6G Multistate Mortgage/Deed of Trust or the appropriate state specific 6G document.
- Completed VA Form 26-1820, Report and Certification of Loan Disbursement.
- Completed VA Form 26-1880, Request for Determination of Eligibility and Available Loan Guaranty
- VA form 26-8937 Verification of VA Benefit-Related Indebtedness (for Veterans exempt from the Funding Fee)
- Federal Collection Policy Notice VA form 26-0503
- If applicable:
 - Exhibit B – Revocable Trust Rider

Interest Rate Reduction Refinances (IRRRL) Required Exhibits

- VA Form 26-8923, Interest Rate Reduction Refinancing Loan Worksheet
- “Interest Rate Reduction Refinance Loan Request” Statement signed by the Veteran acknowledging his/her understanding of the effect of the refinancing loan on the Veteran's loan payments and interest rate. This statement must show the interest rate and monthly payments for the new loan versus that for the old loan.

Interim Interest Credits:

Interim Interest Credits are permitted. Loan closing must be within the first five (5) days of the month to receive the credit.

Prepayment Penalty:

There will be no prepayment penalties on this product.

Servicing:

This product is servicing retained.