# Tuesday Agenda and PowerPoint Slides

## April 11, 2017

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Speakers</th>
</tr>
</thead>
<tbody>
<tr>
<td>7:45</td>
<td>Registration (Name badge is required prior to entrance.)</td>
<td>Name badge pickup – Outside Basie Ballroom</td>
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<tr>
<td>8:45</td>
<td>Welcome – starts promptly at 8:45</td>
<td>Mark Connors</td>
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<tr>
<td>9:20</td>
<td>Opening Remarks from the Assistant Director for Loan Policy and Valuation</td>
<td>John Bell III</td>
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<tr>
<td>9:50</td>
<td>Keynote</td>
<td>Curtis L. Coy, Deputy Under Secretary for Economic Opportunity</td>
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<tr>
<td>10:30</td>
<td>Break</td>
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<tr>
<td>10:50</td>
<td>VA’s Minimum Property Requirements</td>
<td>Mike Andrews, Kathy Bernheim, Myron Head</td>
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<tr>
<td>11:35</td>
<td>Credit and Income Underwriting</td>
<td>Mark Jamison, Laura Rodriguez, Cherie Castanares</td>
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<tr>
<td>12:30</td>
<td>Lunch</td>
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<td>2:00</td>
<td>Ginnie Mae</td>
<td>John F. Getchis, Richard Perrelli, Stephanie A. Schader, Kathy Gibbons</td>
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<tr>
<td>3:00</td>
<td>Eligibility</td>
<td>Maxine Henry, Ricardo Holloway, Paula Jesse</td>
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<td>4:00</td>
<td>Break</td>
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<tr>
<td>4:15</td>
<td>Open Forum</td>
<td>Policy and Valuation Chiefs, SMEs</td>
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Minimum Property Requirements (MPRs)

Presented by:
Mike Andrews, Valuation Officer, Atlanta RLC
Kathy Bernheim, Asst. Loan Guaranty Officer, St. Pete RLC
Myron Head, Valuation Officer, Houston RLC

Objectives

• MPR Overview and Purpose
• MPR Violations – What to do?
• MPR Waivers – How does that work?
• Single Real Estate Entity
• Non-residential Use Limitations
• Repair Inspections

**Please hold specific unusual and complex situations (we will address individually)**
<table>
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<tr>
<th>MPR Purpose</th>
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<tr>
<td>• To protect Veterans and stakeholders by providing general acceptability criteria for properties which will become security for VA-guaranteed loans.</td>
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<td>• MPR’s generally fall under the following:</td>
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<tr>
<td>• Safe</td>
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<td>• Sound</td>
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<td>• Sanitary</td>
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<tr>
<th>Where to find MPR guidelines</th>
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<tbody>
<tr>
<td>• Chapter 12, VA Lenders Handbook</td>
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<tr>
<td>• Local requirements established by VA are listed at: <a href="http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp">http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp</a></td>
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<tr>
<td>• Local Authority or other regulatory agency</td>
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Examples of MPRs

- Lead-based paint
- Roof
- Heating
- High Voltage Electric Transmission Lines

Prior to 1978?
Reasonable future utility?

Heating

• Adequate for Healthful and Comfortable Living
• Non-electric, non-vented fireplace or other non-vented space heater must be acknowledged by Veteran and certified by heating contractor to have oxygen depletion sensor and meets code
• Solar systems must meet HUD guidelines and have a back-up
• Check local requirements webpage for climate considerations
High Voltage Electric Lines

Residential structure is outside transmission line easement - meets MPR

Dirty carpet vs. unsanitary pet stains
Cosmetic Repairs are not required

- Cosmetic work is not an MPR
- Updating is not an MPR
- Yard work is not an MPR, unless causing damage
- No MPRs are visible

Appraisal Review Considerations

- Appraiser should prepare appraisal “subject to” MPR items
- If a required repair does not appear to be an MPR, request clarification from appraiser
- If items visible in photos raise a concern about potential repairs, request clarification from the appraiser
MPR Waivers

- Must be approved by VA
- Veteran and lender must request the waiver in writing
- Property must be habitable from a safe, sound, sanitary perspective
- Contributory value of waived item must be considered in estimate of market value

Single Real Estate Entity

- As long as parcels are contiguous, no need to modify tax ID or legal description
- Properties divided by a road or waterway will be analyzed on a case by case basis
- No limit on number of acres that can be included
Non Residential Use Limitations

- Does not detract from residential character of property
- Does not exceed 25% of floor area

Example – Non residential use

With the exception of paint colors (cosmetic) this house used as a day care center still has residential character. This property would be eligible if appraised as a house, with no value given to the commercial use.
Example – Non residential use

This property is not eligible due to the commercial use as the property does not have residential character and the commercial use exceeds 25%.

Example – Non residential use

While currently being used as a professional office, this structure still has residential character and would be eligible with the appraisal performed as residential using other nearby homes, not offices, as comparable sales.
Repair Completion Certification

- Appraiser may use
  - FHLMC Form 442
  - FNMA 1004D, Part B
  - Letterhead
- Certification must list all repairs on NOV
- Lender certify to save the Veteran the cost of the inspection fee
- Provide photos of complete repairs and non-compliance items
- Upload completed report into WebLGY

Uploading Repair Certification in WebLGY

The repair inspection report must be uploaded in WebLGY
Questions?

Thank you
What is an Egregious VA Loan?

• Disregard for credit standards – Did the Veteran re-establish credit after a derogatory credit event? (VA Pamphlet 26-7, Ch. 4, Section 7c)

• Income stability not established. (VA Pamphlet 26-7, Ch. 4, Section 2f)

• Use of active duty income when income will be extinguished within one year. (VA Pamphlet 26-7, Ch. 4, Section 2k)

• High DTI and residual income well below VA guidelines. (VA Pamphlet 26-7, Ch. 4, Section 10)

• Not considering debts or credit of a spouse in a community property state. (VA Pamphlet 26-7, Ch. 4, Section 2c)
Egregious Case #1

- VA home loan closed for $102,047 in September 2014.
- Active duty income from a recent national guard activation was used to qualify.
- Service member separated from active duty November 2014.
- There was no evidence of re-enlistment, nor evidence of a civilian job upon separation.
- Below average credit with several charge-offs and collections.

Is it Egregious?

- Yes. In September 2016 VA Central Office deemed loan egregious and an indemnification agreement was signed.
- Use of unstable income was the prevailing reason for indemnification.
Egregious Case #2?

- VA loan closed for $251,186 in February 2015.
- Lender closed the VA loan using income from a job of 8 months as a team lead at a Target department store.
- Veteran’s prior work history was 4 months at International Paper, 2 months at Convergys and 4 months at Red Robin.
- Veteran had numerous late payments dating back to 2009, with recent late of child support in May 2014.
- Once we removed current income, DTI was over 61%, with residual income of $340 for a required residual of $889.
- Lender openly admitted in their audit they used unstable income.

Is it Egregious?

- Yes. In March 2016 VA Central Office deemed loan egregious and an indemnification agreement was signed.

- Use of unstable income and egregious credit were the prevailing reasons for indemnification.
Is it Egregious?

- VA loan closed for $276,327 in October 2014.
- Lender closed VA loan on an automatic basis, but ignored the condition on the COE that stated “Veteran is not exempt from funding fee due to receipt of non-service connected pension. LOAN APPLICATION WILL REQUIRE PRIOR APPROVAL PROCESSING BY VA.”
- It appeared the lender intentionally removed the above language from the COE that was in their audit file, and decided to underwrite the file without submitting it to VA.
- Review by our St. Paul pension center revealed veteran did not divulge receipt of $2,089 social security income per month. VA non-service connected income to be terminated.
- When we removed the pension received and used only social security income, the veteran’s DTI was over 75% with residual income of -$23 per month.

This is the COE that was in WebLGY
This is the COE that was in Lender’s Audit File

Is it Egregious?

• This loan was not only egregious but borderline fraud. In March 2015 VA notified the lender that VA will not require indemnification, but will instead cancel guaranty on this loan.

• Lenders must NEVER close a VA loan on an automatic basis for a veteran in receipt of non-service connected pension.
Egregious Case #3?

• VA loan closed for $164,000 in March 2015.
• Veteran defaulted on VA loan after two payments.
• Lender used income that had been in existence for two months, but that employment was in the same line of business that the veteran had been in for four years.
• Loan was a Refer/Eligible with fair credit, but all open credit lines were collections. Lender justified credit by using alternative sources of credit from a utility company, Netflix and rent.
• Rent was actually paid by his former employer.
• Housing payment shock +$1,380 per month.

Is it Egregious?

• No. VA Central Office deemed the employment stability to be satisfied because veteran was in same line of work for four years prior, and new job increased salary by 37%.
• VA Central Office also deemed substandard credit acceptable due to alternative trade lines, minimal use of consumer credit and veteran paying rent for 19 months on time.
Ineligible Loan #1?

- Lender closed a VA cash-out refinance loan for $380,000 in July 2016.

- Review of the Closing Disclosure shows after $4,586 in closing costs are deducted, the Veteran walked away with $375,414.
Is it an Eligible VA Loan?

- There was no lien against the property to “cash out.”
- VA cancelled guaranty on this loan.
- VA Pamphlet 26-7, Chapter 6, Section 3a says:

  a. What is a VA Cash-Out Refinancing Loan?

  A cash-out refinancing loan is a VA-guaranteed loan that refinances any type of lien or liens against the secured property. The liens to be paid off may be:

  - current or delinquent, and
  - from any source, such as
    - tax or judgment liens, or
    - VA, FHA, or conventional mortgages.

  Loan proceeds beyond the amount needed to pay off the lien(s) may be taken as cash by the borrower for any purpose acceptable to the lender.

  The loan must be secured by a first lien on the property.

Ineligible Loan #2

- VA loan closed for $129,125 in April 2015

- A full review audit revealed that the lender failed to provide a private road maintenance agreement or a valid well water test.
Is it an Eligible VA Loan?

- After several non-compliant audit deficiency letters were sent to the lender with no reply, VA cancelled guaranty.
- VA Pamphlet 26-7, Chapter 12, Section 12.05 says:

  Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street.
  
  Private streets must be:
  - protected by a permanent easement, and
  - maintained by a homeowners association or joint maintenance agreement.
  
  All streets must have an all-weather surface.

- VA Pamphlet 26-7, Chapter 12, Section 12.08 says:

  Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply.
  
  If the health authority is unable to perform the water quality analysis in a timely manner, a commercial testing laboratory or a licensed sanitary engineer acceptable to the health authority may take and test the water sample.

Ineligible Loan #3

- VA loan closed for $840,822 in April 2015

- A full review audit revealed that the lender closed a VA loan in a Coastal Barrier Resource Area.
Is it an Eligible VA Loan?

- VA cancelled guaranty on this loan
- VA Pamphlet 26-7, Chapter 11, Section 12i says:

Properties located in a Coastal Barrier Resources System (CBRS) area, as delineated on a CBRS map, are not eligible as security for a VA-guaranteed loan. Affected areas include portions of the Great Lakes, Gulf Coast, Puerto Rico, Virgin Islands, and the Atlantic coast.

Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Fish and Wildlife Service. Prohibited areas on the maps are those inside the solid heavy black lines.

Foreclosure/Deed in Lieu/Bankruptcy

- You may disregard a foreclosure sheriff sale, deed in lieu of foreclosure, or Ch. 7 bankruptcy discharged more than 2 years ago.
- If the sheriff sale was held, home deeded back to mortgage company or the bankruptcy was discharged within the last 1 to 2 years, it is probably not possible to determine the borrower is a satisfactory credit risk.
- Develop credit file to determine if new consumer credit was opened and paid on time.
- Determine if bankruptcy was caused by some catastrophic event such as loss of job, uninsured medical bills, natural disaster, etc.
- Divorce is generally not a consideration for reducing the 2 year waiting period.
Bankruptcy Date vs. Foreclosure Date

- If a borrower was discharged in Ch. 7 bankruptcy prior to a liquidation, the Ch. 7 discharge date always prevails as the beginning of the 2 year waiting period.

- If a borrower lost a home due to a liquidation, and later discharged that debt in a Ch. 7 bankruptcy, the Ch.7 discharge date prevails as the beginning of the 2 year waiting period.

Federal Tax Liens

- A federal tax lien is a federal debt.
- VA Pamphlet 26-7, Chapter 4, Section 6f states:

  An applicant cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangements have been made between the applicant and the Federal agency. The refinancing of a delinquent VA loan with an IRRRL satisfies this requirement.

- The borrower must have made arrangement to repay the tax lien
- VA doesn’t specify a minimum number of payments towards repayment, but do zero payments satisfy the requirement? NO
Collections

- VA gets a lot of questions regarding how collections should be handled.
- Do you have an AUS Approve/Eligible loan? If yes, collections can be ignored.
- If you have an AUS Refer/Eligible, VA Pamphlet 26-7, Chapter 4, Section 7c states:

> Collections: Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. For example, a credit report may show numerous satisfactory accounts and one or two unpaid medical (or other) collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval. However, collection accounts must be considered part of the borrower’s overall credit history and unpaid collection accounts should be considered open, recent credit. Borrowers with a history of collection accounts should have reestablished satisfactory credit (see previous paragraph) in order to be considered a satisfactory credit risk.

- Large collections and charge-offs, especially if there are several of them, can be reason for denial.

Short Sales

- If a borrower sold a home on a short sale (VA calls these compromise sales), the lender needs to develop the credit.
- No mandated waiting time to close on a VA loan.
- Ensure you have evidence there will be no debt.
- Develop whether borrower agreed to repayment of that short sale debt.
- Will there be tax ramifications?
- Mortgage Forgiveness Debt Relief Act of 2007 allowed borrowers to exclude from their income (1099-C) certain types of forgiven debt.
- You may need to include in the debt ratio the potential tax debt on that short sale deficiency forgiveness.
Credit Alert Verification Reporting System (CAIVRS)

- In order to close a VA loan of any kind, lenders must obtain a CAIVRS authorization.
- ‘A’ in front of the CAIVRS number deems the authorization acceptable.
- ‘C’ in front of the CAIVRS number means the borrower has an open federal debt.
- Can you close with an open federal debt? Yes, provided the borrower has set up payment arrangements or paid off the debt, and can provide evidence.
- FHA ‘C’ CAIVRS numbers can be negated because FHA loans require monthly mortgage insurance and there is no debt.
- FHA posts these ‘C’ claims to track their own foreclosure time frames.

Questions?
Thank you
Certificate of Eligibility Issues

Maxine Henry, Program Analyst, VA Central Office
Ricardo Holloway, Loan Production Officer, Atlanta RLC
Paula Jesse, Asst. Loan Production Officer, Denver RLC

Enhancements, Reminders & Conditions

Ricardo Holloway
Loan Production Officer
Atlanta Regional Loan Center
Enhancements

After you order an appraisal, you may order a COE.

COE Link Within The Appraisal Order

The hyperlink at the top right corner of the paragraph block is the link to: “Order the Certificate of Eligibility”. If you click this link, it will take you to ACE (Automated Certificate of Eligibility) screen to order a COE.

Typically, the person who orders the appraisal would complete the process of “Viewing the 1805” and “Uploading the Sales Contract”.
COE Link Within The Appraisal Order

If you decide to complete the normal workflow process of ordering the appraisal, you may also order the COE from this screen by clicking “Order Certificate of Eligibility” in the blue navigation menu.

Note: When you order the COE from this location, it ties the COE to the appraisal case.

Eligibility Reminders

Please order the COE as early as possible in the loan application process.

This action prevents the following:

• Last minute delays – The Veteran is at the closing table and still does not have a COE because it was ordered just a few days prior to closing.
• The Veteran may not have the correct documentation to have his/her COE processed quickly. (Ex. DD-214, Point Statement, NGB 22, etc.)
• Receiving a determination that the Veteran is not eligible for a Certificate of Eligibility.
Eligibility Reminders

Please also remember to check the COE conditions prior to closing on the VA Loan.

COE Conditions

If a member is Active Duty:

- **Active Duty Service Member** – Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of date of note is required.
If a member is Reserve or National Guard Member:

- **Reserve or National Guard Member** - Valid unless discharged or released subsequent to date of this certificate. A certification of continuous service in the Selected Reserve or National Guard as of date of note is required.

- **Reserve/National Guard Funding Fee** - Entitlement is based on service in the Selected Reserve and/or National Guard so increased Funding Fee is required.

**COE Conditions (cont.)**

- **Refinance Restoration** - Restored entitlement previously used charged for VA LIN as shown herein is available only for use in connection with the property which secured that loan.

- **One Time Restoration** - Entitlement previously used for VA LIN has been restored without disposal of the property, under provision of 38 U.S.C. 3702b(4). Any future restoration requires disposal of ALL property obtained with a VA loan.
• **Subsequent Use Funding Fee** - Entitlement code of “5” indicates previously used entitlement has been restored. The Veteran must pay a subsequent use funding fee on any future loan unless Veteran is exempt.

• **Surviving Spouse** - Eligibility of the surviving spouse and the validity of guaranty entitlement hereby evidenced will be null and void if any change in marital status occurs subsequent to the date of this certificate and prior to the date a loan to the widow or widower is closed, unless the lender making the loan was not aware of any change in marital status and obtained on the date the loan closed an affidavit from the surviving spouse in the form prescribed by the Secretary.

• **Paid In Full Loan** – Entitlement charged on a paid in full loan cannot be restored until the veteran applies for restoration of entitlement.

• **Foreclosed Loan** - Entitlement charged on a foreclosed loan cannot be restored until VA’s loss on the loan has been fully repaid. Information about repayment of the loss may be obtained by contacting the Regional Loan Centers.
• Common Errors
  – Failing to add electronic application when you see this:

  **Reference Number:**
  Your request for a COE cannot be processed automatically. Therefore, this case requires manual processing by VA since we do not have the veterans service records in our system.

  or this:

  **Reference Number**
  **Type:** Certificate Of Eligibility
  **Status:** Unsuccessful
  **Veteran Name:**
  **SSN:** ***
  **DOB:** .
Add an electronic application here:

For additional questions, please click on the Help link at the top of the page.

Click here for an Electronic Application.

or here:

Common application errors

• Incomplete application – fill it all in!
• Not addressing prior loans appropriately
Avoid delays. Tell us what we need to know!

What are the Veteran’s intentions?

Does the Veteran want entitlement restored to refinance this home (cash out refinance)? *

Is the Veteran applying for a Certificate of Eligibility because he/she plans to refinance an existing VA loan to obtain a lower interest rate without receiving any cash proceeds (IRRR/LStreamline)? *

Does the Veteran want his/her entitlement restored to use on a different home? *

Does the Veteran intend to sell this home before closing on your next VA guaranteed home loan? *

Is the Veteran applying for a Certificate of Eligibility to determine the amount of home loan entitlement he/she has available for another VA loan without restoring entitlement used for this home? *

Check your work!

• Is the name correct?
  – Did the Veteran serve under a different name?
• Date of birth?
• Social Security and service numbers?
• Uploading correct document?
  – DD214 or other service records for correct Vet
  – CD/HUD for correct property
• Opportunity to check at end of application
Correct COE Link

• You’ve got the power!
  – Refresh the issue date
  – Restore entitlement on paid-in-full loans
  – Change Veteran contact information
  – Change Veteran first or middle name
  – Last name change*
  – Change Veteran branch of service*
  – Remove active duty status*

*Requires documentation and electronic application
So many options!
Correct COE Link Tips

- Always try to correct the COE rather than adding a new application
  - Adding an application places the record in our work buckets. Processed in order received.
  - If needed, payoff documentation may be uploaded through this process.
- Be sure that you have VA Form 26-1880, signed by the Veteran for accurate ownership information.
Defining a Surviving Spouse (SS)

- The term “Veteran” includes the SS of any Veteran which includes:
  - A person who died in the active military, naval, or air service
  - Or a person who died from a service-connected disability
  - Both active duty and active Reserves/National Guard under federal service can qualify
SS Application

- COEs for SS must be processed by VA. It’s not automatic.
- SS application is VA Form 26-1817
- Complete and upload the completed form into WebLGY
- Provide the applicant’s (SS) name, address, SSN, DOB

Processing SS Applications

- If SS is a Veteran, provide discharge documents such as DD214, VA Form 26-1880, and VA Form 26-1817
- Exemption information will be provided on the VA Form 26-8937
Processing SS Applications

An entitlement Code of ‘06’ indicates that the SS is exempt from the VA funding fee

Questions?