Credit Report Standards (Chapter 4.7.a.)

Credit reports used in analyzing VA loans must be either:

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

True or False?

For VA loan purposes, the credit report does not need to include Public Records.

False
Absence of Credit History (Chapter 4.7.c.)

• For applicants with no established credit history, base the determination on the applicant’s payment record on utilities, rent, automobile insurance, or other expenses that applicant has paid.

• Absence of a credit history is not generally considered an adverse factor. It may result when:
  – recently discharged Veterans have not yet developed a credit history,
  – applicants have routinely used cash rather than credit, and/or
  – applicants have not used credit since some disruptive credit event such as bankruptcy (evidence of timely payment such as rent and utilities since the disruptive credit event should be examined).

Bankruptcy Date vs. Foreclosure Date

Lender Inquiry:

“The VA Lenders Handbook does not specifically address cases where a mortgage has been discharged through a bankruptcy when a two-year waiting period has occurred but the property was not foreclosed upon until much later than the discharge of the bankruptcy.”

Bankruptcy Date vs. Foreclosure Date

“Is it VA’s policy to go by the bankruptcy discharge date or the foreclosure date to determine when the 2 year waiting period begins?”
Bankruptcy Date vs. Foreclosure Date

The Underwriter should consider all facts of borrower’s credit:

- Has the borrower re-established credit since the discharge?
- Is the new credit seasoned and over 12 months old?
- Is there a clean credit history since the bankruptcy?
- If the liquidation would have been timely, would the credit have been acceptable?

Bankruptcy Date vs. Foreclosure Date

If an underwriter has addressed all the facts of the borrower’s credit, then:

- The lender should not hold the servicer’s delay against the borrower
- The lender should document the underwriter’s decision
- Underwriter’s decision should justify why the foreclosure was ignored

What Would You Do?

- Veteran did not successfully complete a Chapter 13 bankruptcy
- Veteran then enrolled in a Chapter 7 bankruptcy
- Veteran applies for a VA loan less than 24 months after the Chapter 7 Bankruptcy was discharged
- One trade line established after applying for a VA loan

Is this Veteran credit-worthy?
Timeshare Default

**Question:**
- Should a defaulted or foreclosed timeshare be considered a foreclosure of a mortgage?

**Answer:**
- No. The default or foreclosure of a timeshare should be considered an unpaid consumer debt—NOT a foreclosure of a mortgage.

Veteran as Co-Obligor on Loan (Chapter 4.5.d.)

A Veteran may have a contingent liability based on co-signing a loan.

- It is evidenced loan payments are being made by someone other than Veteran, and
- There is no reason to believe Veteran is required to participate in repayment of loan, then
- The lender may exclude the loan payment from the Veteran’s monthly obligations

Student Loans (Chapter 4.5.g.)

- If student loan repayments are scheduled to begin within 12 months of the date of 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 outside that timeframe, the debt does not need to be considered in the analysis.
Policy for Income Based Repayment Plans (Student Loans)

- Lender may use the Income Based Repayment (IBR) payment if it is verified (including $0.00) when the payment is fixed for a minimum of 12 months post-closing date.

- When fixed for less than 12 months post-closing the lender must use the regularly calculated payment that will be due once the IBR ends.

- When no payment is reported or available, the lender must use a payment calculation using 5% of the current report balance as the monthly payment.

Student Loan Deferment Example

- Loan #1 shows student loan is deferred more than 12 months from date of closing, therefore, monthly payment could be omitted.

- Loan #2 shows student loan payment is scheduled to begin within 12 months after closing, therefore, the monthly payment amount must be verified and considered.

Shortsale Guidance

- If a Veteran’s overall credit record is good, selling the property at less than what was owed should not be an automatic bar to obtaining new credit.

- A shortsale is not considered the same as foreclosure.

- A mandatory waiting period is NOT necessary.

- Even if there were some delinquent payments, the borrower’s entire credit history should be considered and documented.

- If a shortsale/compromise claim was completed on a VA property, entitlement available may be affected.
Childcare Expense (Chapter 4.9.c.)

Costs for child care should be addressed by the applicant for any dependents under the age of twelve. If there is an associated cost expected to continue, the figure should be included in Job Related Expense under Section D of the Loan Analysis.

Acceptable Documentation:
- Canceled checks
- Bank statements
- Letter from Veteran explaining care
- Letter from caregiver who provides free care

Alimony/Child Support Payments (Chapter 4.5.b.)

Alimony and/or child support obligations should be verified and must be considered when qualifying the applicant. This figure should be included in Section D on the Loan Analysis.

Acceptable Documentation:
- Divorce Decree
- Separation Agreement
- State required payroll offset
- Leave & Earnings Statement (LES) or paystub garnishment

Allotments (Chapter 4.5.a.)

- Substantial allotments indicated on a pay stub, LES or Military Retirement Statement should be addressed by the applicant for lender to determine whether the allotment is related to a debt.
- The lender will need to take into account how the applicant is paid (i.e. monthly, bi-weekly, bi-monthly) and frequency of allotment.

Allotment Example:

\[
\begin{array}{|c|c|}
\hline
\text{Allotment} & \text{Amount} \\
\hline
1 & 18.00 \\
\hline
\end{array}
\]
Judgments (Chapter 4.7.f. & 4.7.c.)

- An applicant cannot be considered a satisfactory credit risk if there is a judgment lien against the property for a debt owed to the Government until the judgment is paid or otherwise satisfied.

- Disputed Accounts: Lenders may consider a Veteran’s claim of bona fide or legal defenses regarding unpaid debts except when the debt has been reduced to judgment. Accounts reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments.

Credit Report—Public Record/Judgment Example:

Derogatory Credit History (Chapter 4.8.c. & 4.10.c.)

- Obtain explanation for derogatory credit. Explain assessment of creditworthiness on VA Form 26-6393, Loan Analysis.

- A poor credit history alone is a basis for disapproving a loan.

- If credit history is marginal, look to other indicators such as residual income to support approval of the loan.

- Marginal credit combined with marginal income may be a basis for disapproving a loan.
Community Property Considerations

There are 9 community property states*:
- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

* Alaska is an op-in community property state that gives both parties the option to make their property community property

Community Property Considerations and Credit

- Spouse’s credit report must always be obtained
- Even if spouse is non-borrowing, debts of the spouse are included
- Spouse’s debts can only be excluded if income is fully documented to support exclusion
- Non-borrowing spouse’s bad credit is a reflection on Veteran’s credit*
  - A new marriage (<6 mos.) to the Veteran could be consideration for allowing bad credit of the new spouse. Underwriter should explain
  - Over 6 months and Veteran should have started addressing new spouse’s credit issues as it will reflect on Veteran’s overall credit
- Divorce or court-recognized recorded separation agreement outlining responsibility for specific debts can exclude those debts

Questions???
Active Duty Service Member (ADSM)

• An ADSM is considered a Veteran eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard for at least the minimum required Length of Service (LOS), and was discharged with an acceptable Character of Service (COS).
• An ADSM is also a Veteran who previously served or is currently serving on active duty full time. This includes both officers and enlisted personnel.
• An acceptable Character of Service (COS) for an ADSM includes:
  • Honorable
  • General
  • Under Honorable Conditions

Length of Service Exceptions for ADSM:

• Discharged for a Service-Connected Disability (SCD)
• Currently on Active Duty
• Compensable SCD
• Early Out
• Convenience of the Government (COG)
• Reduction in Force (RIF)
• Hardship
• Existed Prior to Service (EPTS)
• Condition Interfered with Duty (CIWD)
• Expiration of Term of Service (ETS) – Reserve/National Guard (R/NG)
• Sole Survivor
Example:
• Veteran served 1 year, 2 months, 4 days
• 24 months is the required LOS for era served

The Veteran was discharged and later awarded disability compensation. Veteran will establish eligibility under the exception of Compensable SCD because they served more than 90 days.

Minimum Service Required for ADSM:

Pre Vietnam & Vietnam Era Requirements
Wartime WWII 9/16/40-7/25/47 90 days
Wartime Korean 6/27/50-1/31/55 90 days
Wartime Vietnam 8/05/64-5/07/75 90 days

Post Vietnam Requirements
Peaceetime Enlisted 5/08/75-9/07/80 181 days
Peaceetime Enlisted 9/08/80-8/01/90 24 months

Desert Storm Requirements (8/02/90 to present)
ADSM—Still on Active Duty 90 days
ADSM—Discharged 24 months
Activated RNG (Title 10, non-training) 90 days

DD Form 214 Example
Character of Service (COS) & Separation Reason

- Time in Service > 24 months
- Member 4 DD 214 states COS Under Honorable Conditions (UHC) General
- Reason for Separation = "Misconduct" (serious offense)
- Member has NOT completed 1st full term of service — OK
- Time in service and COS supersede reason for separation

Reserve/National Guard (R/NG)

- Members of the R/NG who have neither a qualifying tour as an ADSM, nor a qualifying Title 10 U.S.C. activation must have 6 creditable years of service and receive an Honorable discharge to be eligible.
- For a period of R/NG service to be deemed creditable, the Veteran must have received at least one point, in addition to the automatic 15 membership points, during the anniversary year.
- The anniversary year covers the 12-month period commencing on the month and day that the Veteran began service. If a Veteran entered service on March 3, each anniversary year runs from March 3 to March 2 of the following year.
- Only Active Duty Training (ADT) and Inactive Duty Training (IDT/IADT) points are qualifying. Membership points alone are NOT qualifying.

Point Statement Example
Reserves Statement

- 6 years with sufficient points
- 15 membership points for each anniversary year, plus at least 1 inactive duty or active duty training point for each of those years
- Honorable Discharge

NGB-22 Example

“Honorable” Discharge

6: "Creditable years of service in R/NG"

Reserves Statement—6 years without sufficient points

- Only membership points listed
- No IDT/ADT Points in addition to the 15 membership points
COE Conditions

- Funding Fee
- Reserve/National Guard Funding Fee
- Cash-out Refinance
- One-Time Restoration
- Active Duty
- Submit 26-8937 to the RLC—Pension or Incompetent
- Surviving Spouse

Completed COE with Condition

Surviving Spouse Benefits
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.

In Memory Of Your Service

The United States of America honors the memory of JAMES E. TAYLOR. This certificate is awarded by the grateful nation in recognition of devoted and selfless service to the cause of our country in the Armed Forces of the United States.

Dependency and Indemnity Compensation (DIC)

Are all SS eligible for a COE?

Unfortunately, no.

All SS are not automatically eligible for the COE.

They must have applied for Dependency and Indemnity Compensation (DIC) benefits and there must be a rating of “service connected death” completed by the VA Pension Management Center (PMC) before they are eligible.
Purchase/Cash Out vs. IRRRL

- A SS of a deceased Veteran that was on the original VA loan may be eligible for an Interest Rate Reduction Refinancing Loan (IRRRL).

- For a SS to be eligible for a SS COE in their own name, there must be a completed rating by VA that the Veteran’s death was a “service connected death” for a purchase or cash-out refinance.

Dependency and Indemnity Compensation (DIC)

- Use the chart and the SS address to determine where to send the VA Form 21-534, if he or she has not applied for DIC.

- For example, if the SS lives in Atlanta, GA – the DIC application, VA Form 21-534 will be sent to Philadelphia.

Applying for a Surviving Spouse Certificate of Eligibility (COE)

What does a lender or a SS need to provide in order to receive a COE?

A completed VA Form 26-1817 (Request for Determination of Loan Guaranty Eligibility – Unmarried Surviving Spouses). This form is the application for a SS COE.
Can the lender request a COE for a SS by using the automated COE function in WebLGY?

- Unfortunately, no.
  - A SS COE must be processed by a Loan Specialist at VA.
  - Please make the application in WebLGY in the SS name, social security number and date of birth and upload VA Form 26-1817.

What if applicant is both a Veteran and a Surviving Spouse?

- If a SS is a qualifying Veteran in their own right, we must determine if they qualify for the COE using their own service time.
- A SS that is also a qualifying Veteran will be granted a COE based on their military service and not as a SS, but will be exempt from the VA funding fee if they also qualify as a SS. Two separate COE's are NOT awarded.
- A Veteran’s entitlement is separate from the SS entitlement.
Funding Fee Exemption for a Surviving Spouse

An Entitlement Code of “06” indicates that the SS is exempt from the VA funding fee.

Determining the DIC Amount for Underwriting

• VA Form 26-8937 will be submitted by fax to the VA Regional Loan Center of jurisdiction of where the property is being purchased or refinanced.

• It is important to have the name, date of birth and social security numbers for BOTH the deceased Veteran and the SS in order for research to be conducted.

RLC Fax Numbers

St. Petersburg, FL 727-319-7763
Roanoke, VA 215-842-7217
Cleveland, OH 216-522-3101
St. Paul, MN 215-991-5043
Phoenix, AZ 602-627-3221
Denver, CO 303-914-5666
Honolulu, HI 808-433-0383
Atlanta, GA 404-929-5401
Houston, TX 713-383-1772 or 713-383-1845
Entitlement

How is Entitlement Calculated?

- Entitlement is the amount available for use on a loan
- VA home loan entitlement is based on conforming loan limits
- VA conforming loan limits are based on the Federal Housing Finance Agency (FHFA) loan limits
- Loan limits are subject to change
- VA loan limits for all VA loans are based on the One-Unit loan limit in FHFA’s tables

COE with Full Entitlement Available
VA Home Loan with Full Entitlement

Maximum FHFA Conforming Loan Limits (2016)

- COE Shows $36,000 of basic entitlement
- $417,000: Standard conforming county
- $625,500: Nantucket (high cost county)
- $580,750: San Diego (high cost county)

How To Calculate Bonus Entitlement

$417,000 maximum conforming loan limit (most counties) x 25% required guaranty for secondary market
$104,250 maximum $ amount of guaranty
- $36,000 basic entitlement
$68,250 bonus entitlement for 2016 (most counties)

How To Calculate Bonus Entitlement

$625,500 maximum conforming loan limit (Nantucket) x 25% required guaranty for secondary market
$156,375 maximum $ amount of guaranty
- $36,000 basic entitlement
$120,375 bonus entitlement or 2016 (Nantucket)
How To Calculate Bonus Entitlement

$ 580,750 maximum conforming loan limit (San Diego) 
\times \quad 25\% \text{ required guaranty for secondary market} 
$ 145,187 maximum $ amount of guaranty 
- \quad 36,000 \text{ basic entitlement} 
$ 109,187 \text{ bonus entitlement for 2016 (San Diego)}

How Can You Tell If a Veteran Has Adequate Remaining Entitlement?

Entitlement Scenario – Partial Entitlement Remaining

If Buying a Home in a Standard Conforming Loan Limit County ($417,000)

- Veteran purchased a home in 1987 for $73,600, and lost it in foreclosure 
- VA guaranteed $27,500 
- VA entitlement used from the 1987 loan can only be restored if Veteran pays back foreclosure claim payment.

$ 36,000 basic entitlement 
- $27,500 amount previously used 
$ 8,500 amount of basic remaining 
+ 68,250 bonus entitlement 
$ 76,750 total available entitlement 

$ 8,500 \times 4 = $34,000 \text{ max VA loan using basic entitlement} 
$ 76,750 \times 4 = $307,000 \text{ max VA loan using remaining basic entitlement and bonus entitlement}
Entitlement Scenario – Partial Entitlement Remaining

If Buying a Home in Nantucket ($625,500)

- Veteran purchased a home in 1987 for $73,600, and lost it in foreclosure
- VA guaranteed $27,500
- VA entitlement used from the 1987 loan can only be restored if Veteran pays back foreclosure claim payment.

$36,000 basic entitlement
- $27,500 amount previously used
+ $8,500 amount of basic remaining
+ $120,375 bonus entitlement
$128,875 total available entitlement

$8,500 x 4 = $34,000 max VA loan using basic entitlement
$128,875 x 4 = $515,500 max VA loan using remaining basic entitlement and bonus entitlement

Entitlement Scenario – Partial Entitlement Remaining

If Buying a Home in San Diego ($580,750)

- Veteran purchased a home in 1987 for $73,600, and lost it in foreclosure
- VA guaranteed $27,500
- VA entitlement used from the 1987 loan can only be restored if Veteran pays back foreclosure claim payment.

$36,000 basic entitlement
- $27,500 amount previously used
- $8,500 amount of basic remaining
+ $109,187 bonus entitlement
$117,687 total available entitlement

$8,500 x 4 = $34,000 max VA loan using basic entitlement
$117,687 x 4 = $470,748 max VA loan using remaining basic entitlement and bonus entitlement

Certificate of Eligibility with $0 Basic Entitlement
No Basic Entitlement Available

Lender Question: Where does it say you can close a VA loan with $0 in basic entitlement?

VA Answer: VA Pamphlet 26-7, Chapter 2, Section 2b

Note: The possible additional entitlement for certain loans in excess of $144,000 may be available even if the veteran has no entitlement or partial basic entitlement. However, in such cases, the lack of full entitlement may result in lenders receiving less than a 25 percent guaranty from VA. It is the lender’s responsibility to ensure they receive a sufficient amount of guaranty to satisfy secondary market requirements.

Certificate of Eligibility with $0 Basic Entitlement

- Veterans can still use remaining bonus entitlement for a loan over $144,000
- Calculation involves taking maximum total guaranty based on location minus entitlement charged
- In this case, Veteran closed on an IRRRL, whereby the capital entitlement used for the purchase is booked against the loan, not 25% of the new IRRRL.

Certificate of Eligibility with $0 Basic Entitlement

If Buying a Home in a Standard Conforming Loan Limit County—Veteran cannot obtain a VA loan between $1 - $144,000

- Veteran purchased a home in 2007 for $185,494. VA guaranteed $46,373. The home is still owned.
- Veteran closed an IRRRL in 2012 for $179,822 and VA guaranteed $44,955.
- Prior purchase guaranty is held against Veteran, or $46,373
- VA entitlement used from the 2007 loan can only be restored if Veteran sells the home and pays off the initial VA loan.

$ 36,000 basic entitlement
- $ 36,000 amount previously used
$ 0 amount of basic remaining

$104,250 max guaranty standard county
- $46,373 entitlement used
$ 57,877 remaining entitlement
x 4
$ 231,508 maximum VA loan
Certificate of Eligibility with  
$0 Basic Entitlement

If Buying a Home in Nantucket—Veteran cannot obtain a VA loan between

$1 - $144,000

- Veteran purchased a home in 2007 for $185,494. VA guaranteed $46,373. The home is still owned.
- Veteran closed an IRRRL in 2012 for $179,822 and VA guaranteed $44,955.
- Prior purchase guaranty is held against Veteran, or $46,373
- VA entitlement used from the 2007 loan can only be restored if Veteran sells the home and pays off the initial VA loan.

$36,000 basic entitlement  
- $36,000 amount previously used  
- $0 amount of basic remaining

$156,375 max guaranty (Nantucket)  
- $46,373 entitlement used  
$110,002 remaining entitlement

$440,008 maximum VA loan (Nantucket)

Certificate of Eligibility with  
$0 Basic Entitlement

If Buying a Home in San Diego—Veteran cannot obtain a VA loan between

$1 - $144,000

- Veteran purchased a home in 2007 for $185,494. VA guaranteed $46,373. The home is still owned.
- Veteran closed an IRRRL in 2012 for $179,822 and VA guaranteed $44,955.
- Prior purchase guaranty is held against Veteran, or $46,373
- VA entitlement used from the 2007 loan can only be restored if Veteran sells the home and pays off the initial VA loan.

$36,000 basic entitlement  
- $36,000 amount previously used  
- $0 amount of basic remaining

$145,187 max guaranty (San Diego)  
- $46,373 entitlement used  
$98,814 remaining entitlement

$395,256 maximum VA loan (San Diego)

Restoration of Entitlement

One-time Only Restoration
- VA loan is paid in full
- Veteran still owns the property
- Entitlement can be restored one time to full entitlement while Veteran owns the home
- Any future restoration will require disposal of all properties obtained with a VA loan
- Bonus entitlement should be used before the Veteran uses a one-time restoration

Cash-Out Refinance
- Veteran is paying off the current VA loan to obtain another VA loan on the same property
- The Veteran is refinancing a non-VA loan on a property that was previously encumbered by a VA loan where the entitlement is currently tied up on the property still owned
Conditional COE
Loan not restored

Paid In Full: Entitlement charged on a paid in full loan cannot be restored until the Veteran applies for restoration of entitlement.

**A paper 26-1880 is not necessary when the lender completes an electronic COE application.**

One–Time Restoration

Condition on COE:

One–Time Restoration: Entitlement previously used for a VA loan has been restored without disposal of the property, under provisions of 38 U.S.C. 3823(c). Any future restoration requires disposal of all property obtained with a VA loan.

Cash-Out Refinance

Condition on COE:

Cash-Out Refinance: This Certificate of Eligibility is valid only for a “cash-out” refinance loan on property at

that secured VA loan number

with a closing date of 1/31/1996.
Restoration in WEBLGY

- Answer "YES" to these questions to enter prior loan information

Back-to-Back Closings

April 19, 2016
Maxine Henry & Mark Jamison

• The sale of one property and the purchase of another property around the same time
• Both closings can happen on the same day
• The sale of the property with the current VA loan must close before the purchase of the new property using a VA loan to restore entitlement
• An updated COE should be requested after the previous VA loan closed to restore entitlement prior to the guaranty of the new loan
Relocation Agreements

- A **signed** contract under a company plan to purchase the Veteran's home
- Loan **must be** paid in full to receive restoration
- Signed contract alone **does not** meet disposal requirement
- Proof of disposal includes:
  - VA Form 26-1880: Veteran’s declaration of ownership of property previously encumbered by a VA loan
  - HUD-1 settlement statement /Closing Disclosure Statement, or similar documentation
  - Warranty deed evidencing transfer of ownership

Resource Page

- [www.benefits.va.gov/homeloans/lenders](http://www.benefits.va.gov/homeloans/lenders)
  - Lender’s Handbook
  - VA Loan Guaranty Circulars
  - VA Loan Limits
  - Lenders’ COE Tutorial
- [www.archives.gov](http://www.archives.gov)
Itemization of Seller Credits on the CD

- Seller credits will be itemized and listed in the “Seller-Paid” column.
- Any remaining balance of the credit will be listed under sections (L) Paid Already by or on Behalf of Borrower at Closing as a Seller Credit.
- Excess Seller Credit can be used to pay any other charges without itemization.

Unacceptable Loan Costs

The circled charges will be considered overcharges regardless of any lender or seller credits identified in J or L. A refund of $520.50 would be required.
Acceptable Seller Credits

Acceptable Seller Credits

Itemization of Lender Credits on the CD

- Itemize Lender Credits in the “Paid by Others” column.
- Remaining balance of the credit is listed under sections (J) Total Closing Costs in the Lender Credit section or in (L) Other Credits.
- Excess Lender Credit will be applied as a principal balance reduction on the CD. Excess credits on Cash-out Refinances can be paid to the Veteran.

Unacceptable Lender Credit
Acceptable Lender Credit

Overcharges moved to Paid by Others column (lender). Lender credit is now smaller but fees in Paid by Others column plus Lender Credit still allow for the charges and net credit from the lender.

Itemization of Lender and Seller Credits

Proper placement of credits on the CD eliminates the need for any additional itemization of credits from the lender or Seller.

Thank you