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4.01 BASIC REQUIREMENTS

a. By law, the Department of Veterans Affairs (VA) may only approve a Native American Direct Loan (NADL) when it is possible to determine that the Veteran is a satisfactory credit risk and has present/anticipated income that bears a proper relation to the contemplated terms of repayment.

b. VA's underwriting standards are incorporated into VA regulations at 38 CFR § 36.4337 and explained in Chapter 5 of this manual. This chapter addresses all other basic requirements involved in processing the application for a VA NADL. Guidance on how to treat income, debts and obligations, credit history, and so on, and how to present and analyze those items on VA Form 26-6393, *Loan Analysis*, can be found in [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*.

4.02 INTEREST RATE

The interest rate for NADLs will be the same rate as those set by VA for loans purchased through the vendee loan program. The current interest rate may be found online at the following address: <http://benefits.va.gov/homeloans/nadl.asp>.

4.03 FUNDING FEE

a. Native American Veterans must pay a funding fee of 1.25 percent of the total loan amount unless the Veteran is exempt due to receipt of disability compensation (or who, but for the receipt of active duty or military retirement pay, would be entitled to receive compensation). Additionally, the surviving spouse of a Veteran who died in service, or from a service-connected disability, would also be exempt from paying the funding fee.

b. The funding fee for an eligible Reservist or National Guard Native American Veteran is based on length of service in the armed forces pursuant to Public Law 102-547, and will be two percent of the total loan amount.

c. The funding fee for a NADL Interest Rate Reduction Refinance Loan (IRRRL) will be 0.5 percent of the total loan amount.

4.04 MAXIMUM LOAN AMOUNT

a. Indexed Maximum Loan Limits. Loans made under this program are capped at \$80,000; however, VA is authorized to make direct loans to Native American Veterans for the purpose of purchasing, constructing, or improving housing on Federal Trust land which exceed this amount in certain situations. Under 38 U.S.C §3762(c)(1)(B), the Secretary may make loans that exceed that amount if the housing costs in that area are significantly higher than average nationwide housing costs (including the higher limits for Alaska, Guam, Hawaii, and the U.S. Virgin

Islands). Information on the current effective loan limits on VA-guaranteed home loans may be found here: http://benefits.va.gov/homeloans/purchaseco_loan_limits.asp.

b. **Maximum Loan Amount.** The maximum loan amount is limited to the lesser of the purchase price or reasonable value of the property, plus the VA funding fee, if financed. If the sales price or contract costs exceed the reasonable value of the property, the Veteran will be notified that it will be necessary for the difference to be paid in cash from his or her own resources at closing. The Veteran may also choose to renegotiate the sales price to an amount equal to the reasonable value of the property.

c. **Maximum IRRRL Amount.** The maximum loan amount for an IRRRL is limited to the sum of the existing loan balance, 0.5 percent funding fee, and loan closing costs; usually paid in connection with an IRRRL.

4.05 LOAN MATURITY

a. The maturity of any loan secured by a first lien may not exceed 30 years and 32 days. The maximum maturity of a loan secured by a second lien (e.g. a home improvement loan) will be 15 years and 32 days.

b. Every loan must be repayable within the estimated economic life of the property securing the loan when such information is available. In the case of a loan for repairs, alternations, or improvements costing less than \$5,000, an appraisal is not required and the economic life will not be a factor.

4.06 TITLE

In most cases, Veterans will be acquiring a leasehold estate; however, depending upon tribal statutes and practices, other types of property ownership may be possible. Regional Loan Centers (RLC) must attempt to ensure that the interests of the Federal Government, the Veteran, and the tribal government are protected. Consult with the Office of Regional Counsel, as necessary.

4.07 LIEN REQUIREMENTS

a. All NADLs must be secured by a first lien, except for NADLs to improve a dwelling, which may be secured on a second lien basis. In some cases, in which a Veteran has an existing first lien held by their tribal housing authority, it may be permissible for VA to accept a second lien position. In a case where VA will accept a second lien position, the RLC should refer that case to the Chief of Loan Policy, VA Central Office (VACO). The request from the RLC should include justification for VA accepting a second lien position. VA will not require that the Veteran would lose favorable terms on his or her existing loan.

1. Example. A Veteran wishes to obtain an improvement loan of approximately \$5,000, at the established VA interest rate of five percent, but has an existing tribal loan securing the property, which bears an interest rate of three percent. Requiring the Veteran to pay off or incorporate this loan with a new VA direct loan at the higher rate could result in a significant increase in his or her interest rate and loan payment. Accordingly, it will be permissible to accept second liens under these circumstances provided there is sufficient value in the property to cover both liens.

4.08 PROCESSING A NADL

a. Once the RLC has determined that there is a Memorandum of Understanding (MOU) in place with the Veteran's tribe, the RLC should verify that the Veteran meets the VA eligibility requirements as outlined in regulation and in Chapter 3.02, *Eligibility of the Veteran*, of this manual before processing the loan application.

b. Additionally, underwriting of a NADL should follow the same guidelines as guaranteed loans. The RLC should reference [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*, for more guidance.

c. If the Veteran is found to be eligible, an acknowledgement letter requesting completion of the following documents should be sent to the Veteran within 5-business days of such determination:

1. VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application. Application forms must be signed and dated by all borrowers planning on being responsible for the mortgage debt,
2. VA Form 26-1880, Request for Certificate of Eligibility,
3. VA Form 26-8497, Verifications of Employment,
4. VA Form 26-8497a, Verifications of Deposit,
5. VA Pamphlet 26-93-1, *VA Direct Home Loan for Native American Veterans Living on Trust Lands*;
6. Manufactured home requirements, as necessary, and
7. Other pertinent documents, as necessary.

4.09 APPLICATION PROCESSING – GENERALLY

Upon receipt of the Veteran's completed application, the underwriter will then determine whether the Veteran is eligible. Within 5-business days from receipt of the completed application, stations will send the Veteran:

a. A letter acknowledging receipt of the application and outlining the information required to continue processing the application, such as the following:

1. Title Status Report,
2. Lease Agreement (if the Veteran's interest is a leasehold interest),
3. Photocopy of Certificate of Degree of Indian Blood or tribal membership card,
4. Water/Sewer Report,
5. Environmental/Archaeological Survey (if required),
6. Purchase Contract,
7. Construction Contract,
8. Construction Bids,
9. Water/Septic Qualify Certificate, and
10. Other pertinent documents, such as:
 - (a) Good Faith Estimate of Settlement Charges,
 - (b) Truth in Lending Disclosure Statement, and
 - (c) New Construction Requirements Letter.

4.10 APPLICATION PROCESSING – LOANS IN THE SOUTH PACIFIC

a. Before underwriting the loan, station personnel need to:

1. Prequalify the applicant;
2. Obtain building permits (county or local government will furnish all verifications regarding property and local building codes); and
3. Contact the building inspector.

b. The underwriter should then:

1. Order a credit report to determine creditworthiness. Credit standards discussed elsewhere in this chapter will apply. However, the absence of credit is not a derogatory factor and RLCs should use every reasonable effort to confirm that the Veteran is a satisfactory credit risk for a loan on Federal trust land;

2. Prepare the loan analysis ([VA Form 26-6393](#));

3. Issue a Certificate of Eligibility, if one is not already in the file; and
4. Check SHARE for evidence of service-connected or non-service-connected benefits.

4.11 REJECTED APPLICATIONS

If the loan is denied, a letter should be sent to the Veteran explaining the reasons for denial and a copy placed in the loan file. The technician should use this opportunity to contact the Veteran to provide an explanation of the denial and to discuss ways the Veteran may improve their ability to qualify in the future. The original Veteran's loan file should be maintained for a period of 25 months from the date of denial.

4.12 APPROVED APPLICATIONS

- a. If the loan is approved, the RLC should take the following steps:
 1. Send a letter to the Veteran advising him or her that the loan has been approved;
 2. Order an appraisal in WebLGY, as a Type 1 loan;
 3. Enter the loan commitment data on the [NADL Loan Commitment Website](#);
 4. Establish a date for the Veteran to sign the applicable loan contract or construction loan closing, as applicable.

4.13 CONTRACTORS / VENDORS

RLCs are responsible for sending the "Bid Acceptance" letter to notify each contractor/vendor that the Veteran's loan has been approved and that the contractor/vendor's bid has been accepted. The letter should outline the cost of the project and specify the work to be done. A copy of the contractor/vendor's bid proposal should be attached to the letter. The "Bid Acceptance" letter should be sent within 5-business days of receiving notification that a contractor/vendor has been selected. The RLC should work with the contractor to establish a timeframe for the completion of the work.

4.14 PAY-OUTS

- a. Accounts. The Administrative Loan Accounting Center (ALAC) will maintain two separate accounts to pay requested funds to vendors, contractors, and suppliers. These accounts are:
 1. Obligation Account. This account will hold the NADL funds and will be used to pay the vendors, contractors, and sub-contractors during the construction process. For existing homes, it is used to pay the seller of the property.
 2. Suspense Account. This account will hold funds from the Veteran or the tribe (e.g., appraisal fees, prepaid interest, hazard insurance, etc.) or downpayment funds.

4.15 HOW TO ORDER PAY-OUTS

All vendors must have a vendor code before any payouts can be made by ALAC. Stations are to request payouts by submitting a completed voucher, SF 1034, *Public Voucher for Purchases and Services Other Than Personal*, or appropriate designated form, to ALAC. When submitting the initial payment request, stations should attach a copy of the loan approval letter. Payments will not be released to contractors/vendor's until the following conditions have been met:

1. The work has been completed;
2. The completed work is verified by the Veteran, VA representative, or an approved compliance inspector; and
3. The lien waiver is signed and returned to VA.

4.16 PARTIAL PAYMENTS

Partial payments may be released prior to completion of work, but at least 10 percent of the total bid amount should be withheld.

4.17 UNDERWRITING RESPONSIBILITIES

VA loan production staff is responsible for underwriting NADLs using the credit underwriting standards set out in VA Pamphlet 26-7, *Lender's Handbook*, and in accordance with 38 CFR 36.4337. VA underwriters are specifically responsible for:

- a. Developing all credit information;
- b. Properly obtaining all required verifications and the credit report;
- c. Ensuring the accuracy of all information on which the loan decision is based; and
- d. Complying with the laws and regulations governing VA's underwriting standards and with VA's underwriting policies, procedures, and guidelines, as well as certifying as to compliance with all of the above.

4.18 NATIVE AMERICAN DOCUMENTATION

The Veteran must provide evidence from the tribal authority (or equivalent) that he or she is recognized as a member of that tribe or group. Non-Native American Veterans who are married to Native Americans, must provide evidence that both the Veteran and his/her spouse will reside on Trust land and that the spouse has a meaningful ownership interest in the dwelling or lot.

4.19 APPRAISAL AND CREDIT REPORT FEE(S)

A fee sufficient to cover costs of an appraisal and credit reports should be collected from the Veteran up front. Payment should be provided by certified funds, i.e., money order or cashier's check. The funds will be deposited in the Native American Loan Fund and used for the sole purpose of obtaining an appraisal and a Residential Mortgage Credit Report. If the actual costs of the appraisal and credit report differ, adjustments may be made at closing. If the application is disapproved as a result of the initial screening, the funds will be returned to the applicant.

4.20 INTEREST RATE REDUCTION REFINANCING LOANS (IRRRLs)

RLCs are permitted to process an application for an IRRRL based on minimal documentation. If the prevailing VA interest rate for NADLs drops to at least one percent lower than an existing NADL, the RLC should contact the borrower and ask if the borrower would like to pursue an IRRRL. The RLC should prepare a comparison sheet, similar to that used by lenders for guaranteed IRRRLs, and provide it to the borrower for his/her review. If the borrower is interested in pursuing the IRRRL, the borrower should sign and date the comparison sheet. The comparison sheet will serve as acknowledgment that the borrower understands the effects of refinancing the existing NADL. A new case number should be assigned for the IRRRL. Interest rates for loans made under the program are the same as the rates offered on VA's vendee loans, and have, historically, trended lower than market rates.

4.21 LOAN DOCKET / VA LOAN IDENTIFICATION NUMBER (LIN)

Applications for direct loans will be placed in a loan docket similar to those for guaranteed loans. A VA LIN will be assigned by the Construction and Valuation section. NADLs will be identified as Type 1 loans.

4.22 APPLICATION MAINTENANCE

a. The Communication Management System (CMS) is a web-based central repository for NADL communications. NADL CMS will document interaction between Loan Guaranty Service employees, the Office of Tribal Government Relations, and Native American Tribes, by creating a central repository for all contact information, housing data, and pertinent documents such as MOUs.

b. The system is accessible through <http://vbacolgy1/nadldb/default.aspx> and is required to be used by all internal VA stakeholders as a central location for vital Tribal data.

c. Required information to be entered:

1. Key tribal contacts,
2. Names and addresses,

3. Phone numbers,
4. Job titles, and
5. Outreach results.

4.23 THIRD-PARTY PROCESSING

A third party may be authorized to process credit packages on VA's behalf. A fee of up to \$300, plus the anticipated cost of a credit report and appraisal, may be assessed to the Veteran for this service. Authorized third parties will be permitted to work with local entities to establish a network of such individuals or groups. Stations should use their own judgment and knowledge of local conditions in determining the acceptability of such entities. There is no formal approval letter for this process and a letter over the Loan Guaranty Officer's signature is sufficient. The letter should include the name and telephone number of a contact at the RLC, a copy of VA's latest credit standards, a copy of this manual, and a notice advising them that VA retains the right to terminate their participation if their work is deemed unsatisfactory. Stations having questions concerning third-party approvals should consult with VA Central Office, the Chief of Loan Policy.