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CHAPTER 5. CREDIT STANDARDS

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### 5.01 GENERAL

a. The following topics relate to credit underwriting guidelines. Please bear in mind that this section provides guidance on how to treat income, debts and obligations, and credit history. This chapter does not deal with every possible circumstance that will arise; therefore underwriters must apply reasonable judgment and flexibility in administering this important Veteran benefit.

b. Underwriting standards found in [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*, should be consulted in addition to the specific underwriting requirements and alternative forms of documentation that are outlined in this chapter.

c. These guidelines should be followed whenever possible. Alternative types of credit and income may include, but are not limited to:

1. Credit.

(a) Tribal alternative credit (i.e., tribal liens, tribal rentals).

(b) Tribal Health Services.

(c) Goods and services offered by Tribal organizations (i.e., insurance, home repairs).

(d) Cash purchases (many Veterans may not have checking or savings accounts, but prefer to pay for all purchases in cash).

2. Income. Stations may consider reducing the residual income figure on VA Form [26-6393](#), *Loan Analysis*, by five percent if the applicant has access to goods and services offered by the tribe which results in a savings to the applicant, and if there is a clear indication that he or she will continue to receive the benefits of these services. Stations should also determine whether or not the applicant will be exempt from sales tax, county taxes, and other taxes. For a discussion of other types of income see § 5.03 below.

### 5.02 DENIALS / INTEREST RATE REDUCTION REFINANCE LOANS (IRRRLs) / WITHDRAWALS

a. Disapproval. If, after supervisory review, it is determined that the loan is denied, the Veteran will be notified of the determination and the reasons for this decision. It would be helpful to the Veteran if this denial letter included potential actions the Veteran might take to be able to qualify for a loan at some point in the future.

b. IRRRLs. IRRRLs require minimal documentation and should be processed and underwritten using the same standards as IRRRLs made in the home loan guaranty loan program.

c. Withdrawal. An application may be withdrawn by the Veteran upon his or her written request at any time prior to the actual closing of the loan, but such withdrawal will not relieve the Veteran of an obligation to pay any charges that have been incurred. Stations will acknowledge a Veteran's request for withdrawal by letter. Stations may also cancel cases if it becomes apparent that the loan will not be closed. A locally-developed letter, clearly stating the reasons for cancellation, may be used for this purpose. Any funds received from the Veteran that have not been expended will be refunded.

#### 5.03 INCOME OF A SPOUSE

a. Regional Loan Center (RLC) staff must verify and treat the income of a spouse who will be contractually obligated on the loan the same as the Veteran's income. In the event that the land is located on a trust land which is considered subject to community property laws, information concerning a spouse may be requested and considered in the same manner as for the applicant, even if the spouse will not be contractually obligated on the loan. Such a scenario should be exceedingly rare; RLC staff members are encouraged to seek guidance from either Regional Counsel or Central Office should such a case arise.

b. Special Concerns Regarding Spousal Status on Federal Trust Land.

1. If the spouse is to be on the mortgage, the spouse must be on the title/lease.

2. If the spouse is on the lease and the Veteran wants to obtain a loan without the spouse, the Veteran must have the spouse removed from the lease. If this isn't possible, the underwriter should check with Regional Counsel before rejecting the loan to determine if VA's interest is satisfied.

3. If the Veteran buyer is a non-Native American, the spouse must be on the loan.

#### 5.04 TRIBAL DOWNPAYMENT / BUYDOWN ASSISTANCE

Tribal downpayment or buydown assistance is acceptable. The VA underwriter should request documentation from the tribe regarding the applicable type of assistance. i.e., gift with no repayment, soft second mortgage with a forgivable period of time, promissory note with repayment requirements, etc.