

IMPLEMENTATION OF LOAN GUARANTY PROVISIONS OF PUBLIC LAW 110-389

1. **PURPOSE:** On October 10, 2008, the President signed Public Law 110-389, the Veterans' Benefits Improvement Act of 2008. This circular addresses the changes to VA's Loan Guaranty Program that were included in that law.

2. **EXTENSION OF ADJUSTABLE RATE MORTGAGE AUTHORITY:** VA's authority to guarantee adjustable rate mortgages (ARMs) and hybrid adjustable rate mortgages (HARMs) was scheduled to expire on September 30, 2008. Section 505 of Public Law 110-389 extended this authority through September 30, 2012. All VA program requirements related to ARMs and HARMs remain in effect.

3. **ENHANCEMENT OF REGULAR REFINANCING LOANS:** Section 504 of Public Law 110-389 made changes to VA's regular ("cash-out") refinancing loans. Effective immediately, the maximum guaranty amount for regular refinancing loans is the same as the maximum guaranty amount for purchase loans. Regular refinancing loans are now available for up to 100 percent of the appraised value of a home, which is an increase from VA's previous threshold of 90 percent. All other VA program requirements for regular refinancing loans remain the same.

4. **GUARANTY AMOUNTS:** Section 501 of Public Law 110-389 provides a temporary increase in the maximum guaranty amount for loans closed January 1, 2009, through December 31, 2011. During this period, the "maximum guaranty amount" set forth in this circular should be substituted for the maximum guaranty amount specified at 38 U.S.C. 3703(a)(1)(C), 38 CFR §§ 36.4302(a)(4) and 36.4802(a)(4), and in the VA Lender's Handbook. Please note that, if a veteran has previously used entitlement that has not been restored, the guaranty amount for that veteran must be reduced accordingly.

a. **Loans for \$417,000 or Less Are Unaffected:** The guaranty amount for loans where the original principal loan amount is \$417,000 or less remain unchanged. On these loans, VA will continue to guarantee the amounts specified at 38 U.S.C. 3703(a)(1) and the VA Lender's Handbook.

b. **Loans for More Than \$417,000:** If the original principal loan amount is greater than \$417,000, VA will guarantee 25 percent of the original principal loan amount, up to the

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maximum guaranty amount. The maximum guaranty amount varies depending upon the location of the property.

(1) For all locations in the United States other than Alaska, Guam, Hawaii, and the U.S. Virgin Islands, the maximum guaranty amount is the greater of 25 percent of (a) \$417,000 or (b) 125 percent of the area median price for a single-family residence, but in no case will the guaranty exceed 175 percent of the Freddie Mac loan limit for a single family residence in the county in which the property securing the loan is located. This translates to a potential maximum loan amount of \$1,094,625.

(2) In Alaska, Guam, Hawaii, and the U.S. Virgin Islands, the maximum guaranty amount is the greater of 25 percent of (a) \$625,500 or (b) 125 percent of the area median price for a single-family residence, but in no case will the guaranty exceed 175 percent of the Freddie Mac loan limit for a single family residence in the county in which the property securing the loan is located. This translates to a potential maximum loan amount of \$1,641,937.50.

c. **Annual Adjustments:** The maximum guaranty amounts set forth above will be adjusted annually. The first adjustment will affect loans closed on or after January 1, 2010.

5. **CALCULATING THE MAXIMUM GUARANTY FOR LOANS OVER \$417,000:**
The applicable maximum guaranty amount may be calculated using data available online from the Federal Housing Administration (FHA). To calculate the maximum guaranty amount for a particular property:

- a. go to <http://www.fhaoutreach.com/>;
- b. scroll to the bottom of the page;
- c. select the state where the property is located;
- d. type the name of the county where the property is located in the box labeled "County";
- e. click "Submit"; and,
- f. multiply the resulting "Median Price" for the appropriate county by 1.25.
- g. If the resulting figure is:

(1) less than \$417,000, use \$417,000 to calculate the maximum guaranty amount;

(2) greater than \$417,000, but less than \$1,094,625 (or \$1,641,937.50 in Alaska, Guam, Hawaii, and the U.S. Virgin Islands), use the result to calculate the maximum guaranty amount;
or,

(3) greater than \$1,094,625 (or \$1,641,937.50) use \$1,094,625 (or \$1,641,937.50) to calculate the maximum guaranty amount.

October 16, 2008

Circular 26-08-19

6. **RESCISSIONS**

- a. Effective immediately, Circulars 26-08-15 and 26-08-16 are rescinded.
- b. This circular is automatically rescinded January 1, 2010.

By Direction of the Under Secretary for Benefits

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