Agenda

• Grossing up
• Rental Income
• Self-employment Income
• Contract Workers income
• Foreign Income
• Income from Commissions
• Military Income
• Part time/Second Job Income/Seasonal Work and unemployment income
• Other types of income

❖ Lenders Handbook Chapter 4, Section 2 and 3

Grossing up

• Only non-taxable income can be grossed up
  – Tax tables should be used to determine the percentage

• Veteran receiving only non-taxable income
  – Refer to tax table as if the income was taxable (usually 15%)
Testing your knowledge

Question:
If a borrower rents out their property 10 months before purchasing a new property with a VA loan, can we consider that income?

Answer:
No, this would not be included in effective income.

Rental Income

Multi-Unit Property Securing VA Loan

• Required documentation:
  – Evidence of cash reserves totaling at least 6 months of mortgage payments (PITI)
  – Prior experience managing rental units or background involving property maintenance and rental

• Analysis: Rental income as effective income
  – 75% of prior rents collected on the units or
  – Appraiser’s opinion of the property’s fair monthly rental
Rental Income, continued

Rental of Property Occupied Prior to New Loan

• Required documentation:
  – Rental agreement
  – Information on current rental market

• Analysis:
  – Prospective rental income can only be used to offset the mortgage payment on the rental property
  – This rental income may NOT be included in effective income

Rental Income, continued

Rental of Other Property Not Securing VA Loan

• Required Documentation
  – Evidence of cash reserves totaling at least 3 months mortgage payments (PITI)
  – Individual tax returns with applicable schedules for previous 2 years, showing rental income generated

• Analysis:
  – If income is stable and reliable, it may be used as effective income
  – Depreciation claimed as a deduction on tax returns may be included in effective income

NOTE: Certain calculators add back in more than what the VA allows. Review your income calculator before use for accuracy and compliance.
Self-Employment Income

- Required documentation
  - Current YTD Profit & Loss Statement and balance sheet
  - Individual tax returns signed and dated plus all schedules for the past 2 years
  - If the business is a Corporation or Partnership
    - Copies of the signed federal business income tax returns for the previous two years plus all applicable schedules, and
    - A list of all stockholders or partners showing interest each holds in the business.

- Stability: at least 2 years
  - Unless applicant has previous related employment or specialized training
  - Anything less than 1 year will require in-depth development for a conclusion of stable and reliable income Stability: at least 2 years

- Analysis:
  - Depreciation and depletion claimed as a deduction on the tax returns and financial statements may be included in effective income
  - Meals and entertainment is not considered a deduction

AUS Approve/Refer

Lenders Handbook, Chapter 4 Section 8, Item E.
Income from Commissions

- Required documentation
  - VOE or other written verification showing:
    - Actual commissions paid YTD
    - Basis for payment (salary plus commission, straight commission, or draws against commission)
    - When commissions are paid (monthly, quarterly, semiannually, or annually)
  - Individual tax returns plus all schedules for the previous 2 years

- Stability: 2 years
  - Unless applicant had previous related employment or specialized training

Example:
A car salesman with many years in car sales starts working at a luxury vehicle dealership. He has never sold luxury cars before. Without 2 years work history, we would not be able to use this income because he is selling a new type of car with a different buyer demographic.
Military Income

- Required documentation
  - LES instead of VOE
  - If ETS is within 12 months:
    - Re-enlistment or extension documents
    - Valid employment offer
    - Statement from service member that they intend to reenlist or extend
    - Statement from commanding officer that member is eligible to reenlist

Military Income, continued

- Analysis
- Base Pay
  - This is considered stable and reliable
- Military Quarters Allowance
  - Non-taxable and can be grossed up
- Subsistence and Clothing Allowances
  - Non-taxable and can be grossed up
- Other Allowances (propay, flight or hazard pay, overseas pay and combat pay)
  - This is taxable income and cannot be grossed up
  - It has to continue for at least 12 months to be considered in the income calculations
  - Propay and flight pay requires verification, this income is based on periodic review and/or testing to determine eligibility
Testing your knowledge

Borrower will move from Texas to Hawaii in August. Borrower already found a home and would like to purchase it now. Can his Hawaii housing allowance be used for qualifying?

Answer:
The borrower should be qualified using the lower BAH. This is to ensure that payments can be made while the borrower is receiving the smaller housing allowance.

Relocation

- VOE
  - Offer letter AND acceptance letter
    - Should include start date and salary

- Underwriting
  - Depending on when the borrower is moving, the lender should qualify them using the lower income amount. If the borrower has to carry the loan for a few months before getting the new job, they should be able to afford the monthly payment.
### Foreign Income

- Income must be verified
  - Income statements showing YTD
  - Local Tax Returns
  - Employer EOY income statement (W2)

- Borrower working in the United States for a company in foreign country.
  - Verify paystubs
  - Review contract with foreign company
  - Travel expenses to fly back to foreign country if paid by borrower

- Borrower receiving income from foreign annuity.
  - Verify annuity income statements

### Contract Work

- Documentation/Information Required:
  - Contract between employee and employer
  - Organization contract may be required to determine length of contract
  - The Veteran may be on contract with the Organization, however the Organization contract may be about to expire
  - 1099’s or W-2’s
  - Length of the contract (at least 12 months from the time of closing)
  - Contract renewal if about to expire or documentation to support continued probability

### Part time/Second Job Income

- Stability
  - Continued and verified for 2 years
  - Income must be regular and predictable, and
  - Likely to continue in the foreseeable future
  - Hours are compatible with primary job
  - Length applicant has been employed under such arrangement

- Analysis
  - If income cannot be included in effective income but is verified for at least 12 months, it can be used to offset debt.
Employment and Income Stability

- **Changing of Jobs**
  - Stable and reliable income can be established without having a stable employment history in one position or job.
  - Income stability can be established for some borrowers who change jobs frequently and lines of work.
  - Borrowers must demonstrate the ability to maintain an income at a constant level over the recent 2-year period.

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Testing your knowledge

Veteran is a seasonal employee working on a fishing boat. When the fishing season is over, the Veteran applies for unemployment. The Veteran has a 5 year work history in this line of work and receiving unemployment income. Can the Veteran’s seasonal income be considered as effective income?

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Testing your knowledge

**Question:**
Veteran is a seasonal employee working on a fishing boat. When the fishing season is over, the Veteran applies for unemployment. The Veteran has a 5 year work history in this line of work and receiving unemployment income. Can the Veteran’s seasonal income be considered as effective income?

**Answer:**
This income may be used to qualify because the Veteran has showed a history/pattern of receiving this type of income.
Other Types of Income

The following can be considered as effective income:
• Pension and retirement benefits
• Disability income
• Dividends from stock
• Interest from bonds, savings accounts, and
• Royalties

Other Types of Income continued...
• Foster care Income (for the care of any foster child(ren))
  – can only be used to balance the expense for the children against
    any increased residual income requirements
• Workers Compensation
  – This income may be used if verified to continue in the
    foreseeable future
• Unemployment Income (Lenders Handbook - Current Issues)
  – It is not unusual for some individuals to work certain times of the
    year and draw unemployment (ex. Field workers, fishermen, crabbers)
  – Should not be automatically considered unfavorable, provided it
    is regular and seasonal, or is a limited occurrence between jobs
  – If a history/pattern of unemployment income has been
    established, this income may be used in conjunction with
    employment income for loan approval purposes

Other Types of Income continued....
• Public assistance income
  – If probable to continue for at least 3 years or more
Non-allowable income:
• VA Educational income
  – This income is based on the participation of the Veteran and can
    be stopped if the veteran does not attend school
• Caregivers stipends
  – This income is based on the needs of the Veteran. An
    evaluation is done quarterly to determine if the income will
    continue.
Other Types of Income continued.

Questions???

Thank you

SAR Oversight & Training
Presenters

Gerald Kifer, Supervisory Appraiser
VA Central Office

Michael J. Andrews, Valuation Officer
Atlanta Regional Loan Center

Robin Forss, Valuation Officer
Cleveland Regional Loan Center

SAR Training

➢ Circular 26-09-13, August 24, 2009
➢ Applications and training by Central Office
➢ Consistent training across the nation

Applications

Submit all SAR applications to:

Department of Veterans Affairs
Admin and Loan Accounting Center
(105/241A)
Attn: Agent Cashier
1615 Woodward Street
Austin, Texas 78772-0001
Training

- Circular 26-13-14
- SAR Online Training Program
- SAR TPSS SAR Training and Performance Support System
- Five lessons, and 11 topics w/ practice exercises
- Must have six-digit SAR ID number

SAR Training Support:
SARSUPPORT.VBACO@va.gov

Thank You for Lapp & Sapp

- From March 1, 2006 – February 29, 2016
  - 2,871,458 LAPP Notices of Value issued
  - 120,228 SAPP Notices of Value issued
- Total of 2,991,686 Veterans served by the SARs and SAPs of your organizations on behalf of The VA Home Loan Guaranty Program
Who Answers Your?

General E-Mail Box
Phone Calls
Escalation if Needed

Expectations and Reactions

What Can You Expect if Your SAR is Completing Substandard Work?

Non-Substantive Finding
Substantive Finding
Repetitive Substandard Work

Shopping Your Question

Why Would You Get Different Answers To the Same Question Depending on Where You Seek Your Answers?
New Technology Shift

What is the Impact?
Customer Service
Faster Responses
Focus on Specific Issues

Questions???

Thank you

myVA

Construction & Valuation Policy
VA AMS and Beyond

Veterans Benefits Administration
VA
U.S. Department of Veterans Affairs
Presenters

Kevin Eason, Valuation Officer
Denver Regional Loan Center

Robin Forss, Valuation Officer
Cleveland Regional Loan Center

Ryan Nelson, Assistant Valuation Officer
St. Paul Regional Loan Center

Construction & Valuation

Agenda

- Introduction
  - Robin Forss, Ryan Nelson, and Kevin Eason
  - Why Appraisal Management Service (AMS)?
    - C&V Responsibilities and Vision
    - Data Sources and Coverage
- AMS - Big Picture
  - LoanSafe Appraisal Manager (LSAM)
  - Mortgage Analytics Reporting Suite (MARS)
- Current State of Affairs
  - How VA stacks up against the Consortium
- Appraisal Review Workflow Process
- Case Study
  - Cursory Review
  - Reconsideration of Value

Why AMS?
C&V Responsibilities and Vision

C&V's Responsibilities:
The Construction and Valuation (C&V) Section is responsible for the quality of appraisal reports on properties offered as security for VA guaranteed loans.

C&V's Vision:

- Credibility and Quality
- Standardization
- Risk Management
- Performance
Why AMS?
Partnering with a Market Leader

- Who is CoreLogic?
- The primary objective is to transition to a risk-based analysis of appraisals.
- With the implementation of AMS, SARs and VA Staff will have automated risk-based review workflow from one reliable source.

Why AMS?
Access to CoreLogic Big Data Assets

Public Record Data
- Appraiser Determined/Adjusted
- Core Database
- 3rd Party Data
- Credit History

Proprietary Data
- Mortgage
- Delinquency and Prepayment Data
- Asset Based Securitization Data
- Portfolio and Individual Data

Why AMS?
MLS Coverage

Percent of Active Listings to Total Records
- 25% and above
- 15% to 25%
- 5% to 15%
- 5% and below
Why AMS? Capabilities and Efficiencies

- **Increase Efficiency**
  - Reduce the need to complete manual workflows
  - Use automated tools to improve accuracy and consistency

- **Delivers Consistency**
  - Enables confident, simple, and quick exit on the same way on every appraisal

- **Reduces Cost**
  - Eliminates the need for tools such as SiteX, Redbell, AVM's, and MLS subscriptions
  - LSAM includes this data in one report

- **Provides Transparency**
  - Scores and alerts help agents to conduct a better risk
  - VACO, Lenders, and RLCs can view the same risk results and data

- **Robust Data**
  - The most comprehensive real estate data in the nation
  - 65%+ MLS coverage (agent comments, MLS photos, etc.)

- **Objective Quality Measurement**
  - Reduce manual review subjectively
  - Use data to improve access to your appraiser panel members

---

**VA AMS Big Picture**

LSAM, AVM & MARS Basics

LSAM -> AVM -> MARS

---

**VA AMS Big Picture**

LSAM Features

- Appraisal Competency & Consistency
  - Required fields, blank fields, errors
  - Data & format validation
  - Appraisal process guidelines/consistency
  - Are the comps appropriate?
  - Are there better comps?

- Valuation Consistency
  - Rank ordering of valuation measures
  - Overvaluation and undervaluation
  - Market and cost selection influences

- Property Competency
  - Neighborhood price volatility
  - Composition & consistency of neighborhood
  - Data availability, depth & robustness

- Market Risk
  - Risk of error and frequency
  - Ability to sustain value over time
  - Hedonicability

- Misrepresentation Risk
  - Repurchase risk due to fraud/tampering
  - Chain of title
  - Unusual transactions

**Risk Score**

Risk of
- Repurchase and/or loss given default

**Review Caution**

Use the individual components, plus alerts to configure the level of review required
VA AMS Big Picture
Complete Appraisal Risk Analysis

**Valuation Risk** - Is the appraised value reasonable and supported?

**Integrity Risk** - Are there fundamental issues with the construction of the appraisal?

**Comparability Selection** - Were the most similar comparables used?

**Property Condition** - Does the subject conform to the area, or is it very unique?

**Market Risk** - Is the subject located in a high risk area?

**Misrepresentation Risk** - Are there issues within the subject chain of title posing risk?

VA AMS Big Picture
Alerts

**Valuation Risk**

<table>
<thead>
<tr>
<th>Alert Type</th>
<th>Active</th>
<th>Inactive</th>
<th>Active %</th>
</tr>
</thead>
<tbody>
<tr>
<td>High</td>
<td>90</td>
<td>173</td>
<td>14%</td>
</tr>
<tr>
<td>Medium</td>
<td>94</td>
<td>251</td>
<td>15%</td>
</tr>
<tr>
<td>Low</td>
<td>463</td>
<td>768</td>
<td>72%</td>
</tr>
</tbody>
</table>

Total Alerts: 647, Active: 1192, 100%
VA AMS Big Picture
Interactive Maps

- Zoom in/Zoom out, Bird’s Eye View, Aerial View
- Displays Appraisal Comps Along With CoreLogic MLS and Public Record Comps
- Value Map Shows Shaded Areas Depicting Value Ranges
- Quickly Identify Comps Located In Superior Interior Areas Compared To The Subject

VA AMS Big Picture
Market Conditions by Zip Code

VA AMS Big Picture
Automated Valuation Model (AVM)

What is an AVM?
- An AVM is a computer-driven mathematical formula that uses basic property characteristics, local market information, and price trends to arrive at an estimated value or value range.

AVMs Versus Appraisals
- AVMs are not the same as appraisals. When completing an appraisal, an appraiser conducts a property and neighborhood inspection. From the site and comp inspections, the appraiser writes a report that typically includes inspection details and a more in-depth evaluation of the property, neighborhood, and surrounding market.
Current State of Affairs
LGY Wheel of Cursory Review

<table>
<thead>
<tr>
<th>City</th>
<th>Cursory Review</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td></td>
<td>41%</td>
</tr>
<tr>
<td>Cleveland</td>
<td></td>
<td>53%</td>
</tr>
<tr>
<td>Denver</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Honolulu</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Houston</td>
<td></td>
<td>4%</td>
</tr>
<tr>
<td>Phoenix</td>
<td></td>
<td>63%</td>
</tr>
<tr>
<td>Roanoke</td>
<td></td>
<td>49%</td>
</tr>
<tr>
<td>St. Paul</td>
<td></td>
<td>41%</td>
</tr>
<tr>
<td>St. Pete</td>
<td></td>
<td>44%</td>
</tr>
<tr>
<td>Totals</td>
<td></td>
<td>48%</td>
</tr>
</tbody>
</table>

Current State of Affairs
LGY Wheel of Cursory Review

<table>
<thead>
<tr>
<th>City</th>
<th>Cursory Review</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Atlanta</td>
<td>29,062</td>
<td>43%</td>
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<tr>
<td>Cleveland</td>
<td>36,452</td>
<td>44%</td>
</tr>
<tr>
<td>Denver</td>
<td>30,563</td>
<td>53%</td>
</tr>
<tr>
<td>Honolulu</td>
<td>16,364</td>
<td>51%</td>
</tr>
<tr>
<td>Houston</td>
<td>28,612</td>
<td>41%</td>
</tr>
<tr>
<td>Phoenix</td>
<td>58,568</td>
<td>63%</td>
</tr>
<tr>
<td>Roanoke</td>
<td>28,628</td>
<td>49%</td>
</tr>
<tr>
<td>St. Paul</td>
<td>24,109</td>
<td>45%</td>
</tr>
<tr>
<td>St. Pete</td>
<td>24,109</td>
<td>45%</td>
</tr>
<tr>
<td>Totals</td>
<td>280,761</td>
<td>48%</td>
</tr>
</tbody>
</table>

LSAM scores and grades the quality of the appraisal.

- Valuation: Is the subject property over- or undervalued? If so why?
- Integrity (4 corners) of the appraisal form. Does the appraisal form comply with UAD, USPAP and VA appraisal requirements?

WEBLY tracks the timeliness of the Appraiser, SAR, & VA Staff.

VA Appraisal Workflow Process
Quality v. Timeliness in the real world

VA Appraisal Workflow Process

WEBLY tracks the timeliness of the Appraiser, SAR, & VA Staff.
When performing a Cursory or High Risk Review, SARs should ask themselves the following questions on all VA appraisals:

1. Were all high alerts addressed? Many identify and assist you with answering the questions below.
2. Was the appraiser timely?
3. Was contract price above market value?
4. Was the appraisal package submitted complete?
5. If MPRs present, were they classified and addressed properly?
6. If proposed/new construction is there a valid builder ID?
7. If subject is a condominium, is there a valid condominium ID number?
8. Is the subject on leasehold land?
9. Was the NOV conditioned properly?
10. Did the appraiser perform the scope of work and develop and report credible results?

---

**Case Study: Cursory Review**

- **Cursory Review – Low Risk Appraisal Report**
  - Must meet “Low Risk” criteria
  - Valuation risk score between 300 & 700
  - Integrity risk score 700 or lower

  ![Risk Score Graph]

- **Framework for a Cursory Review**
  - Determine if “low risk” criteria is met
  - Do cursory review of LSAM, appraisal report and sales contract (if applicable)
  - Special attention should be taken to identify inconsistencies in sales comparison grid and photos
  - Address all high alerts
  - Answer VA related questions associated with all appraisal reviews
  - If no problems identified, issue NOV

- **Benefits of Cursory Review**
  - Time Savings – Cursory review: 15 Minutes
  - LSAM provides risk indicator
  - Identifying and pointing out areas of concern
Case Study: Cursory Review

- Trends After Full Implementation: Six Month Review
  - Positives
  - Areas to Improve
  - Inconsistencies

- Keys to a complete review
  - Communication
  - Documentation
  - Timeliness
  - Explore and use the tools available

Case Study: Reconsideration of Value

- Case Study Details -
  - LSAM Report Header Details
    - Valuation Risk Score 300-700
    - Integrity Risk Score 700 and under
      - Comparable Selection (lowest risk)
      - Property Complexity (lowest risk)
      - Market Risk (medium risk)
      - Misrepresentation Risk (lowest risk)

Case Study: Reconsideration of Value

Subject and Comp Sales History

<table>
<thead>
<tr>
<th>Date</th>
<th>Appraised Sales Price</th>
<th>Reported Sales Price</th>
<th>Subject and Comp Sales History</th>
</tr>
</thead>
<tbody>
<tr>
<td>01/18/2016</td>
<td>$355,000</td>
<td></td>
<td>SUBJECT, RE HOBOTHE BEACH, DE 19971</td>
</tr>
<tr>
<td>09/01/2015</td>
<td>$320,000</td>
<td></td>
<td>COMP 1, RE HOBOTHE BEACH, DE 19971</td>
</tr>
<tr>
<td>10/01/2015</td>
<td>$340,000</td>
<td></td>
<td>COMP 2, RE HOBOTHE BEACH, DE 19971</td>
</tr>
<tr>
<td>08/01/2015</td>
<td>$357,000</td>
<td></td>
<td>COMP 3, RE HOBOTHE BEACH, DE 19971</td>
</tr>
</tbody>
</table>
Case Study: Reconsideration of Value

Other Comps available

CoreLogic: AVM

Property Address: REHOBOTH BEACH, DE 19971
County: SUSSEX, DE
Owner Name:

SUMMARY
Success - VALUATION SUCCESSFUL
Estimated Value: $405,500 Value as of: 03/09/2016
Estimated Value Range: $351,800 - $459,100
Processed Date: 03/09/2016
Confidence Score: 71

• The confidence score range is 60-100. Clear and consistent quality and quantity of data drive higher confidence score while lower confidence scores indicate diversity in data, lower quality, and/or limited similarity of the subject property to comparable sales.
Case Study: Reconsideration of Value

Construction & Valuation AMS: Conclusion

- Summary & Questions