



**Carrington**  
mortgage services, llc

# Underwriting Guidelines (VA Loans)

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## DOCUMENT OVERVIEW

<b>Purpose</b>	The following document describes the responsibilities and requirements of the Carrington Mortgage Services, LLC (CMS) Mortgage Lending Division Underwriter (Underwriter) when reviewing and underwriting Veteran Administration (VA) mortgage loan applications.
<b>Table of Contents</b>	
	Document Overview.....2
	VA Underwriting.....21
	Overview.....21
	VA Loan Programs and Compliance .....21
	Overview.....21
	VA Prior Approval .....21
	Requirements .....21
	Veterans Eligibility and Entitlement .....21
	Overview.....21
	Establishing Eligibility .....22
	Determining Amount of Entitlement .....22
	VA Guaranty Examples.....23
	Funding Fee (FF) Field and Conditions on COE .....25
	IRRRL Exemption Status .....25
	Exempt Status and Verified Income.....25
	Additional COE Conditions.....26
	Applying for a Certificate of Eligibility .....27
	Application for Unmarried Surviving Spouses .....27
	Previously Issued COE is Missing .....28
	Discharge of Veteran and Proof of Service Requirements .....28
	Discharged Reserve/Guard Members.....28
	Assisting in Obtaining Required Proof of Service .....28
	Basic Eligibility Requirements.....29
	Restoration of previously used Entitlement .....29
	Ineligible Veteran .....29
	The VA Loan and Guaranty.....30
	Overview.....30
	Eligible Loan Purposes.....30
	Ineligible Loan Purposes .....31
	Cash to Veteran an Ineligible Purpose.....31
	Maximum Loan Amount .....32
	Down Payment.....33
	Maximum Guaranty Table .....33
	The Law on Occupancy.....34
	Occupancy by Veteran's Spouse or Dependent Child .....34
	Geographic Bachelor-ing.....34
	Occupancy Requirements for Deployed Active Duty Service Members .....34
	Occupancy After Retirement .....35
	Delayed Occupancy Due to Property Repairs or Improvements.....35
	Intermittent Occupancy .....35
	Occupancy Certification .....35

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Interest Rate Changes .....	36
Discount Points .....	36
When Can Points Be Added in the Loan? .....	36
Changes to the Agreed Upon Discount Points .....	37
Loan Maturity Limits .....	37
Amortization Requirements .....	37
<b>VA Loan Identification Number (LIN) .....</b>	<b>37</b>
Assigning the LIN .....	37
Borrowers Fees, Charges and the VA Funding Fee .....	38
Overview .....	38
VA Funding Fee .....	38
Fees and Charges the Veteran-Borrower can Pay .....	38
Itemized Fees and Charges .....	39
Lender's One Percent Flat Charge .....	41
The VA Funding Fee .....	45
VA Loan Eligibility .....	49
Overview .....	49
LDP and GSA Procurement/Non-Procurement .....	49
Requirements .....	49
Uniform Residential Loan Application .....	50
Loan Application Requirements .....	50
Face-To-Face Interview .....	51
Overview .....	51
Identity and Social Security Number Validations .....	51
Identity Verification .....	51
Social Security Number Validation .....	51
Previous Financial Crimes .....	51
Policy .....	51
Occupancy Types .....	52
Overview .....	52
Primary Residence .....	52
The Law on Occupancy .....	52
Occupancy by Veteran's Spouse or Dependent Child .....	53
Occupancy Requirements for Deployed Active Duty Service Members .....	53
Occupancy After Retirement .....	53
Delayed Occupancy Due to Property Repairs or Improvements .....	53
Intermittent Occupancy .....	54
Occupancy Certification .....	54
Borrowers, Co-Borrowers, Co-Signers, and Non-Borrowing Spouses .....	54
Borrowers, Co-Borrowers And Co-Signers .....	54
Resident Alien Spouses .....	55
Non-Borrowing Spouse .....	55
Community Property State-Specific Information .....	57
Ineligible Borrower and Vesting Types .....	57
Ineligible Borrowers .....	57

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



Ineligible Vesting Types .....	57
Transaction Types .....	57
Overview.....	57
Purchase Mortgage.....	58
Refinance Mortgages .....	59
Cash Out Refinance Transactions Effective for loan applications taken 2/15/19 and after .....	59
Streamline Refinance Mortgages.....	61
Construction Permanent Mortgages (Single-Close Modification of Note).....	62
Loan Transactions Paying Off Land Contracts .....	62
Principal Curtailment .....	62
Leasehold Estates .....	63
Overview.....	63
VA Approval.....	63
Leasehold Estate Requirements.....	63
Lease Requirements .....	63
Ground Rents .....	64
Maximum Loan Amounts .....	64
Maximum Loan Amount .....	64
Loan-to-Values .....	66
Calculating Loan-to-Value .....	66
Calculating Loan-to-Value for Cash-Out Refinances .....	66
Calculating Combined Loan-to-Value .....	66
Combined Loan Amount .....	66
Definition.....	66
Secondary or Subordinate Financing .....	67
Overview.....	67
Secondary Borrowing.....	67
Down Payment Assistance Program .....	67
Homebuyer Assistance Program .....	67
Property Assessed Clean Energy (PACE) .....	67
<b>Seller Contribution Limitations .....</b>	<b>68</b>
Seller Concessions .....	68
<b>VA Risk Management .....</b>	<b>68</b>
Overview.....	68
Risk Controls .....	69
Verifications Sent to Post Office Boxes.....	69
Fraud/Red Flags .....	69
<b>VA Documentation.....</b>	<b>75</b>
Overview.....	75
<b>Minimum Documentation Requirements .....</b>	<b>75</b>
Documentation Requirements to Close a VA Loan .....	75
Documentation Requirements to be Eligible for Underwriting .....	77
Document Images.....	78
Electronic Signatures .....	79
Requirements .....	79

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



VA Automated Underwriting .....	81
Overview .....	81
Eligibility Requirements .....	81
Automated Underwriting Systems .....	81
<b>Eligible Loan Types .....</b>	<b>81</b>
Eligible Loan Types .....	81
Ineligible Loan Types .....	81
<b>Automated Underwriting Decisions .....</b>	<b>82</b>
Overview .....	82
Approve/ Eligible .....	82
<b>Underwriting Findings Report .....</b>	<b>83</b>
Overview .....	83
Risk/Eligibility .....	83
Verification Messages/ Approval Conditions .....	83
Observations .....	84
Underwriting Analysis Report .....	85
<b>Submission/Resubmission Requirements .....</b>	<b>86</b>
Requirements .....	86
<b>Credit Processing .....</b>	<b>87</b>
Requirements .....	87
Credit-Related Waivers and Verification Documentation .....	87
Disputed Accounts and Public Records .....	88
<b>Income/Employment .....</b>	<b>88</b>
Overview .....	88
<b>Asset Documentation .....</b>	<b>89</b>
Overview .....	89
Retirement Accounts .....	89
Gifts .....	89
Foreign Assets .....	89
<b>Appraisal and Documentation Requirements .....</b>	<b>89</b>
Requirements .....	89
Changes in Purchase Price .....	89
VA Manual Underwrite .....	90
<b>VA Credit .....</b>	<b>90</b>
Overview .....	90
<b>Credit Report Requirements .....</b>	<b>90</b>
Credit Report Standards .....	90
Verification and Rating of Debts and Obligations .....	91
Credit Report Red Flags .....	91
Age of Credit Report .....	91
Three Repository Merged In-File Credit Report (Trimerge) .....	91
Residential Mortgage Credit Report (RMCR) .....	92
Non-Traditional Credit .....	93
Thin Credit .....	94
Insufficient Credit .....	94
Undisclosed Debt .....	94
<b>Credit Scores .....</b>	<b>95</b>
Overview .....	95

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Credit Score Risk Factors.....	95
Credit Score Requirements .....	98
Selecting Credit Score.....	99
<b>Credit History Evaluation .....</b>	<b>100</b>
Overview.....	100
Number and Age of Accounts.....	101
Payment Histories.....	101
Collections and Charge-Offs Paid through Closing Transaction .....	101
Credit Utilization.....	102
Inquiries.....	102
<b>Credit Components .....</b>	<b>102</b>
Verification of Credit Requirements .....	102
Housing Payment History .....	103
Bankruptcy/ Foreclosure/ Deed-in-Lieu.....	104
Short Payoffs .....	105
Consumer Credit Counseling Services (CCCS) .....	105
<b>Major Adverse Credit.....</b>	<b>106</b>
AUS Approve .....	106
AUS Refer or Manual Underwrite .....	106
Collection Accounts.....	106
Charged off Accounts.....	107
Judgments .....	107
Payoff of Unpaid or Untimely Debts .....	107
Employment and Income Evaluation and Documentation .....	107
Overview.....	107
<b>Documentation Age.....</b>	<b>107</b>
Requirements .....	107
<b>Verbal Verification of Employment .....</b>	<b>108</b>
Requirements .....	108
<b>Tax Information Authorization IRS Form 4506-C/2907 Tax Transcripts .....</b>	<b>108</b>
Requirements .....	108
<b>Income Tax Returns .....</b>	<b>109</b>
Requirements .....	109
Personal Income Tax Returns .....	109
Amended Tax Returns .....	110
<b>Preliminary Title Report/Title Commitment .....</b>	<b>110</b>
Requirements .....	110
<b>Income Verification.....</b>	<b>111</b>
Overview.....	111
Importance of Verification.....	111
Income of a Spouse .....	111
ECOA Considerations .....	111
Income from Non-Military Employment.....	112
Analysis: Applicant Employed Less Than 12 Months .....	115
Analysis: Recent History of Frequent Changes of Employment.....	115
Income from Overtime Work, Part- time Jobs, Second Jobs, and Bonuses .....	115
Income from Commissions.....	116
Self- Employment Income .....	116

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



4506-C Tax Transcript Requirements.....	118
Active Military Applicant's Income.....	118
Income from Service in the Reserves or National Guard.....	121
Recently Activated Members of the Reserve or National Guard.....	121
Income of Recently Discharged Veterans or Veterans to be Discharged from the Military.....	121
Rental Income.....	123
Temporary Boarder Rental Income Single Family Residence.....	125
Alimony, Child Support, and Maintenance Payments.....	125
Automobile or Similar Allowances.....	125
Other Types of Income.....	126
Employment by a Relative.....	127
<b>Other Income.....</b>	<b>127</b>
Employment Gaps.....	127
Interest and Dividend Income.....	127
Non-Taxable Income.....	128
Note Income.....	128
Retirement, Pension, Annuity Income and IRA Distributions.....	128
Social Security Income.....	128
Teachers.....	129
Trust Income.....	129
<b>Unacceptable Sources of Income.....</b>	<b>129</b>
Sources of Unacceptable Income.....	129
<b>Income Taxes and Other Deductions from Income.....</b>	<b>130</b>
Income Tax and Social Security Deductions.....	130
Other Deductions from Income.....	130
<b>Residual Income Requirements.....</b>	<b>130</b>
Residual Income.....	130
Residual Income by Region.....	132
VA Assets.....	132
Overview.....	132
<b>Amount of Cash Required.....</b>	<b>132</b>
Requirements.....	132
<b>Verifications Required.....</b>	<b>133</b>
Requirements.....	133
<b>Pending Sale of Real Estate.....</b>	<b>133</b>
Requirements.....	133
<b>Asset Sources.....</b>	<b>134</b>
Overview.....	134
Bank Accounts.....	135
Earnest Money Deposits.....	137
Employer Assistance Plans.....	138
Equity from Other Assets.....	138
Gifts.....	140
Gift of Equity.....	141
Income Tax Refund.....	141
Life Insurance – Cash Value.....	141
Loan From A Relative.....	142

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Real Estate Commission from Sale of Subject Property.....	142
Rent Credits.....	142
Repayment Of A Personal Loan .....	143
Retirement Accounts.....	143
Secondary Financing .....	143
Seller Concessions .....	144
Stocks/Bonds.....	144
<b>Cash Reserves.....</b>	<b>145</b>
Requirements .....	145
<b>Unacceptable Sources of Assets.....</b>	<b>145</b>
Requirements .....	145
Debts and Obligations.....	146
<b>VA Liabilities and Debt Ratios .....</b>	<b>146</b>
Overview.....	146
Shelter Expense/ Monthly Housing Expenses.....	146
Total Qualifying Primary Housing Expense-to-Income Ratio .....	146
Monthly Debt Obligations .....	147
Payment Shock Calculation.....	147
Debt Pay Off/Pay Down .....	148
Projected Obligations .....	148
How to Calculate a Student Loan Monthly Payment.....	148
Income Based Repayment (IBR) Plan .....	148
Total Qualifying Debt-to-Income Ratios .....	149
Contingent Liabilities .....	149
Other Considerations .....	150
Compensating Factors .....	150
Child Care Expense .....	151
Non-Occupant Co-Borrowers .....	151
<b>Debts and Obligations.....</b>	<b>151</b>
Verification .....	151
Verification of Alimony and Child Support Obligations.....	152
Analysis of Debts and Obligations .....	152
Borrower(s) as Co-obligor/Co-signor on a Loan or Obligations.....	152
Pending Sale of Real Estate.....	152
Secondary Borrowing.....	153
Deferred Student Loan Payments.....	153
Loans Secured By Deposited Funds .....	153
Open 30-Day Charge Accounts.....	154
<b>Debts Owed to the Federal Government .....</b>	<b>154</b>
Title Search Requirements .....	154
Repayment Requirements.....	154
What is the Credit Alert Verification Reporting System (CAIVRS)?.....	155
CAIVRS Procedures .....	155
Borrower with Presently Delinquent Federal Debts .....	156
Treatment of Federal Debts.....	156
Appraisal Independence .....	157
Overview.....	157
Appraisal Selection .....	157



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Safe Harbor Act for Appraisals .....	158
<b>Appraisal Documentation.....</b>	<b>159</b>
Required Appraisal Forms.....	159
<b>Appraisal Transfer (Case Number Assignment after Completion of Appraisal).....</b>	<b>160</b>
Overview.....	160
Second Appraisal.....	160
Converting to VA Appraisal after Completion .....	160
<b>Assisted Appraisal Processing Program (AAPP) .....</b>	<b>161</b>
Assisted Appraisal Processing Program (AAPP).....	161
<b>Uniform Appraisal Dataset (UAD) .....</b>	<b>162</b>
Overview.....	162
Condition .....	162
Quality .....	164
<b>Property and Project Types .....</b>	<b>167</b>
Ineligible Property/ Project Types .....	167
<b>Eligible Property Types .....</b>	<b>168</b>
Mixed-Use Property .....	168
Condominium.....	168
Planned Unit Development (PUD) .....	169
Deed Restrictions.....	169
<b>Environmental Hazards .....</b>	<b>170</b>
Requirements .....	170
Locations Near High-Pressure Gas and Liquid Petroleum Transportation Lines .....	171
High-Voltage Electric Transmission Lines.....	172
Operating and Abandoned Oil and Gas Wells.....	172
Operating and Abandoned Stationary Fuel Storage Tanks .....	172
Ground Subsidence .....	173
Properties Affected by Lead Base Paint .....	173
Asbestos Insulation.....	174
Chinese Drywall .....	175
Heavy Traffic.....	175
Railroad Tracks and Other High Noise Sources.....	175
Properties Affected By Airport Noise and Hazards .....	176
<b>Water and Sewage Systems.....</b>	<b>177</b>
Connection to Public System.....	177
Private Water Systems.....	177
Cisterns .....	177
Community Water and Sewer Systems .....	177
Shared Wells .....	177
Individual Sewage Systems.....	177
<b>Certifications .....</b>	<b>178</b>
Overview.....	178
Utilities.....	178
Carbon Monoxide (CO) Detectors .....	178
Property Inspection .....	178
Termite Inspection.....	179
<b>VA Property Eligibility and Appraisal Requests.....</b>	<b>183</b>
Overview.....	183

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



<b>Requesting the Appraisal.....</b>	<b>184</b>
Requirements .....	184
Requesting the Appraisal .....	184
<b>Property Types Eligible for Appraisal.....</b>	<b>186</b>
Overview.....	186
Existing Construction .....	186
New Construction.....	186
Proposed or Under Construction .....	186
Manufactured Homes.....	187
Additions to Manufactured Homes.....	187
Modular Homes.....	187
Property to be Altered/ Improved/ Repaired.....	188
Security for Existing VA Loan .....	188
Properties Not Likely to Meet MPRs .....	188
Location Related Problems .....	189
<b>Property Types Not Eligible for Appraisal.....</b>	<b>189</b>
Condo Not Approved.....	189
Ownership Not Fee Simple.....	189
<b>Other Appraisal Request Restrictions.....</b>	<b>190</b>
No Duplicate Appraisals .....	190
Builder ID Required.....	190
No Appraisal Due to Sanction.....	190
Building Code Enforcement.....	191
Potential Restriction to Veterans Under Contract.....	191
Potential “Master” Appraisals Restrictions .....	191
If No Inspector Available .....	191
Definition Construction Exhibits and Inspections.....	191
<b>New Construction.....</b>	<b>192</b>
Construction Warranty.....	192
<b>Proposed or Under Construction.....</b>	<b>193</b>
Individual vs. “Master” Appraisals .....	193
Construction Exhibits .....	193
Construction Inspections .....	193
Construction Warranty.....	193
Determining the Type of Warranty .....	194
<b>Room Additions and Car Storage Conversions .....</b>	<b>194</b>
GLA Considerations .....	194
Non-GLA Areas Valued Separately .....	194
<b>Construction Exhibits .....</b>	<b>195</b>
General Requirements .....	195
Required Exhibits.....	195
Number and Distribution of Exhibit Sets .....	195
Reduced-Size Plans.....	195
“Master” Appraisals.....	196
Modular Construction .....	196
Manufactured Homes.....	196
Geological or Soil Instability .....	197
Inspections to be Made by HUD .....	197

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



<b>Conversion of HUD Value Notices for VA Use .....</b>	<b>198</b>
Overview.....	198
Exception.....	198
Setting Property Related Conditions.....	199
<b>Fees for Appraisals and Inspections .....</b>	<b>199</b>
Policy.....	199
Liquidation Appraisal Fees .....	199
“Master” Appraisal Fees .....	199
Construction Inspection Fees .....	199
Mileage Fee.....	200
Fee Payment Problems.....	200
Late Fees.....	200
<b>Appraisal Requirements.....</b>	<b>201</b>
Overview.....	201
General Requirements .....	201
<b>Appraisal Report Contents.....</b>	<b>202</b>
Required Items.....	202
<b>Submission of Appraisal Reports.....</b>	<b>204</b>
Electronic Transmissions .....	204
Access to Appraisal Reports .....	204
Appraiser E-Appraisal Exemption .....	204
Appraiser Signature and Electronic Signature.....	204
<b>Approaches to Value .....</b>	<b>205</b>
Sales Comparison Approach.....	205
Cost Approach .....	205
Income Approach.....	205
<b>Selection and Analysis of Comparable Sales .....</b>	<b>206</b>
Overview.....	206
<b>Other Market Analysis Considerations.....</b>	<b>207</b>
Overview.....	207
<b>Remaining Economic Life of Improvements .....</b>	<b>210</b>
Overview.....	210
What the Appraiser Must Consider .....	210
What the Appraiser must Report .....	210
<b>Proposed Construction.....</b>	<b>211</b>
Overview.....	211
Appraiser Certification Required .....	211
“Master” Appraisal Reports.....	211
Valuing “Options” .....	212
Manufactured Homes.....	212
Property to be Altered/ Improved/ Repaired .....	212
Partial Release of Loan Security .....	213
Planned Unit Developments (PUDs) and Condos .....	213
Solar Energy Systems.....	213
Local Housing/ Planning Authority Code Enforcement .....	213
Properties Subject to Flooding.....	214
Properties in Coastal Barrier Areas .....	214
Properties Near Airports.....	215

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Minimum Property Requirements .....	217
<b>Minimum Property Requirement Procedures .....</b>	<b>217</b>
MPRs.....	217
Appraisal is Not a Home Inspection .....	217
Safe, Sound, Sanitary .....	217
Appraisal Subject to Repairs to meet MPRs .....	217
Cosmetic Items .....	217
Detached Improvements .....	217
Home Inspection Recommended.....	217
Local Requirements .....	217
SAH.....	217
<b>Marketable Real Estate Entity .....</b>	<b>218</b>
Single Real Estate Entity.....	218
Multiple Parcels.....	218
Road or Waterway Dividing the Property .....	218
<b>Space Requirements .....</b>	<b>218</b>
Space Requirements.....	218
Non-Standard Construction .....	218
<b>Access .....</b>	<b>218</b>
Street Access.....	218
Private Road Requirements .....	218
Maintenance Agreement .....	218
Private Street in PUD or Condominium.....	219
Easements Must Run with the Land .....	219
Backyard Access .....	219
Exterior Wall Access .....	219
Property Constructed Adjacent to Another Property Line .....	219
<b>Encroachments.....</b>	<b>219</b>
Encroachments .....	219
Prompt Notification.....	219
<b>Drainage and Topography.....</b>	<b>220</b>
Grading.....	220
Topographic Conditions .....	220
<b>Geological or Soil Instability, Subsidence, and Sinkholes .....</b>	<b>220</b>
Soil Conditions.....	220
Subsidence .....	220
Dangerous Subsidence or Sinkholes .....	220
Repairs by Contractor .....	220
Hairline Cracks.....	220
New or Proposed Property .....	220
<b>Special Flood Hazard Area.....</b>	<b>221</b>
Flood Insurance .....	221
Regular Flooding.....	221
Verification of Flood Zone.....	221
Flood Zones.....	221
Excluding Non-Residential Improvements .....	221
Private Flood Insurance .....	221
<b>Coastal Barrier Resources System.....</b>	<b>221</b>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Eligibility.....	221
Appraiser Responsibilities .....	221
<b>Lava Flow Hazard Zones .....</b>	<b>221</b>
Appraiser Responsibility .....	221
Property Eligibility .....	221
Market Value to be Considered .....	221
<b>Non-Residential Use .....</b>	<b>222</b>
Eligibility Considerations .....	222
No Value to Business or Commercial Property .....	222
<b>Zoning .....</b>	<b>222</b>
Zoning Compliance .....	222
Legal, Non-Conforming Use .....	222
<b>Local Housing/Planning Authority Code Enforcement.....</b>	<b>222</b>
Local Authority Requirements.....	222
Repairs Required by a Local Authority.....	222
<b>Utilities .....</b>	<b>222</b>
Electricity .....	222
Appraiser Not Conducting Operational Checks.....	222
Electrical Wires .....	223
Utilities for Living Units.....	223
Access for Maintenance and Repair.....	223
<b>Water Supply and Sanitary Facilities.....</b>	<b>223</b>
Water and Sewer .....	223
Safe Drinking Water .....	223
Market Value Considerations .....	223
Filtration of Water.....	223
Individual Water Supply.....	223
Hauled Water.....	224
Individual Sewer Supply .....	224
Connection Mandated by a Local Authority.....	224
<b>Individual Water Supply .....</b>	<b>224</b>
Health Authority Requirements.....	224
Third Party Testing.....	224
Conditions Requiring a Veteran's Signed Statement.....	224
Water Filtration System.....	224
Distance Requirements.....	224
Testing Validity Period.....	225
Connection Mandated by a Local Authority.....	225
<b>Individual Sewage Disposal .....</b>	<b>225</b>
Individual Sewage Disposal.....	225
Pit Privies.....	225
Health Authority Approval.....	225
Connection Mandated by a Local Authority.....	225
<b>Shared Wells.....</b>	<b>225</b>
Shared Well Requirements.....	225
Appraiser Responsibility .....	225
Lender Responsibility .....	225
Water Quality .....	225

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



<b>Community Water Supply/Sewage Disposal Requirements .....</b>	<b>226</b>
Community Water/Sewer to be Noted in an Appraisal.....	226
Sufficient Water Supply.....	226
Adequate Size Sewage System .....	226
Local/State Authority Approval .....	226
Trust Deed.....	226
Trust Deed for Private System.....	227
Documentation Required.....	227
Acceptability of Trust Deed.....	227
Builder Costs Included in Valuation .....	227
System Transfer.....	227
Lower Valuation .....	228
Field Station Review for Problems or Changes.....	228
<b>Hazards .....</b>	<b>228</b>
Hazards .....	228
Prompt Notification of the Lender .....	228
<b>Defective Conditions .....</b>	<b>228</b>
Definition.....	228
Appraisals “Subject to” Repair of Defective Conditions .....	228
Examples.....	228
<b>Mechanical Systems.....</b>	<b>229</b>
Requirements .....	229
Appraiser Responsibility.....	229
<b>Heating.....</b>	<b>229</b>
Requirement .....	229
Non-Vented Heater .....	229
Mild Climate.....	229
Air Conditioning.....	229
<b>Leased Mechanical Systems and Equipment.....</b>	<b>229</b>
No Value to Leased Equipment .....	229
Leased Equipment to be Noted in the Appraisal .....	229
<b>Alternative Energy Equipment.....</b>	<b>230</b>
Alternative Energy Systems .....	230
Market Acceptance to be Considered .....	230
No Value to Leased Equipment.....	230
<b>Roof Covering.....</b>	<b>230</b>
Requirement .....	230
Multiple Shingle Layers .....	230
Appraiser Expectation .....	230
Appraisal Considerations when the Roof is Not Visible .....	230
<b>Attics.....</b>	<b>230</b>
Appraiser Expectations .....	230
Deficient Conditions .....	230
<b>Crawl Space.....</b>	<b>231</b>
Appraiser Expectation .....	231
Requirements .....	231
Floor Joists .....	231
Dampness .....	231

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Vacant Area Beneath House .....	231
<b>Basements .....</b>	<b>231</b>
Dampness or Structural Problems .....	231
Sump Pump .....	231
<b>Swimming Pools .....</b>	<b>231</b>
Pool Equipment .....	231
Structural Defects .....	231
Above-Ground Pools .....	231
Local Requirements for Securing Pools .....	232
<b>Burglar Bars .....</b>	<b>232</b>
Requirement .....	232
Removal of Burglar Bars .....	232
<b>Lead-Based Paint .....</b>	<b>232</b>
Properties Built in 1978 or Later .....	232
Properties Built before 1978 .....	232
Correction of Defective Lead-Based Paint .....	232
Appraiser Certification of Repairs .....	232
<b>Wood Destroying Insects/Fungus/Dry Rot .....</b>	<b>233</b>
Apparent Damage .....	233
Termite Infestation Probability Map .....	233
Local Requirements Webpage .....	233
Non-Residential Improvements .....	233
Requirements for Properties in Condominium Developments .....	233
<b>Radon Gas .....</b>	<b>234</b>
Testing Recommended by VA .....	234
Builder Certification .....	234
Additional Information .....	234
<b>Potential Environmental Problem .....</b>	<b>234</b>
Potential Environmental Problem .....	234
Examples .....	234
Appraisal Considerations .....	234
<b>Stationary Storage Tanks .....</b>	<b>235</b>
Distance Requirement .....	235
Comparable Sales .....	235
NOV Requirement .....	235
<b>Mineral, Oil, and Gas Reservations or Leases .....</b>	<b>235</b>
Influence on Property .....	235
Appraisal Considerations .....	235
<b>High Voltage Electric Transmission Lines .....</b>	<b>235</b>
Residential Structure .....	235
Detached Improvements .....	235
Distance Requirement .....	235
<b>High Pressure Gas and Liquid Petroleum Pipelines .....</b>	<b>235</b>
Residential Structure .....	235
Detached Improvements .....	235
Distance Requirement .....	235
<b>Properties near Airports .....</b>	<b>236</b>
Appraiser Responsibility .....	236



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Appraisal Considerations .....	236
Proposed Construction in a Clear Zone .....	236
Existing or New Construction in a Clear Zone .....	236
Accident Potential Zone .....	236
Maps Available Online.....	236
<b>Manufactured Home Classified as Real Estate .....</b>	<b>236</b>
MPRs.....	236
Real Estate Entity .....	236
Permanent Foundation.....	236
HUD Standards.....	236
Space Requirements.....	236
State/Local Requirements .....	236
Proposed Construction.....	237
Eligible Loan Purposes – Manufactured Housing .....	237
<b>Modular Homes.....</b>	<b>238</b>
State/Local Codes.....	238
Comparable Sales.....	238
On-frame Modular Home Requirements .....	238
<b>Energy Conservation and Sustainability .....</b>	<b>238</b>
Energy Efficient Mortgages .....	238
Energy Conservation Encouraged .....	238
<b>Requests for Waiver of MPR Repairs .....</b>	<b>239</b>
Waiver Requested by a Veteran.....	239
Inspection Report.....	239
Contributory Value .....	239
Materials Shortage Following a Natural Disaster.....	239
Escrowed Funds for Completion of Repairs .....	239
<b>Manufactured Homes .....</b>	<b>240</b>
Existing Construction .....	240
Proposed or Under Construction .....	240
Foundation Requirements .....	241
<b>Value Notices.....</b>	<b>243</b>
Overview.....	243
Issuing a Notice of Value.....	243
<b>Reviewing Appraisal Reports.....</b>	<b>244</b>
Purpose of the Review .....	244
<b>Resolving LAPP Appraisal Review Problems .....</b>	<b>245</b>
Contact and Cooperation .....	245
Referral to VA .....	245
VA Consistency.....	245
SAR's are not Appraisers .....	245
Implication of SAR Certification .....	246
<b>LAPP – Issuing A NOV at Other than the Appraiser's Value Estimate .....</b>	<b>246</b>
Change Restrictions.....	246
Other Changes.....	246
Penalty for Abuse.....	246
Potential Conflict with State.....	246
<b>Preparing Notices of Value .....</b>	<b>247</b>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Format Under LAPP .....	247
Format if Prepared by VA Staff .....	247
Notice of Value .....	247
<b>Notice of Value Conditions and Requirements .....</b>	<b>247</b>
Overview .....	247
Table of NOV Conditions & Requirements .....	247
<b>Distributing Notices of Value .....</b>	<b>251</b>
LAPP Cases .....	251
NOV Issued by VA .....	251
<b>How Long Notice of Value is Valid .....</b>	<b>251</b>
Existing or New Construction .....	251
Proposed or Under Construction .....	251
Extension of Validity Period .....	251
<b>Requesting Changes to the NOV .....</b>	<b>252</b>
Making Changes .....	252
How to Make a Change .....	252
Submission of Real Estate Market Data .....	252
Processing Change of NOV Request .....	252
Appraiser's Role .....	253
VA's Role .....	253
Lender's Role .....	253
<b>Transfer of Appraiser's Reports between Lenders .....</b>	<b>254</b>
Lender Cooperation .....	254
LAPP Cases .....	254
Other Cases .....	254
If Unable to Obtain Appraisal .....	254
<b>Requirement to Notify VA .....</b>	<b>254</b>
Requirement to Notify VA .....	254
If VA Value Based on HUD Appraisal .....	254
<b>Discovery of Title Limitations &amp; Conditions .....</b>	<b>255</b>
Limitations and Conditions Not Affecting Value .....	255
Conditions Affecting Value .....	256
VA Notice to Program Participants/ Natural Disaster .....	256
<b>Construction Inspections .....</b>	<b>257</b>
Overview .....	257
Consequences of Inspections .....	257
Determining the Types of Inspection .....	257
Specially Adapted Housing Cases .....	257
How to Assign an Inspector .....	258
Early Start Assignments .....	258
Requesting an Inspection .....	258
Inspection Report Form .....	258
<b>Inspection Stages .....</b>	<b>259</b>
Overview .....	259
Equal Employment Opportunity Poster Requirements .....	259
Obtaining Equal Employment Opportunity Posters .....	259
First Inspection Stage Alternatives .....	259
Completion of Excavation Alternative .....	260

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Completion of Foundation Alternative .....	260
Second Inspection Stage .....	260
Third Inspection Stage .....	261
Individual Water Supply and Sewage Disposal System.....	262
Final Inspection.....	262
Special Inspections .....	262
Re-Inspections.....	262
Missed Inspections.....	263
<b>VA Reliance on Local Building Inspections for First and Second Stages .....</b>	<b>263</b>
Waiving First and Second Stage Inspection.....	263
Exception.....	263
Lender's File Documentation.....	263
Discontinuing VA Reliance on Local Inspections.....	263
Additional Inspections for Used Manufactured Homes .....	264
Qualified Inspectors .....	264
<b>Delayed Installation of Appliances and Finished Floor Covering .....</b>	<b>264</b>
What is Required .....	264
What is not Required.....	264
<b>Lender Use of Inspection Reports .....</b>	<b>265</b>
Receipt of Inspection Reports.....	265
Use of Inspection Reports .....	265
Retention of Inspection Reports .....	265
<b>Changes to Construction Exhibits.....</b>	<b>266</b>
Change Request Form .....	266
Approval of Changes not Affecting Property Value .....	266
Notification.....	266
Cancellation of VA Approval.....	266
<b>Lender Appraisal Processing Program (LAPP).....</b>	<b>267</b>
Purpose of LAPP .....	267
How LAPP Works .....	267
LAPP Eligibility and Requirements .....	267
Role of Staff Appraisal Reviewer .....	267
SAR Requirements .....	267
SAR's Work Experience Requirements .....	268
Location of SAR.....	268
Geographic Extent of LAPP.....	268
SAR Conflicts of Interest .....	268
<b>Lender Quality Control System Requirements.....</b>	<b>269</b>
Overview.....	269
QC Reviewers.....	269
Frequency and Scope of Reviews .....	269
QC Review Criteria .....	269
Maintenance of VA Publications .....	269
Management Notification and Corrective Action.....	269
Review of VA Fee Panel Appraisals .....	269
<b>Applying for LAPP Authority.....</b>	<b>270</b>
Application and Fees.....	270
Notification of VA Decision .....	270

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



SAR ID Number .....	270
<b>SAR Training and Initial Case Reviews .....</b>	<b>271</b>
Training and Case Review Requirements.....	271
Exceptions to Training and Case Review Requirements .....	271
Training and Case Reviews Completed by Experienced SAR.....	271
Training by VA Staff .....	271
Procedure for Case reviews .....	272
Case Reviews by VA Staff.....	273
<b>Change in SAR's Employment of Lender's Status.....</b>	<b>273</b>
SAR No Longer Employed or Performing SAR Work .....	273
SAR Employed By New Lender.....	273
Lender Charges .....	273
<b>Lender Responsibilities under LAPP.....</b>	<b>274</b>
Due Diligence .....	274
What LAPP Lenders Can Expect.....	274
LAPP Privilege .....	274
<b>LAPP Processing Procedures.....</b>	<b>274</b>
Property Eligibility and Appraisal Requests.....	274
Submitting Cases to VA for Processing .....	274
Affiliates.....	275
Lender/Agent Relationship .....	275
Agents and Appraisals .....	276
<b>Common Interest Communities, Condominiums, and Planned Unit Developments .....</b>	<b>277</b>
Common Interest Community .....	277
Basic VA Requirements .....	277
VA Approved Condominium List.....	277
<b>Requirements for Properties in Common Interest Community .....</b>	<b>277</b>
Overview.....	277
<b>Requirements Applicable to All Properties in Common Interest Communities</b>	<b>278</b>
Requirements .....	278
Acceptable Title .....	278
Superior VA Lien.....	278
Appraisal Related.....	278
Notice of Value Related.....	279
<b>Condominium Approval Procedures .....</b>	<b>280</b>
Overview.....	280
Request for VA Approval.....	280
VA Processing of Approval Requests .....	280
How to Expedite VA Approval.....	280
VA Decision .....	281
Documents Amendments After Project Approval .....	281
Mortgagee Rights.....	282
<b>Table of Required Documents .....</b>	<b>282</b>
Table of Required Documents .....	282
<b>Use of Attorney's Opinion.....</b>	<b>284</b>
Attorney's Opinion.....	284
General Requirements .....	284
<b>Contents of Opinion .....</b>	<b>285</b>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



Identification of Project .....	285
List of Documents Reviewed .....	285
Statement of Qualifications .....	286
What Opinion must Address .....	286
Master or Umbrella Association .....	286
Special Conditions .....	287
Opinion is Conditional .....	287
<b>Assumptions that Opinion may Include .....</b>	<b>288</b>
Documents are Complete and Accurate .....	288
Documents are Authorized .....	288
No Violations .....	288
Qualified Parties .....	288
No Waivers or Limitations .....	288
Documents Not Subject to Rescission or Reformation .....	289
Recording of Documents .....	289
Authenticity .....	289
Accuracy .....	289
Correct and Complete Copies .....	289
Other Assumptions .....	289
<b>Qualifications or Limitations that Opinion may Include .....</b>	<b>289</b>
Subjective Factual Standards .....	289
Zoning Requirements .....	289
Subdivision Requirements .....	290
Building Requirements .....	290
Operation .....	290
Applicability of Laws .....	290
Title .....	290
Inference .....	290
Dated Opinion .....	290
<b>Natural Disasters .....</b>	<b>291</b>
Inspection Requirements .....	291
<b>Revision Summary .....</b>	<b>292</b>

## Revision History

See the [Revision Summary](#) section.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## VA UNDERWRITING

**Overview** This document describes how to review and underwrite Veteran Administration (VA) mortgage loan applications.

## VA LOAN PROGRAMS AND COMPLIANCE

**Overview** This section describes the eligible loan programs and compliance requirements necessary to obtain VA guaranty. CMS must ascertain whether the specific provisions of the loan program are permissible under all applicable laws and regulations. CMS must also take the necessary steps to verify the continued validity of the loan program provisions under applicable laws and regulations, and must notify any investors in the event it believes that any provisions might be restricted or impermissible under such laws or regulations.

The requirements outlined in this section represent VA core requirements for manually underwritten loans. The AUS decision and recommendations for reduced documentation may be followed, unless otherwise noted in this document. Requirements that vary from one loan program to another are described in the product matrices. Waivers do not apply to state specific compliance restrictions.

## VA PRIOR APPROVAL

**Requirements** VA prior approval is required in the following circumstances:

- Veterans in receipt of VA non-service connected pension
- Joint loans made to:
  - The veteran and one or more nonveterans (not spouse)\*
  - The veteran and one or more veterans (not spouse) who will not be using their entitlement\*

\*Permitted by exception only with management review due to additional equity requirements

Joint loans made to two veterans, where both entitlements will be used, may be closed automatically without prior approval.

A loan to a veteran and fiancé who intend to marry prior to loan closing and take title as veteran and spouse will be treated as a loan to a veteran and spouse (conditioned upon their marriage), and not a joint loan.

## VETERANS ELIGIBILITY AND ENTITLEMENT

**Overview** This section describes the eligibility and entitlement requirements for the veteran to utilize the home loan benefit. Eligibility is determined by VA and documented on the Certificate of Eligibility (COE). Eligibility means the veteran meets the basic criteria of appropriate length and character of service. Eligibility is the amount a veteran may have available for a guaranty of a loan. An eligible veteran must still meet credit and income standards to qualify for a VA-guaranteed loan. A COE is the only reliable Proof of Eligibility for the lender (except in the case of an Interest Rate Reduction Refinancing Loan IRRRL), which will be discussed in the section below.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Veterans Eligibility and Entitlement (continued)

#### Establishing Eligibility

To establish eligibility CMS requires a copy of the COE for the veteran or service member. This is obtained through the VA's Information Portal. Once logged into the portal, select web LGY from applications, then select Eligibility and follow the prompts. If the COE cannot be accessed the originator should select an electronic link to submit an electronic application. This method allows the upload of supporting documentation and to submit the application electronically to the Eligibility Center.

CMS may rely on the COE as proof the veteran is eligible for the home loan benefit. Although eligible for the home loan benefit, veterans must still qualify based upon income and credit before the loan approval is granted.

VA systems will not generate a VA case number for an IRRRL if there is no record of an active loan. This means if a lender successfully obtains a case number for an IRRRL, no further documentation of eligibility is required.

#### Determining Amount of Entitlement

Entitlement is the amount available for use on a loan. The amount of available basic entitlement is \$36,000. This may be reduced if a veteran has used entitlement before which has not been restored. The amount of basic entitlement will be displayed near the center of the COE. For example it may say:

"THIS VETERAN'S BASIC ENTITLEMENT IS \$ \_\_\_\_\_. TOTAL ENTITLEMENT CHARGED TO PREVIOUS VA LOANS IS \$ \_\_\_\_\_."

For certain loans in excess of \$144,000, additional entitlement may be available. For veterans with full entitlement, VA will guaranty 25% of the loan amount on purchase or cash out refinance transactions, regardless of the Freddie Mac Conforming Loan Limit for the subject's county. For veterans with partial entitlement, the maximum entitlement is 25 percent of the Conforming Loan Limit for the subject's county.

Even though the veteran may have entitlement for certain loans greater than \$144,000, the COE will never reflect this potential "extra" entitlement. Instead, an asterisk by the word "available" refers to a note, which explains the possibility of additional entitlement.

If the veteran previously used entitlement, which has **not** been restored, available entitlement is reduced by the amount used on the prior loan(s). CMS requires the veteran to have combined entitlement and equity totaling 25% of the lesser of the contract price or appraised value for purchase transactions, or 25% of the appraised value for cash-out refinance transactions.

#### Vet-Vet Joint Loans

For loans above \$144,000 to two veterans who are not married to each other (Vet-Vet Joint Loans), and

- all Veterans have full entitlement: The maximum guaranty is 25% of the loan amount without regard to the FHFA Loan Limit for the subject's county.
- one or more Veteran has partial entitlement: The maximum guaranty is 25% of the lesser of the loan amount or FHFA Loan Limit for the subject's county.

#### Married Veterans using Dual Entitlement

For loans above \$144,000 to two Veterans who are married to each other and using dual entitlement, the maximum guaranty is 25% of the loan amount so long as one of the Veterans has full entitlement. If both Veterans have partial entitlement, then the maximum guaranty is 25% of the lesser of the loan amount or FHFA Loan Limit for the subject's county.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Veterans Eligibility and Entitlement (continued)

### VA Guaranty Examples

### Veterans with Full Entitlement

Loan Type	Scenario
<b>Purchase</b>	<p>Veteran has full entitlement, and is purchasing a home for \$650,000 in a county where the FHFA Loan Limit is \$510,400.</p> <p>The maximum guaranty available is <math>\\$650,000 * 25\% = \\$162,500</math>. No down payment is required.</p>
<b>Cash Out Refinance</b>	<p>The subject property already has a VA loan with \$80,000 of entitlement tied to it. The Veteran is seeking a cash out refinance loan on a property appraised at \$650,000 in a county where the FHFA Loan Limit is \$510,400. There is no other previously used unrestored entitlement.</p> <p>Since the \$80,000 of outstanding entitlement will be restored for the purposes of the subject transaction, full entitlement will be available to the veteran.</p> <p>The maximum guaranty is <math>\\$650,000 * 25\% = \\$162,500</math>. No equity is required to meet the guaranty requirement, however the loan amount is limited to the conforming loan limit when the LTV exceeds 90%.</p>
<b>Concurrent Closings</b>	<p>The veteran's departing residence has \$80,000 of entitlement tied to it, and is being sold. The veteran is purchasing a home for \$650,000 in a county where the FHFA Loan Limit is \$510,400. There is no other previously used unrestored entitlement.</p> <ul style="list-style-type: none"><li>• Purchase transaction closes on the same day or after the sale of the departing residence: The entitlement tied to the departing residence may be restored and utilized towards the subject transaction, so the veteran will have full entitlement to guaranty the purchase transaction. The maximum guaranty available is <math>\\$650,000 * 25\% = \\$162,500</math>. No down payment is required.</li><li>• Purchase transaction closes prior to the sale of the departing residence by 1 day or more: The entitlement tied to the departing residence may not be restored for the purpose of calculating the available entitlement for the subject transaction.</li></ul> <p>The maximum guaranty available for the purchase transaction is 25% of the FHFA Loan Limit less the amount of entitlement tied to the departing residence: <math>(\\$510,400 * 25\%) - \\$80,000 = \\$47,600</math>. A down payment of \$114,900 is required, which is the difference between the required guaranty of \$162,500 and the available guaranty of \$47,600.</p>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Veterans Eligibility and Entitlement (continued)

### VA Guaranty Examples, continued

### Veterans with Partial Entitlement

Loan Type	Scenario
<b>Purchase</b>	<p>Veteran has \$80,000 of entitlement not restored, and is purchasing a home for \$650,000 in a county where the FHFA Loan Limit is \$510,400.</p> <p>The required guaranty is <math>\\$650,000 * 25\% = \\$162,500</math>.</p> <p>The maximum guaranty available is <math>(\\$510,400 * 25\%) - \\$80,000 = \\$47,600</math>. A down payment of <math>\\$162,500 - \\$47,600 = \\$114,900</math> is required.</p>
<b>Cash Out Refinance</b>	<p>The Veteran has \$80,000 of entitlement tied to the subject property, which will be restored for the purposes of a cash out refinance. The Veteran has \$36,000 of entitlement previously charged off that will not be restored.</p> <p>The subject's appraised value is \$650,000 in a county where the FHFA Loan Limit is \$510,400, and the veteran is seeking the maximum loan amount available for a cash out refinance.</p> <p>The guaranty required is <math>\\$650,000 * 25\% = \\$162,500</math>. The maximum guaranty available is <math>(\\$510,400 * 25\%) - \\$36,000 = \\$91,600</math>. The required equity is the difference between the required guaranty and the available guaranty <math>\\$162,500 - \\$91,600 = \\$70,900</math></p> <p>The maximum available loan amount is <math>\\$650,000 - \\$70,900 = \\$579,100</math>. The LTV <math>\\$579,100 / \\$650,000 = 89.1\%</math> complies with VA cash out lending restrictions.</p>

Additional examples, including examples for Joint Loans and married Veterans using dual entitlement are available at [Exhibit A](#) of Circular 26-19-30.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Veterans Eligibility and Entitlement (continued)

### Funding Fee (FF) Field and Conditions on COE

The “FUNDING FEE” (FF) field appears near the top of the COE. The exemption status, either “EXEMPT,” “NON EXEMPT,” or “CONTACT RLC,” will appear to the right of this field:

- EXEMPT status indicates a veteran is exempt from paying the FF.
- NON EXEMPT status indicates a veteran is not exempt from paying the FF.
- CONTACT RLC indicates a system-generated determination is not available.

**Note:** Regardless of the new FF status shown on the COE, the underwriter must be sure to read any and all statements appearing in the “CONDITIONS” field, which appears near the middle portion of the COE:

For COEs with “EXEMPT” status, the following “CONDITIONS” may appear:

- “Funding Fee – Veteran is exempt from Funding Fee due to receipt of service-connected disability compensation of \$\_\_\_ monthly.”
- “Funding Fee – Veteran is exempt from Funding Fee due to receipt of service-connected disability compensation. Monthly compensation rate has not been determined to date.”
- “Funding Fee – Please fax a copy of VA Form 26-8937 to the VA Regional Loan Center of jurisdiction.”
- “Funding Fee – Please have the lender contact VA Regional Loan Center for loan processing. Please fax a copy of VA Form 26-8937 to the RLC of jurisdiction.”

For COEs with a “NON EXEMPT” status, the following “CONDITIONS” may appear:

- “Funding Fee – Veteran is not exempt from Funding Fee.”
- “Funding Fee – Veteran is not exempt from Funding Fee due to receipt of non-service-connected pension. LOAN APPLICATION WILL REQUIRE PRIOR APPROVAL PROCESSING BY VA.”

For COEs with “CONTACT RLC” status, the following “CONDITION” will appear: “Funding Fee – Please fax a copy of the 26-8937 to the RLC of jurisdiction.”

### IRRRL Exemption Status

The Funding Fee Exemption Status on IRRRLs is displayed in webLGY at the time the Case Number is ordered.

### Exempt Status and Verified Income

If “EXEMPT” status appears next to the “FUNDING FEE” field on the COE, this will be considered acceptable verification of FF exemption. Additionally, on COEs with an “EXEMPT” status, any service-connected disability income amount appearing in the “CONDITION” section of the COE will be viewed as verified income.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Veterans Eligibility and Entitlement (continued)

### Additional COE Conditions

Additional Conditions that the lender and veteran must comply with are listed on the COE, under the Conditions heading. The following table provides the actions a lender should take for each condition, if applicable:

Conditions	What to Do
Entitlement has been used for manufactured home purposes. Remaining entitlement for additional manufactured home use is: \$ [amount].	If the proposed loan involves a manufactured home, adhere to the entitlement limit indicated.
Not eligible for any loan to purchase a manufactured home unit until veteran disposes of unit purchased with manufactured home loan number VA LIN [number].	If the proposed loan involves a manufactured home, ensure that the veteran has disposed of the unit indicated.
Entitlement previously used for VA LIN [number] has been restored without disposal of the property, under provision of 38 U.S.C. 3702b(4). Any future restoration requires disposal of all property obtained with a VA loan.	<p>If the veteran still has one or more outstanding VA loans, this condition is informational for the veteran. The veteran must have sufficient remaining entitlement to meet GNMA guaranty requirements.</p> <p>If the veteran indicates they have satisfied all outstanding VA loans, or the current loan grid on the COE is empty indicating all VA loans have been paid in full, a full restoration must be processed prior to making a new VA loan. This will remove the one-time restoration condition, allowing the veteran to take advantage of a one-time restoration again in the future.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Veterans Eligibility and Entitlement (continued)

### Applying for a Certificate of Eligibility

CMS requires a copy of the COE on all VA loans. The COE may be obtained through the VA Portal.

If a COE cannot be obtained immediately or if the COE is issued with reduced entitlement and restoration is needed, CMS will require evidence of restoration of full entitlement.

**Note:** Inability to obtain a COE in webLGY does not mean the veteran is ineligible, only that the system does not have sufficient information to make an automatic determination. The originator can upload documentation such as discharge papers or evidence to support restoration and the electronic application to webLGY.

For mailed applications, follow the procedures below.

Step	Action
1	Complete the VA Form 26-1880
2	Attach all required documentation to the form
3	Submit the form and attachments to:  <b>Atlanta Regional Loan Center</b> <b>Attn: COE</b> <b>P.O. Box 100034</b> <b>Decatur, GA 30031</b>

### Application for Unmarried Surviving Spouses

Unmarried surviving spouses of veterans who die on active duty or later from service-connected causes may also be eligible for the home loan benefit. Also, a surviving spouse of a veteran who dies on active duty or from service connected causes, may still be eligible if remarried on or after age 57 and on or after December 16, 2003. Eligibility may also be granted to the spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to one-time use only.

Surviving spouses of veterans who died from non-service connected causes may also be eligible if any of the following conditions are met: (1) the veteran was rated totally disabled for 10 years or more immediately preceding death; or (2) was rated totally disabled for not less than five years from date of discharge or release from active duty to date of death, or (3) the veteran was a former prisoner of war who died after September 30, 1999, and was rated totally disabled for not less than one year immediately preceding death.

If applying for the first time, surviving spouses must complete VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility-Unmarried Surviving Spouses, instead of VA Form 26-1880.

Surviving Spouse COEs are not issued via an automated COE. In order to obtain a Surviving Spouse COE, upload the completed VA Form 26-1817 and supporting documentation into webLGY, and complete the electronic application.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Veterans Eligibility and Entitlement (continued)

### Previously Issued COE is Missing

If the veteran's COE has been lost, another COE may be applied for in the same manner as described above.

### Discharge of Veteran and Proof of Service Requirements

*DD Form 214, Certificate of Release or Discharge From Active Duty* must be provided under the following circumstances:

- Veterans discharged from active duty service within 2 years of the loan application
- Discharged veterans with current employment of less than 12 months, where the duties the applicant performed in the military are similar or directly related to the duties of the present position
- An Automated Certificate of Eligibility isn't available through the VA Portal and CMS must process a manual COE application (Note: For members of the Reserves and National Guard, a manual COE application should be accompanied by a Points Statement and not a DD 214)

The veteran's character of service is not required to be documented unless manual processing of a COE application is required by VA, however any DD 214 provided reflecting character of service must be reviewed to insure an other than dishonorable discharge.

### Discharged Reserve/Guard Members

There is no one form used by the Reserves or National Guard that is similar to DD Form 214.

Discharged members of the Army or Air National Guard may submit NGB Form 22, Report of Separation and Record of Service, or a retirement points statement.

Typically, all members of the Reserves and/or Guard receive an annual retirement points summary which indicates the level and length of participation. The applicant should submit the latest such statement received along with evidence of honorable service.

### Assisting in Obtaining Required Proof of Service

If veterans cannot locate proof of service, they can request military documents either through <http://www.ebenefits.va.gov/> or by completing SF-180, Request Pertaining to Military Records. The completed form should be submitted to the appropriate address shown. It should NOT be sent to VA.

Lenders and veterans should not delay requesting a COE pending receipt of requested military documents. In most cases, VA internal systems will have sufficient information to make the eligibility determination.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Veterans Eligibility and Entitlement (continued)

### Basic Eligibility Requirements

A veteran is 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 after September 15, 1940, and was discharged under conditions other than dishonorable after either:

- 90 days or more, any part of which occurred during wartime, or
- 181 continuous days or more (peacetime).

2-year requirement: A greater length of service is required for veterans who:

- enlisted (and service began) after September 7, 1980, or
- entered service as an officer after October 16, 1981.

These veterans must have completed either:

- 24 continuous months of active duty, or
- the full period for which called or ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime).

**Note:** Cases involving other than honorable discharges will usually require further development by VA. This is necessary to determine if the service was under other than dishonorable conditions.

For additional Basic Eligibility requirements see the VA WARMS at:

[http://benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26\\_7/Chapter2.pdf](http://benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26_7/Chapter2.pdf)

### Restoration of previously used Entitlement

Entitlement previously used in connection with a VA home loan may be restored under certain circumstances. Once restored, it can be used again for another VA loan.

Restoration of previously used entitlement is possible if;

- the property which secured the VA-guaranteed loan has been sold, and the loan has been paid in full, or
- an eligible veteran-transferee has agreed to assume the outstanding balance on a VA loan and substitute his or her entitlement for the same amount originally used on the loan. The assuming veteran must also meet occupancy, income, and credit requirements of the law.

**Note:** For Special Restoration Cases, not mentioned above or concerns of misuse of a Veteran's Entitlement please refer to the VA WARMS at:

[http://benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26\\_7/Chapter2.pdf](http://benefits.va.gov/WARMS/docs/admin26/pamphlet/pam26_7/Chapter2.pdf).

### Ineligible Veteran

Veterans who apply for VA benefits on VA Form 26-1880 and are found ineligible, may be found eligible for other CMS programs. The veteran may be eligible for an FHA loan with a Certificate of Veteran Status. If so, the underwriter will review the FHA Certificate of Veteran Status concurrent with VA's notice of denial of eligibility for the VA program.

Generally, eligibility for an FHA Certificate of Veteran Status may be established through:

- active duty in the Armed Forces,
- active duty for training in a reserve component of the Armed Forces, or
- active duty or active duty for training in the National Guard or Air National Guard.

Length of service requirements is similar to the requirements for a VA COE. An important distinction between VA and FHA eligibility requirements is:

- A VA COE can be issued to a veteran still on active duty.
- An FHA Certificate of Veteran Status **cannot** be issued to a person who is still serving on active duty and has had no break in service.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## THE VA LOAN AND GUARANTY

### Overview

This section covers rules and information regarding the VA Loan Guaranty.

### Eligible Loan Purposes

The law authorizes VA to guarantee loans made to eligible veterans only for the following purposes:

- To purchase or construct a residence, including a condominium unit to be owned and occupied by the veteran as a home:
  - the loan may include simultaneous purchase of the land on which the residence is situated or will be situated,
  - loans may also be guaranteed for the construction of a residence on land already owned by the veteran (a portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements), and
  - the residential property may not consist of more than four family units.
- To refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home
- To repair, alter, or improve a residence owned by the veteran and occupied as a home.
- To simultaneously purchase and improve a home.
- To purchase a one-family residential unit in a condominium housing development approved by VA.

**Note:** CMS does not offer construction financing or interim financing. For eligible loan purposes for Manufactured Housing refer to [Manufactured Home Classified as Real Estate](#).

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### The VA Loan and Guaranty (continued)

#### Ineligible Loan Purposes

VA cannot guarantee loans made for ineligible loan purposes. Examples of ineligible loan purposes include:

- Purchase of unimproved land with the intent to improve it at some future date (that is, the land purchase is not in conjunction with a construction loan).
- Purchase or construction of a dwelling for investment purposes.
- Purchase or construction of a combined residential and business property, unless,
  - the property is primarily for residential purposes,
  - there is not more than one business unit, and
  - the nonresidential area does not exceed 25 percent of the total floor area.
- Purchase of more than one separate residential unit or lot unless the veteran will occupy one unit and there is evidence that:
  - the residential units are unavailable separately,
  - the residential units have a common owner,
  - the residential units have been treated as one unit in the past, and
  - the residential units are assessed as one unit, or
  - partition is not practical, as when one unit serves the other(s) in some respect; for example, common approaches or driveways.
- Energy efficiency purchase or refinance loans to improve a veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure are ineligible.

#### Cash to Veteran an Ineligible Purpose

Cash to the veteran from loan proceeds is permissible only for certain types of refinancing loans and under very limited circumstances, as follows:

- For IRRRLs, minor adjustments at closing less than \$500 are allowed. Cash to the veteran exceeding \$500 on an IRRRL transaction is not allowed. Refer to the [IRRRL](#) section for additional information and the Program Matrix for state-specific limitations.
- For cash-out refinancing loans, refer to the [Cash-Out Refinance](#) section and the Program Matrices for cash out and LTV limitations.

For other types of refinancing loans and all purchase/acquisition loans, the veteran cannot receive cash from loan proceeds. No exceptions.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## The VA Loan and Guaranty (continued)

### Maximum Loan Amount

The maximum loan amount for VA loans is dependent on the type of loan, the amount of available entitlement to meet the guaranty requirement, and the CMS maximum loan amounts as defined in the VA matrices.

VA limits the amount of the loan to the reasonable value of the property shown on the NOV plus the VA funding fee, with the following exceptions:

Exception	Maximum Loan
IRRRLs	Existing VA loan balance, plus: <ul style="list-style-type: none"><li>• Allowable fees and charges, plus</li><li>• Up to two discount points, plus</li><li>• VA funding fee.</li></ul> <b>The underwriter must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.</b>
Regular refinancing loan (cash-out)	<ul style="list-style-type: none"><li>• 100 percent of the VA reasonable value including the VA funding fee.</li><li>• Refer to the CMS VA program matrix for restrictions when the LTV exceeds 90%.</li></ul>
Loans to refinance are: <ul style="list-style-type: none"><li>• a construction loan, an installment land sales contract, or</li><li>• a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan.</li></ul>	The lesser of: <ul style="list-style-type: none"><li>• the VA reasonable value, or</li><li>• the sum of the outstanding balance of the loan plus allowable closing costs and discounts, plus</li><li>• For construction loans, “balance of the loan” includes the balances of construction financing and lot liens, if any.</li></ul>
Graduated Payment Mortgage (GPM) loan on existing property	The VA reasonable value, minus <ul style="list-style-type: none"><li>• the highest amount of negative amortization.</li></ul>
GPM loan on new home	97.5 percent lesser of: <ul style="list-style-type: none"><li>• the VA reasonable value or</li><li>• the purchase price</li></ul>

**Note:** CMS does not offer VA programs for energy efficiency improvements.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## The VA Loan and Guaranty (continued)

### Down Payment

Because VA loans can be for the full reasonable value of the property, no down payment is required by VA except in the following circumstances:

- If the purchase price exceeds the reasonable value of the property, a down payment in the amount of the difference must be made in cash from the borrower's own resources, and
- VA requires a down payment on all GPMs.

If a veteran has less than full entitlement available, CMS may require a down payment in order to make the veteran a loan that meets GNMA or other secondary market requirements. The "rule of thumb" for GNMA is that the VA guaranty, or a combination of VA guaranty plus down payment and/or equity, must cover at least 25 percent of the purchase price or appraised value.

### Maximum Guaranty Table

Pursuant to the Blue Water Navy Vietnam Veteran's Act of 2019, VA will guaranty 25% of the loan amount for Veterans with full entitlement seeking a purchase or cash out refinance loan in excess of \$144,000, regardless of the FHFA Conforming Loan Limit. Veterans with full entitlement seeking a purchase or cash out refinance loan that exceeds the FHFA Conforming Loan Limit for the subject's county will generally not require a down payment or equity to meet the 25% guaranty requirement, however CMS maximum loan amount and LTV limits apply.

In general, the maximum guaranty is as shown in the table below:

Loan Amount	Maximum Potential Guaranty	Special Provisions
Up to \$45,000	50 percent of the loan amount.	Minimum guaranty of 25 percent on IRRRLs.
\$45,001 to \$56,250	\$22,500	Minimum guaranty of 25 percent on IRRRLs.
\$56,251 to \$144,000	40 percent of the loan amount, with a maximum of \$36,000.	Minimum guaranty of 25 percent on IRRRLs.
Greater than \$144,000	For veterans with full entitlement, 25% of the loan amount. For veterans with partial entitlement, 25% of the lesser of the loan amount or Conforming Loan Limit, less unrestored entitlement.	Minimum guaranty of 25 percent on IRRRLs.

**Note:** The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## The VA Loan and Guaranty (continued)

### The Law on Occupancy

The law requires a veteran obtaining a VA-guaranteed loan to certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the veteran must either:

- personally live in the property as his or her home, or
- intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time. CMS considers a reasonable time to be within 60 days of loan closing.

The above requirement applies to all types of VA-guaranteed loans except IRRRLs. For IRRRLs, the veteran need only certify that he or she previously occupied the property as his or her home.

**Example:** A veteran living in a home purchased with a VA loan is transferred to a duty station overseas. The veteran rents out the home. He/she may refinance the VA loan with an IRRRL based on previous occupancy of the home.

### Occupancy by Veteran's Spouse or Dependent Child

Occupancy (or intent to occupy) by the spouse or dependent child satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the veteran's attorney-in-fact or legal guardian of the dependent child must make the certification and sign VA Form 26-1820, Report and Certification of Loan Disbursement.

Occupancy by the spouse may also satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, consult your Regional Loan Center (RLC) to determine if this type of occupancy meets VA requirements.

**Note:** The cost of maintaining separate living arrangements should be considered in underwriting the loan. See [Geographic Bachelor-ing](#) below.

For an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy the requirement.

### Geographic Bachelor-ing

Geographic bachelor-ing occurs when a military family **chooses** to have the family live in a different location from the service member. When considering geographic bachelor-ing, assume that the service member will receive Basic Allowance for Housing (BAH) for their duty location and that the family will be supporting two households on their regular income. The service member can choose to seek housing on base, get an apartment or share a house, or buy an RV to live in.

### Occupancy Requirements for Deployed Active Duty Service Members

Single or married service members, while deployed from their permanent duty station, are considered to be in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether or not a spouse will be available to occupy the property prior to the veteran's return from deployment.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## The VA Loan and Guaranty (continued)

### Occupancy After Retirement

If the veteran states that he or she will retire within 12 months and wants a loan to purchase a home in the retirement location:

- Verify the veteran's eligibility for retirement on the specified date.
  - Include a copy of the veteran's application for retirement submitted to his or her employer.
- Carefully consider the applicant's income after retirement.
  - If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

**Note:** Only retirement on a specific date within 12 months qualifies. Retirement "within the next few years" or "in the near future" is not sufficient.

### Delayed Occupancy Due to Property Repairs or Improvements

Home improvements or refinancing loans for extensive changes to the property which will prevent the veteran from occupying the property while the work is being completed, constitute exceptions to the "reasonable time" requirement.

**Note:** CMS does not offer VA financing on properties requiring extensive repairs; the property must meet the minimum property standards set by VA.

The veteran must certify that he or she intends to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

### Intermittent Occupancy

The veteran need not maintain a physical presence at the property on a daily basis. However, occupancy "as the veteran's home" implies that the home is located within reasonable proximity of the veteran's place of employment. If the veteran's employment requires the veteran's absence from home a substantial amount of time, the following two conditions must be met:

- the veteran must have a history of continuous residence in the community, and
- there must be no indication that the veteran has established, intends to establish, or may be required to establish, a principal residence elsewhere.

Use of the property as a seasonal vacation home does not satisfy the occupancy requirement.

### Occupancy Certification

The veteran certifies that the occupancy requirement is met by checking the appropriate occupancy block and signing:

- VA Form 26-1820, Report and Certification of Loan Disbursement, at the time of loan closing

This satisfies CMS' obligation to obtain the veteran's occupancy certification. CMS may accept the occupancy certification at face value unless there is specific information indicating the veteran will not occupy the property as a home or does not intend to occupy within a reasonable time after loan closing (within 60 days of closing).

Where doubt exists, the test is whether a reasonable basis exists for concluding that the veteran can and will occupy the property as certified.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## The VA Loan and Guaranty (continued)

### Interest Rate Changes

The lender and borrower are expected to honor any lock-in or other agreements they have entered into which impact the interest rate on the loan. VA does not object to changes in the agreed upon rate, as long as no lender/borrower agreements are violated. The following procedure applies in such cases.

Any increase in the interest rate of more than one percent requires:

- re-underwriting to ascertain the veteran's continued ability to qualify for the loan,
- documentation of the change, and
- a new or corrected Uniform Residential Loan Application, (URLA) with any corrections initialed and dated by the borrower.

### Discount Points

Veterans may pay reasonable discount points on VA-guaranteed loans. The amount of discount points is whatever the borrower and CMS agree upon. Discount points can be based on the principal amount of the loan after adding the VA funding fee, if the funding fee will be paid from loan proceeds.

### When Can Points Be Added in the Loan?

Discount points may be rolled into the loan only in the case of refinancing loans, subject to the following limitations:

#### Interest Rate Reduction Refinancing Loans (IRRRL):

A maximum of **two** discount points can be rolled into the loan. If the borrower pays more than two points, the remainder must be paid in **cash**.

#### Refinancing of Construction Loans:

Loans to refinance are:

- a construction loan,
- an installment land sales contract, or
- a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan

Any reasonable amount of discount points may be rolled into the loan as long as the sum of the outstanding balance of the loan plus allowable closing costs and discount points does not exceed the VA reasonable value.

**Reference:** See the [Maximum Loan Amounts](#) section.

#### Cash-out Refinancing Loans:

While discount points cannot specifically be included in the loan amount, the borrower can receive cash from loan proceeds, subject to maximum loan limits (See the [Maximum Loan Amounts](#) section.). The cash received by the borrower can be used for any purpose acceptable to the lender, including payment of reasonable discount points.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## The VA Loan and Guaranty (continued)

### Changes to the Agreed Upon Discount Points

The lender and borrower are expected to honor any agreements they have entered into which impact the discount points paid on the loan. VA does not object to changes in the agreed upon points, as long as no lender/borrower agreements are violated. The following procedures apply in such cases.

Any increase in discount points requires:

- verification that the borrower has sufficient assets to cover the increase,
- documentation of the change, and
- a new or corrected URLA with any corrections initialed and dated by the borrower.

### Loan Maturity Limits

The maximum maturity of a VA Guaranty Loan is 30 years and 32 days. For a non-amortized loan the maximum is 5 years.

**Note:** Refer to the CMS VA program matrix for loan term restrictions.

### Amortization Requirements

All VA loans must be amortized if the maturity date is beyond 5 years from the date of the loan. Loans with terms less than 5 years are considered term loans and need not be amortized.

Generally, for amortized VA loans:

- payments must be approximately equal,
- principal must be reduced at least once annually, and
- the final installment must not exceed two times the average of the preceding installments.

Exceptions to these requirements are made in the case of:

- GPMs
- Growing Equity Mortgages (GEMs)
- alternative amortization plans prior approved by VA, and
- construction loans.

## VA Loan Identification Number (LIN)

### Assigning the LIN

The LIN is a 12 digit number assigned to each loan by VA at the time the appraisal is requested. This number will be stated on all VA forms and other documents as required. For VA IRRRL transactions, the LIN is requested through the Appraisal System without requesting an appraisal.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## BORROWERS FEES, CHARGES AND THE VA FUNDING FEE

### Overview

The VA Home Loan program involves a veteran's benefit. VA policy has evolved around the objective of helping the veteran to use his or her home loan benefit. Therefore, VA regulations limit the fees that the veteran can pay to obtain a loan.

CMS **strictly** adheres to the limitations on borrower-paid fees and charges when making VA loans.

Refer to CMS' VA Borrower Fee Policy for additional information.

### VA Funding Fee

In order to defray the cost of administering the VA Home Loan program, each veteran must pay a funding fee to VA at loan closing. Congress may periodically change the funding fee rates to reflect changes in the cost of administering the program, or to assist a certain class of veterans.

### Fees and Charges the Veteran-Borrower can Pay

The veteran can pay a maximum of:

- reasonable and customary amounts for any or all of the "Itemized Fees, and
- Charges designated by VA, plus
- a one percent flat charge by the lender, plus
- reasonable discount points.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Itemized Fees and Charges

The veteran may pay any or all of the following itemized fees and charges in amounts that are reasonable and customary.

Charge	Description
Appraisal and Compliance Inspections	<p>The veteran can pay the fee of a VA appraiser and VA compliance inspectors.</p> <ul style="list-style-type: none"><li>• The veteran can also pay for a second appraisal if he or she is requesting reconsideration of value.</li><li>• The veteran <b>cannot</b> pay for an appraisal requested by the lender or seller for reconsideration of value.</li><li>• The veteran <b>cannot</b> pay for appraisals requested by parties other than the veteran or lender.</li></ul>
Recording Fees	<p>The veteran can pay for recording fees and recording taxes or other charges incident to recordation.</p>
Credit Report	<p>The veteran can pay for the credit report obtained by the lender.</p> <p>For Automated Underwriting cases, the veteran may pay the evaluation fee of \$50 in lieu of the charge for a credit report.</p> <p>For "Refer" cases, the veteran may also pay the charge for a merged credit report, if required.</p>
Prepaid Items	<p>The veteran can pay that portion of taxes, assessments, and similar items for the current year chargeable to the borrower and the initial deposit for the tax and insurance account.</p>
Hazard Insurance	<p>The veteran can pay the required hazard insurance premium. This includes flood insurance, if required.</p>
Flood Zone Determination	<p>The veteran can pay the actual amount charged for a determination of whether a property is in a special flood hazard area, if made by a third party who guarantees the accuracy of the determination.</p> <p>The veteran can pay a charge for a life-of-the-loan flood determination service purchased at the time of loan origination.</p> <p>A fee may not be charged for a flood zone determination made by the lender or a VA appraiser.</p>
Survey	<p>The veteran can pay a charge for a survey, if required by the lender or veteran. Any charge for a survey in connection with a condominium loan must have the prior approval of VA.</p>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Itemized Fees and Charges (continued)

Charge	Description
Title Examination and Title Insurance	The veteran may pay a fee for title examination and title insurance, if any.  If the lender decides that an environmental protection lien endorsement to a title policy is needed, the cost of the endorsement may be charged to the veteran.
Special Mailing Fees For Refinancing Loans	For refinancing loans only, the veteran can pay charges for Federal Express, Express Mail, or a similar service when the saved per diem interest cost to the veteran will exceed the cost of the special handling.
VA Funding Fee	Unless exempt, each veteran must pay a funding fee to VA.
Mortgage Electronic Registration System (MERS) Fee	The veteran may pay a fee for MERS. MERS is a one-time fee for the purpose of electronically tracking the ownership of the beneficial interest in a loan and its servicing rights.
Other Fees Authorized by VA	Additional fees attributable to local variances may be charged to the veteran only if specifically authorized by VA.  The lender may submit a written request to the Regional Loan Center for approval if the fee is normally paid by the borrower in a particular jurisdiction and considered reasonable and customary in the jurisdiction.

Whenever the charge relates to services performed by a third party, the amount paid by the borrower must be limited to the actual charge of that third party.

**Example:** If the lender obtains a credit report at a cost of \$30, the lender may only charge the borrower \$30 for the credit report. The lender may **not** charge \$35, even if it believes that a \$5 handling charge is fair.

In addition, the borrower may **not** pay a duplicate fee for services that have already been paid for by another party.

### Examples:

- An appraisal is completed on a property and paid for by a prospective purchaser, but the sale is never completed. A second purchaser applies for a loan before the validity period of the Notice of Value (NOV) expires. The lender uses the same NOV. The lender may **not** charge the second purchaser an appraisal fee if no second appraisal is ordered.
- A survey or flood zone determination, if the lender elects to use an existing survey or flood determination.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Lender's One Percent Flat Charge

In addition to the "itemized fees and charges," the lender may charge the veteran a flat charge not to exceed one percent of the loan amount.

Calculate the one percent on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds (except Interest Rate Reduction Refinancing Loans (IRRRLs).

**Note:** For IRRRLs, use VA Form 26-8923, IRRRL Worksheet, for the calculation.

The lender's flat charge is intended to cover all of the lender's costs and services which are not reimbursable as "itemized fees and charges."

The following list provides examples of items that cannot be charged to the veteran as "itemized fees and charges." Instead, the lender must cover any cost of these items out of its flat fee:

- lender's appraisals
- lender's inspections, except in construction loan cases
- loan closing or settlement fees
- document preparation fees
- preparing loan papers or conveyance fees
- attorney's services other than for title work
- photographs
- interest rate lock-in fees
- postage and other mailing charges, stationery, telephone calls, and other overhead
- amortization schedules, pass books, and membership or entrance fees
- escrow fees or charges
- notary fees
- commitment fees or marketing fees of any secondary purchaser of the mortgage and preparation and recording of assignment of mortgage to such purchaser
- trustee's fees or charges
- loan application or processing fees
- fees for preparation of Truth-in-Lending disclosure statement or Loan Estimate, as applicable
- fees charged by loan brokers, finders or other third parties whether affiliated with the lender or not, and
- tax service fees.

The lender's maximum allowable flat charge of one percent of the loan amount (or greater percentage in the case of construction loans) is intended to cover all of the lender's costs and services which are not reimbursable as "itemized fees and charges." The lender may pay third parties for services or do as it wishes with the funds from the flat charge, as long as the lender complies with the Real Estate Settlement Procedures Act (RESPA).

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Lender's One Percent Flat Charge (continued)

The [Itemized Fees and Charges](#) and [Lender's One Percent Flat Charge](#) sections provide some examples of items that **cannot** be charged to the veteran as "itemized fees and charges."

This section provides more examples of items that cannot be paid by the veteran, but can be paid out of the lender's flat charge or by some party other than the veteran.

#### Attorney's Fees:

The lender may **not** charge the borrower for attorney's fees. However, reasonable fees for title examination work and title insurance can be paid by the borrower. They are allowable itemized fees and charges.

VA does not intend to prevent the veteran from seeking independent legal representation. Therefore, the veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home. Closing documents should clearly indicate that the attorney's fee is **not** being charged by the lender, but is being paid by the veteran as part of an independent arrangement with an attorney.

#### Brokerage Fees:

Fees or commissions charged by a real estate agent or broker in connection with a VA loan may **not** be charged to or paid by the veteran-purchaser.

While use of "buyer" brokers is not precluded, veteran-purchasers may **not**, under any circumstances, be charged a brokerage fee or commission in connection with the services of such individuals. Since information on property available for purchase and financing options is widely available to the public from a variety of sources, VA does not believe that preventing the veteran from paying buyer-broker fees will harm the veteran.

#### Prepayment Fees:

A veteran obtaining a VA refinancing loan **cannot** use loan proceeds to pay penalty costs for prepayment of an existing lien.

A veteran purchasing a property with a VA loan **cannot** pay penalty costs required to discharge any existing liens on the seller's property.

#### Other Parties Fees and Charges for the Veteran-Borrower:

The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower.

VA regulations limit charges "made against or paid by" the borrower. They do not limit the payment of fees and charges by other parties.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Lender's One Percent Flat Charge (continued)

#### Seller Concessions:

Seller concessions include, but are not limited to, the following:

- payment of the buyer's VA funding fee
- prepayment of the buyer's property taxes and insurance
- gifts such as a television set or microwave oven
- payment of extra points to provide permanent interest rate buy-downs
- provision of escrowed funds to provide temporary interest rate buy-downs, and
- payoff of credit balances or judgments on behalf of the buyer.

Seller concessions do **not** include payment of the buyer's closing costs, or payment of points as appropriate to the market.

**Example:** If the market dictates an interest rate of 7½ percent with two discount points, the seller's payment of the two points would **not** be a seller concession. If the seller paid five points, three of these points would be considered a seller concession.

#### Excessive Concessions:

Any seller concession or combination of concessions which exceeds four percent of the established reasonable value of the property is considered excessive, and unacceptable for VA-guaranteed loans.

Do **not** include normal discount points and payment of the buyer's closing costs in total concessions for determining whether concessions exceed the four percent limit.

#### Refunding Fees when the Loan does not Close:

The borrower's out-of-pocket expenses for itemized fees and charges already incurred, such as the appraisal and credit report, do not get refunded.

If the lender has already collected the one percent flat fee from the borrower, the lender **must** refund the fee. This applies to a loan that does not close for any reason, including the borrower going to another lender.

#### Fees and Charges that can be Included in the Loan Amount:

For all types of VA loans, the loan amount may include the VA funding fee.

No other fees and charges or discount points may be included in the loan amount for regular purchase or construction loans.

Only refinancing loans may include other allowable fees and charges and discount points in the loan amount.

#### Cash Out Refinance:

For "cash-out" refinancing loans, allowable fees and charges and discount points (as discussed in the [Fees and Charges the Veteran-Borrower can Pay](#) section) may be paid from cash proceeds of the loan.

Only the VA funding fee can be added to increase the loan amount.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Lender's One Percent Flat Charge (continued)

#### IRRRLs:

The following fees and charges may be included in an IRRRL:

- Any allowable fees and charges discussed in [Fees and Charges the Veteran-Borrower can Pay](#) section. This includes closing costs from the "Itemized Fees and Charges" list, the funding fee, and the lender's flat charge.

However, there is **one** limitation unique to IRRRLs: While the borrower may pay any reasonable amount of discount points in cash, no more than two discount points can be included in the loan amount.

#### Other Refinancing Loans:

The following information applies to any loan to refinance:

- a construction loan,
- an installment land sales contract, or
- a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan.

The loan amount may include:

- any allowable fees and charges discussed in in [Fees and Charges the Veteran-Borrower can Pay](#) section, and
- reasonable discount points.

**Note:** Maximum loan limits may not allow inclusion of the full amount of these items. The maximum loan amount will be the lesser of the;

- sum of the outstanding balance of the loan being refinanced plus allowable fees and charges (other than the funding fee) plus discount points, or
- VA reasonable value of the property, plus
- VA funding fee.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### The VA Funding Fee

In order to defray the cost of administering the VA Home Loan program, each veteran must pay a funding fee to VA at loan closing. Congress may periodically change the funding fee rates to reflect changes in the cost of administering the program, or to assist a certain class of veterans.

The funding fee may be paid from loan proceeds or cash from borrower.

### Who is Exempt from Paying the Funding Fee:

The following persons are exempt from paying the funding fee:

- Veterans receiving VA compensation for service-connected disabilities.
- Veterans who would be entitled to receive compensation for service connected disabilities if they did not receive retirement pay.
- Veterans who are rated by VA as eligible to receive compensation as a result of pre-discharge disability examination and rating or on the basis of a pre-discharge review of existing medical evidence (including service medical and treatment records) that results in issuance of a memorandum rating.
- Veterans entitled to receive compensation, but who are not presently in receipt because they are on active duty.
- Surviving spouses of veterans who died in service or from service connected disabilities (whether or not such surviving spouses are veterans with their own entitlement and whether or not they are using their own entitlement on the loan).
- A member of the Armed Forces who is serving on active duty and who provides, on or before the date of loan closing, evidence of having been awarded the Purple Heart.

### Funding Fee Exemption Determination:

The funding fee exemption information will be displayed on the Certificate of Eligibility.

### Additional Verification for Non-Exempt Veterans:

If the COE displays "Non-Exempt", CMS must obtain a fully completed and executed Disability Questionnaire from the veteran. If the borrower indicates that he or she has a pending compensation claim with VA, CMS must request an updated COE not more than five (5) business days before loan closing to verify whether the borrower is exempt. While the majority of COEs are processed instantaneously, there are rare cases where processing times may take up to five business days, users are advised to plan accordingly to avoid delaying loan closings.

If the veteran indicates they are an Active Duty Service Member with a pre-discharge claim pending, CMS must submit VA Form 26-8937, Verification of VA Benefits.

Upon receipt of VA Form 26-8937, VA will conduct research to see if the Service member has filed a pre-discharge claim and reissue the COE as follows:

1. If the Service member is eligible for the home loan benefit and VA records indicate the Service member does not have a pre-discharge claim pending, VA will annotate the COE record and issue the COE with a funding fee status of Non-Exempt.
2. If the Service member is eligible for the home loan benefit and VA records indicate the Service member's pre-discharge claim has been adjudicated, VA will update the COE with the appropriate funding fee status and issue the COE.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### The VA Funding Fee (continued)

3. If the Service member is eligible for the home loan benefit and VA records indicate the Service member has a pre-discharge claim pending that has not been adjudicated, VA will submit the rating request to the Veteran Service Center (VSC). VA will update the COE funding fee status to Non-Exempt – In Development and issue the COE. The Service member is not exempt at this time. If a proposed or memorandum rating is not obtained, and the loan closing takes place before the Veteran is discharged from service, the funding fee exemption does not apply, and the Service member will not be entitled to a refund. VA will update and reissue the COE as appropriate based on the response received from VSC. Please note: the time required to issue a memorandum rating may vary. If the Service member has any questions about a pending pre-discharge claim, they should contact their Physical Evaluation Board Liaison Officer (PEBLO). The Service member may alternatively reach out to VA by calling 1-800-827-1000, with hours of operation between 6am to 9pm ET.

If an Active Duty Servicemember is a Purple Heart recipient and the Funding Fee exemption is not already reflected on the Certificate of Eligibility, a Copy of Purple Heart Certificate or DD214 reflecting Purple Heart award is required to be forwarded to the RLC of jurisdiction for updating.

If the veteran's exempt status cannot be verified prior to loan closing, the funding fee must be remitted as if the borrower was not exempt.

**Reference:** Refer to the [Refunding Overpayments to the Veteran](#) section.

### How to Calculate the Funding Fee:

For all loans except IRRRLs, apply the appropriate percentage (from the funding fee tables) to the loan amount.

If the funding fee is to be paid from loan proceeds, apply the percentage to the loan amount without the funding fee amount added to it.

For IRRRLs, calculate the funding fee by completing VA Form 26-8923, IRRRL Worksheet.

### How to Use the Funding Tables:

The lender must find the appropriate percentage in the tables using the following parameters:

- Is the veteran eligible for VA loan benefits through service in the regular military or the Reserves/National Guard? Examine the COE. For Reserves/National Guard, the COE bears the notation, "RESERVES/NATIONAL GUARD - INCREASED FUNDING FEE," and is buff-colored rather than green.
- Is the veteran a subsequent user of VA home loan benefits or obtaining his or her first VA loan? Examine the COE. An entitlement code of "5" indicates subsequent use, as does a loan number entered in the "Loan Number" column.
- What type of loan is the veteran obtaining? The funding fee varies depending upon whether the loan is a purchase or construction loan, an IRRRL, or a cash-out refinancing loan.
- Is the veteran making a down payment of at least five or ten percent?
  - Calculate what percentage of the sales price of the property the veteran is remitting as a down payment.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### The VA Funding Fee (continued)

- The down payment may come from the veteran's own resources or borrowed funds. **Except**, if the purchase price exceeds the reasonable value of the property, the difference between the purchase price and the reasonable value must be paid by the veteran in cash without borrowing.
- For construction loans only, equity in the secured property counts as a Down payment for calculating the funding fee.

**The loan rate fees listed below apply to loans closing on and after January 1, 2020 and prior to April 7, 2023.**

### Purchase Loans:

**Note:** Reduced funding fee rates apply to loans made to purchase a dwelling with a down payment of five percent or more of the purchase price.

Type of Veteran	Down Payment	Percentage for First Time use	Percentage for Subsequent Use
Active Duty Veteran	None	2.30%	3.60%
	5% or more	1.65%	1.65%
	10% or more	1.40%	1.40%
Reservist	None	2.30%	3.60%
	5% or more	1.65%	1.65%
	10% or more	1.40%	1.40%

### Cash-Out Refinance Loans:

**Note:** Reduced funding fee rates do not apply to refinance loans.

Type of Veteran	Percentage for First Time Use	Percentage for Subsequent Use
Active Duty Veteran	2.30%	3.60%
Reservist	2.30%	3.60%

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
IRRRLs	.50%
Loan Assumptions	.50%



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

The VA Funding Fee (continued)

The loan rate fees listed below apply to loans closing on and after April 7, 2023 through November 14, 2031

### Purchase Loans:

**Note:** Reduced funding fee rates apply to loans made to purchase a dwelling with a down payment of five percent or more of the purchase price.

Type of Veteran	Down Payment	Percentage for First Time use	Percentage for Subsequent Use
Active Duty Veteran	None	2.15%	3.30%
	5% or more	1.50%	1.50%
	10% or more	1.25%	1.25%
Reservist	None	2.25%	3.30%
	5% or more	1.50%	1.50%
	10% or more	1.25%	1.25%

### Cash-Out Refinance Loans:

**Note:** Reduced funding fee rates do not apply to refinance loans.

Type of Veteran	Percentage for First Time Use	Percentage for Subsequent Use
Active Duty Veteran	2.15%	3.30%
Reservist	2.15%	3.30%

Type of Loan	Percentage for Either Type of Veteran Whether First Time or Subsequent Use
IRRRLs	.50%
Loan Assumptions	.50%

### Remitting the Funding Fee to VA

CMS must remit the VA funding fee via the VA FFPS; within 15 calendar days of loan closing.

If CMS pays the fee more than 15 days after loan closing, CMS will automatically be assessed a four percent late fee. Fees paid more than 30 days late will automatically be assessed an interest charge in addition to the late fee.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers Fees, Charges and the VA Funding Fee (continued)

### Refunding Overpayments to the Veteran

A refund is appropriate if:

- an exempt veteran paid a funding fee, or
- a miscalculation of the fee caused an overpayment.

If the veteran was overcharged, the following applies:

- A veteran who paid cash for the funding fee may receive a cash refund for the amount of the overpayment.
- For a veteran who financed the funding fee using loan proceeds, CMS will apply any overpayment as a principal reduction to the loan balance.

## VA LOAN ELIGIBILITY

### Overview

This section provides eligibility standards that all apply to all VA loan programs.

**Brokers must be approved by CMS to originate, underwrite, and deliver VA production.**

## LDP AND GSA PROCUREMENT/NON-PROCUREMENT

### Requirements

Any borrowers who have been suspended, debarred, or otherwise excluded from participation in HUD programs are not eligible for a VA guaranteed mortgage. The FHA's Limited Denial of Participation (LDP) List and the government-wide General Services Administration's (GSA) List of Parties Excluded from Federal Procurement or Non-Procurement Programs must be examined.

All parties to the transaction must be verified against the lists, including the following:

- Borrowers
- Sellers
- Selling and Listing Real Estate Agents
- Loan Officers
- Appraisers
- All other licensed professionals contracted to provide certifications for the transaction (wood infestation and mechanical certifications such as termite companies, heating, plumbing, air conditioning, roofing and electrical companies).

If any parties appear on either list, the loan is not eligible for guaranty. An exception is made when a seller appears on the GSA list and the property being sold is the seller's principal residence.

Both LDP and GSA sites can be accessed through the links below:

- LDP: <http://www.hud.gov/offices/enforce/ecldp.cfm>
- GSA: <http://www.hud.gov/utilities/intercept.cfm?http://epls.gov/>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## LDP and GSA Procurement/Non-Procurement (continued)

### Requirements (continued)

If any party to the transaction appears on either list, the following must occur:

- It must be verified that the person on the list is the same person in the transaction.
- If evidence can be provided proving that he or she is not the same person listed, the process may continue. The following are examples acceptable documentation:
  - Evidence of residency for the borrower for the past seven years to verify borrower has not lived at the address listed on the LDP or GSA.
  - Evidence that the borrower's full name differs from the name on the list (e.g., Document borrower has a different middle initial).
- If the person listed is the same person in the transaction, then that person must be removed from the transaction.
- If none of the above can be verified, contact the VA regional office for direction on how to proceed.

## UNIFORM RESIDENTIAL LOAN APPLICATION

### Loan Application Requirements

The loan application submitted for underwriting must be reviewed during the underwriting process to ensure it is complete:

- A full two-year history of employment and residency is required (unless otherwise exempted by the loan program) and all personal information for each borrower (social security number, date of birth, address, and education) must be complete.
- All declaration questions must be marked as well as whether the application was taken face-to-face, by telephone, or by mail.
- All applications must be signed by the borrowers.
- The interviewer's name and employer must be completed in all cases.
- The number of dependents must be listed on the URLA.

The final application for closing must adhere to the requirements above, including the borrower's complete and accurate financial information relied upon by the underwriter, and the application must be signed and dated by all borrowers. The final application must include all debt incurred during the application process and through loan closing of the mortgage.

During the underwriting process, all transactions must be reviewed for reasonability, including the feasibility of occupancy claims and the overall financial picture of the borrowers. An adequate explanation must be obtained and documented in the loan file if conflicting information exists between or within documents,

All documents in the origination file relevant to underwriting must be reviewed for signs of alteration or fabrication. An adequate explanation must be obtained and documented in the loan file if conflicting information exists between or within documents.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## FACE-TO-FACE INTERVIEW

### Overview

The borrower must be given the option to complete the application face-to-face for all loan transactions. The file must be documented accordingly to verify that this option was provided if the applicant declines a face-to-face application.

The supporting documentation must be completed and maintained in all files when the application is completed by mail, telephone, video conferencing, or electronically.

## IDENTITY AND SOCIAL SECURITY NUMBER VALIDATIONS

### Identity Verification

The borrower's identity must always be established even though a face-to-face interview is not a requirement. The borrower must provide one piece of acceptable identification to the closing agent as evidence of his or her identity at closing. The following are acceptable forms of identification:

- Passport (government issued, valid, and unexpired)
- Resident Alien Card (government issued, valid, and unexpired)
- Driving License (state issued, valid, and unexpired)
- State ID Card (state issued, valid, and unexpired)

The borrower's Identify Certification must be completed and returned by the closing agent. The form must clearly indicate which of the above documentation was provided as identification.

### Social Security Number Validation

All borrowers must provide evidence of a valid Social Security number regardless of the Loan transaction. Acceptable documentation for Social Security number includes the following:

- Valid social security card
- Current pay stub
- W-2 form

The Social Security number provided for the borrowers will be validated by VA prior to assigning a case number and prior to guarantee. The validation process is intended to reconcile consistency with the numbering format, the borrowers' names, and dates of birth.

**Note:** Any use of a Social Security or Individual Taxpayer Identification Number for purposes of filing taxes that was not issued legally to an applicant is considered fraud. As such, the applicant will not be eligible for a loan through Carrington and evidence of such fraud will be reported as required under Carrington policy.

## PREVIOUS FINANCIAL CRIMES

### Policy

CMS will not make a loan to any individual who has ever been convicted of a felony or within the past five (5) years if convicted of a misdemeanor where money or property was taken or used in an illicit manner. Guilty or No Contest pleas are included in this restriction. Examples of such crimes include but are not limited to fraud, embezzlement, forgery or identity theft.

## OCCUPANCY TYPES

### Overview

If a borrower indicates that the subject property will be his or her primary residence, the viability of the borrower occupying the property must be assessed. For refinance transactions, the current address reported on the Uniform Residential Loan Application (URLA) must be compared to the addresses listed on the credit report. Any red flags or inconsistencies found within the last 12 months must include a full explanation

### Primary Residence

A primary residence is a property that is physically occupied by the borrower as his or her principal residence. A primary residence is a property that:

- The borrower occupies the property as his or her principal residence.
- The borrower or borrower's spouse and children occupy the property for the major part of the year.
- The location is convenient to the borrower's principal place of employment.
- The address is of record for one or more of the following: federal income tax reporting, voter registration, driver's license, occupational licensing, etc.

### The Law on Occupancy

The law requires a veteran obtaining a VA-guaranteed loan to certify that he or she intends to personally occupy the property as his or her home. As of the date of certification, the veteran must either:

- personally live in the property as his or her home, or
- intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time. CMS considers a reasonable time to be within 60 days of loan closing.

The above requirement applies to all types of VA-guaranteed loans except IRRRLs. For IRRRLs, the veteran need only certify that he or she previously occupied the property as his or her home.

**Example:** A veteran living in a home purchased with a VA loan is transferred to a duty station overseas. The veteran rents out the home. He/she may refinance the VA loan with an IRRRL based on previous occupancy of the home.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Occupancy Types (continued)

### Occupancy by Veteran's Spouse or Dependent Child

Occupancy (or intent to occupy) by the spouse or dependent child satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the veteran's attorney-in-fact or legal guardian of the dependent child must make the certification and sign VA Form 26-1820, Report and Certification of Loan Disbursement.

Occupancy by the spouse may also satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, consult your Regional Loan Center (RLC) to determine if this type of occupancy meets VA requirements.

**Note:** The cost of maintaining separate living arrangements should be considered in underwriting the loan.

For an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy the requirement.

### Occupancy Requirements for Deployed Active Duty Service Members

Single or married service members, while deployed from their permanent duty station, are considered to be in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether or not a spouse will be available to occupy the property prior to the veteran's return from deployment.

### Occupancy After Retirement

If the veteran states that he or she will retire within 12 months and wants a loan to purchase a home in the retirement location:

- Verify the veteran's eligibility for retirement on the specified date.
  - Include a copy of the veteran's application for retirement submitted to his or her employer.
- Carefully consider the applicant's income after retirement.
  - If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

**Note:** Only retirement on a specific date within 12 months qualifies. Retirement "within the next few years" or "in the near future" is not sufficient.

### Delayed Occupancy Due to Property Repairs or Improvements

Home improvements or refinancing loans for extensive changes to the property which will prevent the veteran from occupying the property while the work is being completed, constitute exceptions to the "reasonable time" requirement.

**Note:** CMS does not offer VA financing on properties requiring extensive repairs; the property must meet the minimum property standards set by VA.

The veteran must certify that he or she intends to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Occupancy Types (continued)

### Intermittent Occupancy

The veteran need not maintain a physical presence at the property on a daily basis. However, occupancy “as the veteran’s home” implies that the home is located within reasonable proximity of the veteran’s place of employment. If the veteran’s employment requires the veteran’s absence from home a substantial amount of time, the following two conditions must be met:

- the veteran must have a history of continuous residence in the community, and
- there must be no indication that the veteran has established, intends to establish, or may be required to establish, a principal residence elsewhere.

Use of the property as a seasonal vacation home does not satisfy the occupancy requirement.

### Occupancy Certification

The veteran certifies that the occupancy requirement is met by checking the appropriate occupancy block and signing:

- VA Form 26-1820, Report and Certification of Loan Disbursement, at the time of loan closing

This satisfies CMS’ obligation to obtain the veteran’s occupancy certification. CMS may accept the occupancy certification at face value unless there is specific information indicating the veteran will not occupy the property as a home or does not intend to occupy within a reasonable time after loan closing (within 60 days of closing).

Where doubt exists, the test is whether a reasonable basis exists for concluding that the veteran can and will occupy the property as certified.

## BORROWERS, CO-BORROWERS, CO-SIGNERS, AND NON-BORROWING SPOUSES

### Borrowers, Co-Borrowers And Co-Signers

A borrower must be an individual. Title must be in the borrower’s name at application for refinance transactions. Non-individual legal entities such as corporations, general partnerships, limited partnerships, real estate syndications, or investment trusts are not eligible.

Non-applicant individuals may have an ownership interest in the security property (hold Title) without signing the Note, mortgage/security deed. The non-applicant is not considered a borrower and will not sign the loan application as well as none of his or her income or assets be used for loan qualification.

A Co-Signer is an individual who does not have ownership interest in the security property (does not hold Title) and who signs the loan application and must be obligated on the Note. A Co-Signer does not occupy the subject property or sign the sales contract.

**Note:** Co-signors are not eligible on VA loans without prior approval by VA. CMS does not extend financing for VA transactions with a co-signor.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers, Co-Borrowers, Co-Signers, and Non-Borrowing Spouses (continued)

### Resident Alien Spouses

#### Lawful Permanent Resident Alien Spouses

VA insures mortgages for borrowers with *lawful permanent resident alien status*, using the same terms and conditions as those for U.S. citizens.

The mortgage file must:

- include evidence of the permanent residency, and
- indicate that the borrowing spouse is a lawful permanent resident alien on the Uniform Residential Loan Application (URLA).

**Note:** The U.S. Citizenship and Immigration Services (USCIS) within the Department of Homeland Security provides evidence of lawful, permanent residency status.

#### Non-Permanent Resident Alien Spouses

VA insures mortgages made to non-permanent resident alien spouses provided that:

- the property will be the borrowing spouse's principal residence
- borrowing spouse has a valid Social Security Number (SSN), and
- borrowing spouse is eligible to work in the United States, as evidenced by an Employment Authorization Document (EAD) issued by the USCIS.

**Note:** The Social Security card *cannot* be used as evidence of work status.

#### EAD Required as Evidence of Work Status

Although Social Security cards may indicate work status, such as "*not valid for work purposes*," an individual's work status may change without the change being reflected on the actual Social Security card. For this reason, the Social Security card must not be used as evidence of work status, and the Employment Authorization Document (EAD) must be used instead.

If the EAD will expire within one year and a prior history of residency status renewals exists, the lender may assume that continuation will be granted. If there are no prior renewals, the lender must determine the likelihood of renewal, based on information from the USCIS.

**Note:** Borrowing spouses residing in the U.S. by virtue of refugee or asylee status granted by the USCIS are automatically eligible to work in this country. An EAD is *not required*.

#### Non-Lawful Residency

Spouses that are Non-U.S. citizens who do *not* have lawful residency in the U.S. are *not* eligible.

### Non-Borrowing Spouse

Non-borrowing spouses may be required to sign either the security instrument or documentation evidencing that he or she is relinquishing all rights to the property if required by state law in order to perfect a valid and enforceable first lien, as is the case in some community property states. If the non-borrowing spouse executes the security instrument, he or she is not considered a borrower for underwriting purposes and need not sign the loan application or note.

Non-borrowing spouse may be added to title on a purchase transaction or may remain on title when refinancing. No other party other than the borrower or their spouse may be permitted to have a vested interest to the property.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers, Co-Borrowers, Co-Signers, and Non-Borrowing Spouses (continued)

### Non-Borrowing Spouse (continued)

#### Community Property States

If the property is located in a community property state or the borrower resides in a community property state, the following requirements must be followed:

- The non-purchasing spouse's (NPS) credit history does not need to be considered; however, the NPS' liabilities must be considered to determine the extent of the household liabilities.
- A credit report for the non-borrowing spouse is required to determine any joint or individual debts and to determine the debt-to-income ratio.
- Authorization from the non-borrowing spouse must be obtained and documented to pull a separate credit report. The loan must be rejected if the non-borrowing spouse refuses to provide authorization for the credit report.
- In order to do the records check, the Credit Company must be given non-borrowing spouse information, including names, address, birth date, and any other significant information requested. If the non-borrowing spouse does not have a Social Security number, the fact that the non-borrowing spouse has no credit history and no public records against him or her must be verified by the credit reporting company.
- Except for debt obligations specifically excluded by state law, the debts of the non-borrowing spouse must be considered in the qualifying ratios.
- For debts such as judgments and unpaid collection accounts, consider the Veteran's capacity to address the debt(s).
- Develop the facts surrounding any unsatisfied judgments on the spouse's credit report, such as where the judgment was filed and whether the parties were married to one another at the time, and secure a competent legal opinion whether the judgment may become a lien against the property.
- Use the reported monthly payment amount or 5% of outstanding balance of all debts and include in the debt ratio calculation to calculate the monthly obligation of the non-borrowing spouse. Collection accounts that are verified as not in repayment will not requirement a payment to be included in the debt ratio.
- Disputed debts of the non-borrowing spouse do not need to be counted with acceptable documentation of the dispute.
- Exclude the monthly payment on the spouse's debts from the loan analysis when a reliable source of income for the spouse is verified to reach such a conclusion which is voluntarily provided. The spouse must have sufficient earnings to cover the debts as verified with a recent YTD pay stub and W2 or recent YTD pay stub and written VOE.
- Document VA Form 26-6393, Loan Analysis, with an explanation of facts and determination when concluding credit worthiness of the Veteran or excluding obligations of the non-purchasing spouse.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Borrowers, Co-Borrowers, Co-Signers, and Non-Borrowing Spouses (continued)

### Community Property State-Specific Information

The following states are community property states:

- Arizona
- California
- Idaho
- Louisiana
- Nevada
- New Mexico
- Texas
- Washington
- Wisconsin

## INELIGIBLE BORROWER AND VESTING TYPES

### Ineligible Borrowers

The following non-individual legal entities are ineligible borrowers:

- Corporations
- General Partnerships
- Limited Partnerships
- Real Estate Syndications
- Investment Trusts
- Non-occupant borrowers are not eligible
- Trusts (including Inter-vivos and Living Trusts)
- Limited Liability Company (LLC)

### Ineligible Vesting Types

The following are ineligible vesting types:

- Trusts
- Limited Liability Company (LLC)

## TRANSACTION TYPES

### Overview

CMS will accept loans made for the following purposes as defined in this section.

- Purchase Mortgages
- Rate/Term Refinance Mortgages
- Cash-Out Refinance Mortgages
- Land Contracts

CMS does not extend financing for the following as defined in this section. Loans in these categories must be underwritten by the VA. Refer to the VA Lender's Handbook for additional information regarding these types of transactions.

- Construction/Permanent Home Loans (the loan is to finance the construction/purchase of the residence)

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Transaction Types (continued)

#### **Purchase Mortgage**

A purchase mortgage loan involves the purchase of a Mortgaged Premises, as defined by a sale and purchase agreement executed by the borrower and seller, which represents a first and/or second lien on the property. The Seller must be the owner of record.

All purchase transactions must include a complete purchase agreement, including all addenda. All purchase agreement terms must be considered in the underwriting decision and any evidence of undisclosed elements of the transaction must be investigated. Examples of undisclosed elements are evidence of straw buyers (changes in purchaser on the purchase agreement) or possible undisclosed seller concessions, such as making mortgage payments on behalf of the borrower for the first few months of the loan.

In purchase transactions where the seller is a corporation, partnership, or any other business entity, the borrower must not be an owner of the business entity selling the subject property.

Loans where the purchase agreement has been assigned are not eligible.

Proof that the property seller has owned the property for 12 months or a chain of title for the last 12 months is required. Acceptable sources for the chain of title include the following:

- Copies of recorded deeds
- Tax statements
- 12-month chain of title on the title commitment

If a property was previously sold within the last 12 months, ensure the transaction is legitimate. Some characteristics of fraudulent transactions include but are not limited to foreclosure bailouts, distressed sales, and inflated values due to stated improvements that are not supported.

Purchase transactions do not allow for cash back to the borrower at closing other than an amount representing:

- A reimbursement for the borrower's overpayment of fees.
- Costs paid by the borrower in advance (e.g., earnest money deposit, appraisal, and credit report fees).

**Note:** Excess prorated property taxes from the seller must be applied as a principal reduction at closing and may not result in cash back to the veteran.

#### **Identity of Interest Transactions** (non-arm's length transaction)

An identity of interest transaction is a transaction for the purchase of a principal residence between one of the following:

- Parties with a familial or business relationship
- Business affiliates

**Note:** An identity of interest transaction does not include an employer/employee transaction when the employee is purchasing the seller's principal residence.

Maximum financing is permitted for the identity of interest transactions on principal residences.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Transaction Types (continued)

### Refinance Mortgages

#### Cash-Out Refinance

Cash-Out Refinance transactions are loans used to remove equity from a property. Free and clear properties are not permitted. All Cash-Out Refinance transactions must be secured by an existing first lien. Funds received from a Cash-Out Refinance Mortgage may be used for purposes such as one of the following:

- To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home.
- Allowable closing costs and prepaid items.
- Debt consolidation.
- Cash back exceeding the amount allowable for a Rate and Term Refinance.
- Payoff of any existing subordinate financing not used to acquire the subject property, or for documented home improvements.
- May subordinate existing junior liens.
- Six (6) months minimum payment history on the loan being refinanced required.

**Note:** Texas Cash Out is not permitted on VA transactions.

#### Loan Seasoning Requirement

GNMA requires six (6) months payment seasoning on the loan being refinanced and 210 Days must have elapsed between the first payment due date of the original loan being refinanced and the note date of the new loan.

If a loan has been modified: seasoning is based on the loan as modified, and not the original loan. For example: if the original loan closed 02/17/2018 and a modification was completed 11/05/2019, the loan cannot be refinanced as an IRRRL until the 11/05/2019 modification has been seasoned.

#### Additional Loan Seasoning Requirement - Effective for loan applications taken 2/15/19 and after

For loan being refinanced within one (1) year from the date of closing, CMS must obtain a payment history/ledger documenting all payments, unless a credit bureau supplement clearly identifies all payments made in that timeframe. If the loan is selected for audit by VA, CMS must include the payment history/ledger and/or credit bureau supplement of the loan being refinanced in the loan file for VA review.

### Cash Out Refinance Transactions Effective for loan applications taken 2/15/19 and after

The VA defines two types of cash-out refinances:

#### Type I Cash Out Refinance

- A refinance in which the loan amount (including the Funding Fee) does not exceed the payoff amount of the loan being refinanced

#### Type II Cash Out Refinance

- A refinance in which the loan amount (including the Funding Fee) exceeds the payoff amount of the loan being refinanced

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Transaction Types (continued)

### Cash Out Refinance Transactions Effective for loan applications taken 2/15/19 and after, continued

#### Loan-to-Value (LTV)

For Type I and Type II Cash Out Refinance Transactions, VA will not guaranty refinance loan transactions when the LTV exceeds 100 percent including the Funding Fee. LTVs of 90.01%-100% are restricted to conforming loan amounts (high balance not permitted), 30 year loan terms, and minimum 641 FICO.

New LTV Calculation: Divide the total loan amount (including VA funding fee, if applicable) by the reasonable value on the Notice-of-Value (NOV) of the property determined by the appraiser.

#### Loan Comparison Statement

For Type I and Type II Cash Out Refinance Transactions, the Veteran must be provided with a Comparison of Loan Characteristics and Net Tangible Benefit disclosure. The Veteran must sign and acknowledge receipt of the form.

- no later than the third business day after receiving the Veteran's loan application, and
- again at loan closing

#### Net Tangible Benefit

CMS must determine there is a net tangible benefit (NTB) to the borrower for all cash-out refinance loans. The refinancing loan must satisfy at least one of the following:

- Eliminate monthly mortgage insurance
- Decrease the loan term
- Decrease monthly (P&I) payments (changes from PITI to PI Only)
- Reduce the interest rate
- Maintain LTV equal to or less than 90%
- Refinance an interim construction loan
- Increase monthly residual income
- Refinance from an adjustable-rate loan to a fixed-rate loan

#### Additional Restrictions for VA-to-VA Type I Refinances

**Fee Recoupment:** Fee recoupment is only required on VA to VA Cash-Out Refinance transactions. When issuing a Cash-Out Refinance loan, CMS must certify that all applicable fees, expenses and closing costs are recouped within 36 months from the date of loan closing.

**Recoupment Calculation:** Divide all fees, closing costs, expenses, and incurred costs (excluding taxes, escrow, insurance, and like assessments), by the reduction of the monthly principal and interest payment as a result of the refinance.

If the loan being refinanced has been modified, the principal and interest reduction must be computed / compared to the modified principal and interest monthly payment.

**Note:** If the existing loan does not reflect as VA on the credit report the Underwriter may condition for a copy of the Note, Deed, mortgage statement or payoff demand to determine whether the current loan is guaranteed by VA.

**Interest Rate Reduction:** For Type I Cash Out Refinance Transactions made to refinance a current fixed-rate VA-guaranteed home loan, the new interest rate must be at least 0.5 percent (50 basis points) lower than interest rate on the loan being refinanced.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Transaction Types (continued)

### Streamline Refinance Mortgages

#### IRRRL

An IRRRL is intended to lower the monthly principal and interest payments of a current VA guaranteed mortgage with no cash back to the borrower except for minor closing adjustments of no more than \$500. Documentation requirements are significantly reduced under this refinance option.

IRRRLs can be completed with an AVM VP4 from an approved CMS vendor or a 2055 from an approved CMS AMC. Refer to the VA IRRRL Matrix for appraisal requirements.

- **Non-Credit Qualifying Refinance of an Existing VA Guaranteed Mortgage**
  - A 12-month mortgage rating with no late pays and verification of employment is required.
  - The veteran on the existing loan must remain on the new loan. Only borrowers identified in the table below can be added or deleted on the IRRRL transactions. Adding/removing borrowers must credit qualify for the new mortgage under the VA Rate/Term and Cash-out Program.

Parties Obligated on Old VA Loan		Parties to be Obligated on new IRRRL	Is IRRRL Possible?
1	Unmarried veteran	Veteran and new spouse	Yes
2	Veteran and spouse	Divorced veteran alone	Yes
3	Veteran and spouse	Veteran and different spouse	Yes
4	Veteran alone	Different veteran who has substituted entitlement	Yes
5	Veteran and spouse	Spouse alone (veteran died)	Yes
6	Veteran and nonveteran joint loan obligors	Veteran alone	Yes
7	Veteran and spouse	Divorced spouse alone	No
8	Unmarried veteran	Spouse alone (veteran died)	No
9	Veteran and spouse	Different spouse alone (veteran died)	No
10	Veteran and nonveteran joint loan obligors	Nonveteran alone	No

- Refer to the program matrix for additional appraisal requirements on VA IRRRL
- **Net Tangible Benefit**

It must be determined that there is a net tangible benefit to the borrower as a result of the IRRRL. The net tangible benefit is defined as one of the following:

  - A reduction to the interest rate on the new loans.
  - Refinancing from an ARM to a fixed rate mortgage.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Transaction Types (continued)

### Construction Permanent Mortgages (Single-Close Modification of Note)

Single-Close Modification of the Note is not permitted.

### Loan Transactions Paying Off Land Contracts

If the borrower will use the loan to complete payment on a land contract, contract for deed, or similar type of financing arrangement in which the borrower does not have title to the property the new mortgage can be treated as a purchase transaction (if the contract is not recorded) or as a cash-out refinance (if the contract is recorded) following the six (6) month seasoning.

The maximum loan amount ratio is the lesser of the following:

- the VA reasonable value plus the VA funding fee, or .
- The sum of the outstanding balance of the loan to be refinanced plus allowable closing costs (including the funding fee) and discounts.
- The maximum guaranty for refinancing land contracts is \$36,000.

### Principal Curtailment

Principal curtailments are permitted in the following cases:

- **Lender Paid Transactions** — On transactions where the loan originator is paid by the lender, CMS permits a principal curtailment on purchase and refinance loans unless noted below as a result of excess premium rate credit. The excess premium must be identified on the HUD-1 Settlement Statement or Closing Disclosure, as applicable and is limited to the amount of the excess premium rate credit below. The premium rate credit is the amount associated with the lowest pricing rate option that allows for some or all of the borrower's closing costs to be paid so the borrower does not have to pay those closing costs out of pocket.
  - If the premium rate credit is less than or equal to \$2,000 for loan amounts up to \$350,000, or \$4,000 for loan amounts exceeding \$350,000, then no additional documentation is required.
  - For premium credits exceeding these thresholds, evidence that the next lower pricing option would require the borrower to pay closing costs out of pocket must be documented in the file (e.g., GFE, Pricing/Rate Sheet, etc.).

If the borrower was not provided with the lowest possible rate while accommodating the customer request, the loan is not eligible.

If the program permits, the borrower may also receive cash back within program guidelines in addition to the amount of the curtailment. See the CMS Product Guidelines for cash back eligibility criteria.

- **Borrower Paid Transactions** — On transactions where the loan originator is paid by the consumer, principal curtailments are not permitted. The premium rate credit must not exceed the amount of the third-party costs.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## LEASEHOLD ESTATES

### Overview

A Leasehold Estate is an interest in real property held by virtue of a lease. Leasehold refers to land that is leased to the individual who owns appurtenant structures on the land.

The leasehold estate may consist of both the improvement and the land; however, in most cases, the improvement is purchased in fee simple, subject to ground rent. Ground rent is rent paid for the right to use and occupy land. When the term of the lease expires, all rights to possession and use revert back to the lessor/fee simple owner and the Leasehold Estate terminates.

### VA Approval

VA approval is required prior to the completion of an appraisal for all leasehold properties. Must contact the RLC for guidance regarding obtaining VA approval.

### Leasehold Estate Requirements

Properties that are secured by Leasehold Estates are acceptable provided they conform to all of the following requirements:

- The lease is for the rental of a property with a fee ownership interest.
- Residential properties in the area consisting of leasehold or ground rent estates are readily marketable and acceptable in the subject area.
- The leasehold is in full force and effect and is not subject to any prior lien or encumbrance by which the leasehold could be terminated or subjected to any charge or penalty.
- The remaining term or exercised renewal of the lease with any renewals enforceable by the mortgage do not terminate earlier than ten years after the maturity date of the loan.

### Lease Requirements

The lease must comply with the following requirements:

- The lease (including all amendments) is recorded and no party is in any way in breach of any provision of the lease or amendment.
- Leases may not contain restrictions of assignability.
- In most cases, the lease must allow for an option to purchase.



# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Leasehold Estates (continued)

#### Ground Rents

Ground rent is established in the local market place, but in no case may the annual rental exceed the lesser of either of the following:

- 12 percent of the site value.
- The mortgage interest rate at the time of underwriting, less two percent, times the site value.

Ground rent may increase periodically, subject to the following:

- Rent may not be increased for the first three years of the lease term. Subsequent rent increases may occur no more than once every 12 months.
- Increases must be stated in the lease document in exact dollar amounts.
- Establishment of future rentals by negotiation or by formula is not permitted.
- Increases in any 12-month period may equal no more than 2% of HUD's original site valuation, but at no time may annual ground rental exceed 12% if HUD's original site valuation.

### MAXIMUM LOAN AMOUNTS

#### Maximum Loan Amount

Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans. Limitations on VA loan size are primarily attributable to two factors:

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by Government National Mortgage Association (GNMA) or whatever conduit they use to sell the loans.
2. VA limits the amount of the loan to the reasonable value of the property shown on the NOV plus the VA funding fee, with the following exceptions:



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Maximum Loan Amounts (continued)

### Maximum Loan Amount (continued)

Exception	Maximum Loan
IRRRLs	<ul style="list-style-type: none"><li>Existing VA loan balance, plus</li><li>Allowable fees and charges, plus</li><li>Up to two discount points, plus</li><li>VA funding fee.</li></ul> (The underwriter must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)
Regular refinancing loan (cash-out)	<ul style="list-style-type: none"><li>100 percent of the VA reasonable value, plus</li><li>VA funding fee.</li></ul>
Loans to refinance are: <ul style="list-style-type: none"><li>a construction loan,</li><li>an installment land sales contract, or</li><li>a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan.</li></ul>	The lesser of: <ul style="list-style-type: none"><li>the VA reasonable value, or</li><li>the sum of the outstanding balance of the loan plus allowable closing costs and discounts, plus</li></ul> For construction loans, “balance of the loan” includes the balances of construction financing and lot liens, if any. <ul style="list-style-type: none"><li>VA funding fee.</li></ul>
Graduated Payment Mortgage (GPM) loan on existing property	The VA reasonable value, minus <ul style="list-style-type: none"><li>the highest amount of negative amortization, plus</li><li>VA funding fee.</li></ul>
GPM loan on new home	97.5 percent lesser of: <ul style="list-style-type: none"><li>the VA reasonable value or</li><li>the purchase price, plus</li><li>VA funding fee.</li></ul>

**Note:** CMS does not offer VA programs for energy efficiency improvements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## LOAN-TO-VALUES

### Calculating Loan-to-Value

The maximum loan to value is calculated as follows:

*Principal balance of the first mortgage*

*Divided by*

*The lower of the appraised value or sales price*

See the [CMS Product Guidelines](#) for maximum LTV requirements.

### Calculating Loan-to-Value for Cash-Out Refinances

#### Cash-out Transactions with loan applications dated 2/15/19 and after

The total loan to value for a Cash-out refinance transaction is calculated as follows:

*Total loan amount (including VA funding fee, if applicable)*

*Divided by*

*The reasonable value on the Notice-of-Value (NOV) of the property determined by the appraiser*

### Calculating Combined Loan-to-Value

#### Purchase Transactions

The maximum combined loan to value for a purchase transaction is calculated as follows:

*Principal balance of the first mortgage (excluding financed Funding Fee) plus any subordinated junior liens*

*Divided by*

*The lower of the appraised value or sales price*

#### Rate/Term and Cash-out Transactions with loan applications dated prior to 2/15/19

The maximum combined loan to value for a Rate/Term and Cash-out refinance transaction is calculated as follows:

*Principal balance of the first mortgage (excluding financed Funding Fee) plus any subordinated junior liens*

*Divided by*

*The appraised value*

## COMBINED LOAN AMOUNT

### Definition

The combined loan amount is calculated as follows:

*New VA base loan amount + Any subordinated junior liens*

If the junior lien is a home equity line of credit, the maximum combined loan amount is based on the full credit-line amount.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## SECONDARY OR SUBORDINATE FINANCING

### Overview

Any financing, other than the first mortgage, that creates a lien against the property is considered secondary financing and not a gift. CMS permits subordinate or secondary financing in accordance with VA requirements. The subordinate mortgage is also referred to as the second mortgage. The second mortgage must be clearly subordinate to CMS' first mortgage and the recording must reflect this subordination.

In exchange for remaining in a subordinate position, subordinate lien holders may request modifications to the terms of the lien (e.g., a reduction for lien). Modifying the subordinate lien in this manner often results in re-executing the lien at closing, which is acceptable to VA. In this case, VA does not consider the lien a new subordinate lien.

### Secondary Borrowing

Secondary borrowing is permitted when:

- The veteran is not placed in a worse position than if the entire amount borrowed had been guaranteed by the VA, and
- The requirements detailed below are met.

Second Mortgage requirements:

- Lender must submit documentation disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligors.
- The second mortgage must be subordinated to the VA – guaranteed loan, that is, the second mortgage must be in a junior lien position.

Proceeds of the second mortgage may be used for the following reasons:

- Closing costs

Proceeds may not be used for the following reasons:

- Cover any portion of a down payment required by VA to cover the excess of the purchase price over VA's reasonable value.
- A down payment to meet secondary market requirements of the lender.

### Down Payment Assistance Program

Down Payment Assistance is permitted. Requests to review Down Payment Assistance Programs for use with CMS agency first mortgage programs may be submitted to [DPAPPrograms@Carringtonms.com](mailto:DPAPPrograms@Carringtonms.com).

All requests must include a completed [Down Payment Assistance New Program Request Submission Form](#) along with the required exhibits.

**Note:** Down Payment Assistance in the form of Secondary Financing/Secondary Borrowing must also meet the [Secondary Borrowing](#) requirements above.

### Homebuyer Assistance Program

Home Buyer Assistance is not permitted.

### Property Assessed Clean Energy (PACE)

Properties with a PACE loan such as HERO, Ygrene, Renew, and others secured against the property are ineligible for VA financing.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Seller Contribution Limitations

### **Seller Concessions**

The maximum seller concessions on a VA loan are 4%. Seller concessions include, but are not limited to, the following:

- payment of the buyer's VA funding fee
- prepayment of the buyer's property taxes and insurance
- gifts such as a television set or microwave oven
- payment of extra points to provide permanent interest rate buy-downs
- provision of escrowed funds to provide temporary interest rate buy-downs, and
- payoff of credit balances or judgments on behalf of the buyer.

Seller concessions do not include payment of the buyer's closing costs, or payment of points as appropriate to the market.

## VA Risk Management

### **Overview**

This section discusses the requirements that must be followed to help ensure greater risk management capability guarantee issuance of VA Form 26-1899, Loan Guaranty Certificate (LGC). This certificate is essential when offering the loan in the secondary market.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## RISK CONTROLS

### **Verifications Sent to Post Office Boxes**

If a verification form is forwarded to a Post Office Box and the borrower indicates this is the necessary address, the information must be confirmed through additional follow-up. If it is determined that the information provided is the correct address for verifications, the file must contain a statement from the person that verified this information stating that he or she independently contacted the institution and verified this requirement. Documentation verifying this requirement must be provided in the loan package.

### **Fraud/Red Flags**

Fraud is the intentional misrepresentation of facts that are material to the underwriting decision on a loan. Fraud may be committed for profit or simply to qualify an otherwise ineligible borrower for a loan. CMS has a Zero Tolerance Policy on fraud or misrepresentation. Examples of fraud or misrepresentation include, but are not limited to, the following:

- Forging signatures.
- Assisting in preparing income documentation/verifications.
- Falsifying bank statements and/or assets.
- Not disclosing borrower's liabilities.
- Misrepresenting occupancy of the property in question.
- Not disclosing or acting upon the known instances of fraud or misrepresentation.
- Colluding with the appraiser to inflate values.

To detect and avoid fraud, certain details in a loan package that signal caution, known as red flags, must be reviewed carefully. When evaluating a file, it is very important to check for consistency and perform cross checking. All related information in a file must be reviewed and compared. Any inconsistencies must be considered a red flag.

Red flags alert origination personnel to situations that warrant caution and may require some follow-up to ensure that the information is valid. The following are common red flags:

#### **Loan Application**

- There is a significant increase or unrealistic change in commuting distance.
- Significant or contradictory changes from handwritten to typed loan application.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Risk Controls (continued)

### Fraud/Red Flags (continued)

### Credit Report

- Pattern of delinquencies that are inconsistent with credit explanations.
- Undisclosed bankruptcies, foreclosures, or debts.
- Employment data and or residence data that significantly conflicts with the loan application.
- Multiple Social Security numbers associated with the borrower based on numerous possible non-applicant accounts or Social Security number variations. If this is found, determine whether the information is indicating the possibility that the borrower's Social Security number is inaccurate, invalid, or the borrower is using multiple Social Security numbers. If any of these issues are found, the file must be referred to Quality Control for further review and validation.
- Numerous Authorized User accounts.
- Credit report warning messages must be carefully reviewed. For example, if the warning message indicates that the borrower's Social Security number is related to a deceased individual, then further validation must be completed.
- Multiple names associated with the borrower and his/her Social Security number.
- Nicknames that are unrelated to the borrower's name.

The above items may indicate inaccurate Social Security numbers; however, it is important to carefully review the borrower's Social Security number information throughout the file and determine whether a simple error occurred (e.g., typographical error, transposition of two numbers, etc.) before referring the file for further review and validation.

### Victim of Identity Theft

A borrower who has been identified as a victim of identity theft may be denied credit for a reason other than the identity theft.

If the file contains information that contains inconsistent Social Security number information, the following must be reviewed:

- Verify that the credit report was run under the borrower's correct Social Security number. If the credit was run under an incorrect Social Security number, rerun credit using the accurate Social Security number.
- If documentation received during the processing and underwriting of the loan indicates a different Social Security number than the one being used on the loan application, a valid explanation and documentation must be provided by the borrower to address the discrepancy. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content. A new credit report must also be run on the number discovered during the review.
- If the credit report includes comments that the borrower has used a different Social Security number, a valid explanation and documentation must be provided by the borrower regarding the additional Social Security number. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Risk Controls (continued)

### Fraud/Red Flags (continued)

- If the credit report indicates that the Social Security number has not been issued, additional documentation and verification must be obtained to show that the number is valid.
- If the borrower SSN misuse occurred over multiple years, documentation from the IRS is required to support the misuse in addition to documentation from a third party validating the borrower's earnings.

#### Invalid or impossible Social Security numbers

- three or more leading zeros
- zeros in positions 4 and 5
- four trailing zeros
- leading numbers of 73 or 79
- leading numbers of 8 or 9
- Tax Identification numbers instead of Social Security numbers are used

When the borrower has been a victim of identity theft through borrower's tax returns, CMS requires the following additional documentation:

- Signed and executed Social Security Consent form to verify borrower's social security number.
- Copy of executed Form 14039, Identity Theft Affidavit, and evidence form was filed with the IRS.
- Signed and processed 4506-C or Modelo SC 2907 transcripts (if Puerto Rico returns). CMS will obtain tax transcripts for the tax year affected by the identity theft.
- If borrower is a wage earner, CMS will process the 4506-C or Modelo SC 2907 transcripts (if Puerto Rico returns) for the W2 transcripts; for commission income, CMS will order transcripts for 1099 income. The prior year's 1040's transcripts are required.
- For non-wage earners the prior year's 1040 transcripts are required.

### Income

- The name or Social Security number does not match the borrowers.
- The income on the application is overstated.
- The borrower's address or profession does not agree with the information submitted on the loan application.
- The federal income tax return is incomplete (missing schedules, information, etc.).
- Schedule A shows unexplained real estate taxes paid for non-home owners.
- A borrower with substantial cash in the bank shows little or no related interest income shown on Schedule B.
- Schedule B does not reflect dividend income for borrower claiming stock investments.
- The gross income listed on Schedule C does not agree with the total income according to the 1099 Statements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Risk Controls (continued)

### Fraud/Red Flags (continued)

- Schedule E lists additional properties that are not on the loan application.
- Financial statements on business prepared by someone other than the person that completed previous tax returns.

### Pay Stubs

- A large employer has a handwritten or typed pay stub.
- Pay stub does not contain the name of the borrower or employer.
- The Social Security number of the borrower is not correct.
- No pay period.
- No check issue date.
- Does not include a current income breakdown or a year to date figure.
- Tax deduction not detailed including Social Security, Medicare, etc.
- The company address is a P.O. Box.
- The employer address is different than address provided by borrower.
- Subsequent pay stubs, year to date income, and withholdings do not total up correctly.
- Inconsistent name spelling and address of borrower.
- Inconsistent pay dates and/or pay days.
- Inconsistent payroll check numbers.
- Payroll deductions disclose additional liabilities not included on the loan application.

### W-2 Forms

- A large employer has a handwritten or typed W-2 form.
- Rounded dollar amounts.
- Business identification number is the same as the borrower's Social Security number.
- Taxes paid are low compared to income stated on W-2 form.
- Inconsistencies in name spelling, address, employer's address, and Social Security number, etc.

### Assets

- Regular payroll deposits that do not agree with reported income.
- There is no evidence that the earnest money deposit is debited to the checking account.
- Inconsistent name spelling and address of borrower.
- Bank statements reveal loans or deductions for liabilities not disclosed on the loan application.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Risk Controls (continued)

### Fraud/Red Flags (continued)

#### Tax Returns

- Borrower's address or profession does not agree with the information submitted on the loan application.
- The federal income tax return is incomplete (missing schedules, etc.).
- Schedule A indicates there are real estate taxes or mortgage interest paid but does not list property owned.
- A borrower with substantial cash in the bank shows little or no related interest income shown on Schedule B.
- Schedule B does not reflect dividend income for borrower claiming stock investments.
- Gross income listed on Schedule C does not agree with the total income according to form 1099.
- Schedule E lists additional properties that are not listed on the loan application.

#### Verification of Employment

- There is evidence of white out or other alterations. Any alterations must be confirmed with the employer to verify that the information is valid.
- The VOE is completed by an inappropriate verification source such as a secretary or a relative. This could be an indication that the borrower is self-employed. The accountant for the business must verify that the borrower does not have any ownership interest in the business and all income information must be verified by pay stubs and W2 forms.

#### Verification of Deposit

- Borrower's funds are security for a loan.
- The bank account is not in the borrower's name or is a joint account with another party.

#### Appraisal

- An interested party to the transaction (seller, buyer, broker, etc.) orders the appraisal.
- Tenant shown as contact on a refinance of an owner-occupied property.
- Appraisal dated prior to date of application.
- For sale or rent sign in the subject property photos.
- Presence of construction permits in subject photograph where no repairs are mentioned by the appraiser or borrower.
- The owner listed on the appraisal report and is not the seller listed on the sales contract.
- Owner-occupied refinance transaction when the borrower is not listed as the occupant.
- Ownership information on the appraisal report does not match owner of record on the title report.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Risk Controls (continued)

### Fraud/Red Flags (continued)

#### Collateral Valuation Practices and Declining Value

- A market may experience a decline in property values. One of the potential problems in a declining market is the overstatement of property values in appraisal reports. This may result in the borrower not having an accurate property valuation, and overvaluation of a property could increase loan losses should the mortgage loan subsequently default.

#### Ownership Validation

- Carefully review and analyze the sale or transfer history of the subject property.
- Identify the current owner.
- Confirm that the owner of record is the seller of the property listed on the sales contract for purchase transactions and/or the borrower for refinance transactions.
- Discrepancies in during the ownership validation process should be reviewed by the Direct Endorsement Underwriter.

#### Loan Churning

Loan churning is defined as the practice of lenders encouraging multiple refinances during a short period of time. CMS prohibits the churning of loans. The following are examples of loan churning:

- Applicant purchasing and/or refinancing multiple owner-occupied properties within a 12-month period.
- Funding a refinance or home equity transaction then applying for a subsequent purchase transaction.
- Solicitation by a Loan Officer to refinance a six-month ARM every six months.
- Solicitation of the refinance of a home equity loan multiple times.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## VA Documentation

### Overview

This section describes the following information:

- The required documentation for each loan submitted for mortgage underwriting and insurance.
- The specific requirements for processing and underwriting VA mortgages.

## Minimum Documentation Requirements

### Documentation Requirements to Close a VA Loan

The following describes the minimum documentation required in order to close a VA Loan:

- Automated Underwriting Findings (not applicable with manual underwrite)
- Loan Estimate and Addendum
- Loan Comparison Statement (cash-out refinance loan transactions with loan applications dated 2/15/19 and after)
- Customer Face-to-Face Certification form
- Final Uniform Residential Loan Application (URLA)
- Original signed VA Loan Summary 26-2866 with commentary regarding the strength of the loan and any clarification regarding income calculations and compensating factors
- Original Fully executed Uniform Residential Loan Application (URLA)
- Certificate of Eligibility and related forms
- Credit report
- Credit documentation (VOR, VOM etc.)
- Source of Funds Statement
- Asset documentation such as VOD and/or bank statement
- Gift Letter and supporting documentation, if applicable
- Proof of down payment, if applicable
- Escrow letter, if applicable
- Income documentation
- Recent pay stub
- W-2 forms and tax returns/transcripts if applicable
- Evidence of a valid social security number
- Complete, fully executed sales contract
- Fully executed Amendatory Language Form and Real Estate Certification (Truth Statement), if not included in sales contract

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Minimum Documentation Requirements (continued)

### Documentation Requirements to Close a VA Loan (continued)

- Executed Notice to Homeowner/Assumption of Insured Mortgage
- Complete original VA appraisal with all exhibits
- NOV (Notice of Value) issued by CMS LAPP Underwriter
- Re-inspection report, termite certifications and all other property certifications, if applicable
- New construction exhibits, if applicable
- IRS form 4506-C
- Modelo SC 2907 transcripts (if Puerto Rico returns)
- Notice Regarding Refinance Transactions, if applicable
- Executed Informed Consumer Choice Disclosure
- Evidence of borrower's identity

### Compliance Documentation

- Borrowers Signature Authorization
- Loan Estimate
- State/Product Disclosure Statements
- General Loan Application Acknowledgement-Disclosure Booklet
- Affiliated Business Arrangement Disclosure
- Servicing Disclosures

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Minimum Documentation Requirements (continued)

### Documentation Requirements to be Eligible for Underwriting

#### Credit Documents

The following list describes the minimum documentation required for a loan to be considered complete and eligible for underwriting:

- **Approve/Eligible Loans**

- Certificate of Eligibility (COE)
- Complete Uniform Residential Loan Application (URLA)
- Complete HUD/VA Addendum to URLA – Part IV must be signed by the borrower indicating consent to Social Security number validation)
- Desktop Underwriter/ Findings
- Three Merge In-file Credit Report
  - Credit reconciled and entered accurately in the applicable origination system
  - Income documentation as required by Desktop Underwriter
- Completed Self-employed Income Analysis (if applicable) IRS form 4506-C/Modelo SC 2907 transcripts (if Puerto Rico returns) Tax Transcripts
- Asset documentation as required by Desktop Underwriter
- Appraisal, if required
- Complete and accurate Loan Estimate
- Truth-in-Lending or Loan Estimate, as applicable, indicating date mailed for all purchase Loans
- Disclosure booklet pages 3 and 4 completed and signed
- Signature Authorization form completed and signed
- Product specific disclosures completed and signed
- State specific disclosures completed and signed

- **Manually Underwritten Loans**

- Certificate of Eligibility
- Complete Uniform Residential Loan Application (URLA)
- Complete HUD/VA Addendum to URLA – Part IV must be signed by the borrower indicating consent to Social Security number validation)
- Credit Report
  - Three Merge In-file Credit Report
    - Credit reconciled and entered accurately in the applicable origination system
  - Non-Traditional Mortgage Credit Report
    - NTMCR prepared by a CMS approved credit vendor verifying all trade references, reconciled and entered accurately in the applicable origination system.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Minimum Documentation Requirements (continued)

### Documentation Requirements to be Eligible for Underwriting (continued)

- Income documentation
  - Written VOE if applicable,
  - Most recent 30 days paystubs with YTD earnings,
  - Most recent 2 years W2's, 1099's,
  - Most recent 2 years personal tax returns,
  - Most recent 2 years business returns if applicable.
  - Completed Self-employed Income Analysis (if applicable)
- IRS form 4506-C/Tax Transcripts
- Modelo SC 2907 transcripts (if Puerto Rico returns)
- Asset documentation
  - Most recent 60 days bank statements
- Appraisal, if required
- Complete and accurate Loan Estimate
- Truth-in-Lending or Loan Estimate, as applicable, indicating date mailed for all purchase Loans
- Disclosure booklet pages 3 and 4 completed and signed
- Signature Authorization form completed and signed
- Product specific disclosures completed and signed
- State specific disclosures completed and signed

### Document Images

CMS permits the use of any available technology to produce copies of the documents in the mortgage loan file, such as a photocopier, facsimile machine, document scanner, or camera. Copies of documents provided by the borrower may be photos or scanned versions of the original documents and can be delivered to CMS in hardcopy or via email or other electronic means.

Document images must be typical of what the actual document would look like and must have good image quality, be legible, and not have borders showing phone/mobile background content.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## ELECTRONIC SIGNATURES

### Requirements

Electronic signatures are permitted on documents that are not included as part of the VA guaranty file, with the exception of the Uniform Residential Appraisal Report, and third-party documents such as the sales contract and contract addenda, which may be signed with an electronic signature. CMS is responsible for ensuring the security and authenticity of the electronic signature in conformity with all applicable federal laws.

The following table contains the documents, as applicable to the loan transaction, which may not contain an electronic signature:

**Note:** The exceptions are noted with “Electronic signature permitted.”

VA Guarantee Case Binder Document Requirements	
<ul style="list-style-type: none"><li>• Uniform Residential Loan Application (URLA)</li><li>• Credit history documentation</li><li>• Asset Verification documentation (including gift letters and relevant documents)</li><li>• Income verification documentation</li><li>• Amendatory Clause executed by all parties (Electronic signature permitted)</li><li>• Real Estate Certification executed by all parties (Electronic signature permitted)</li><li>• All other contract addenda (Electronic signature permitted)</li><li>• Automated Underwriting Feedback Certificate/Findings Report (if applicable)</li><li>• VA Analysis, with supporting documents, such as:<ul style="list-style-type: none"><li>○ Secondary lien exhibits</li><li>○ Buydown agreements</li><li>○ Attachments, memos and clarifications, if applicable</li></ul></li><li>• Copy of the Mortgage Note and all applicable riders and allonges</li></ul>	<ul style="list-style-type: none"><li>• HUD Form NPMA-33 - Wood Destroying Insect Inspection Report, or State mandated infestation report, if applicable (Electronic signature permitted)</li><li>• Evidence of satisfaction of valuation conditions (if applicable)</li><li>• Form NPCA-1, Wood Destroying Insect Infestation Report , or State mandated infestation report, if applicable</li><li>• Local Health Authority's Approval for individual water and sewer systems (if applicable)</li><li>• Form HUD-92541, Builder's Certification</li><li>• Form HUD-92544, Builder's Warranty of Completion</li><li>• Evidence of 10-Year Warranty Plan Coverage, if applicable</li></ul>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Electronic Signatures (continued)

### Requirements (continued)

VA Guarantee Case Binder Document Requirements	
<ul style="list-style-type: none"><li>• Copy of the Security Instrument (Mortgage or Deed of Trust) with all applicable riders</li><li>• Closing Disclosure or Loan Estimate, as applicable for pre-closing</li><li>• HUD-1 Addendum for purchases</li><li>• Escrow Instructions, if applicable</li><li>• Evidence of Social Security Number (such as on a printed pay stub, W-2, 1099, SS card, Medicare card, etc.)</li><li>• Evidence of Tax Identification Number for non-profit borrowers</li><li>• NOV except as noted above</li><li>• Uniform Residential Appraisal Report (URAR) (Electronic signature permitted)</li><li>• Location map, and photographs of properties, building sketch</li></ul>	<ul style="list-style-type: none"><li>• Inspection Report(s)</li><li>• VA-26-1839 for the Department of Veteran Affairs (VA), Certificate of Reasonable Value (CRV)</li><li>• VA 26-1843a, Master Certificate of Reasonable Value (MCRV)</li><li>• HUD-approved local building authority inspection, if applicable</li><li>• NPCA-99a and NPCA-99b, Subterranean Termite Treatment Report</li><li>• VA CRV-VA-26-1841 and MCRV- VA-26-1843a, including all attachments and endorsements (if applicable)</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## VA AUTOMATED UNDERWRITING

<b>Overview</b>	<p>This section discusses automated underwriting. The Originator and CMS remain accountable for compliance with VA guidelines, as well as for any VA eligibility requirements, credit, capacity, and documentation requirements.</p> <p>The Originator and CMS are reminded that system updates to the AUS systems may lag behind changes to VA product eligibility and underwriting policy. This may cause inaccurate messages and product eligibility elements of the loan. The Originator and CMS, however, are responsible for compliance with current VA guidelines.</p>
<b>Eligibility Requirements</b>	<p>The following are loan programs that are eligible for submission to the automated underwriting system.</p> <ul style="list-style-type: none"><li>• Fixed Rate Program</li><li>• Adjustable Rate Program</li></ul>
<b>Automated Underwriting Systems</b>	<p>VA accepts the use of Automated Underwriting Systems (AUS) to assess the credit worthiness of VA borrowers and to predict the default probability for VA loan applicants.</p> <p>The Underwriting Findings Report shows the recommended level of underwriting and documentation required in determining loan eligibility. Any manual downgrades from the automated underwriting decision require compliance with standard documentation requirements.</p> <p>The entire Underwriting Findings Report must be placed in the loan file being submitted to CMS.</p>

## Eligible Loan Types

<b>Eligible Loan Types</b>	<p>The following loan types are eligible for submission to Automated Underwriting:</p> <ul style="list-style-type: none"><li>• Purchase Transactions</li><li>• Cash-Out Refinance</li></ul>
<b>Ineligible Loan Types</b>	<p>The following loan types are not eligible for submission to automated underwriting:</p> <ul style="list-style-type: none"><li>• Second Home</li><li>• Investment Property</li><li>• VA Interest Rate Reduction Refinance Loans (VA IRRRLs)</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Automated Underwriting Decisions

### Overview

The AUS evaluates the borrower's credit history, income, cash reserves, and other components of credit worthiness to determine whether the borrower is acceptable as a mortgage credit risk and may be processed with reduced documentation or if the loan application should be referred to the SAR Underwriter for review and evaluation.

The most recent Findings Report must always be included in the loan file.

### Approve/ Eligible

A recommendation of Approve/Eligible or Accept indicates that the loan is considered to have acceptable credit characteristics and that the loan meets VA loan program eligibility requirements.

All Verification Messages/Approval Conditions listed on the Underwriting Findings Report must be followed and the loan file must be documented accordingly. The credit report must also be reviewed to confirm that the data evaluated by automated underwriting with respect to the borrower's credit history is accurate and that the loan meets VA requirements.

- Loans receiving an Approve/Eligible or Accept recommendation may use the documentation and credit waivers listed on the Underwriting Findings Report except where superseded by CMS' requirements as discussed earlier in this section.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Underwriting Findings Report

### Overview

The following list summarizes the messages that are available in the automated underwriting Findings Report to support VA approval.

- A message that indicates that the loan was underwritten through an AUS system.
- A message stating that “all loans submitted to the VA for guarantee are required to contain the Underwriter’s certification as stated in the VA Handbook.
- An original Certificate of Eligibility (VA Form 26-8320) is required.
- Approval subject to receipt of valid CAIVR number.
- The VA Loan Analysis form (VA 26-6393) must be completed.
- If the subject property is located in a community property state, a social security number and credit report must be obtained for a non-purchasing spouse, if applicable.
- Lenders remain responsible for ensuring the loan amount will result in a guaranty percentage that will meet secondary market requirements.
- A message that identifies the version of the AUS that evaluated the loan, the name of the institution that submitted the loan, the AUS Case File ID, and the submission number for the loan.

The Underwriting Findings Report is divided into the following sections:

- Risk/Eligibility
- Verification Messages/Approval Conditions
- Observations
- Underwriting Analysis Report

### Risk/Eligibility

The Risk/Eligibility section contains messages pertaining to the risk assessment and the underwriting recommendation for the loan. If the loan is referred or ineligible, the specific referral or eligibility criteria appear in this section.

### Verification Messages/Approval Conditions

The Verification Messages/Approval Conditions section lists follow-up processing steps that must be completed to comply with automated underwriting requirements. Income and asset verification documentation waivers and any credit verification waivers appear in this section.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Underwriting Findings Report (continued)

### Observations

The Observations section contains information calculated by or used by the system and is provided for information purpose only. It provides the following information for a VA loan:

- Appraised value
- Reserves
- Total debt/income ratio
- Total expense payment
- Housing expense/income ratio
- Total housing payment (PITI)
- Total income
- Loan term
- Calculated loan amount (loan amount with the financed MIP)
- Original loan amount (Base Loan Amount)
- Sales price
- Occupancy
- Residual Income Required
- Residual Income Actual
- AUS Case file ID
- Combined loan to value (CLTV) percentage
- LTV
- County name
- Number of units

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Underwriting Findings Report (continued)

### Underwriting Analysis Report

This section contains information that summarizes the underwriting analysis. The fields across the top of the report show general information about the loan, as well as calculated values such as the LTV and the CLTV for purchase loans.

1. **Income:** The total of all borrower income amounts are shown by income type. If there is a positive net rental income from rental properties or positive cash flow on the subject property, it will appear in this section.
2. **Housing and Total Expense Ratio Calculations:** This displays the ratios that automated underwriting has calculated. The qualifying ratios are those on which the ratio analysis is performed.
3. **Proposed Monthly Payment Information:** The proposed monthly payment information is detailed using the note rate, unless the loan type is an ARM or buy down, in which case, this information is calculated based on the qualifying rate (if it is different from the note rate). Automated underwriting calculates the P & I. The additional monthly expenses including taxes, insurance, HOA fees, and secondary financing payments are taken from the manual input figures placed by the user.

The negative net rental, subject negative cash flow, and total of all monthly debts are also taken into consideration by the automated underwriting system and are displayed, along with the borrowers' present housing expense.

4. **Funds:** The following funds information is displayed based on the closing costs, down payment information, and asset information.
  - **Required Funds:** Taken from the details of transaction, along with any debt to be paid by closing that is not attributed to a property being sold.
  - **Available Funds:** The sum of the liquid assets listed on the loan application, including the liquid assets of any non-occupant borrowers.
  - **Cash Back to Borrower:** Used for cash out refinances (on a Purchase "No Cash Back" should appear).
  - **Net Cash Back:** Cash back to the borrower (from cash out refinance) minus net funds required for transaction.
  - **Reserves:** Excess available funds after subtracting required funds. Excludes reserves attributed to gifts or cash back from a cash-out refinance transaction.
  - **Months Reserves:** The reserve amount divided by the total monthly housing payment.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Submission/Resubmission Requirements

#### Requirements

CMS is responsible for the integrity of the data submitted to and evaluated by AUS.

Loans must be resubmitted for automated underwriting for the following reasons:

- Information on the previous submission was not true, complete, or accurate.
- Material changes are discovered during loan processing.
- The verified loan data has a negative effect on the loan (e.g., a decrease in income or assets, higher interest rate, etc.).

The following list includes, but is not limited to, the changes in loan characteristics that require resubmission:

- The rate on the automated underwriting Findings Report submitted in the VA case binder has a lower interest rate than the rate listed on the note signed by the borrowers at closing. If the rate has increased since the last submission, the loan must be resubmitted to AUS for re-scoring. Scorecard.

**Note:** If the interest rate has decreased, the loan does not need to be resubmitted.

- Borrowers are added to or deleted from the loan application.
- Decrease in verified assets.
- Verified cash reserves decrease
- Verified income decreases.
- Verified tax and insurance amounts are higher than the original estimates and these higher amounts result in more than a 2% increase in the borrower's payment to income ratio or debt to income ratio.
  - The taxes must be verified that they are correct, especially when doing a new construction loan. The taxes should be an estimate of the assessment for the completed home and land. There can be a large difference between the tax for the land value only versus the completed home and land package.
- Changes in the purchase price or terms and conditions of the mortgage.
- Changes that would negatively affect the borrower's ability to repay the mortgage.
- Changes to the property or property value.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Credit Processing

### Requirements

A three-file merged credit report must be requested and received for all borrowers on the loan before submitting a case for underwriting through automated underwriting. The AUS may issue a Refer/Ineligible recommendation if one of the borrowers does not have a credit score. All loans receiving a Refer/Ineligible recommendation must be manually underwritten by a VA SAR Underwriter and are subject to product matrix availability.

The credit report must be reviewed to confirm that the data evaluated by automated underwriting was accurate with respect to the borrower's credit history and Social Security number.

- The current bankruptcy and foreclosure guidelines issued by VA must be followed. See the Credit topic in this guide for additional information.
- If there are duplicate debts or debts that do not belong to the borrower that were copied from the credit report, these debts may be omitted from the Uniform Residential Loan Application (URLA). A message regarding the omission of liabilities will be issued by the Desktop Underwriter. The lender is required to provide acceptable documentation that supports the omission based on VA guidelines.
- Any installment debts with fewer than 10 months remaining with a monthly payment of less than \$100.00 are automatically omitted by the AUS.
- Full disclosure from all borrowers of existing credit obligations must be obtained. All liabilities that do not appear on the credit report must be disclosed on the Uniform Residential Loan Application (URLA) prior to final underwriting.
- If the property is located in a community property state and the borrower has a non-purchasing spouse, individual credit reports are required.
  - The non-purchasing spouse's individual credit report must not be ordered through automated underwriting and must be manually reviewed for compliance with VA guidelines. If the non-purchasing spouse has monthly debts that should be included in ratios, these debts should be entered as a single lump sum and identified as "debts of non-purchasing spouse".

### Credit-Related Waivers and Verification Documentation

The borrower's decision to participate in Credit Counseling should not trigger a requirement for additional documentation since that is already reflected in his or her credit scores.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Credit Processing (continued)

### Disputed Accounts and Public Records

For loans approved through AUS, follow the AUS decision and confirm the accuracy of the disputed tradeline(s) reported on the borrower's credit report. If it is determined that the disputed tradeline information is accurate, the disputed tradeline must be considered in the credit risk assessment.

- If AUS issues a message stated a disputed account has been identified and the disputed tradeline was not included in the risk assessment, the underwriter must confirm the accuracy of the disputed account showing on the credit report. A new credit report showing the trade is no longer in dispute and resubmission to AUS is required. The new findings will not issue the disputed account message. If the account remains in dispute, the loan requires a manual underwrite.
- If AUS does not issue a disputed tradeline message, the underwriter is not required to further investigate the tradeline or obtain an updated credit report; however, the underwriter is required to include any payment for the disputed tradeline in the total debt ratio if the account belongs to the borrower.

Both disputed and undisputed collection accounts, including charge-offs and medical conditions are subject to the above requirements.

Document the account payoff using any of the following methods:

- Letter from the creditor verifying payoff of the debt.
- Copies of canceled checks indicating payment in the amount of the collection.
- Credit supplement indicating payoff of the debt.

If the borrower has a repayment plan, document payment arrangements with any of the following methods:

- Letter from the creditor outlining the terms of the payment arrangements and a printout showing that all payments have been made within the month due or canceled checks showing evidence of timely payments.
- Credit supplement showing payment arrangements and evidence of timely payments.
- Medical collections and charged-off medical accounts do not need to be considered in qualifying ratios or when determining the residual income.
- The presence of medical collections and/or charged-off medical accounts should not be considered when determining an applicant's creditworthiness.
- Non-medical collections without minimum payment amounts listed on the credit report should be considered at 5% of the outstanding balance.

## Income/Employment

### Overview

The borrower's employment for the last two years must be verified regardless of any documentation waivers for income verification issued by automated underwriting. Unless a specific message is issued for documentation relief on an Approve/Eligible recommendation, current documentation guidelines apply.

- For qualifying purposes, any income that is not likely to continue or is not needed to qualify should not be entered into automated underwriting.
- Any income from sources other than base income should be broken down. If it is entered as a lump sum, automated underwriting will not issue the appropriate verification message.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Documentation

<b>Overview</b>	This section contains information for loans submitted to automated underwriting for evaluation and underwriting recommendation.
<b>Retirement Accounts</b>	<p>If retirement accounts are currently accessible to the borrower and can be immediately liquidated under conditions other than the borrower's employment termination, retirement or death, these accounts may be used as assets or reserves. If withdrawals can be made only due a borrower's termination, retirement, or death, the retirement account must not be used as an asset or reserves. Retirement account values must only be considered up to 60% of their vested value, unless the borrower provides credible evidence that a higher percentage may be withdrawn after subtracting any federal income tax and any withdrawal penalties. If there are any personal loans against the retirement accounts or if the retirement account funds are being liquidated for the loan transaction, the current account balance should be decreased by this amount after the 60% calculation (i.e.: <math>(\text{Vested Balance} \times 60\%) - \text{Loans}</math>). The existence of the account must be documented with the most recent depository or brokerage statement.</p> <p>Non-liquid retirement accounts that are not currently accessible to the borrower (e.g., 401k that is unvested) may not be used as an asset for cash to close or reserves.</p>
<b>Gifts</b>	The balance of any satisfactorily documented gift funds that will remain in the borrower's account following loan closing may not be considered as cash reserves when scoring the mortgage application through the applicable AUS.
<b>Foreign Assets</b>	<p>Foreign assets being used for down payment, closing costs and reserves must be held in a United States account prior to closing. If the assets are derived from a sale of a foreign asset or from assets held in a foreign bank account, the assets must be professionally translated by an independent, certified third party and placed in a United States banking institution. Evidence of certification may be requested if not provided. The sale of the foreign asset and conversion of foreign currency must be fully documented and verified.</p>

## Appraisal and Documentation Requirements

<b>Requirements</b>	For the appraisal, there are no reduced documentation waivers. A Uniform Residential Appraisal Report is always required regardless of the automated underwriting recommendation. AVA Approved Appraiser must provide the Comprehensive Valuation Package, including all applicable attachments (e.g., Homebuyer's Summary). The Lender Appraisal Processing Program (LAPP) Underwriter must review the appraisal and issue the Notice of Value (NOV).
<b>Changes in Purchase Price</b>	If the purchase price changes after the appraisal is performed, an addendum is required that indicates any changes, updates or corrections.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## VA MANUAL UNDERWRITE

### VA Credit

#### Overview

This section contains standards that apply to all CMS loan programs. The requirements outlined in this section represent VA core requirements for manually underwritten Loans. Waivers do not apply to state specific compliance restrictions.

### Credit Report Requirements

#### Credit Report Standards

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).

#### ***If an RMCR is Used***

The standards applicable to an RMCR include, but are not limited to, the following:

- The report must be prepared by a reputable credit reporting agency.
- Each account with a balance must have been checked with the creditor within 90 days of the date of the credit report.
- For each debt listed, the report must provide the creditor's name, date the account was opened, high credit, current status, required payment, unpaid balance, and payment history.
- The report must name at least two national repositories of credit records contacted for each location in which the borrower has resided during the most recent 2 years (separate repository inquiries are required for any co-borrowers with individual credit records).
- The report must include all available public records information that is not considered obsolete under the Fair Credit Reporting Act; such as bankruptcies, judgments, law suits, foreclosures and tax liens.
- The RMCR must be an original report, with no erasures, whiteouts, or alterations.
- The report must contain a 24-month employment and residency history.

VA may decline to accept a credit report which does not meet these standards.

VA will notify the lender and the credit reporting agency of how quality standards are not being met. If the problem continues, VA will inform all participating lenders that credit reports from the particular credit reporting agency are unacceptable.

- All inquiries made within the last 90 days must be included on the report.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Report Requirements (continued)

### Verification and Rating of Debts and Obligations

See [Debts and Obligations](#) for requirements of verification.

### Credit Report Red Flags

The borrower's credit use and limits must be reviewed to ensure consistency with the reported income, assets, and application information when analyzing a credit report. The borrower's address history must be reviewed for consistency with other file documentation. All discrepancies must be adequately explained and questionable explanations must be researched.

### Age of Credit Report

The following documentation age limitations apply:

- 120 days at note date for existing properties
- 180 days at note date for new construction

### Three Repository Merged In-File Credit Report (Trimerge)

All data in the credit report must follow the below requirements:

- The credit data must be obtained from or verified by sources other than the borrower.
- The credit data must be in an easy-to-read format that is understandable without the need for code translations.

The credit report must contain the following information:

- Information gathered from three national repositories covering each area the borrower has resided during the past two years must be included and identified. In the event that three repositories are not available, it must be stated in the report.
- All available public records information and their source, including judgments, foreclosures, tax liens, and bankruptcies must be included in the report.
- The person/company who ordered the report and the person/company who was billed for it must be identified.
- The dates the accounts were last updated with the creditor must be indicated. If the account has a balance, the date that it was last updated must be within 60 days of the report.
- For each debt listed, the creditor's name, date opened, amount of highest credit, current status, required payment, unpaid balance, and payment history must be provided. The historical status must be in a "number of times past due" format. The preferred format used is "0x30, 0x60, 0x90" days late. Statements such as "current", "as agreed", or "satisfactory" are not acceptable by themselves.
- All inquiries made within the last 90 days must be listed in the report.
- When co-borrowers have individually obtained credit, separate repository inquiries are necessary.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Report Requirements (continued)

### **Residential Mortgage Credit Report (RMCR)**

All data in the credit report must follow the below requirements:

- The credit data must be obtained from or verified by sources other than the borrower.
- The credit data must be in an easy-to-read format that is understandable without the need for code translations.

The credit report must contain the following information:

- Two national repositories covering each area in which the borrower has resided during the past two years must be contacted by the reporting agency.
- The full name, address, and telephone number of the consumer-reporting agency must be identified.
- The person/company who ordered the report and the person/company who was billed for it must be identified.
- The names of the repositories used must be shown and must include a certification that the standards prescribed by Fannie Mae, Freddie Mac, VA and HUD for a "Residential Mortgage Credit Report" have been met.
- Verification of the borrower's current employment and, if possible, income must be provided by the reporting agency. The borrower's previous employment and income must be described if it has changed in the past two years. If any information was not verified by an employer interview, the report must indicate the reason for the lack of verification.
- All credit and legal activity that has occurred in the last seven years must be contained in the report.
- All available public records information and their source, including judgments, foreclosures, tax liens and bankruptcies must be included in the report.
- The dates that the accounts were last updated with the creditor must be indicated. If the account has a balance, the date that the last update must be within 60 days of the report.
- For each debt listed, the creditor's name, date opened, high credit amount, current status, required payment, unpaid balance, and payment history must be provided. The historical status must be in a "number of times past due" format. Statements such as "current", "as agreed", or "satisfactory" are not acceptable by themselves. Preferably the format to be used is "0x30, 0x60, 0x90" days late.
- All inquiries made within the last 90 days must be listed in the report.
- If there is incomplete information or if the agency discovers information that indicates the possibility of undisclosed credit or public records, the agency must interview the borrower.
- When co-borrowers have individually obtained credit, separate repository inquiries are necessary.
- Must include FACT Act messages and at least one repository fraud alert product.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Report Requirements (continued)

### Non-Traditional Credit

Non-traditional credit applies to borrowers without a credit score. CMS allows non-traditional credit to be used for borrowers who do not have the type of trade references on a traditional credit report. In addition, CMS allows the use of non-traditional trades to supplement a traditional credit report that has insufficient trades.

When utilizing non-traditional credit, the Underwriter is responsible to enter a "0" as the credit score in the loan origination system (LOS).

When utilizing non-traditional credit, a non-traditional mortgage credit report (NTMCR) is required. If the service for a NTMCR is not available, CMS requires independent verification of the trade references to be obtained and re-verified.

The NTMCR must contain the same demographic information as required with a traditional credit report.

Borrowers with non-traditional credit will not have a credit score; this will be reflected on the NTMCR.

The trade references supplied on the NTMCR should appear in the same format as a traditional credit report and must include all of the following:

- Creditor's name
- Date of opening
- High credit
- Current status of the account
- Required payment
- Unpaid balance
- Payment history in the delinquency categories (for example, 0x30, 0x60, 0x90, etc.)
- Rating should not be "satisfactory" or "acceptable".

When using non-traditional credit to demonstrate the borrower has sufficient credit references and an acceptable payment history, CMS requires a minimum of three credit references rated for a minimum of 12 months.

- Ideally, the three credit references will be rental/housing, utilities, cable, cell phone, automobile insurance or retail stores.

CMS will evaluate the trades for no history of late pays on housing, no more than 1x30 late pays on the utilities and no collections (except minor medical), charge-offs, or public records filed in the last 12 months.

- If the borrower rents from a family member, 12 months cancelled rent checks are required to demonstrate the amount and regularity of payment.

### Qualifying Borrowers with Non-Traditional Credit

Manual underwriting requirements apply to borrowers with non-traditional credit. The max DTI is 41% but can go higher with at least 2 compensating factors (refer to [Compensating Factors](#) section for details).



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Report Requirements (continued)

### Thin Credit

Thin credit applies to borrowers with a credit score. CMS allows thin credit to be used for borrowers with the following AUS results:

#### AUS Accept:

Proceed without additional documentation requirements.

#### AUS Refer:

Must exhibit re-established credit when past adverse credit is present. Borrowers should have at least three (3) trade lines with 12-month ratings, which should include a VOR if available and additional manually rated trades when necessary (utilities, cell phone, etc.). Cite the trades exhibiting re-established credit on the Loan Analysis

### Insufficient Credit

CMS also permits the use of non-traditional trade references when the information on the standard credit report is insufficient to make a prudent underwriting decision. When non-traditional trade references are used, a NTMCR is required unless the service is unavailable. A non-traditional credit history following the requirements listed above may be accepted.

When determining a borrower has sufficient credit references demonstrating bill paying habits, the credit history must include three credit references rated for a minimum of 12 months.

### Undisclosed Debt

When a debt or obligation (other than a mortgage) is revealed during the application process that was not disclosed on the loan application and/or the credit report and was not considered by automated underwriting, the following must be met:

- The monthly payment amount of the debt must be verified.
- Direct verification of the debt is not required.
- Any funds borrowed are not being used for the borrowers cash investment into the transaction must be determined.

If debt accounts are listed on the borrower's application, but not reported on the credit report, all account information must be manually entered and the loan must be resubmitted to automated underwriting. Any automated verification messages relating to these additional debt accounts must be followed. Verify all accounts listed on the application by the borrower with a credit reference if the loan is manually underwritten.

### Credit Scores

#### Overview

A credit score represents a comprehensive view of a borrower's credit history risk factors. All of the credit information that is stored in the borrower's credit file is taken into consideration when assigning a credit score. While some of the information in the credit file may be more predictive of default risk than other information, the relationship, or interaction of the various factors that are present are considered. This approach is more predictive of default risk than an evaluation of each of the factors in isolation.

The majority of merged in-files will include a credit score for each borrower, which can range from 300 to 850. There are minimum requirements that must be met in order to score a person's credit profile. If these requirements are not available, a score will not be provided.

The higher the credit score, the lower the risk of default. For example, a score of 725 indicates that this credit profile was a better than average risk and therefore a detailed review of the credit report should not be necessary. In addition, the score in combination with the dates and severity of late payments should be considered before requesting a credit explanation letter from a borrower. The score can always be used as a measure for determining the reasonableness of the request.

Fair Isaac Co. developed the Credit Bureau Score models. There are many characteristics that are a part of the scoring model and a person's repayment habit is only one component of this model.

While the models are very similar, each repository uses a different name.

- Experian FICO V2
- Equifax Beacon 5.0
- Trans Union FICO Risk Score Classic 04

#### Credit Score Risk Factors

The following factors are considered when assigning a credit score to a borrower:

##### Number and Age of Accounts

The credit history that consists of older, established accounts is considered a lower risk. However, do not automatically consider a newly established credit history as a higher risk since other lower risk factors in the borrower's credit report may offset the risk of the less established credit history.

##### Payment History

The borrower's payment history is a significant factor in determining the credit score. The following types of information that are evaluated includes:

- Data on late or missed payments.
- Public record and collection items.
- Frequency, recency, and severity of any delinquent payments (including recurring or isolated instances).
- Presence of bankruptcies, foreclosures, and outstanding liens or judgments.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Credit Scores (continued)

### Credit Score Risk Factors (continue)

### Credit Utilization

The amount the borrower owes on all accounts is evaluated, taking into consideration the following factors:

- The balance on each account.
- The number of accounts with balances.
- Each balance in relation to the amount originally owed.
- The relationship of the account balance to the total available credit line.

### Recent Attempts to Obtain New Credit

While evaluating the attempts to obtain new credit, the number of new accounts, the length of time since an account was opened, the number of recent inquiries, and the length of time since the inquiries were made must be considered.

### Credit Score Reason Codes

Credit scores are usually accompanied by reason codes identifying various risk factors affecting the borrower's credit score. The use of reason codes aids in the evaluation of a borrower's credit history.

Equifax	TransUnion	Experian	Reason Statement
01	01	A/01	Amount owed on accounts is too high
02	02	B/02	Level of delinquency on accounts
—	—	C/03	Proportion of loan balances to loan amounts is too high
33	03	I/33	Too many bank national revolving accounts
04	—	D/04	Lack of recent installment loan information
32	04	Y/32	Too many accounts with balances
05	05	E/05	Too many consumer finance company accounts
06	06	F/06	Account payment history is too new to rate
07	07	G/07	Too many inquiries last 12 months
08	08	H/08	Too many accounts recently opened
09	09	J/09	Proportion of balance to credit limits is too high on bank revolving and other revolving accounts
10	10	K/10	Amount owed on revolving accounts is too high
11	11	L/11	Length of time revolving accounts have been established
12	12	M/12	Time since delinquency too recent or unknown
13	13	N/13	Length of time accounts have been established
14	14	O/14	Lack of recent bank revolving information
15	15	P/15	Lack of recent revolving account information
16	16	Q/16	No recent non-mortgage balance information
17	17	R/17	Number of accounts with delinquency
18	18	S/18	Number of accounts with delinquency

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Scores (continued)

### Credit Score Risk Factors (continue)

Equifax	TransUnion	Experian	Reason Statement
19	27	T/19	Too few accounts currently paid as agreed
—	19	—	Date of last inquiry too recent
20	20	V/20	Time since derogatory public record or collection too short
21	21	W/I	Amount past due on accounts
22	22	X/22	Amount past due on accounts
23	—	23	Serious delinquency, derogatory public record or collection
24	24	U/I	Number of bank or national revolving accounts with balances
—	—	I/O	No recent revolving balances
I/O	—	I/O	Length of time installment loans have been established
I/O	—	I/O	Number of revolving accounts
I/O	27	T/27	Too few accounts currently paid as agreed
19	28	I/O	Number of established accounts
28	29	29	No recent bankcard balances
—	19	—	Date of last inquiry too recent
30	30	Z/30	Time since most recent account opening is too short
31	—	I/O	Too few account with recent payment information
34	I/O	34	Amount owed on delinquent accounts
32	04	Y32	Lack of recent installment loan information
33	03	I/33	Proportion of loan balances to loan amounts is too high
34	31	I/O	Amount owed on delinquent accounts
—	—	45	Payment due on accounts
—	—	I/O	Length of time open installment loans have been established
—	—	I/O	Number of consumer finance company established relative to length of consumer finance history
38	38	38	Serious delinquency and public record or collection filed
39	39	39	Serious delinquency
40	40	40	Derogatory public record or collection filed
—	I/O	98	Lack of recent auto loan information
—	98	—	Length of time consumer finance company loans have established
—	97	—	Lack of recent auto loan information
I/O	—	—	Lack of recent auto finance loan information
I/O	I/O	I/O	Lack of recent consumer finance company account information

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Credit Scores (continued)

### Credit Score Risk Factors (continue)

### Credit Report ECOA Codes

ECOA codes are identified on the credit report. The ECOA codes are identified by a letter. This letter will be next to the account when viewing an instant merge report.

ECOA Codes		
U	Undesignated	Not designated by the Creditor
I	Individual	Individual account
J	Joint	Joint account
A	Authorized User <sup>1,2</sup>	Authorized user to someone else's account
S	Shared	Joint account
C	Co-Maker	Joint responsibility for the account
B	Co-Signer	Responsibility only in case of default on account
M	Maker	Individual account
T	Terminated	Closed account
X	Deceased <sup>2</sup>	Deceased individual
1	Status used to identify an account that an applicant/co-applicant is not responsible for. Authorized user accounts cannot be used to satisfy Minimum Credit Standards.	
2	Is considered a red flag. Additional information may be needed.	

### Credit Score Requirements

A Fair Isaac credit score for all borrowers must be included in each traditional credit report. The credit score is used as a component in evaluating the credit quality of the loan.

Credit vendors periodically update the credit score models. The credit report vendor must use the most current version of their credit score model in their report.

A traditional credit history review must be completed for the file.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Credit Scores (continued)

### Selecting Credit Score

The credit score selected for loan qualification must follow the steps below:

1. Select the credit score for each individual borrower.
2. Select the credit score used for loan qualification.

### Selection

The credit score must be selected for each borrower by using one of the following methods:

- The lower score of two repositories.
- The middle score of three repositories.

If more than one credit score is supplied from the same repository, the lowest score must be used in all cases.

Number of Available Repository Scores	Score Used
3	Middle score
2	Lower of the two
1	See Product Matrices for eligibility
If two repositories report identical scores, that score will be used for qualification	

### Loan Qualification Score

Always use the lowest selected credit score among all borrowers. All borrowers must meet the minimum credit score and all other credit evaluation requirements.

### Credit History Evaluation

#### Overview

The manner in which the borrower has managed his or her previous credit can be used as an indicator of future performance. Many factors are considered when performing a subjective evaluation of a borrower's credit history. More significance should be given to the borrower's payment experience within the past two years. An acceptable credit history of one borrower does not offset the unacceptable credit history of another borrower.

An acceptable credit history is not considered a compensating factor. An acceptable credit report is a requirement and critical in making an investment quality loan. Insufficient credit history cannot be offset by capacity or collateral strengths.

All credit reports, regardless of the manner of underwriting (manual or automated) must be reviewed by the SAR Underwriter. The credit report must be reviewed to confirm that all data is accurate, complete, and properly documented.

An Approve/Eligible decision must be downgraded to a Refer if serious inaccuracies are discovered during the review. The AUS decision must be reviewed by the SAR Underwriter to verify compliance with all requirements.

If derogatory credit or delinquent credit items are discovered during the loan process that are not reflected on the credit report, and therefore not considered by automated underwriting, the loan must be downgraded to a Refer and manually underwritten. Any obligation that is not rated on the credit report requires written verification and rating from the creditor.

Derogatory credit items that may not appear on a credit report, but may be discovered in the credit evaluation process that would result in a downgrade could include bankruptcies, foreclosures, collection accounts, charge-offs, tax liens, or judgments.

If a loan receives a Refer recommendation or is manually underwritten, standard underwriting requirements apply. The borrower's credit risk must be assessed by reviewing the credit factors below:

**Note:** These characteristics must be evaluated in combination with one another, not in isolation.

- Credit repayment history
- Line utilization
- Proportion of balances to limits on revolving accounts
- Patterns of debt consolidation
- Recent inquiries and newly opened accounts
- Number of open accounts and length of credit history
- Public record information

There is compelling evidence that the credit score of the borrower, based on empirically-derived statistical models, provides an accurate objective evaluation of these same factors. The credit score, along with other credit information such as previous mortgage/rental payment, bankruptcy, foreclosure, and major adverse credit history can properly classify the credit quality of the loan.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit History Evaluation (continued)

### Number and Age of Accounts

The credit report must be reviewed to determine the following:

- Whether the borrower has an older or newly established credit history.
- Whether there are a significant number of recently opened accounts or a mix of new and older accounts.

Credit histories that include older established accounts typically represent lower credit risk. However, an older, established credit history that includes a significant number of recently opened accounts may indicate that the borrower is overextended, and therefore represents a higher credit risk. A newly established credit history does not automatically represent a higher credit risk, since making payments as agreed on newly opened accounts represents less of a risk than not making payments as agreed on older, established accounts.

The purpose of any recently acquired debts must be ascertained as the indebtedness may have been incurred to obtain part of the required cash investment on the property being purchased.

### Payment Histories

- Credit histories that include no late payments, collections, or charged-off accounts, foreclosures, deeds-in-lieu, bankruptcies, or other public records information represent a lower credit risk.
- Credit histories that include recent late payments represent a higher credit risk than those with late payments that occurred more than 24 months ago. If there are payments that were 30-, 60-, or 90-days (or longer) past due, it must be determined whether the late payments represent isolated incidences or frequent occurrences. Delinquent payments must be evaluated in the context of the borrower's overall credit history, including the number and age of accounts, credit utilization, and recent attempts to obtain new credit.
- Credit histories that include foreclosures, deeds-in-lieu, and public records information represent a higher credit risk. The greater the number of such incidences and the more recently they occurred, the higher the credit risk.
- The presence of significant derogatory credit information, bankruptcies, judgments, liens, collection accounts, foreclosures, deeds-on-lieu, or a consistent pattern of delinquent accounts, dramatically increases the likelihood of a future default and represents a high credit risk. However, this does not mean that the borrower's credit will not be acceptable, rather it is an indication that the cause and significance of the derogatory information, verification that sufficient time has elapsed, and confirmation that the borrower has since re-established an acceptable credit history must be determined.

### Collections and Charge-Offs Paid through Closing Transaction

If collection or charge-off accounts are being paid off through our closing transaction, a payoff demand or credit report or supplement will be required. The credit report or supplement must list the same information as a payoff demand (e.g. per diem amount, balance, rate, mailing address.)

The amount reflected on the credit report or supplement can be used UNLESS:

- The account is listed on the Title report
- The reporting date on the credit report is older than 90 days
- Underwriter discretion for layered risk

**Example:** The account is not recently rated, large balance owed and the borrower is short to close

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Credit History Evaluation (continued)

#### Credit Utilization

The credit report must be reviewed to evaluate the borrower's use of revolving credit by comparing the current balance on each account to the amount of credit that is available to determine whether the borrower has a pattern of using revolving accounts up to (or approaching) the credit limit. Revolving credit spending patterns indicate a credit risk.

Credit histories that include revolving accounts with a low balances-to-limits ratio typically represent a lower credit risk, while those that include accounts with a high balances-to-limits ratio represent a higher credit risk.

#### Inquiries

Depending on the automated underwriting assessment, written explanations for credit inquiries may or may not be required. If the automated underwriting system does not require a written explanation, CMS will not require a written explanation; however, all borrowers must complete an Undisclosed Debt Certification at closing.

If a loan is run through an automated underwriting system, the SAR Underwriter is still responsible for verifying that no new recent significant debts have been incurred and also that no new debts were incurred for the purpose of obtaining any part of the down payment or closing costs for the property being purchased. Any new debt payments found resulting from these inquiries must be verified and included in the qualifying ratios.

When a loan is manually underwritten, the borrower must explain in writing all inquiries shown on the credit report in the last 90 days.

**Note:** Review the Product Matrices for availability of manually underwritten loans.

### Credit Components

#### Verification of Credit Requirements

The payment history of the borrower's housing obligation holds significant importance in evaluating credit. The automated underwriting assessment of the loan determines the documentation that is required.

The following must be verified directly by a credit reference or verified on the credit report:

- All accounts, revolving and installment, reported by the borrower on the application.
- The balance, rating, and terms of the account.

If the account has not been updated on the credit report within 60 days of the date of the credit report, a supplement to the credit report or a separate written verification from (canceled checks for most recent 12 months, verification of mortgage) must be obtained.

Written verifications of mortgage, rent, or credit must be sent directly to the creditors. The return address on the verification must be the Client address. The hand carrying of verifications is strictly prohibited.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Credit Components (continued)

#### Housing Payment History

##### Mortgage

If the mortgage history does not appear on the credit report for the most recent 24 months, it must be verified. Acceptable sources of verification include a VOM or canceled checks. The current balance, current status, monthly payment amount and payment history for the last 24 months must be obtained.

A mortgage is considered current as long as it is paid within the month due along with any late charges assessed for payments made beyond the 15-day grace period. If mortgage payments are made beyond the month due (30-day delinquencies, a letter of explanation and supporting documentation must be provided. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

Payment history on any property (regardless of occupancy) is considered mortgage credit.

##### Landlord

- **AUS Approve:** Comply with all of the verification messages for approved conditions listed on the findings. Automated underwriting will waive the requirements for a landlord reference based upon the overall risk assessment.
- **AUS Refer:** Comply with underwriting guidelines and documentation for manually underwritten loans. Determine the borrower's most recent 24-month payment history for his/her current housing obligation by verification of one of the following:
  - Canceled checks covering the most recent 24-month period plus copy of the lease to verify due date.
  - Credit report reference with complete information covering the last 24 months.
  - Written Verification of Rent (VOR) with satisfactory 24-month payment history directly from the landlord. The landlord must have no identity of interest with the borrower.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Components (continued)

### Bankruptcy/ Foreclosure/ Deed-in-Lieu

**AUS Approve:** Comply with all of the verification messages for approved conditions on the findings report.

#### **Bankruptcies:**

The fact that a bankruptcy exists in a borrower (or spouse's) credit history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the bankruptcy. Consider the reasons for the bankruptcy and the type of bankruptcy filing.

Bankruptcy Filed Under the Straight Liquidation and Discharge Provisions of the Bankruptcy Law (Petition under Chapter 7 of the Bankruptcy Code):

- If the bankruptcy was discharged more than 2 years ago from the date of closing for purchases and refinances, it may be disregarded.

If the bankruptcy was discharged within the last 1 to 2 years, it is probably not possible to determine that the borrower or spouse is a satisfactory credit risk unless both of the following requirements are met:

1. The borrower(s) had obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period.
2. The bankruptcy was caused by circumstances beyond the control of the borrower or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified. Divorce is not generally viewed as beyond the control of the borrower and/or spouse.

If the bankruptcy was discharged within the past 12 months, it will generally not be possible to determine that the borrower(s) is a satisfactory credit risk.

If the bankruptcy was caused by failure of the business of a self-employed borrower, it may be possible to determine that the borrower is a satisfactory credit risk if all four of the following are met:

1. The borrower obtained a permanent position after the business failed.
2. There is not any derogatory credit information prior to the self-employment.
3. There is not any derogatory credit information subsequent to the bankruptcy.
4. Failure of the business was not due to the borrower's misconduct.

#### **Bankruptcy Petition Under Chapter 13 of the Bankruptcy Code**

This type of filing indicates an effort to pay creditors. Regular payments are made to a court-appointed trustee over a 2 to 3-year period or, in some cases, up to 5 years, to pay off scaled down or entire debts.

If the borrower(s) has finished making all payments satisfactorily, the lender may conclude that the borrower has re-established satisfactory credit.

If the borrowers) has satisfactorily made at least 12 months' worth of the payments and the Trustee or the Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Credit Components (continued)

### Bankruptcy/ Foreclosure/ Deed-in-Lieu (continued)

#### Foreclosures

The fact that a home loan foreclosure (or deed-in-lieu or short sale in lieu of foreclosure) exists in a borrower(s) history does not in itself disqualify the loan. Develop complete information on the facts and circumstances of the foreclosure.

You may disregard a foreclosure finalized more than 2 years from the date of closing. If the foreclosure was finalized within the last 1 to 2 years from the date of closing, it is probably **not** possible to determine that the borrower(s) is a satisfactory credit risk unless both of the following requirements are met:

The borrower (s) has obtained consumer items on credit subsequent to the foreclosure and has satisfactorily made the payments over a continued period, and

The foreclosure was caused by circumstances beyond the control of the borrower (s) such as unemployment; prolonged strikes, medical bills not covered by insurance, and so on, and the circumstances are verified.

If a foreclosure, deed in lieu, or short sale process is in conjunction with a bankruptcy, use the earliest date of either the discharge of the bankruptcy or transfer of title for the home to establish the beginning date of re-established credit.

Borrower(s) with a prior CMS Foreclosure are not permitted.

#### Deed in Lieu or Short Sale

For a deed in lieu or short sale, develop complete information on the facts and circumstances in which the borrowers) voluntarily surrendered the property. If the borrower's payment history on the property was not affected before the short sale or deed in lieu and was voluntarily communicating with the servicer or holder, then a waiting period from the date transfer of the property may not be necessary.

Borrower(s) with a prior CMS Short Sale or Deed in Lieu are not permitted.

### Short Payoffs

CMS may approve a refinance transaction where the maximum mortgage amount is insufficient to extinguish the existing mortgage debt, provided the existing Note holder writes off the amount of the indebtedness that cannot be refinanced into the new VA guaranteed mortgage.

### Consumer Credit Counseling Services (CCCS)

Borrowers who have gone through credit counseling or who are still in credit counseling must meet all underwriting requirements, regardless of an automated underwriting recommendation. The requirements below must be followed:

- One year of the payout period has elapsed under the plan.
- The borrower's payment performance has been satisfactory and all payments have been made on time for the previous 12 months.
- The borrower has received written permission from the Counseling Agency to enter into the mortgage transaction.

If a borrower(s) has good prior credit and are participating in a Consumer Credit Counseling plan, such participation is to be considered a neutral factor, or even a positive factor, in determining creditworthiness. Do not treat this as a negative credit item if the borrower entered the Consumer Credit Counseling plan before reaching the point of having bad credit.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Major Adverse Credit

### AUS Approve

All verification messages for approved conditions listed on the findings must be followed. Automated underwriting may waive the requirements. If no message is provided, follow Manual Underwrite guidelines.

### AUS Refer or Manual Underwrite

Comply with underwriting guidelines and documentation for manually underwritten loans.

All manual underwrites require an AUS to be run and “refer eligible” findings uploaded into the LOS. The AUS findings must be uploaded even when the Underwriter knows the loan will be manually underwritten upfront or the loan will be downgraded to a manual underwrite.

Past due, collections liens, and charge-off accounts can indicate a borrower's disregard for credit obligations and must be considered in the underwriting analysis. A written letter of explanation for the reasons for adverse credit must be provided by the borrower. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content. The reasons for a loan approval when the borrower has adverse credit must be documented in the loan file.

### Collection Accounts

Isolated collection accounts do not necessarily have to be paid off as a condition for loan approval. A credit report may show numerous satisfactory accounts and one or two unpaid medical (or other) collections. In such instances, while it would be preferable to have collections paid, it would not necessarily be a requirement for loan approval.

However, collection accounts must be considered part of the borrower's overall credit history and unpaid collection accounts should be considered open, recent credit.

Borrowers with a history of collection accounts should have re-established satisfactory credit in order to be considered a satisfactory credit risk.

While VA does not require that collection accounts be paid-off prior to closing if the borrower's overall credit is acceptable, an underwriter must address the existence of the collection account(s) with an explanation on VA Form 26-6393, Loan Analysis, for excluding the negative credit history they represent.

If the collection account is listed on the credit report with a minimum payment, then the debt should be recognized at the minimum payment amount. Alternatively, the collection account may be paid off, or verified as not in repayment (for example, with a credit supplement verifying \$0 payment).

- Medical collections and charged-off medical accounts do not need to be considered in qualifying ratios or when determining the residual income.
- The presence of medical collections and/or charged-off medical accounts should not be considered when determining an applicant's creditworthiness.
- Non-medical collections without minimum payment amounts listed on the credit report should be considered at 5% of the outstanding balance.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Major Adverse Credit (continued)

<b>Charged off Accounts</b>	These accounts are typically collections in which the creditor is no longer pursuing collection of the account. The underwriter must address the circumstances regarding the negative credit history when reviewing the overall credit of the borrower(s).
<b>Judgments</b>	<p>Account balances reduced to judgment by a court must either be paid in full or subject to a repayment plan with a history of timely payments.</p> <p>A history of timely payments is considered as making 12 payments to reestablish credit.</p> <p>However, in certain cases when a judgment has only been in place for a few months, an underwriter could justify on <u>VA Form 26-6393, <i>Loan Analysis</i></u>, a shorter repayment history if the documentation indicates the borrower immediately addressed the judgment after it was filed and began a repayment plan.</p>
<b>Payoff of Unpaid or Untimely Debts</b>	For unpaid or debts that have not been paid timely, pay-off of these debts after the acceptability of a borrower's credit is questioned does not alter the unsatisfactory record of payment. A period of making timely payments on subsequent obligations for at least 12 months, then satisfactory credit is considered re-established.

## EMPLOYMENT AND INCOME EVALUATION AND DOCUMENTATION

<b>Overview</b>	<p>This section provides standards that apply to all CMS loan programs.</p> <p>The requirements outlined in this section represent VA core requirements for manually underwritten loans. AUS Waivers do not apply to state specific compliance restrictions.</p>
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### Documentation Age

<b>Requirements</b>	<p>The following documentation age limitations apply:</p> <ul style="list-style-type: none"><li>• 120 days prior to the note date for existing properties.</li><li>• 180 days prior to the note date for new construction.</li></ul> <p>For prior approval loans, income documents must be dated within 120 days of the date the application is received by VA (180 days for new construction).</p>
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# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Verbal Verification of Employment

### Requirements

Verbal verification of employment must contain the following information:

- Date of verification
- Borrower's date of employment
- Borrower's employment status and job title
- Name, phone number and title of verifier
- Name and title of associate making the call

To comply with a verbal verification of employment (or telephone confirmation) requirement, the phone number and address for the borrower's employer must independently be obtained via a telephone book, directory assistance, or by contacting the applicable licensing bureau.

The employer must be contacted within 10 Business Days of the closing date to confirm the borrower's current employment status.

If using a third party service to verify employment (e.g., The Work Number, Quick Confirm, etc.), the date of request shown on the form must be within 10 business days of the Note date (or funding date for escrow states). The date that the employment was verified must be within 35 calendar days of the Note date.

**Note:** A VVOE is not required for CMS Portfolio non-credit qualifying VA IRRRL loan transactions.

## Tax Information Authorization IRS Form 4506-C/2907 Tax Transcripts

### Requirements

All borrowers whose income is used to qualify must sign and date a completed and unexpired Tax Information Authorization form (IRS form 4506-C) at closing, authorizing CMS or its assigns, to obtain income information.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Tax Returns

### Requirements

The following standards apply with using Income Tax Returns to verify income.

CMS may request additional information such as business licenses, business tax returns, profit and loss statements, and/or balance sheets if it is necessary to further support the determination of the stability of the borrower's income.

### Personal Income Tax Returns

Personal Income Tax Returns must be:

- Complete with all schedules and W-2 forms, IRS Forms 1099, K-1 schedules, etc.
- Signed and dated
- Borrower's copy filed with the IRS
  - Year-to-date Profit and Loss and Balance Sheet must be:
    - Prepared by an accountant
    - Required if the loan application is taken beyond 90 days of the end of the business tax year
  - Business Income Tax Returns must be:
    - Complete with all schedules
    - Signed and dated
    - Borrower's copy filed with the IRS
  - Income Tax Returns not filed for prior year:
    - Borrowers that do not have the prior year's tax returns and have filed an extension must have the following:
      - Copy of the filing extension
      - Year-end profit and loss for last year and Balance Sheet
      - Year-to-date profit and loss for the current year and Balance Sheet
      - Prior two year's income tax returns
      - W-2 forms
      - Prior two year's business tax returns, if applicable
      - Cancelled check for estimated taxes due
      - A 4506-C or Modelo SC 2907 transcripts (if Puerto Rico returns) must be processed confirming no returns filed

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Tax Returns (continued)

### Amended Tax Returns

#### Tax Returns Filed Prior to the Loan Application Date

- Tax returns filed prior to application are acceptable for underwriting purposes. Both the original filed return and the amended return are required. If the file was amended 60 days or less prior to the application, evidence of payment must also be provided.

#### Tax Returns Filed After the Loan Application Date

- Tax returns filed after the application date may be acceptable when accompanied by the following:
- A letter of explanation regarding the reason for the re-file. Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.
- Evidence of filing
- Payment and the ability to pay the tax if the check has not cancelled

The original tax return and the amended tax return must be closely reviewed for consistency with previous filings to determine whether the use of the amended return is warranted. In addition, if the borrower requires the amended income for qualification, an exception must be submitted and approved for the use of the amended income. A copy of the original and amended tax returns must be submitted with the exception. When using an amended return after application the underwriter must provide justification and commentary on the Transmittal Summary (form 1008) regarding its use.

## Preliminary Title Report/Title Commitment

### Requirements

A preliminary report/title commitment is a report prepared prior to issuing a policy of title insurance that shows the ownership of a specific parcel of land, together with the liens and encumbrances.

The following are the minimum requirements for the preliminary report/title commitment:

- Effective Date: Not to exceed 90 days at time of funding
- Complete name and address of the Title Agent
- Preliminary report/title commitment file number
- Proposed Insured: Carrington Mortgage Services, LLC
- Proposed Coverage: Equal to the Note loan amount
- Policy Type: Full or Short Form ALTA policy (Short form policies that are not ALTA policies, such as Limited policies, are not acceptable)
- Vested Interest: To be reviewed for accuracy
- Property Address & Legal Description: To be reviewed for accuracy
- Estate of Interest: Fee Simple or Fee
- Exceptions: Liens, restrictions and interests of others are to be cleared and/or paid through the closing
- Property Taxes: Paid current or paid through the closing

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Income Verification

#### Overview

The underwriter must identify and verify income available to meet:

- the mortgage payment,
- other shelter expenses,
- debts and obligations, and
- family living expenses.

The underwriter must evaluate whether verified income is:

- stable and reliable,
- anticipated to continue during the foreseeable future, and
- sufficient in amount.

#### Importance of Verification

Only verified income can be considered in total effective income.

#### Income of a Spouse

Verify and treat the income of a spouse who will be contractually obligated on the loan the same as the veteran's income.

To ensure compliance with the Equal Credit Opportunity Act (ECOA), do **not** ask questions about the income of an applicant's spouse unless the:

- spouse will be contractually liable,
- applicant is relying on the spouse's income to qualify,
- applicant is relying on alimony, child support, or separate maintenance payments from the spouse or former spouse, or
- applicant resides in a community property State or the security is in such a State.

#### ECOA Considerations

Restrict inquiries related to the applicant's spouse to the situations listed in the "Income of a Spouse" heading in this section.

Always inform the applicant (and spouse, if applicable) that they do not have to divulge information on the receipt of child support, alimony, or separate maintenance. However, in order for this income to be considered in the loan analysis, it must be divulged and verified.

Income cannot be discounted because of sex, marital status, age, race, or other prohibited bases under ECOA.

Treat income from all sources equally; that is, the fact that all or part of an applicant's income is derived from any public assistance program is not treated as a negative factor, provided the income is stable and reliable.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Income from Non-Military Employment

#### ***Verification: General Requirement***

Verify a minimum of 2 years of employment. Generally, in the borrower's current position, 2 years of employment is a positive indicator of continued employment.

If the borrower has been employed by the present employer less than 2 years:

- verify prior employment, plus present employment covering a total of 2 years, or
- provide an explanation of why 2 years of employment could not be verified,
- compare any different types of employment verifications obtained (such as Verification of Employment (VOE), paystub(s), W2s, and tax returns) for consistency, and
- clarify any substantial differences in the data that would have a bearing on the qualification of the borrower(s).

#### ***Verification: Employment Verification Services***

Lenders may use any employment verification service that provides the same information as the "full" verification generated through the "Work Number" for all applicants. Generally, this will include the following information:

- the current date,
- employer name and address,
- Veteran's full legal name, social security number (complete or truncated) and job title,
- employment status (Active or Inactive),
- length of employment and start date,
- salary rate and pay frequency,
- average hours per pay period,
- summary of year to date information including base pay, overtime, commissions and bonuses, and
- reference number for the verification.

A current paystub is not required with an automated employment verification service.

Additionally, any VA Form 26-8497, Request for Verification of Employment (VOE) may be an original, faxed, or emailed copy of the original. Previously, VA required an original VA Form 26-8497. The requirements for obtaining a paystub have not changed. Hence, the paystub may be an original or a copy certified by the lender to be a true copy of the original.

The lender may not charge a fee to obtain the employment verification information.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Income from Non-Military Employment (continued)

#### **Verification: Standard Documentation**

Acceptable verification consists of VA Form 26-8497, Request for Verification of Employment (VOE) or any format which furnishes the same information as VA Form 26-8497, plus:

- paystub(s) covering the most recent 30-day period with year-to-date information, if the employer normally provides a pay stub(s) to the borrower.
- if the employer does not indicate the probability of continued employment on the VOE, the lender is not required to request anything additional on that subject.

The VOE and paystub(s) must be no more than 120 days old (180 days for new construction) from the closing date.

- For loans closed automatically, the date of the VOE and pay stub(s) must be within 120 days of the date the note is signed (180 days for new construction) from the closing date.
- For prior approval loans, the date of the VOE and paystub(s) must be within 120 days of the date the application is received by VA (180 days for new construction) from the closing date.

The VOE must be an original document or an electronic copy. The paystub(s) may be an original, electronic, or a copy certified by the lender to be a true copy of the original document.

#### **Verification: Additional Documentation for Persons Employed in the Building Trades or Other Seasonal or Climate-Dependent Work**

In addition to the standard documentation (VOE and pay stub), obtain:

- documentation evidencing the borrower's total earnings year to date,
- signed and dated individual income tax returns for the previous 2 years, and
- if borrower works out of a union, evidence of the union's history with the borrower.

#### **Verification: Alternative Documentation**

Alternative documentation may be submitted in place of a VOE if the lender concludes that the borrower's income **is** stable, reliable, and anticipated to continue for the foreseeable future; that is, if the borrower's income qualifies as effective income. Two years of employment with the same employer is not required to reach this conclusion.

Alternative documentation consists of:

- paystub(s) covering at least the most recent 30-day period with year-to date information,
- W-2 Forms for the most recent 2 years, and/or
- telephone verification of the borrower's current employment.

Document the date of the verification and the name, title, and telephone number of the person with whom employment is verified.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Income from Non-Military Employment (continued)

If the employer is not willing to give telephone verification of the borrower's employment or if verification is in any way questionable, use standard documentation. Alternative documentation cannot be used.

Paystub(s) and W-2 forms may be originals, electronic, or copies certified by the lender to be true copies of the originals.

The lender is responsible for ensuring the authenticity of the documents. For Faxed documents, review the "banner" information provided at the top of each page of the fax. For Internet documents, review the information contained on any headers/footers and the banner portion of the downloaded webpage(s). These pages must contain the uniform resource locator (URL) and the date and time printed. The documents should also be reviewed for errors such as incorrect area codes.

### ***Analysis: General Guidance***

Income analysis is not an exact science. It requires The lender to underwrite each loan on a case-by-case basis, using:

- judgment,
- common sense, and
- flexibility, when warranted.

Analyze the probability of continued employment (that is, whether income is stable and reliable) by examining the:

- applicant's past employment record,
- applicant's training, education, and qualifications for his/her position,
- type of employment, and
- employer's confirmation of continued employment, if provided.

In the applicant's current position, 2 years of employment is a positive indicator of continued employment. It is **not** a required minimum and **not** always sufficient by itself to reach a conclusion on the probability of continued employment.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Income Verification (continued)

### **Analysis: Applicant Employed Less Than 12 Months**

Generally, employment less than 12 months is not considered stable and reliable. However, the lender may consider the employment stable and reliable if the facts and documentation warrant such a conclusion.

Determine whether the borrower's past employment, training, and/or education equipped him or her with particular skills that relate directly to the duties of their current position.

If the probability of continued employment is high based on these factors, then the lender may consider including the income in the total effective income.

An explanation of why income of less than 12 months duration was used must be documented on the VA 26-6393, Loan Analysis.

If the probability of continued employment is good, but not well supported, the lender may utilize the income if the borrower has been employed at least 12 months, to partially offset debts of 10 to 24 months duration. An explanation of why income was used to offset debts must be documented on the VA 26-6393, Loan Analysis.

### **Analysis: Recent History of Frequent Changes of Employment**

Short-term employment in a present position combined with frequent changes of employment in the recent past requires special consideration to determine stability of income. Analyze the reasons for the changes in employment.

Give favorable consideration to changes for the purpose of career advancement in the same or related field.

Favorable consideration may not be possible for changes with no apparent betterment to the borrower and/or changes from one line of work to another.

If the lender includes the borrower's income, an explanation of why income of short-term employment was used, must be documented on VA Form 26-6393, Loan Analysis.

### **Income from Overtime Work, Part-time Jobs, Second Jobs, and Bonuses**

Generally, such income cannot be considered stable and reliable unless it has continued and is verified for 2 years. To include income from these sources as income:

- the income must be consistent,
- there must be a reasonable likelihood that it will continue in the foreseeable future based on its compatibility with the hours of duty and other work conditions of the borrower's primary job and,
- how long the borrower has been employed under such an arrangement.

The lender may use this income, if not eligible for inclusion in income, but verified for at least 12 months, to offset debts of 10 to 24 months duration. An explanation of why the income was used to offset must be documented on VA Form 26-6393, Loan Analysis.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Income Verification (continued)

### Income from Commissions

Verify commission income by obtaining the VOE or other written verification which provides the following:

- the actual amount of commissions paid year-to-date,
- the basis for payments (salary plus commission, straight commission, or draws against commission, or other), and
- when commissions are paid bi-weekly, monthly, quarterly, semiannually, annually, or other.
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).

### Analyze Income Derived from Commissions

Generally, income from commissions is considered stable when the borrower has obtained such income for at least 2 years. Employment for less than 2 years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Employment of less than 1 year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less than 1 year cases.

For a borrower who will qualify using commission income of less than 25 percent of the total annual employment income, IRS Form 2106 expenses are not required to be deducted from income even if they are reported on IRS Form 2106. Additionally, the expenses are not required to be added as a monthly liability for the borrower.

For a borrower earning commission income that is 25 percent or more of annual employment income, IRS Form 2106 expenses must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.

One exception is an automobile lease or loan payment. An automobile lease or loan payments are not subtracted from the borrower's income; they are considered part of the borrower's recurring monthly debts/obligations in Section D on VA Form 26-6393, Loan Analysis.

### Self-Employment Income

Obtain a current financial statement in an industry recognized accounting format including:

- Year-To-Date Profit and Loss statement (if the most recent year's tax return has not yet been prepared, provide a profit and loss statement for that year),
- current Balance Sheet, and
- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years (or additional periods if needed to demonstrate a satisfactory earnings record).
- If the business is a corporation or partnership, include copies of the signed federal business income tax returns for the previous 2 years with all applicable schedules, and a list of all stockholders or partners showing the interest each holds in the business.

The financial statements must be sufficient for an underwriter to determine the necessary information for loan approval.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Self-Employment Income (continued)

Financial Statements, including a year-to-date Profit and Loss Statement and Balance Sheet must be completed after one-half of the tax-year has passed to verify current income and stability of the income.

The lender may require an accountant or Certified Public Accountant-prepared financial statements if needed to make such a determination due to the nature of the business or the content of the financial statements.

### Analyze Income Derived from Self-Employment

Generally, income from self-employment is considered stable when the borrower has obtained such income for at least 2 years. Less-than-2-years cannot usually be considered stable unless the borrower has had previous related employment and/or specialized training. Less-than-1-year can rarely qualify; however, in-depth development is required for a conclusion of stable income on less-than-1-year cases.

Determine whether the business can be expected to generate sufficient income for the borrower's future needs.

If the business shows a steady or significant decline in earnings over the period analyzed, the reasons for such decline must be analyzed to determine whether the trend is likely to continue or be reversed.

If it is difficult to determine the probability of continued operation, obtain documentation on the viability and potential future earnings, and an explanation of the function and financial operations of the business from a qualified party.

### Deductions and Expenses Claimed on Tax Returns

Depreciation claimed as a deduction on the tax returns and financial statements of the business may be included in effective income.

Business or roll over losses must be considered from all tax returns.

What is reported to the IRS on a joint return must be used when applying for a federally guaranteed loan.

On a joint tax return, the loss must be deducted from the borrower's income in both community and non-community property states.

On a joint tax return, when a borrower and co-borrower have been faced with business losses, the Veteran/borrower and his/her spouse may want to consider both being on the loan in order to potentially qualify. The credit of both borrowers will be considered.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Income Verification (continued)

### Self-Employment Income (continued)

Depending on when the Personal Tax Return was filed, the documentation above is required with the following for all loan applications:

Application Date	Documentation
January 1 – June 15	<ul style="list-style-type: none"><li>• Most recent two years personal tax returns.</li><li>• Most recent two years business tax returns, if applicable.</li><li>• Year-end profit and loss and balance sheet for the prior year.</li></ul>
June 16 – October 15	<ul style="list-style-type: none"><li>• Copy of the filing extension with any tax payments made.</li><li>• Year-end profit and loss and balance sheet for the prior year.</li><li>• Year-to-date profit and loss and balance sheet for the current year.</li><li>• Most recent two years personal tax returns.</li><li>• Most recent two years business tax returns, if applicable.</li><li>• W-2s for corporations.</li><li>• Canceled checks for estimated taxes due.</li></ul>
After October 15	<ul style="list-style-type: none"><li>• Most recent two years personal tax returns.</li><li>• Most recent two years business tax returns, if applicable.</li><li>• Year-to-date profit and loss and balance sheet for the current year.</li></ul>

### 4506-C Tax Transcript Requirements

4506-C transcripts will be required for Purchase transactions with self-employed income and at least one of the following components:

- LTV > 95%
- DTI > 50
- Gift funds received
- Borrower has a Chapter 7 BK within the last 4 years

#### Required Documentation - Individual and Business Tax Returns

CMS must obtain signed, completed individual and business federal income tax returns for the most recent two (2) years, including all schedules.

In lieu of signed individual or business tax returns from the Borrower, CMS may obtain a signed IRS Form 4506, *Request for Copy of Tax Return*, IRS Form 4506-C, *IVES Request for Transcript of Tax Return*, or IRS Form 8821, *Tax Information Authorization*, and tax transcripts directly from the IRS.

### Active Military Applicant's Income

For active-duty military borrowers, a Leave and Earnings Statement (LES) is required instead of a VOE. The LES must be an original, electronic, or a copy certified by the lender to be a true copy of the original.

The LES must furnish the same information as a VOE and must be no more than 120 days old (180 days for new construction), from the date of closing.

For loans closed automatically, the date of the LES must be within 120 days of the date the note is signed (180 days for new construction).

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Active Military Applicant's Income (continued)

For prior approval loans, the date of the LES must be within 120 days of the date the application is received by VA (180 days for new construction).

In addition, identify servicemembers who are within 12 months of release from active duty or the end of their contract term. For an enlisted servicemember, find the date of expiration (ETS) of the borrower's current contract for active service on the LES. For National Guard or Reserve members, find the ETS of the borrower's current contract on the LES. Also, if a National Guard or Reserve member is currently serving on active duty, also identify the expiration date of the current active-duty tour. If the date is within 12 months of the projected date that the loan will close, the loan package must also include one of the following items, or combinations of items, to be acceptable:

- documentation that the servicemember has already re-enlisted or extended his/her period of active duty to a date beyond the 12-month period following the projected closing of the loan, or
- documentation that the servicemember has already re-enlisted or extended his/her period of active-duty service to a date beyond the 12-month period following the projected closing of the loan, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- verification of a valid offer of local civilian employment and/or verification of military retirement income following the release from active-duty service, or
- a statement from the servicemember that he/she intends to re-enlist or extend his/her period of active-duty service to a date beyond the 12-month period, **plus** (1) a statement from the servicemember's commanding officer confirming that the servicemember is eligible to re-enlist or extend his/her active-duty service as indicated, **and** (2) the commanding officer has no reason to believe that such re-enlistment or extension of active-duty service will not be granted, and
- documentation of other unusual strong positive underwriting factors, such as a downpayment of at least 10 percent from the borrower's own assets (not a gift), a minimum of 6 months PITI, in cash, after the downpayment from the borrower's own assets (not a gift) or clear evidence of strong ties to the community coupled with a non-military spouse's income so high that only minimal income from the active-duty servicemember is needed to qualify.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

**Example:** An Active Duty Veteran's LES indicates her ETS date listed on her LES is 171031 (October 31, 2017) and the projected date of closing is October 1, 2017. Therefore, one of the above items is needed to verify future income since her ETS date is less than 12 months from the projected date of closing.

**Example:** A member of the Reserves has been called to Active Duty. The ETS date on his LES indicates 181031 (October 31, 2018); however, his active duty orders indicate his active duty tour will not exceed the next 60 days. Therefore, since he will be leaving active duty before 12 months of the projected closing date, the active-duty income cannot be considered, and his civilian employment and drill duty will need to be considered.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Active Military Applicant's Income (continued)

**Example:** An Active Duty Veteran's LES indicates his ETS date is less than 1 month from the anticipated date of closing, and he indicates he will be receiving military retirement and has accepted civilian employment. Verify his future retirement income from the Department of Defense and verify future civilian employment with the Veteran's new employer.

#### Analysis of Base Pay

Consider the borrower's base pay as stable and reliable unless the borrower is within 12 months of release from active-duty service. Analyze the additional documentation submitted. If the borrower will not be re-enlisting, determine whether the borrower's anticipated source of income is stable and reliable, and/or unusually strong underwriting factors compensate for any unknowns regarding future sources of income.

If an Officer has an ETS date listed as 888888 or 000000 on his or her LES, the above documentation is not required unless there is evidence that the Officer has resigned his or her commission.

#### Analysis of Military Quarters Allowance/ Basic Allowance for Housing (BAH)

Include a military quarters allowance in effective income if properly verified.

In most areas, there will be an additional variable housing allowance, which can also be included. The military quarters and variable housing allowances are not taxable income. The lender must verify the amount of BAH the Veteran will receive. The BAH amount will change from one duty station to another.

Ensure that the borrower meets occupancy requirements.

#### Verification and Analysis of Basic Allowance for Subsistence (BAS) and Clothing Allowances

Any subsistence (rations) and clothing allowances are indicated on the LES. The lender may include verified allowances in effective income. These allowances are not taxable income. The clothing allowance generally appears on the LES as an annual amount. Convert the annual amount to a monthly amount for the Loan Analysis.

#### Verification and Analysis of Other Military Allowances

To consider a military allowance in the underwriting analysis, obtain verification of the type and amount of the military allowance, how long the borrower has received it and the continuance into the foreseeable future.

Military allowances may be included in effective income only if such income can be expected to continue because of the nature of the borrower's assigned duties. Such allowances include, but are not limited to:

- proficiency pay, such as linguistic, parachute, scuba, flight or hazard pay, and
- overseas or combat pay (sea pay, submarine, etc.)

All types of allowances above are subject to periodic review and/or testing of the recipient to ascertain whether eligibility for such pay will continue. Only if it can be shown that such pay has continued for a prolonged period and can be expected to continue because of the nature of the recipient's assigned duties, should the income be added to base pay. Contact the borrower's chain of command if there are questions regarding the continuance of the income.

If the duration of the military allowance cannot be determined, this source of income may still be used to offset short term obligations of 6 to 24 months duration.

Consult the IRS to determine if any allowances for pay are considered taxable income by the IRS, unlike housing, clothing, and subsistence allowances.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Income from Service in the Reserves or National Guard

Income derived from service in the Reserves or National Guard may be used if the borrower has served in such capacity for a period of time sufficient to indicate a good probability that such income will continue beyond 12 months.

The total period of active-duty and reserve service may be helpful in this regard. Otherwise, this income may be used to offset obligations of 10 to 24 months duration.

### Recently Activated Members of the Reserve or National Guard

Lenders must consider if a borrower, whose income is being used to qualify for a loan, may have a change in income due to participation in a Reserves/National Guard unit subject to activation.

If an activated Reserves/National Guard member applies for a loan, they must present orders indicating their current active duty tour is not to exceed 12 months.

**Example:** The borrower's full-time civilian employment is \$3,000 per month. The borrower's current income from the Reserves due to activation is \$3,500 per month and orders are for 12 months. Since the borrower's full-time civilian employment is only \$3,000 per month, the \$3,000 should be used to qualify the borrower.

There are not any clear-cut procedures that can be applied to all cases. Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, and make the best decision for each loan regarding the use of income in qualifying for the loan.

It is very important that loan files be carefully and thoroughly documented, including any reasons for using or not using Reserve/National Guard income in these situations.

As a lender, the goal is to provide the Veteran their benefit without placing him/her in a financial hardship.

### Income of Recently Discharged Veterans or Veterans to be Discharged from the Military

Obtain verification that any of the following income types apply:

- employment income,
- retirement income, and/or
- VA disability income.

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance.

VA disability income verification will be placed on the COE. However, there are some instances where this income is not placed on the COE which may include if the Veteran:

- will be discharging within the next 6 months from the military and has completed a Physical Exam Board (PEB) or Medical Review Board (MEB) and will be filing for VA disability while still on active duty,
- has recently filed for VA disability and VA's Compensation Service has not yet made a determination and would be entitled to receive VA disability benefits,
- has a VA-appointed Fiduciary to handle financial matters.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Income of Recently Discharged Veterans or Veterans to be Discharged from the Military (continued)

If the Veteran falls under one of the above categories and the Certificate of Eligibility does not reflect a funding fee exemption, perform the following:

- Submit VA Form 26-8937, Verification of VA Benefits through the COE application [Quick Reference Guide] in WebLGY. Upon receipt of VA Form 26-8937, VA will update the COE accordingly, and the lender should be able to obtain the COE in WebLGY. In rare instances of system limitations, VA may upload a completed VA Form 26-8937 to the COE record under 'Correspondence.'
- Provide any supporting documents, including the COE, if it states to send VA 26-8937, Verification of Benefits to VA, to verify a Veteran's monthly income from VA.

Please note that if VA's Compensation Service has not yet issued a memo rating and/or completed a claim for a Veteran, then the amount the Veteran may receive in the future cannot be determined until the claim has been completed.

Until the Veteran begins receiving the monthly award, the amount cannot be placed on the COE. A VA awards letter can be used to verify the amount and date a future monthly VA compensation award will begin. However, the COE may be updated to reflect if the Veteran is exempt from paying the VA funding fee on a future disability award.

The loan cannot be submitted for prior approval, or approved under the automatic procedure, until the lender obtains the completed form from VA when the Veteran or surviving spouse is under one of the above categories in subsection m of this topic. The lender must maintain the completed form with the loan package.

If the form indicates that the borrower receives a non-service-connected pension, the loan cannot be closed automatically. The loan must be uploaded in webLGY for prior approval.

VA must review, underwrite, and issue a Certificate of Commitment before the loan can close.

VA's Pension Service may also have to review and/or approve the application in addition to Loan Production. The VA RLC will coordinate with the Pension Service upon receipt of the underwriting package.

Allow for additional processing time of a prior approval loan application when Compensation and/or Pension Service must also review.

### Analysis of Prospects for Continued Employment

Cases involving recently discharged Veterans often require the underwriter to exercise a great deal of judgment and flexibility in determining whether the employment income will continue in the foreseeable future. This is because some Veterans may have little or no employment experience other than their military occupation.

Continuity of employment is essential for a Veteran with no retirement income, or insufficient retirement income, to support the loan obligation. If the duties the borrower performed in the military are similar or directly related to the duties of the present position, use this as one indicator that the employment is likely to continue.

Most cases fall somewhere between these extremes. Fully develop the facts of each case to make a determination. The guidelines under Self-Employment provide guidance for a recently discharged Veteran who is self-employed.



# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Income Verification (continued)

#### Rental Income

When all or a portion of the borrower's income is derived from rental income, documentation and verification of the income are necessary to determine the likelihood of continuance.

#### Verification of Rental Offset of the Property Occupied Prior to the New Home

Obtain a copy of the rental agreement for the property, if any.

#### Analysis using Rental Offset of the Property Occupied Prior to the New Loan

Use the prospective rental income only to offset the mortgage payment on the rental property, and only if there is not an indication that the property will be difficult to rent. This rental income may not be included in effective income.

Obtain a working knowledge of the local rental market. If the underwriter is unable to determine whether an established rental market exists, use FNMA Form 1007 Comparable Rent Schedule or a Rental Broker Price Opinion (Rental BPO) to assist in the market analysis. If there is not a lease on the property, but the local rental market is very strong, the lender may still consider the prospective rental income for offset purposes. Provide a justification on VA Form 26-6393, Loan Analysis.

Reserves are not needed to offset the mortgage payment on the property the Veteran occupies prior to the new loan.

**Example:** The Veteran's current home has a VA mortgage with a monthly PITI payment of \$1,000. Bonus entitlement is being used to purchase a new primary residence and the Veteran will rent the previous home for \$1,200 monthly upon closing of the new home. The payment of \$1,200 can be used to offset the existing mortgage payment, if all the above conditions are met. The additional rent received in excess of the mortgage payment cannot be used as effective income.

#### Verification of Rental Property Income

Obtain the following:

- documentation of cash reserves totaling at least 3 months mortgage payments (PITI), and
- individual income tax returns, signed and dated or lender obtained tax transcripts, plus all applicable schedules for the previous 2 years, which show rental income generated by the property.

If the borrower has multiple properties, the borrower must have 3 months PITI documented for each property to consider the rental income.

If there is not a lien on the property, 3 months reserves to cover expenses such as taxes, hazard insurance, flood insurance, homeowner's association fees, and any other recurring fees should be documented for the property(ies).

Equity in the property cannot be used as reserves.

Cash proceeds from a VA refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

Gift funds cannot be used to meet reserve requirements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Rental Income (continued)

#### Analysis of Rental Property Income

Each property(ies) must have a 2-year rental history itemized on the borrower's tax return.

Property depreciation claimed as a deduction on the tax returns may be included in effective income.

If after adding depreciation to the negative rental income, the borrower still has rental loss, the negative income should be deducted from the overall income as it reduces the borrower's income.

If rental income will not, or cannot be used, then the full mortgage payment should be considered and reserves do not need to be considered.

#### Verification of Multi-Unit Property Securing the VA loan

The Veteran/borrower must occupy one unit as his/her residence.

For purposes of determining the VA guaranty, lenders are instructed to reference only the One-Unit Limit column in the FHFA Table "Fannie Mae and Freddie Mac Maximum Loan Limits for Mortgages, located at <https://www.fhfa.gov/DataTools/Downloads>.

Verify cash reserves totaling at least 6 months mortgage payments (PITI), and documentation of the borrower's prior experience managing rental units and/or use of a property management company to oversee the property.

#### Analysis of Multi-Unit Property Securing the VA loan (Veteran will occupy one unit as his/her residence)

Include the prospective rental income in effective income only if:

- the borrower has a reasonable likelihood of success as a landlord, and
- cash reserves totaling at least 6 months mortgage payments (PITI).

If each unit is separate and not under one mortgage, 6 months PITI must be verified for each separate unit.

Equity in the property cannot be used as reserves to meet PITI requirements. This must be the borrower's own funds, not a gift.

Cash proceeds from a VA regular "Cash-Out" refinance cannot be counted as the required PITI on a rental property. The reserve funds must be in the borrower's account before the new VA loan closes.

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the lease or rental agreement unless a greater percentage can be documented (existing property).

The amount of rental income to include in effective income is based on 75 percent of the amount indicated on the appraiser's opinion of the property's fair monthly rental (proposed construction).



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Temporary Boarder Rental Income Single Family Residence

The verification of temporary boarder rental income requires the following:

- individual income tax returns, signed and dated, plus all applicable schedules for the previous 2 years, which show boarder income generated by the property, and
- the rental cannot impair the residential character of the property and cannot exceed 25 percent of the total floor area.

#### Analysis of Temporary Boarder Rental Income

Include rental income in effective income only if the borrower has a reasonable likelihood of continued success due to the strength of the local market. Provide a justification on VA Form 26-6393, Loan Analysis.

PITI reserves are not necessary to consider the income, and all the income may be used in the analysis.

### Alimony, Child Support, and Maintenance Payments

Verify the income if the borrower wants it to be considered.

- The payments must be likely to continue for at least 3 years from the anticipated closing date to include them in effective income.
- The borrower must provide 3 months bank statements or cancelled checks documenting receipt of the income.

Factors used to determine whether the payments will continue include, but are not limited to:

- whether the payments are received pursuant to a written agreement or court decree,
- the length of time the payments have been received,
- the regularity of receipt, and
- the availability of procedures to compel payment.

Support payments received inconsistently or in varying amount must use an average of 12 months payments for qualifying income.

### Automobile or Similar Allowances

Generally, automobile allowances are paid to cover specific expenses related to a borrower's employment, and it is appropriate to use such income to offset a corresponding car payment. However, if the borrower reports an allowance as part of monthly qualifying income, it must be determined if the automobile expense reported on IRS Form 2106 should be deducted from income or treated as a liability.

If the reported expense is less than the automobile allowance, the amount can be treated as income and added to borrower's monthly income.

If the reported expense exceeds the automobile allowance, the amount must be deducted from income as a net calculation in Section D on VA Form 26-6393, Loan Analysis.

Likewise, any other similar type of allowance received by the borrower should be considered with regards to the tax returns for determination of an offset of the corresponding obligation, as income, or as an expense.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Income Verification (continued)

#### Other Types of Income

While not all types of income can be listed, documentation of income must support the history of receipt and the likelihood or continuance of the income for at least 3 years from the anticipated closing date to include in effective income. Otherwise, consider whether it is reasonable to use the income to offsets short term obligations of 6 to 24 months duration.

“Other” types of income which may be considered as effective income include, but are not limited to:

- pension or other retirement benefits,
- disability income,
- dividends from stocks or other,
- interest from bonds, savings accounts, or others,
- royalties,
- notes receivable, and
- trusts

VA disability income is considered a benefit and does not need to be documented for the likelihood of continuance. A COE will generally have the amount of VA disability income listed.

A VA award letter or bank statement may also verify the current monthly amount received.

The lender may include verified income from public assistance programs in effective income if evidence indicates it will likely continue for 3 years or more.

The lender may include workers' compensation income that will continue for at least 3 years from the anticipated closing date if the borrower chooses to reveal it.

The lender may include verified income received specifically for the care of any foster child(ren), only to balance the expenses of caring for the foster child(ren) against any increased residual requirements.

**Example:** The borrower(s) receive a stipend paid by the county or State for two foster children living in the residence. Instead of considering a family size of four, a family size of two should be used to determine the residual income requirement.

Do not include temporary income items such as VA educational allowances (including the Post 9/11 GI Bill benefit) and unemployment compensation in effective income.

Exception: If unemployment compensation is a regular part of a borrower's income due to the nature of his/her employment (for example, seasonal work), it may be included.

A borrower in receipt of VA Pension or Disability benefits with Aid and Attendance should be discussed with the VA Pension Service, VA Compensation Service, or the VA Hospital where the property is located, to determine if the income is likely to continue for the foreseeable future.

If a borrower has a contract for employment in a foreign country (whether or not the employer is a US company or corporation), the income can be used if it is verified, stable, and reliable. While some contracts are renewed yearly, consider the borrower's past employment history and the likelihood of the contract being extended.

Income that is paid by a foreign employer or government in foreign currency should be converted to US dollars.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Income Verification (continued)

### Employment by a Relative

A borrower employed by a family member or employed by a family held business is eligible provided that the following documentation requirements are met:

- Written Verification of Employment completed by the business accountant. The accountant must verify that the borrower is not self-employed by indicating the percentage of interest in the business. The accountant must be a disinterested third party.
- Personal income tax returns for the most recent two years with all W-2 forms.
- Most recent, computer-generated paystub. If the pays stub is not computer generated, a signed payroll ledger must be provided by the accountant.

## Other Income

### Employment Gaps

The stability of income must be assessed for gaps of employment and the likelihood of continuance should be factored into the underwriting decision.

- Employment gaps over 30 days in the last two years must have written explanations provided by the borrower for manually underwritten cases.
- Employment gaps over 60 days in the last two years must have written explanations provided by the borrower for AUS Accept cases.

**Note:** Borrower(s) must write, sign, and date all letters of explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content.

### Interest and Dividend Income

A two-year average of the interest and dividend income may be used to qualify if supported by the borrower's assets after settlement. The asset providing the interest and dividend income may not be liquidated for cash to close unless that portion used is deducted and the interest and/or dividend amount is recalculated based on the unused portion of the asset. Interest and dividend income is eligible after deducting that portion listed on Schedule B of IRS form 1040, which is derived from a partnership or S corporation.

The following documentation is required:

- Most recent two years personal income tax returns with all schedules.
- Proof of assets to support the interest or dividend income will continue for at least three years.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Other Income (continued)

### Non-Taxable Income

Verify that the income is indeed tax-free before “grossing up.” Tax-free income may be “grossed up” for purposes of calculating the debt-to-income ratio only.

- This is a tool that may be used to lower the debt ratio for borrowers who clearly qualify for the loan.
- “Grossing up” involves adjusting the income upward to a pre-tax or gross income amount which, after deducting state and Federal income taxes, equals the tax-exempt income.
- Use a figure of 125 percent of the borrower’s non-taxable income when “grossing up.”
- Do not add non-taxable income to taxable income before “grossing up.”

If “grossing up” is used, indicate such and provide the “grossed up” ratio of 125 percent in item 47, “Remarks” of the VA 26-6393 Loan Analysis. The actual amounts of the borrower’s non-taxable income should not be adjusted in in line 38.

VA Disability income verified through a Certificate of Eligibility (COE) may be grossed up without tax returns. Any other income, which could be subject to taxation, should be validated with tax returns from the borrower prior to grossing up.

### Note Income

Ongoing revenue received from note income is recognized by CMS as eligible for loan qualification. A copy of the Note must document the amount, frequency, and duration of payments and will continue for three years.

One of the following must be provided for the most recent 12 months:

- Personal income tax returns with all schedules
- Bank statements or deposit slips showing note income deposited
- Cancelled checks

### Retirement, Pension, Annuity Income and IRA Distributions

Retirement and pension income may be used to qualify provided the source of the income, including payment amount, receipt of the income, and evidence of three years continuance of the monthly annuity payment, 401k or IRA monthly distributions are documented.

Document regular and continued receipt of retirement or pension income, as verified by

- letters from the organizations providing the income,
- copies of retirement award letters,
- copies of signed federal income tax returns,
- IRS W-2 or 1099 forms, or
- proof of current receipt.

### Social Security Income

Evidence of continuance of Social Security retirement income does not need to be documented; however, evidence of three years continuance of Supplemental Social Security income (children or surviving spouse) must be documented.

A copy of the Social Security Administration award letter or a 1099 with a current bank statement must be provided to document income.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Other Income (continued)

### Teachers

When a borrower is employed as a teacher, the annual salary must be verified. If monthly or weekly base pay is provided, the employer must verify the number of pay periods per year. Stipends or supplemental income must be documented as regular and continuous.

For teacher income paid over a 10-month period and if financing is obtained during the summer months when income is not received, the following documentation is required:

- Final year-end paystub from school
- Written Verification of Employment
- Verbal Verification of Employment

Copy of guaranteed contract indicating that borrower is paid over a 10-month period

### Trust Income

If constant trust income payments will continue for at least three years, this income may be considered for qualification. A copy of the Trust Agreement must be provided to document the following:

- Total amount of designated trust funds
- Terms of payment
- Duration of trust
- What portion, if any, of income to borrower is not taxable

## Unacceptable Sources of Income

### Sources of Unacceptable Income

The following income sources are not acceptable for purposes of qualifying the borrower:

- Any unverified source of income
- Income determined to be temporary or one-time in nature
- Retained earnings in a company
- Stock options
- Trailing spouse income
- Welfare benefits
- Unverifiable income
- VA education benefits
- Income derived from State approved marijuana dispensary, even if W-2 wages

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Income Taxes and Other Deductions from Income

### Income Tax and Social Security Deductions

Determine the appropriate deductions for Federal income tax and Social Security using the “Employer’s Tax Guide”, Circular E, issued by the Internal Revenue Service (IRS).

Determine the appropriate deductions for state and local taxes using similar materials provided by the states.

The income tax should be based upon the borrower’s residence and what is documented in the guide to the IRS, and not solely the amount claimed on the paystub.

An active-duty servicemember’s LES may have a different state tax deduction than the state where the active-duty servicemember will be purchasing a residence or refinancing. Select the state listed on the LES for the state taxes to be considered in state tax deductions.

CMS may consider the borrower’s potential tax benefits from obtaining the loan (for example, mortgage interest deduction) in the analysis. To do so:

- determine what the borrower’s withholding allowance will be, using the instructions and worksheet portion of IRS Form W-4, Employee’s Withholding Allowance Certificate, and
- apply that withholding number when calculating Federal and state income tax deductions on VA Form 26-6393, Loan Analysis, then
- document the change in deductions in Item 47, Remarks, on VA Form 26-6393, Loan Analysis.

### Other Deductions from Income

Include any costs for job-related expenses, child care, significant commuting costs, and any other direct or incidental costs associated with the borrower’s or spouse’s employment.

For children up to the age of 12 years, the lender is responsible for determining if there are any child care expenses for the borrower(s).

## Residual Income Requirements

### Residual Income

Each VA loan must meet the Residual Income Requirements determined by VA. The residual income is the amount of money left over each month after all of the borrowers major expenses are paid (housing, taxes, and recurring debt). The residual is to cover food, clothing, gasoline costs and typical family living expenses

VA’s residual income amounts are a guide. Compensating factors, particularly the borrower’s credit history and previous mortgage/rent history along with payment shock may be applied when the residual income is marginal. Marginal residual income alone is not a basis for declining a loan. Inadequate residual income alone can be a basis for declining a loan.

When evaluating a borrower with marginal residual income, the underwriter is to consider the borrower’s credit history, previous mortgage/rent history, payment shock, ages of the borrower’s dependents, and if the purchase price of the property will affect the family expense levels.

When the debt ratio exceeds 41%, an additional 20% in residual income for the family is required.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Residual Income Requirements (continued)

### Residual Income (continued)

#### Special Instructions for Using Residual Income Table

When completing VA Loan Analysis VA Form 26-6393, if a dependent is claimed on the Federal tax Returns, then the dependent must be considered as a member of the household to calculate residual income.

Reduce the residual income figure (from the following tables) by a minimum of five percent if:

- the applicant or spouse is an active-duty or retired serviceperson, and
- there is a clear indication that he or she will continue to receive the benefits resulting from use of military-based facilities located near the property.

Use five percent unless the VA office of jurisdiction has established a higher percentage, in which case, apply the specified percentage for that jurisdiction.

VA Residual Income Calculation Chart				
Loan Amounts \$79,999 and below				
Family Size	Northeast	Midwest	South	West
1	\$390	\$382	\$382	\$425
2	\$654	\$641	\$641	\$713
3	\$788	\$772	\$772	\$859
4	\$888	\$868	\$868	\$967
5	\$921	\$902	\$902	\$1,004
Over 5	Add \$75 for each additional member up to a family of seven.			
Loan Amounts \$80,000 and above				
Family Size	Northeast	Midwest	South	West
1	\$450	\$441	\$441	\$491
2	\$755	\$738	\$738	\$823
3	\$909	\$889	\$889	\$990
4	\$1,025	\$1,003	\$1,003	\$1,117
5	\$1,062	\$1,039	\$1,039	\$1,158
Over 5	Add \$80 for each additional member up to a family of seven.			



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Residual Income Requirements (continued)

### Residual Income by Region

- Northeast is comprised of the following states:  
Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont.
- Midwest is comprised of:  
Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin.
- South is comprised of:  
Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia, West Virginia
- West is comprised of:  
Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

## VA ASSETS

### Overview

This section provides standards that apply to all CMS VA loan programs. Generally, requirements that vary from one loan program to another are described in the product matrices.

The requirements outlined in this section represent VA core requirements for manually underwritten loans. VA loans with an AUS approval recommendation for reduced documentation may be followed unless otherwise noted in this document or on the product matrices. Waivers do not apply to state specific compliance restrictions.

## Amount of Cash Required

### Requirements

The applicant or spouse must have sufficient cash to cover:

- any closing costs or points which are the applicant's responsibility and are not financed in the loan,
- the down payment, if a GPM, and
- the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.

VA does **not** require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies.

However, the applicant's ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Verifications Required

- Requirements** Verify all liquid assets owned by the applicant or spouse to the extent they are needed to close the loan. In addition, verify any liquid assets that may have a bearing on the overall credit analysis; that is, significant assets.
- Use VA Form 26-8497a, Request for Verification of Deposit, as appropriate, **OR**
  - original or certified true copies of the applicant's last two bank statements, **OR**
  - the borrower's bank statements available to them by Internet or Faxed from the depository directly to the lender. In cases where the lending institution uses Internet based verifications, ensure the URL appears on the document.

Verifications must be no more than 120 days old (180 days for new construction).

For automatically closed loans, this means the date of the deposit verification is within 120 days of the date the note is signed (180 days for new construction).

For prior approval loans, this means the date of the deposit verification is within 120 days of the date the application is received by VA (180 days for new construction).

### Pending Sale of Real Estate

- Requirements** In some cases, the determination that the income and/or assets of borrowers are needed to qualify for the loan depends upon the sale of presently the borrower's owned real property.

The sale proceeds may be necessary to:

- clear the outstanding mortgage(s) against the property,
- pay outstanding consumer obligations,
- make a down-payment or pay closing costs on the VA loan, and/or
- restore previously used VA entitlement.

Evidence the sale has been completed should be included in the closing package to verify proceeds from the sale.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources

### Overview

Borrowers must verify sufficient funds to cover down payment, closing costs, reserves if applicable, repairs if applicable, and payoff of collections, charge-offs, judgments, and/or liens if applicable.

The following is a list of acceptable sources:

- Bank Accounts
  - Individual Accounts
  - Joint Accounts
  - Trust Accounts
- Earnest money Deposits
- Employer Assistance Plans
- Employer's Guarantee Plans
- Equity from Other Assets
  - Loans Secured by Other Assets
  - Sale of Personal Property or Other Assets
  - Sale of Real Estate
- Gifts
  - 
  - Wedding Gifts
- Income Tax Refund
- Life Insurance
- Premium Pricing
- Real estate commissions
- Rent credits
- Retirement Accounts
- Stocks/Bonds
- Secured loans

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

**Bank Accounts** To document the borrower's assets, one of the following items must be provided:

- The two most recent consecutive monthly bank statements.

**Note:** The previous month's balance should be reflected on the bank statements. If the previous month's balance is not stated, three months consecutive statements are required.

- A Verification of Deposit **and** the most recent monthly bank statement.

Bank accounts include funds on deposit in savings accounts, checking accounts, certificates of deposit, money market accounts, and individual retirement accounts (IRAs).

- **Individual Accounts:** Funds in the borrower's own individual bank account are acceptable.
- **Joint Accounts:** Funds held in a joint checking or joint savings account are acceptable since the borrower has access to all funds in the account at all times.
- **Trust Accounts:** Funds disbursed from a trust account where the borrower is the beneficiary are acceptable if the borrower has immediate access to the funds. The trust manager or trustee must verify the value of the trust account and confirm the conditions under which the borrower has access to the funds. When using the trust income for qualifying, effect of the withdrawal must be documented.

Any accounts that cannot be immediately accessed by the borrower, including accounts where the borrower is not the beneficiary (e.g., custodial accounts or "In Trust For" accounts) are not considered acceptable assets.

### Bank Statements

The bank statements submitted must be the most recent bank statement as of the date on the application. If a verification of deposit is used, at least one month's bank statement is also required to confirm the information.

Bank statements must clearly identify the following:

- Name and address of the depository or investment institution.
- Name of account holders.
- Account number.
- Time period covered by the statement.
- For depository account, all deposit and withdrawal transactions.
- For a financial portfolio account, all purchase and sale transactions.
- Ending account balance.
- One month bank statement must support all written verifications of deposit.

If a supplemental statement is necessary, any bank-generated forms (e.g., deposit, withdrawal slips, etc.) that show a machine-printed account number, balance, and date is acceptable. Supplemental information must be on a bank form indicating the name of the bank or on bank letterhead signed by a bank representative.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Bank Accounts (continued)

Borrowers can submit bank statements obtained from the Internet as long as the following information is included:

- Internet Uniform Resource Locator (URL) address identifying the source of the information.
- Name of the depository or investment institution.
- Account number.
- Time period covered by the statement.
- For depository account, all deposit and withdrawal transactions.
- For a financial portfolio account, all purchase and sale transactions.
- Ending account balance.

The statements can be e-mailed from the Internet or printed and faxed to CMS. Statements that have been downloaded into a Word document or Excel spreadsheet are not acceptable.

### Verification of Deposit (VOD)

A Verification of Deposit issued by the depository institution may be provided by the borrower. Each Verification of Deposit must provide the following information for each account listed:

- Name and address of the depository or investment institution.
- Name of account holders.
- Account number.
- Type of account.
- The open date.
- The account balance as of the date of the VOD.
- The average balance for the previous two months.
- One month bank statement must support all written verifications of deposit.

The two-month average balance should support the current balance. In cases where average balances are not provided, discrepancies between the average and current balances exist or there is a recently opened account with a substantial balance, the most recent two months bank statements prior to the completion date of the verification of deposit must be provided.

The Verification of Deposit must be mailed directly to the depository. Verification of Deposits should never be mailed to a Post Office Box or to a particular person's attention. If the borrower indicates this is necessary, the file must contain verification that the Client independently contacted the depository and verified this requirement. The return address on the verification must be identified as Correspondent Client. The hand carrying of verifications is strictly prohibited.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Bank Accounts (continued)

#### Review of Account Statements

Any indications of borrowed funds must be investigated. Indications of Borrowed funds include:

- A recently opened account
- A recently received large deposit
- An account balance that is considerably greater than the average balance over the previous few months.

When there is a recently opened account or a large increase in an existing account (within six months of contract signing), the source of funds must be explained by the borrower and verified. Unverified funds are not acceptable sources for the down payment, closing costs and / or reserves.

Examine asset documentation for signs of fabrication or alteration. Analyzing the documentation to calculate interest, and reviewing deposits against income levels and sources are necessary to validate the documents.

### Earnest Money Deposits

Verification is required for veteran's source of funds for payment of the following:

- 1) Amount of non-financed closing costs which are the veteran's responsibility
- 2) Difference between sales price and loan amount if the sales price exceeds the reasonable value established by a Notice of Value (NOV).

Verification may be in the form of a written statement or escrow letter from the holder of the deposit or by a copy of the canceled check. The source of funds for the deposit must also be verified. Examples include but are not limited to a bank statement or documentation of gift. Verification that no recently opened debts were incurred to obtain the earnest money must be provided.

The earnest money deposit need not be documented in the following instances:

- The borrower has sufficient funds to close without the inclusion of the earnest money deposit
- The sales contract reflects a deposit amount but no evidence of payment is provided. The earnest money deposit may not be credited as long as there is verification with the borrowers that no deposit has been paid. The deposit should not be reflected on the Closing Disclosure.

The VA Loan Analysis Form 26-6393 should contain an explanation that the deposit was not made and that this was confirmed with the borrower. This provides for an adequate audit trail and accounts for the difference between the sales contract and the Closing Disclosure.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Asset Sources (continued)

### Employer Assistance Plans

If the employer pays the following to attract or retain valuable employees, the payment is considered employee compensation and an adjustment to the maximum mortgage amount is not required.

- Employee's closing costs
- Mortgage Insurance Premiums
- Any portion of the cash investment

If the employer provides this benefit after loan settlement, the borrower must provide evidence of sufficient cash for closing.

**Note:** A salary advance cannot be considered as assets to close since it represents an unsecured loan.

### Equity from Other Assets

#### Loans Secured by Other Assets

Borrowed funds secured by an asset owned by the borrower are an acceptable source of equity. Examples that may be used to secure funds include certificates of deposit, savings plans, stocks, bonds, real estate owned by the borrower, and life insurance policies.

The following documentation is required:

- The terms of the loan
- Verification that the party providing the secured loan is not a party to the sale or financing of the property (other than a financial institution)
- Confirmation that the funds have been transferred to the borrower
- Evidence that the loan is secured by an asset owned by the borrower
- Value of the asset (e.g., copy of the appraisal, copy of Blue Book value)

Monthly payment for the loan must be included in the debt-to-income ratio. When the loan does not require monthly payments, a reasonable monthly payment must be calculated and considered as a debt.

Loans secured by the borrower's own financial assets such as deposit funds, investment or retirement accounts or life insurance policies in which repayment may be obtained through extinguishing the asset do not require consideration of repayment for qualifying purposes. However, in such circumstances, the asset securing the loan may not be included with borrower assets for closing or otherwise considered available to the borrower.

#### Sale of Personal Property or Other Assets

If funds are derived from the sale of assets other than real estate, they must be verified by the following documentation based on the lesser of the sales price or value:

- **AUS Approve Loans**
  - Bill of sale and evidence of proceeds or
  - Proof of ownership and
    - Support for the value of the asset and
    - Buyer's intention to purchase and
    - Evidence of liquidation



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Equity from Other Assets (continued)

- **AUS Refer and Manually Underwritten Loans**

- Proof of ownership
- Support for the value of the asset (published value estimates, appraisal)
- Evidence of transfer of ownership (e.g., a copy of the bill of sale)
- Evidence of receipt of the purchase proceeds (e.g., deposit slip or bank statement)
- Evidence that a party to the property sale or the mortgage financing transaction did not purchase the asset

### Sale of Real Estate

The net proceeds that will be generated from the sale of an existing property must be established. The transaction must be an arm's length transaction.

Both the actual sale and the sufficiency of net proceeds must be documented with the following information:

- A copy of the executed contract of sale for the property
- A fully executed Closing Disclosure evidencing the net proceeds received by the borrower
- If the borrower is being transferred by his or her company under a guaranteed sales plan, obtain an executed buyout agreement and accompanying settlement statement indicating that the employer or relocation service takes responsibility for the outstanding mortgage debt

If the actual fees for the sale of the home are known, use the following formula to calculate the equity in the property:

**Sales Price minus (sales costs plus payoff of all outstanding liens) = equity**

If the actual fees involved in the home sale are not known, an estimate of the equity in a property can be determined, using the following formula:

**Sales Price minus (10% of sales price (for costs / broker fees) plus payoff of all outstanding liens) = equity**

If a sales price has not been established, anticipated equity may be calculated with the following formula:

**Listing Price minus (10% of listing price plus payoff of all outstanding liens) = equity**

The 10% adjustment factor may need to be changed depending on market conditions in the area of the sale. True net equity (proceeds) must be verified upon sale of the property regardless of the adjustment factor used.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Asset Sources (continued)

### Gifts

A gift may be provided by a donor that does not have any affiliation with the builder, developer, real estate agent, or any other interested party to the transaction.

#### Unacceptable Donors

Any person with a financial interest in the transaction, including:

- the seller
- realtor
- builder
- loan officer

These parties may never provide a gift, directly or indirectly.

#### Gift Letter

A gift letter must:

- specify the dollar amount of the gift,
- include the donor's statement that no repayment is expected, and
- indicate the donor's name, address, telephone number, and relationship to the borrower.

#### Transfer of Gift Funds

Gift funds may be transferred and deposited into the borrower's account prior to underwriting or after underwriting. Gift funds transferred at closing must comply with donor ability, donor transfer and borrower receipt requirements.

#### Gift funds transferred and deposited prior to underwriting

Document the transfer of the funds from the donor to the borrower with the following:

- A copy of the donor's cancelled check or
- Other withdrawal documentation from the donor's account, including donor name and account number

In addition to one of the above, a copy of the borrower's deposit slip verifying the deposit and the updated balance information or a bank statement showing the gift deposit is required. ATM receipts are never acceptable documentation to show transfer of the gift funds from the donor

The documentation evidencing the withdrawal of funds from the donor's account must coincide with the information disclosed on the gift letter (amount of gift, bank, account number etc.).

If the donor borrowed the gift funds, documentation must be provided to show the borrower is not party to the financing used by the gift donor.

- Unacceptable sources of donor's borrowed funds
  - Any party to the transaction, including the lender
  - Cash received from any source
  - A loan in which the borrower is a co-obligor with the donor for the borrowed gift funds

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Asset Sources (continued)

### Gifts (continued)

#### Gift funds not in borrower's account at time of underwriting prior to closing

If the gift funds were deposited into the borrower's account after the bank statement closing date, document the transfer of the funds from the donor to the borrower with the following:

- Copy of the donor's cancelled check or other withdrawal documentation showing the withdrawal from the donor's account
- Copy of the borrower's updated bank statement showing the matching gift deposit
- If the funds were just deposited to the borrower's account and it is just prior closing, document the transfer of funds from the donor to the borrower with the following:
  - Copy of donor's withdrawal slip and either a bank statement or a letter from the banking institution verifying the withdrawal of the funds from the donor's account
  - Copy of the borrower's deposit slip (with the deposit and updated balance information verified on the slip) or an updated bank statement showing the matching gift deposit

### Gift of Equity

Not permitted.

### Income Tax Refund

An income tax refund not yet received may be used as funds for down payment or closing costs. The borrower must provide a copy of the actual signed tax return to verify the anticipated refund. Verification of receipt of the refund is required and must be documented by a copy of the refund check or electronic deposit.

### Life Insurance – Cash Value

When a borrower uses the cash value of a life insurance policy as funds for down payment and/or closing costs, the value must be verified by a written statement from the life insurance company. The statement must specify the amount of net cash value currently available to the borrower. Verification of receipt of the funds is required.

**Note:** Borrowers cannot receive a loan for closing costs and prepaids.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Loan From A Relative

Family members may lend the borrower up to 100% of the cash investment on a secured or unsecured basis. The loan payment must be included in the debt-to-income ratio. The following documentation is required:

- An executed copy of the loan document verifying the loan terms
- Transfer and receipt of the funds as part of the borrower's assets verification

If the relative borrowed the funds, documentation must be provided by the bank verifying the source of funds was financed with a bank loan. If the bank cannot provide verification of the loan, other evidence must be provided that the funds were borrowed from an acceptable source.

- Unacceptable sources of donor's borrowed funds
  - Any party to the transaction, including the lender
  - Cash received from any source
  - A loan in which the borrower is a co-obligor with the donor for the borrowed gift funds

All VA guidelines must be followed regarding the loan, borrower qualification and second mortgage limitations (if applicable). The underwriter must condition the loan to be recorded as a second lien, when applicable and must comply with CLTV limitations for product.

### Real Estate Commission from Sale of Subject Property

If the borrower is a licensed real estate agent entitled to a real estate commission from the sale of the property being purchased, then he/she may use that amount for the cash investment, with no adjustment to the maximum mortgage required.

A family member entitled to commission may also provide it as gift funds to the borrower.

### Rent Credits

The cumulative amount of the rental payments that exceed the appraiser's estimate of fair market rent may be considered accumulation of the borrower's cash investment. The credit package must include the following:

- Rent with option to purchase agreement
- Appraiser's estimate of market rent

The following situations are not eligible for CMS financing:

- The sales agreement reveals that the renter has been living in the property (or another property owned by the seller) rent-free
- An agreement was made allowing the renter to occupy at a rental amount considerably below fair market value in anticipation of eventual purchase of the property

An exception may be granted in certain situations, such as when a builder fails to deliver a property at an agreed-to-time and then permits the borrower to occupy that or another unit for less-than-market rent temporarily until construction is complete.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Repayment Of A Personal Loan

When funds are obtained from repayment of a personal loan made by the borrower, the following documentation is required:

- A written agreement between the borrower and the recipient of the loan
- Verification evidencing the borrower's ability to lend the funds
- Evidence the funds were withdrawn from their account
- Verification that repayment has been made
  - Provide statements verifying the funds being withdrawn from the recipient's account and deposited into the borrower's account

### Retirement Accounts

Funds from individual retirement accounts (IRA, 401K, Keogh accounts) may be used as a source of funds for the down payment, closing costs or reserves.

A 401(k) account may only be used to the extent the borrower is vested in the account. The account balance and the vested amount must be verified. When retirement accounts only allow for withdrawal in connection with the borrower's employment termination, retirement or death, the vested funds should not be considered as reserves.

A copy of the most recent depository or brokerage account statement must be provided. When funds from these sources are being liquidated for the loan transaction, the funds must be withdrawn and proof of withdrawal must be provided. Subtract 40% from the vested amount (after the reduction of any personal loans) to account for any applicable withdrawal penalties or income tax so that the "net" withdrawal is counted (the portion of the account secured by a personal loan may not be considered available to the borrower for reserves). The loan proceeds received from a loan secured against a retirement account may be considered liquid funds available for the transaction.

When funds from these sources are used to support the cash reserve requirement, it is not required that the funds actually be withdrawn from the account but the 40% deduction rule still applies when calculating the amount of cash reserves. A higher amount may be used with documentation that a higher percentage may be withdrawn after subtracting any federal income tax and withdrawal penalties.

### Secondary Financing

Secondary financing is any loan secured by the Mortgaged Premises other than the first mortgage. The lien created by the second mortgage must be clearly subordinate to the first mortgage.

The monthly payment on the second mortgage must be included with the PITI on the Mortgaged Premises when calculating the housing expense-to-income ratio.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Asset Sources (continued)

### Seller Concessions

The maximum seller concessions on a VA loan are 4%. Seller concessions include, but are not limited to, the following:

- payment of the buyer's VA funding fee
- prepayment of the buyer's property taxes and insurance
- gifts such as a television set or microwave oven
- payment of extra points to provide permanent interest rate buy-downs
- provision of escrowed funds to provide temporary interest rate buy-downs, and
- payoff of credit balances or judgments on behalf of the buyer.

Seller concessions do **not** include payment of the buyer's closing costs, or payment of points as appropriate to the market.

**Example:** If the market dictates an interest rate of 7½ percent with two discount points, the seller's payment of the two points would **not** be a seller concession. If the seller paid five points, three of these points would be considered a seller concession.

### Stocks/Bonds

The value of stocks, bonds and other securities must be documented with one of the following:

- Verification of Deposit
- Most recent monthly statements for the past three months
- A quarterly statement
- Photo-copy of the stock certification accompanied by a dated newspaper stock list

Government savings bonds should be valued at their purchase price unless redemption value can be verified.

Verification of liquidation and receipt is required when the funds from the sale of stocks/bonds are used for down payment, closing costs or other costs.

#### Stock – Privately Held Corporation

When the stock of a privately held (not publicly traded) corporation will be used as funds for down payment, closing costs or reserves, the price per share must be validated by a CPA for the corporation. A copy of the Buy/Sell Agreement is also required. Verification of receipt of the funds from the sale of the stock is required.

When the privately held corporation is a source of the borrower's income, the above documentation will be required together with verification from the accountant that sale of the stock will not have an adverse effect on the business or reduce the borrower's current income level.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Cash Reserves

- Requirements**
- 1 Unit: Cash reserves are not required.
  - 2-4 Units: Rental Income **NOT** used to Qualify: Cash reserves are not required.
  - 2-4 Units: Rental Income **USED** to Qualify: A minimum of six months PITI cash reserves are required.
- For all AUS loans, verify all cash reserves available after closing that were submitted to automated underwriting.

### Unacceptable Sources of Assets

- Requirements**
- Sources of funds considered ineligible for asset evaluation include the following:
- Donated funds in any form, such as cash or bonds donated by the seller, builder, or selling agent
  - Proceeds of a personal or unsecured loan unless provided by a family member
  - Cash advances on a revolving charge account or unsecured line of credit
  - A gift that must be repaid in full or in part
  - A gift that was received from an unacceptable donor
  - Materials furnished by the borrower that are not part of a pre-closing agreement with a builder
  - The proceeds from an IRS Tax Code 1031 Exchange on an owner occupied transaction
  - Salary advances
  - Cash for which the source cannot be verified (e.g., garage sales)
  - Cryptocurrency (digital assets such as bitcoins) unless liquidated and trailed into the borrower's bank account
  - Funds in a Custodial or "In Trust For" Account
  - Sweat Equity
  - Trade Equity



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## DEBTS AND OBLIGATIONS

### VA Liabilities and Debt Ratios

#### Overview

The Liabilities and Debt Ratios standards apply to all CMS loan programs.

This section outlines the requirements that represent VA core requirements for manually underwritten loans. Waivers do not apply to state specific compliance restrictions.

Ratios are used to compare the borrower's anticipated monthly housing expense and total monthly obligations to stable monthly gross income. These ratios indicate limitations on the borrower's ability to meet expenses involved in home ownership.

Mortgage ratio requirements are discussed under the following topics:

- Monthly Housing Expenses
- Debt Obligations
- Compensating Factors

#### Shelter Expense/ Monthly Housing Expenses

Monthly housing expenses are required to calculate the anticipated total monthly housing expense-to-income ratio. Housing expense-to-income ratios compare monthly housing expenses to stable gross monthly income. The following are monthly housing expenses:

- Interest payments for loans with Interest Only feature
- Principal and Interest payment on the first mortgage
- Hazard insurance premiums
- Real estate taxes
- Mortgage insurance premium
- Homeowners' association dues
- Documented payments on subordinate financing
- Monthly maintenance (utilities – calculated at \$0.14 per sq. ft. of GLA)
- Leasehold payments
- Ground rent
- Special assessments

#### Total Qualifying Primary Housing Expense-to-Income Ratio

Primary housing expense-to-income ratios compare monthly housing expenses to monthly stable income.

Although VA does not set a maximum primary housing expense-to-income ratio, the underwriter must still evaluate the borrower's ability to meet his financial obligations and future ability to meet the financial obligations when incurring additional debt.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## VA Liabilities and Debt Ratios (continued)

### Monthly Debt Obligations

The borrower's ability to repay mortgage debt is critical in evaluating the overall quality of the loan. CMS assess the borrower's liabilities relating to the number of active accounts, usage, and repayment history. Evaluation of the borrower's capacity includes an assessment of the borrower's financial obligations in relation to income.

The total monthly debt obligations considered is the sum of all housing expenses plus any other monthly expenses incurred by the borrower. Any additional debt obtained as a result of a recent inquiry on the credit report must be included in the monthly debt obligation. See the [Debt Payoff/Pay Down](#) section for information on paying off or paying down debt to qualify.

### Monthly Debt Obligations

Expenses include the following:

- Monthly primary housing expense.
- Installment debt with ten months or more remaining.
- All revolving debt regardless of outstanding balance (in the absence of a stated payment, use 5% of the outstanding balance or a minimum \$10 payment).
- Installment debt with less than ten months remaining where the monthly payment will have a significant impact on the borrower's ability to repay the mortgage debt in its initial months.
- Auto lease payments, regardless of the number of remaining monthly payments.
- 2106 expenses
- Allotments as indicated on the LES or paystub
- Principal and/or interest on short term notes.
- Principal and/or interest payments on balloon notes.
- Mortgage payments and related expenses on any non-income producing real estate.
- Aggregate net negative rental income for, all rental properties.
- Alimony, child support and maintenance payments with ten months or more remaining. Voluntary payment need not be included.

See the [VA Loan Eligibility](#) section for information on the inclusion of a non-purchasing spouses' monthly debt in the monthly debt obligations and debt-to-income ratio calculation.

### Payment Shock Calculation

Payment shock is the percentage of payment increase of the proposed payment compared to the existing payment. Payment shock is calculated by dividing the difference between the proposed payment and the existing payment by the existing payment.

#### Example:

Existing Payment - \$1250

Proposed Payment - \$3000

Difference - \$1750

Calculation:  $\$3000 - \$1250 = \$1750 / \$1250 = 1.40$  or 140%

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### VA Liabilities and Debt Ratios (continued)

#### Debt Pay Off/Pay Down

For qualification purposes, the pay off or pay down of installment debt is permitted. If debts are being paid off or paid down to qualify the borrower, the payoff must be documented and the source of funds verified with sufficient funds remaining for closing costs and reserves.

Significant installment debt (i.e., debt with high balances or large monthly payments) may be included in the debt-to-income ratio at the discretion of the Underwriter.

If an account is paid in full prior to closing, the payoff of revolving accounts is permitted for qualification purposes. The pay off and zero balance must be documented directly from the creditor or be reflected on the HUD-1 Settlement Statement or Closing Disclosure, as applicable.

#### Projected Obligations

Debt payments, such as a student loan or balloon note scheduled to begin or come due within 12 months of the mortgage loan closing must be included in the monthly debt obligations for qualification.

Debt payments do not have to be included in the monthly debt obligations if the borrower provides written evidence that the debt will be deferred (not forbearance) to a period beyond 12 months of the mortgage loan closing.

Balloon notes that come due within 12 months of the mortgage loan closing must be considered in the underwriting analysis.

#### How to Calculate a Student Loan Monthly Payment

If the Veteran or other borrower provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

If a student loan is in repayment or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established in paragraph (1) or (2) below. Calculate each loan at a rate of 5 percent of the outstanding balance divided by 12 months (example: \$25,000 student loan balance x 5% = \$1,250 divided by 12 months = \$104.17 per month is the monthly payment for debt ratio purposes).

1. The lender must use the payment(s) reported on the credit report for each student loan(s) if the reported payment is greater than the threshold payment calculation above.
2. If the payment reported on the credit report is less than the threshold payment calculation above, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s). The statement(s) must be dated within 60 days of VA loan closing and maybe an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer. It is the lender's discretion as to whether the credit report should be supplemented with this information.

#### Income Based Repayment (IBR) Plan

An IBR monthly payment reflecting as \$0 must have at least 12 months or more remaining on the repayment plan after closing in order to be excluded. If the loan repayment falls within 12 months of closing or no payment is verified, the Underwriter must use the student loan payment calculations above.

**Note:** For student loan income-based repayment (IBR) plans, the IBR payment amount may be used without confirming that the payment will not change for at least 12 months after closing.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## VA Liabilities and Debt Ratios (continued)

### Total Qualifying Debt-to-Income Ratios

Debt-to-income ratios compare all monthly obligations/debt payments to monthly stable income. In evaluating the total debt-to-income ratio, the degree and frequency of credit usage and its impact on the borrower's ability to repay the loan must be considered.

When completing VA Loan Analysis VA Form 26-6393, use a figure of 125% of the borrower's non-taxable income when "grossing up". Reminder: back out the gross up amount so as not to affect the residual income.

Housing Expense Ratio Limits		
Type	Loan to Value	Limitations
Fixed Rate	All	43% gross monthly income
Temporary Buy down	All	43% gross monthly income
ARM	All	43% gross monthly income

### Contingent Liabilities

When an individual is held responsible for payment of a debt if another party, jointly or severally obligated, defaults on the payment, this is considered a contingent liability. Not all contingent liabilities will have to be taken into consideration when determining the amount of the borrower's recurring monthly debt obligations. The most common types of contingent liabilities are described below:

#### Mortgage Assumptions

A contingent liability must be included in the borrower's recurring monthly debt obligations when the borrower remains obligated on an outstanding mortgage that meets one of the following factors:

- Has been sold or traded within the last 12 months without a release of liability.
- Is to be sold on assumption without a release of liability being obtained.

The liability does not need to be included if the originating lender of the mortgage being underwritten obtains, from the servicer of the assumed loan, a payment history showing that the mortgage has been current during the previous 12 months.

#### Contingent Liability on Co-signed Obligations

If an individual is a co-signer/co-obligor on a car loan, student loan, mortgage, or any other obligation, contingent liability applies and the debt must be included in the underwriting analysis. The borrower and the individual making the payments must both be liable for the debt repayment.

If written evidence is provided documenting that the primary obligor has been making regular and timely payments during the previous 12 months at a minimum, and does not have a history of delinquent payments on the loan during that time, the payment does not have to be included in the borrower's monthly obligations.

If joint obligations are listed in the final divorce decree and/or separation agreement as being the responsibility of the ex-spouse then they can be omitted from the qualifying DTI calculation. The divorce decree or separation agreement must be finalized by the court and recorded.

**Borrower is still liable for any adverse payment history or outstanding debt associated with these joint accounts that are dated prior to the divorce or separation agreement.**

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## VA Liabilities and Debt Ratios (continued)

### Contingent Liabilities, continued

#### Liabilities Paid by the Business

When the borrower indicates on the loan application that certain liabilities are paid by the business (does not include sole proprietor Schedule C), it must be confirmed that the obligation was paid from company funds and meets the following requirements:

- Accountant verifies that the loans are paid by the business.
- Minimum of 12 months of canceled checks is required documenting the debt is paid by the business.

### Other Considerations

#### Condominium Fees

The portion of the condominium fee that is clearly attributable to utilities may be subtracted from the mortgage payment before calculating ratios as long as proper documentation is provided.

#### New Construction Tax Escrow

In supplemental tax states, taxes are based on the reasonable estimate of the improvement value, not the existing tax based on the unimproved or land value. This reduces the payment shock to borrowers when taxes are adjusted upon completion of the improvement.

### Compensating Factors

Compensating factors may affect the loan decision. These factors are especially important when reviewing loans which are marginal with respect to residual income or debt-to-income ratio. They cannot be used to compensate for unsatisfactory credit.

Valid compensating factors should represent unusual strengths rather than mere satisfaction of basic program requirements. For example, the fact that an applicant has sufficient assets for closing purposes, or meets the residual income guideline, is not a compensating factor.

Valid compensating factors should logically be able to compensate (to some extent) for the identified weakness in the loan. For example, significant liquid assets may compensate for a residual income shortfall whereas long-term employment would not.

Compensating factors include, but are not limited to the following:

- excellent credit history,
- conservative use of consumer credit,
- minimal consumer debt,
- long-term employment,
- significant liquid assets,
- sizable down-payment,
- the existence of equity in refinancing loans,
- little or no increase in shelter expense,
- military benefits,
- satisfactory homeownership experience,
- high residual income,
- low debt-to-income ratio,
- tax credits for child care, and
- tax benefits of home ownership.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## VA Liabilities and Debt Ratios (continued)

### Child Care Expense

A Child Care Letter or Certification is required. The letter or certification must include the following:

- Who cares for the child or children
- Where the child-care is located
- What is the total monthly cost of the child-care

### Non-Occupant Co-Borrowers

Non-occupant co-borrowers are not allowed on VA transactions.

## Debts and Obligations

### Verification

Significant debts and obligations of the applicant must be verified and rated. Obtain a credit report.

For obligations not included on the credit report which are revealed on the application or through other means, the lender must obtain a verification of deposit showing the obligation or other written verification directly from the creditor. The lender must also separately verify accounts listed as “will rate by mail only” or “need written authorization.”

When a pay stub or LES statement indicates an allotment, the lender must investigate the nature of the allotment to determine whether the allotment is related to a debt.

For obligations that have not been rated on the credit report or elsewhere, obtain the verification and rating directly from the creditor. Include a written explanation for any obligation that is not rated.

Resolve all discrepancies. If the credit report or deposit verification reveals significant debts or obligations which were not divulged by the applicant:

- obtain clarification as to the status of such debts from the applicant, then
- verify any remaining discrepancies with the creditor.

Credit reports and verifications must be no more than 120 days old (180 days for new construction).

For automatically closed loans, this means the date of the credit report or verification is within 120 days of the date the note is signed (180 days for new construction).

For prior approval loans, this means the date of the credit report or verification is within 120 days of the date the application is received by VA (180 days for new construction).

ECOA prohibits requests for, or consideration of, credit information on a spouse who will not be contractually obligated on the loan except:

- if the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse), or
- in community property states.
  - If the property is located in a community property state, VA requires consideration of the spouse’s credit information (whether or not the spouse will be personally liable on the note and whether or not the applicant and spouse choose to have the spouse’s income considered).



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Debts and Obligations (continued)

### Verification of Alimony and Child Support Obligations

The payment amount on any alimony and/or child support obligation of the applicant **must** be verified.

Do **not** request documentation of an applicant's divorce unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant. If, however, in the routine course of processing the loan, the lender encounters direct evidence (such as, in the credit report) that a child support or alimony obligation exists, make any inquiries necessary to resolve discrepancies and obtain the appropriate verification.

Spousal support may be treated as a reduction in income on VA Form 26-6393, Loan Analysis.

Child support payment is treated as a liability on VA Form 26-6393, Loan Analysis.

### Analysis of Debts and Obligations

Significant debts and obligations include:

- debts and obligations with a remaining term of 10 months or more; that is, long-term obligations, and
- accounts with a term less than 10 months that require payments so large as to cause a severe impact on the family's resources for any period of time.

**Example:** Monthly payments of \$300 on an auto loan with a remaining balance of \$1,500, even though it should be paid out in 5 months, would be considered significant. The payment amount is so large as to cause a severe impact on the family's resources during the first, most critical, months of the home loan.

Determine whether debts and obligations which do **not** fit the description of "significant" should be given any weight in the analysis. They may have an impact on the applicant's ability to provide for family living expenses.

If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's debts and obligations in a non-community property state. However, in community property states, the spouse's debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Debts assigned to an ex-spouse by a divorce decree will not generally be charged against a veteran-borrower. This includes debts that are now delinquent.

### Borrower(s) as Co-obligor/Co-signor on a Loan or Obligations

The borrower(s) may have a contingent liability based on co-signing a loan. The lender may exclude the loan payments from the monthly obligations factored into the net effective income calculation in the loan analysis if:

- there is evidence that the loan payments are being made by someone else and the obligation is current, and
- there is not a reason to believe that the borrower will have to participate in repayment of the loan.

### Pending Sale of Real Estate

A borrower(s) may have a current home and the sale of the real property is needed to complete the transaction. The lender may disregard the payments on the outstanding mortgage(s) and any consumer obligations which the Veteran intends to clear if available information provides a reasonable basis for concluding the equity to be realized from the sale will be sufficient for this purpose.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Debts and Obligations (continued)

### Secondary Borrowing

If the applicant plans to obtain a second mortgage simultaneously with the VA-guaranteed loan include the second mortgage payment as a significant debt.

From an underwriting standpoint, the veteran must **not** be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

Secondary financing may not be used to make up for a shortfall in veteran entitlement.

### Deferred Student Loan Payments

If the borrower(s) provides written evidence that the student loan debt will be deferred at least 12 months beyond the date of closing, a monthly payment does not need to be considered.

If a student loan is in repayment, or scheduled to begin within 12 months from the date of VA loan closing, the lender must consider the anticipated monthly obligation in the loan analysis and utilize the payment established by calculating each loan at a rate of five percent of the outstanding balance divided by 12 months.

**Example:** A borrower has a \$25,000 student loan balance and you multiple it by 5%, which equals \$1,250. This amount (\$1,250) is divided by 12 months to equal a monthly payment of \$104.17.

If the payment(s) reported on the credit report for each student loan(s) is greater than the threshold payment calculation above in a above, the lender **must** use the payment recorded on the credit report.

If the payment(s) reported on the credit report is less than the threshold payment calculation above, in order to count the lower payment, the loan file must contain a statement from the student loan servicer that reflects the actual loan terms and payment information for each student loan(s).

The statement(s) must be dated within 60 days of VA loan closing, and may be an electronic copy from the student loan servicer's website or a printed statement provided by the student loan servicer.

The credit report may be supplemented with this information.

### Loans Secured By Deposited Funds

Certain types of loans secured against deposited funds (signature loans, cash value life insurance policies, 401K loans, etc...) in which repayment may be obtained through extinguishing the asset, do not require repayment consideration for loan qualification.

**Note:** Assets securing these loans may not be included as an asset in the loan analysis.

Use the current balance times 60 percent minus the loan balance to equal the usable amount to consider as an asset.

A statement would only be necessary to verify the amount used as an asset.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Debts and Obligations (continued)

### Open 30-Day Charge Accounts

An open 30-day charge account is defined as an account in which the borrower(s) must pay off the outstanding balance on the account every month.

For open 30-day charge accounts, determine if the borrower(s) pays the balance in full each month, and has verified funds to cover the account balance in addition to any funds required for closing costs.

- If there are sufficient funds, the payment does not need to be included in Section D of the VA Form 26-6393, Loan Analysis, but the obligation should continue to be listed.

If there are not sufficient funds, a minimum payment of 5 percent of the balance should be considered included in Section D of the VA Form 26-6393, Loan Analysis.

## Debts Owed to the Federal Government

### Title Search Requirements

The lender is responsible for obtaining the necessary title search to ensure there are no encumbrances that would preclude the borrower from obtaining a loan.

### Repayment Requirements

When a debt owed to the federal government presents itself on a credit report, title report, LES, or similar, then one of the following must accompany the loan package:

- evidence of payment in full of the debt, or
- evidence of a current payment plan acceptable to VA and evidence that the Veteran executed a promissory note for the entire debt balance.

VA may find a repayment plan acceptable if:

- the Veteran has been satisfactorily making payments on a repayment plan in effect prior to the lender's inquiry,
- the Veteran's overall credit history and anticipated financial capacity after the proposed loan is made indicate a reasonable likelihood that the repayment plan will be honored and the outstanding amount of indebtedness is not so large that it would prevent payment in full, within a reasonable period (approximately 1 year), or
- the case involves unusually meritorious circumstances.

### Examples

Consideration would be given to a Veteran with an outstanding/excellent credit history and adequate income whose debt balance is too large to be reasonably paid out in less than 18 months to 2 years.

VA will offer special consideration to a Veteran's claim that he or she was not previously aware of an overpayment of benefits.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Debts Owed to the Federal Government (continued)

### What is the Credit Alert Verification Reporting System (CAIVRS)?

CAIVRS is a Department of Housing and Urban Development (HUD) maintained computer information system which enables participating lenders to learn when a borrower has previously defaulted on a federally-assisted loan. More information can be found at: [hud.gov/caivrs](http://hud.gov/caivrs)

The database includes default information from the Department of Agriculture, Department of Education, Department of Justice, HUD, Small Business Administration, Federal Deposit Insurance Corporation, and VA.

The VA default information included in the database relates to:

- overpayments on education cases,
- overpayments on disability benefits income, and
- claims paid due to home loan foreclosures which resulted in a debt of the government (Generally type 2 VA loans).

### CAIVRS Procedures

A CAIVRS inquiry must be performed for all borrowers and co-borrowers (Veteran or non-Veteran) on all VA loans, including IRRRLs. The one exception to this policy is that CAIVRS is not required for non-purchasing spouses in community property states.

VA assigns a 10-digit VA lender identification number (ID) to each new lender, then automatically forwards the ID number to HUD with a request to grant the lender CAIVRS access. The lender can begin accessing CAIVRS usually between 7 to 10 business days after receiving its VA ID number assignment.

To register for CAIVRS access for first time users, please use the following link: <https://entp.hud.gov/idapp/html/f57register.cfm>.

Please direct questions concerning problems encountered with accessing CAIVRS to [caivrs\\_admin@hud.gov](mailto:caivrs_admin@hud.gov).

If the borrower(s) is found to have a delinquent federal debt through CAIVRS, the validity and delinquency status of the debt should be verified by contacting the creditor agency using the contact phone number and case number reflected on the borrower's CAIVRS report.

The creditor agency that is owed the debt can verify that the debt has been resolved. Documentation should be included in the loan file and an explanation must be provided on [VA Form 26-6393](#), *Loan Analysis*. It is not necessary for CAIVRS to update the number if documentation is included in the loan file.

Once screening is complete, enter the CAIVRS confirmation code on [VA Form 26-6393](#), *Loan Analysis*, in the space to the right of the "no" block in item 46 for purchase and refinances.

For IRRRLs, enter the code on [VA Form 26-8923](#), *IRRRL Worksheet*, in the Notes section.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Debts Owed to the Federal Government (continued)

### Borrower with Presently Delinquent Federal Debts

When CAIVRS or another source indicates that the borrower has a delinquent Federal debt, the following steps must be taken:

- Suspend processing of the loan application to determine the reason for the non “A” number.
- Give full consideration to the CAIVRS information, and any subsequent clarifying information or documentation provided, in applying VA credit standards. Any non “A” number received does not automatically disqualify a Veteran from using their home loan benefit; however, the lender must document and justify the approval. See Topic 7, subsection b of this chapter for documentation and explanation requirements.
- If a previous VA loan is involved that resulted in a debt to the government (due to foreclosures, short sale, deed in lieu, or other), the borrower may contact the VA Debt Management Center at 1-800-827-0648 or at [dmc.ops@va.gov](mailto:dmc.ops@va.gov) to make arrangements to repay the debt.

Generally, only type 2 VA loans (fifth digit of the VA loan number) result in a debt to VA and are reported. The Veteran’s entitlement cannot be restored until the debt to VA is paid in full.

If the fifth digit of the previous loan number is a type 6 VA loan, there is generally a loss to the government and the loss is not reported to CAVIRS. A loss to VA does not need to be repaid; however, the Veteran’s previously used entitlement to guaranty the previous VA loan is not restored until the loss is paid in full.

Each agency has their timeliness requirements before removing a non “A” CAVIRS finding. This does not preclude the Veteran or borrower from receiving a VA loan if credit standards are met for VA loans. See Topic 4.07b (13 and 14) of this Chapter for guidelines after a bankruptcy or foreclosure.

**Example:** A borrower suffered a loss on a FHA loan home loan 2 years ago. While HUD has not removed the CAIVRS finding as the 3-year waiting period has not passed for FHA, the lender is eligible to continue processing a VA loan without an “A” CAIVRS finding due to the borrower(s) meeting VA credit guidelines for foreclosures and documented in the loan file.

CAIVRS information is only for the lender’s and borrower’s use in processing the loan application. Only those persons having responsibility for screening borrowers and/or co-borrowers may use CAIVRS. Any other use is unauthorized.

### Treatment of Federal Debts

A borrower(s) cannot be considered a satisfactory credit risk if he or she is presently delinquent or in default on any debt to the Federal Government until the delinquent account has been brought current or satisfactory arrangement have been made between the borrower and the Federal agency.

**Example:** A borrower has delinquent taxes and payments have not been made for several years. The establishment of a payment plan after the CAVIRS finding has been addressed may not be sufficient to show a satisfactory payment arrangement to repay the obligation.

A borrower(s) cannot be considered a satisfactory credit risk if he or she has a judgment lien against his or her property for a debt owed to the Government until the judgment is paid or otherwise satisfied.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## APPRAISAL INDEPENDENCE

### Overview

The VA appraisal requirements ensure and safeguard appraiser independence and enhance the overall appraisal process to provide a greater level of integrity to the appraisal ordering process and appraiser contact.

### Appraisal Selection

All VA appraisals must be completed by a VA approved appraiser. The appraisal is ordered through the VA Portal.

CMS is responsible for timely issuing a NOV within 5 business days of the appraisal being uploaded to the VA Portal. Additionally, CMS is responsible for ensuring the appraiser is paid within 30 days of receipt of the appraisal.

Mortgagees and third parties working on behalf of mortgagees are prohibited from:

- Withholding or threatening to withhold timely payment or partial payment for an appraisal report.
- Withholding or threatening to withhold future business for an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser.
- Expressly or impliedly promising future business, promotions or increased compensation for an appraiser.
- Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion or valuation to be reached, or on a preliminary value estimate requested from an appraiser.
- Requesting that an appraiser provide an estimated, predetermined or desired valuation in an appraisal report prior to the completion of the appraisal report, or requesting that an appraiser provide estimated values or comparable sales at any time prior to the appraiser's completion of an appraisal report.
- Providing to the appraiser an anticipated, estimated, encouraged or desired value for a subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase must be provided.
- Providing to the appraiser, appraisal company, appraisal Management Company or any entity or person related to the appraiser, Appraisal Company or Management Company, stock or other financial or non-financial benefits.
- Allowing the removal of an appraiser from a list of qualified appraisers or the addition of an appraiser to an exclusionary list of qualified appraisers, used by any entity, without prompt written notice to such appraiser, which notice shall include written evidence of the appraiser's illegal conduct, a violation of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards, improper or unprofessional behavior or other substantive reason for removal.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Appraisal Independence (continued)

### Appraisal Selection (continued)

- Ordering, obtaining, using, or paying for a second or subsequent appraisal or automated valuation model (AVM) in connection with a mortgage financing transaction unless: 1) there is a reasonable basis to believe that the initial appraisal was flawed or tainted and such appraisal is clearly and appropriately noted in the loan file, or 2) unless such appraisal or automated valuation model is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control process or underwriting guidelines, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value; or

Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality or violates law or regulation, including, but not limited to: the Truth in Lending Act (TILA) and Regulation Z and USPAP.

### Safe Harbor Act for Appraisals

To ensure that the appraisal will meet the "safe harbor" protection of the HPML Appraisal Rule, the list of requirements below must be met:

- The appraisal must be ordered from a certified or licensed appraiser in the state where the property is located and require the appraiser to follow USPAP and Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and any implementing regulations in effect at the time the appraiser signs the appraiser certification.
- CMS must confirm the appraisal:
  - identifies the creditor who ordered the appraisal, the property and the interest being appraised,
  - indicates whether the appraiser analyzed the contract price,
  - addresses conditions in the property's neighborhood,
  - addresses the condition of the property and any improvements to the property,
  - indicates which valuation approaches the appraisal used and includes a reconciliation, if the appraiser used more than one valuation approach,
  - provides an opinion of the property's market value and an effective date for the opinion,
  - indicates that the appraiser performed a physical property visit of the interior property, and
  - includes a certification signed by the appraiser that the appraisal was prepared in accordance with the requirements of USPAP and Title XI of FIRREA and any implementing regulations,
- CMS must check the status of the appraiser.
  - Use the National Registry to verify the appraiser is certified or licensed in the state where the property is located on the date the appraiser signed the appraiser's certification.

The Safe Harbor applies only if CMS does not have actual knowledge contrary to the facts or certification contained in the written appraisal.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Appraisal Documentation

### Required Appraisal Forms

The appraisal form and attachments must be prepared by a VA approved appraiser. VA will accept appraisals prepared on one of the following forms:

- Uniform Residential Appraisal Report (URAR) Fannie Mae form 1004 for single-family dwellings
- Individual Condominium Unit Appraisal Report Fannie Mae form 1073 for individual condominium units
- Small Residential Income Property Appraisal Report (Fannie Mae form 1025) for 2 to 4 unit properties

### Street Map

- Showing location of subject and each comparable sale
- Additional maps if sales are a substantial distance away from the subject.

### Building Sketch

- Gross living area calculations
- Exterior dimensions of dwelling, basement, and any other improvements contributing value
- Basement may be shown in relation to the floor plan of the house instead of separately
- Floor plan layout (interior room dimensions and partitioning are not required)

### Photographs

- Clear and labeled
- Front and rear taken at opposite angles to show all sides of the dwelling if possible
- Improvements with contributory value
- Minimum Property Requirement (MPR) repair items
- Street scene
- Any views affecting value
- Kitchen
- Main living area
- Bathrooms
- Any recent updates, remodeling or renovation
- Front view of each comparable sale (real estate marketing photographs are acceptable with an explanation, for example, to exhibit condition at the time of sale, or if a comparable sale is in a gated community that was not accessible to the appraiser)
- For condominiums, if the subject and sales are in the same building or identical buildings, the appraiser may comment instead of providing photographs of the sales

### Repair List

- Itemized list of any observed MPR repairs or customer preference items to be installed on new construction appraisals
- May be included directly on the appraisal form



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Appraisal Transfer (Case Number Assignment after Completion of Appraisal)

### Overview

A VA case number and appraisal ordered by one lender may be assigned to another lender. This may become necessary if the borrower changes lenders.

The lender holding the appraisal is required to transfer the appraisal to the new lender within a reasonable time frame of borrower's request. If the lender fails to transfer the appraisal, the borrower or LAPP Underwriter may contact VA directly and request the appraisal to be transferred. For any request to have the appraisal transferred, the SAR/LAPP Underwriter is required to determine if the Borrower was denied credit, and if so, the reason for the denial. This information may be obtained from the Borrower or the other lender.

If the NOV was issued by the other lender, the appraisal must be transferred to Carrington through the VA Portal. Carrington is then required to re-issue the NOV in Carrington's name.

### Second Appraisal

The Client may order a second appraisal in the circumstances below:

- The first appraisal contains material deficiencies as determined by the LAPP Underwriter and concurred with by VA.
- The appraiser on the first appraisal refuses to provide additional information requested by the LAPP Underwriter and deficiencies prevent the LAPP from issuing the NOV.
- Appraiser performing the first appraisal is on CMS' exclusionary list of appraisers. In this instance, the second appraisal must be paid for by the lender.
- Failure of the initial lender to provide a copy of the appraisal to the Client in a timely manner causing a closing delay, thus posing potential harm to the Borrower (events that are outside the Borrower's control, such as loss of interest rate lock, purchase contract deadline, foreclosure proceedings and late fees).

If a second appraisal is ordered:

- Do not order a new LIN.
- The SAR/LAPP Underwriter must document and retain in the loan file the explanation for why the second appraisal was ordered.
- The veteran cannot be charged if the second appraisal was required by the lender. If the veteran requests a second appraisal, the veteran can pay this fee.

Both appraisals must be retained in the loan file.

### Converting to VA Appraisal after Completion

Appraisals may not be converted from another agency (such as Conventional, FHA, or UDSA) to VA. All VA appraisal orders must be initiated through webLGY where the VA will assign the eligible appraiser for the subject property's case.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Assisted Appraisal Processing Program (AAPP)

### Assisted Appraisal Processing Program (AAPP)

VA permits VA fee panel appraisers to utilize the Assisted Appraisal Processing Program (AAPP) process and rely on information provided by other appraisers. Carrington Mortgage Services, LLC (CMS) will accept AAPP appraisals on VA loans as this new process improves service to veteran borrowers in rural areas and should reduce overall appraisal turn times.

#### AAPP Process

VA does not require fee panel appraisers to participate in the AAPP process; however, if they do participate then both appraisers must enter into an agreement for such services. Under AAPP, the initial appraisal report may be completed by a non-VA panel appraiser. The AAPP appraiser is required to be knowledgeable of all VA requirements and minimum property standards. All VA fee panel appraisers participating in the AAPP process must continue to follow all applicable VA statutes, regulations, and policies, as well as the policies and procedures outlined in VA Circular 26-19-31.

Both appraisers' names are entered on the appraisal. The assisting appraiser is entered on the left side of the report under the "Appraiser" section. The VA fee panel appraiser must sign as the "Supervisory Appraiser" as they are ultimately responsible for the appraisal. The appraisal must contain the following statement:

"I participated in VA's Assisted Appraisal Processing Program to complete this appraisal report. The final opinion of value for the subject property is based upon my supervisory status and analysis of all available information. The person who provided information to me to assist in the opinion of value is: Full name (First/Middle/Last), license number, date of expiration, state of issuance of the person. I take full responsibility for any errors in and/or omissions from this appraisal report."

#### Please note: AAPP may not be utilized for the following:

- New Construction
- Sales price or value above \$1 Million
- Complex appraisals
- Tidewater Initiative (Value will come in lower than the sales price)

The veteran is not permitted to pay an additional fee for the VA fee panel appraiser's use of an AAPP appraiser. The VA fee panel appraiser is responsible for paying any fees charged by the AAPP appraiser as per their agreement. As a reminder, VA fee panel appraisers must comply with all USPAP standards, VA regulations and policies and any other federal, state, or local requirements.

#### Underwriting Requirements

CMS SARs will continue to review all VA appraisals in detail in addition to completing the Notice of Value (NOV) on webLGY. When an AAPP appraisal is received, Underwriters are responsible for verifying:

- The VA fee panel appraiser's and AAPP appraiser's information and signatures are entered on the appraisal report form as required,
- AAPP has not been utilized on an ineligible transaction,
- The VA fee panel appraiser's AAPP "final opinion of value" statement has been made,
- The "Supervisory Appraiser" checkbox has been selected in Encompass and Assisting Appraiser's name, company name (if different), and license number have been entered in the "2nd Appraiser" fields.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Uniform Appraisal Dataset (UAD)

#### Overview

VA has adopted the Uniform Appraisal Dataset (UAD) standard and requires UAD compliant appraisal reports. UAD standardization does not change existing VA policy on Minimum Property Requirements (MPR), property eligibility or appraisal inspection requirements.

The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. The appraiser must incorporate the UAD quality rating (Q1, Q2, Q3, Q4, Q5, or Q6) that best describes the overall quality of the subject property and each comparable property. Additionally, the appraiser must incorporate the UAD condition rating (C1, C2, C3, C4, C5 or C6) that best describes the overall condition of the property.

#### Condition

The appraiser must consider and describe the overall condition of the property improvements. The appraiser should be specific about needed repairs, additional features, modernization, etc., and should provide a supporting addenda, if necessary.

The property must receive a condition rating. The condition rating must reflect a holistic view of the condition of the property improvements. If a property has deficiencies or defects that are severe enough to affect the safety, soundness or structural integrity of the improvements, then the property's condition must be rated C6. The appraisal report must contain additional commentary, descriptions, and explanations as required, to understand the property condition.

Properties with a condition rating of C1, C2, C3, C4, or C5 are acceptable in "as is" condition. Properties with a condition rating of C6 or C6 in "as is" condition or "subject to repairs" are not acceptable.

It is acceptable for an appraisal to be completed subject to repairs or alterations required for the subject property to be rated C5 (or better). If the appraisal is completed subject to repairs or alterations, the UAD condition rating must reflect the overall condition of the subject property as if the repairs or alterations have been completed (C5 or better).

Properties with a C6 condition at time of inspection should be appraised subject to all repairs and alterations necessary to bring the property into C5 (or better) condition. The condition rating on the appraisal report must show C5 (or better) as if the repairs or alterations have been completed.

A Fannie Mae Form 1004D/Freddie Mac Form 442 Appraisal update must be completed prior to closing or loan purchase for any appraisal report "subject to repairs" prior to closing or purchase.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Uniform Appraisal Dataset (UAD) (continued)

Condition  
(continued)

Rating	Description
C1	<p>The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling has no physical depreciation.</p> <p><b>Note:</b> Newly constructed improvements that feature recycled materials and/or components can be considered new dwelling provided that the dwelling is placed on a 100% new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition.</p> <p>Recently constructed improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</p>
C2	<p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p>
C3	<p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p>
C4	<p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.</p>
C5	<p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability is somewhat diminished due to condition, but the dwelling remains usable and functional as a residence.</p>
C6	<p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Uniform Appraisal Dataset (UAD) (continued)

### Quality

CMS does not provide minimum specifications for materials and construction. The appraiser must consider and describe the overall quality of the property improvements.

The selected quality rating must reflect a holistic view of the quality of construction. A quality rating of Q6 is not acceptable. The issues that caused the Q6 rating must be cured prior to closing. Items that may be required to be cured include:

- Modifying the property to make it habitable for year-round occupancy.
- Upgrading electrical, plumbing, and other mechanical systems to community standards.
- Correcting substandard or nonconforming additions to the original structure.
- Curing any other quality related items needed to make the subject property acceptable to typical buyers in the market area.

CMS will close on loans with an appraisal report with a Q1, Q2, Q3, Q4, or Q5 quality rating in either “as is” condition or “subject to repairs.”

The Appraiser must complete a Fannie Mae Form 1004D/Freddie Mac Form 442 Appraisal Update, Compliance Inspection Report or Clearance Letter on letterhead prior to closing or loan purchase for any appraisal report “subject to repairs” prior to closing or purchase.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Uniform Appraisal Dataset (UAD) (continued)

### Quality (continued)

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exception high-quality exterior refinement and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwelling with this quality rating are residences of higher quality build from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner's site. The design includes significant exterior ornamentation and interior that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from "stock" standards.
Q4	Dwelling with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwelling feature a plain design using readily available or basic floor plans featuring minimal fenestration (i.e., the design and disposition of windows and other exterior openings of a building) and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive stock materials with limited refinements and upgrades.
Q6	Dwelling with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans. Often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwelling may feature one or more substandard or nonconforming additions to the original structure.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Uniform Appraisal Dataset (UAD) (continued)

### Quality (continued)

- Including inaccurate data about the property site or comparables, such as:
  - Failure to recognize the property is in a flood zone
  - Failure to correctly identify public water and sewer versus private systems
- Failure to accurately report all readily observable property defects and adverse conditions that affect the property marketability, such as:
  - Defective construction
  - Fire or flood damage
  - Termite/insect damage
  - Roof has signs of leaking or excessive water
  - Negative grading/poor drainage
  - Observable evidence of foundation damage
- Failure to report major defects which may impair the health or safety of the property occupants, such as:
  - Obvious electrical inadequacies such as frayed wiring
  - Lead Based Paint when property built prior to 1978 and there is evidence of defective paint (Chipping, flaking)
  - Hazards such as toxic chemicals, excessive noise or contaminated water or soil
- Failure to report conflicts of interest
- Use of data, particularly comparable sales data that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. It would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is handling the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparables provided were the best ones available
- Not disclosing that the seller was related to the appraiser
- Failure to obtain timely and suitable comparable data
- Not verifying the sales information through public records or with a copy of the sales contract
- Using listings instead of actual sales without explanations
- Comparable sales over 12 months old
- Comparables that are not within a reasonable distance from the subject
- Comparables that are physically unlike the subject
- Value conclusions not supported by data and analysis in appraisal report
- The appraiser makes adjustments to the comparables which exceed 15% net and/or 25% gross of the sales price without an explanation



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Uniform Appraisal Dataset (UAD) (continued)

### Quality (continued)

- Failing to report verified sales concession like seller paid points or closing costs
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparables, or the failure to make adjustments when they are clearly indicated

## Property and Project Types

### Ineligible Property/ Project Types

- Cooperative homes or apartments
- Commercial properties
- Condo-Hotel
- Houseboats
- Mobile Home
- Single-wide manufactured home
- Properties containing more than one manufactured home
- Multi-family dwelling containing more than four units
- Properties located within designated Coastal Barrier Resource System (CBRS) areas
- Properties used for commercial or industrial purposes
- Properties with deed restrictions. See Eligible Property Types for 55+ age restricted communities.
- Shared lots (included condominiums) with undivided interests
- Time share units/projects
- Unimproved land
- Working farm, ranch or orchard

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Eligible Property Types

#### Mixed-Use Property

A Mixed-use Property is a property primarily used as a residence, but is also used for a small, commercial purpose.

Mortgages that are secured by properties that have a business use in addition to a residential use, such as a property with space set aside for a daycare facility, a beauty or barber shop, a doctor's office, a small neighborhood grocery or specialty store, etc. are acceptable however special eligibility criteria must be met. Therefore, the appraiser must provide an adequate description of the mixed-use characteristics of the Mortgaged Premises in the appraisal report. Mixed-use Property must meet the following:

- The property must be a one-unit property that the borrower occupies as his or her principal residence
- The property must be primarily residential in nature
- The mixed-use of the property must represent a legal, permissible use of the property under the local zoning requirements
- The mixed use must be subordinate to the property's residential use
- The mixed use of the property must not exceed 25% of total floor area
- The property must not have any existing (or plans for) special use modifications that would require a significant expenditure to convert back if the property were again used solely for residential purposes
- Commercial enterprises, boarding houses, hotels, motels, tourist houses, private clubs, sanitariums, and fraternity or sorority houses are ineligible

#### Condominium

A condominium is a real estate project in which each unit owner has title to a unit in a building, an undivided interest in the common elements of the project, and sometimes-exclusive use of certain common elements. The unit owner does not own the land or improvements. A condominium project is real estate that includes the separate ownership fee, or an acceptable Leasehold Estate of a specific residential unit with an undivided interest in the real estate designated for common ownership solely by unit owners. For requirements, see the [Leasehold Estates](#) section.

A condominium project is created according to local and state statutes. The structure is two or more units with the interior airspace individual owned. The balance of the property (land and building) is owned in common by the individual unit owners.

For approval procedures and classification information, see the [Condominium Projects](#) section in this section.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Eligible Property Types (continued)

### Planned Unit Development (PUD)

A PUD is a real estate project in which each unit owner has title to a residential lot and building and a nonexclusive easement on the common areas of the project. The owner may have an exclusive easement over some parts of the common areas (e.g., parking space).

- The individual unit owners own a parcel of land improved with a dwelling. This ownership is not in common with other unit owners.
- The development is administered by a homeowners' association (HOA) that owns and is obligated to maintain the common elements (i.e., greenbelts, recreation facilities, and parking areas) within the development for the common use and benefit of the unit owners.
- The unit owners have an automatic, non-severable interest in the homeowners' association (HOA) and pay a mandatory assessment.
- Must be a single-family residence.

VA loans that are in attached PUD projects required 100% of the insurable replacement cost of the unit's exterior and interior improvements, whether originally installed or subsequently upgraded. When the HOA Master/Blanket Policy does not provide coverage for the interior (or "walls in" coverage) of the project units, then the borrower is responsible for obtaining a walls in policy for the individual unit. Coverage between the project's Master or Blanket Policy and the walls in Policy must cover 100% of the insurable replacement cost of the unit's exterior and interior improvements. Interior coverage must be 100% sufficient to repair the interior of the units, including any additions, improvements, and betterments (e.g., kitchen cabinets, lighting, flooring, plumbing fixtures such as toilets and tubs, etc.) to its original condition in the event of a loss.

### Deed Restrictions

Communities where the minimum age requirement is 55 and over is permitted. No other deed restrictions are permitted.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Environmental Hazards

### Requirements

The property must be free of all foreseeable hazards and adverse conditions that may affect the health and safety of the occupants that may affect the structural soundness of the improvements or may impair the customary use and enjoyment of the property.

Environmental hazards include toxic chemicals, radioactive materials, other pollution, hazardous activities, potential damage from soil or other differential ground movements, ground water, inadequate surface drainage, flood, erosion, excessive noise, defective lead base paint and other hazards on or off site.

If the real estate broker, the property seller, the property purchaser, any employee of CMS, or any other party to the mortgage transaction reveals that an environmental hazard exists in or on the property or in the vicinity of the property, that information must be disclosed to the appraiser and the individual mortgage file must be noted accordingly. (Such information must be disclosed to the borrower, and must comply with any state or local environmental laws regarding disclosure.)

When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property) - such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, radon gas, etc. it must be noted on the appraisal report and any influence that the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal) must be commented on. Appropriate adjustments in the overall analysis of the property's value must be made.

The appraiser is not considered an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. However, the appraiser has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal or information readily available through local news sources.

The rejection of a location is warranted only in instances where the property is subject to hazards, noxious odors, offensive sights or excessive noises to the point of endangering the physical improvements or seriously affecting the safety of its occupants. In general, a particular environmental hazard may have a significant effect on the value of the subject property. If the actual impact is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable estimate of market value because there is no comparable market data (such as sales, contract sales, or active listings) available to reflect the impact of the hazard, the property is not acceptable.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Environmental Hazards (continued)

### Requirements (continued)

A mortgage secured by a property that is affected by an environmental hazard is acceptable if the impact of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal. The appraiser must reflect in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicate that the comparable market data reveals no buyer resistance to the hazard. In the situation where the property is located in a neighborhood affected by radon gas or the presence of hazardous wastes, the appraiser is expected to reflect any adverse effect or buyer resistance that is demonstrated and measurable through the available comparable market data. Therefore, when a property is located in a neighborhood that has a relatively high level of radon gas or is near a hazardous waste site, the appraiser is expected to consider and use comparable market data from the same affected area because the sales prices of the settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on the value and marketability of the subject property.

The appraiser is expressly required to comment on the appraisal report about any environmental hazard's influence on the property's value and marketability. The appraiser and/or underwriter must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage requested. Sound judgment must be exercised in determining the acceptability of the property. For example, since the appraiser is required to comment on a hazard's effect on the subject property's marketability and value, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the Direct Endorsement Underwriter has reason to believe that a property's private well water might be contaminated as the result of its proximity to hazardous waste sites, the Direct Endorsement Underwriting is exercising sound judgment if it obtains a "well certification" to determine whether the water meets community standards.

The underwriter is relying on the appraiser's knowledge of VA requirements to perform an accurate and detailed evaluation of the property. Based on the appraisers' findings, the appraiser and/or the underwriter should be making the appropriate requirements for correction.

### Locations Near High-Pressure Gas and Liquid Petroleum Transportation Lines

- No part of the structure can be less than 10 feet from the outer boundary of the pipeline easement for high pressure gas and liquid petroleum transmission lines.
- When new construction or subdivision land planning is proposed in areas outside the 10 foot limit, but within an area that extends 220 yards on either side of the center line of such high pressure transmission line, the builder shall be required to provide VA with a written statement from an authorized official of a gas pipeline company:
  - Certifying compliance of Title 49, Transportation of the Code of Federal Regulations.
  - Certifying that the pipeline complies with all codes and amendments thereto.
  - The builder must obtain the written statements prior to VA acceptance of applications for commitments on individual property.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Environmental Hazards (continued)

### **High-Voltage Electric Transmission Lines**

No part of any residential structure may be located within a high voltage electric transmission line easement. Any detached improvements even partially in a transmission line easement will not receive value for VA purposes. If the property is within 100 feet from the nearest boundary of a high voltage electric transmission line easement, the appraiser must comment in the appraisal.

### **Operating and Abandoned Oil and Gas Wells**

Operating and abandoned oil and gas wells pose potential hazards to housing, including potential fire, explosion, spray and other pollution.

#### **Operating Wells**

- Existing Construction - No existing dwelling may be located closer than 300 feet from an active or planned drilling site boundary. (This applies to the site boundary, not to the actual well site / location).
- New and Proposed Construction - If an operating well is located in a single-family subdivision, no new or proposed construction may be built within 75 feet of the operating well unless mitigation measures are taken.

#### **Abandoned Wells**

A letter may be obtained from the responsible authority within the state government indicating the well was safely and permanently abandoned. Once the letter is obtained, the appraiser should also be given a copy of it. The appraiser must note the location of the well and verify the existence of the letter on the appraisal report.

When such a letter is provided, the dwelling may be no closer than 10 feet from the abandoned well. If the state will not issue the letter, the dwelling must be located at least 300 feet from the abandoned well.

#### **Hydrogen Sulfide Gas Wells (Sour Gas Wells)**

Hydrogen sulfide gas wells are extremely hazardous.

### **Operating and Abandoned Stationary Fuel Storage Tanks**

#### **Operating Storage Tanks**

Properties within 300 feet of a stationary storage tank containing more than 1000 gallons of flammable or explosive materials are ineligible. CMS is responsible for determining the acceptability of a dwelling when the health and safety of the occupants or the continued marketability of the property may be in jeopardy.

#### **Abandoned Underground Storage Tanks**

If an underground tank has been abandoned, its removal or proper abandonment is required.

The appraiser should use a VC condition to indicate the location of the tank, and require evidence that the subject's vacated tank has been removed or properly abandoned.

Generally, the local jurisdiction may have established requirements. If not, the tank must be removed or abandoned per the recommendations issued by the applicable State.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Environmental Hazards (continued)

### **Ground Subsidence**

The danger of ground subsidence is a special hazard that is sometimes encountered when buildings are constructed on uncontrolled fill or where the subsoil is unstable and subject to slippage or expansion. This is especially common in parts of the country where there are mining areas.

In mining areas, consider the depth or extent of the mining operations and the site of operating or abandoned mine shafts and tunnels to determine if the danger is imminent, probable or negligible.

The appraiser must note any readily observable conditions which would indicate potential subsidence problems. Signs would include ground cracks, damaged foundations, sinkholes, and settlement problems in the terrain.

If there is a danger of subsidence, the specific site must be deemed ineligible unless evidence is provided to verify that the probability of any subsidence is negligible.

Mine subsidence insurance is required in active mining areas and in areas with known subsidence problems from previous mining.

### **Properties Affected by Lead Base Paint**

For all properties built before January 1, 1978, the appraiser must note the condition and location of all defective paint in the home. All interior and exterior surfaces, such as walls, stairs, deck, porch, railing, eaves, windows, doors, fences, detached garages and other outbuildings and appurtenant structures must be inspected for defective paint surfaces (i.e. chipping, peeling or flaking paint). If an area of paint on the property is defective, the appraisal should be completed as Subject to repairs. The commitment must contain the requirement that the surface must be treated must be thoroughly washed, sanded (but not machine sanded), scraped, or wire brushed so as to remove all defective paint before repainting. The surface must receive, as a minimum, two coats of a suitable non-lead based paint. All defective paint on applicable surfaces must be removed or covered with materials such as hardboard, plywood, plaster, or other suitable materials.

The following requirements must be met when the home is built prior to 1978:

- Borrowers must receive the EPA pamphlet "Protect Your Family from Lead in Your Home"
- The property seller is responsible for providing this disclosure to the homebuyer
- Borrower must sign and date the "Importance of Home Inspection" form on, or before the date of the sales contract
- Refinance and new construction are exempt from this requirement
- The executed form must be retained in the loan file



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Environmental Hazards (continued)

### Properties Affected by Lead Base Paint (continued)

The following requirements regarding renovation, repair and painting for houses built prior to 1978 must be met:

- Property owners/landlords who renovate, repair, or prepare surfaces for painting in pre-1978 rental housing must be certified and follow lead-safe work practices as required by VA
- Contractors who perform the repair must be certified; and, must follow specific work practices to prevent lead contamination
- A copy of the EPA or state-lead training certificate in the name of the party who performed the work must be provided. If the repair was made by the borrower on their own home, a letter stating that the borrower made the repair is required
- An inspection to verify completion of the repairs is required

#### ○ Condominium Units

The appraiser needs to inspect the interior of the unit and the exterior surfaces and appurtenant structures of the specific unit being appraised, and address the overall condition, maintenance and appearance of the condominium project. The lead based paint requirements relate only to the unit being appraised, not to the entire project. However, the appraiser should always comment on the overall condition of the condominium project.

#### ○ Refinances

Refinances with an appraisal are subject to this inspection and abatement procedure. However, lead based paint requirements do not apply to refinances without appraisals.

#### ○ Properties Built Between 1950 and 1978 with a VA-CRV

For a property involving a Veterans Administration Certificate of Reasonable Value, in which the dwelling was built between 1950 and 1978, the Client is required to provide evidence from a VA approved inspector that either no defective paint conditions exist or that defective paint conditions were found and correction is required.

### Asbestos Insulation

Asbestos used as roof shingles or siding on a house does not pose a danger as would be if the material were deteriorating within the confines of a home. When used as a wrap for hot water pipes, it is usually covered and poses no danger. When the material is deteriorating into a fine powder and can be inhaled, it may pose a danger to one's health.

Asbestos wrapping around hot water pipes in the basement of a dwelling may be found in older homes. If an appraiser notices this, he/she should make a note on the appraisal report that there appears to be asbestos insulation wrap around the hot water pipes. If there is not obvious deterioration of the asbestos such as punctures or other damage, it should be left alone. If there is obvious damage, the appraiser should condition for an inspection by a professional in that field is required.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Environmental Hazards (continued)

**Chinese Drywall** Drywall imported from China from 2001 through 2007 emits sulfur gases, which usually create a noxious odor, and corrodes copper and other metal surfaces, damaging air conditioning, electrical wiring, copper, plumbing, appliances and electronics. Chinese drywall can also cause adverse health effects.

A property that contains Chinese drywall that was imported from 2001 through 2007 is not acceptable.

**Heavy Traffic** Properties located on streets having heavy or fast traffic may be less desirable to the market because of the noise and danger from the street. Property value may even be affected.

Properties backing a freeway or other thoroughfare that is heavily screened or instances where the traffic is well below grade may not be as adversely affected for value, desirability, or marketability.

Special consideration should be given to determine if there is indication that adverse changes are taking place in the subject property market area due to heavy traffic and noise. The appraiser must quantify the effect of the noise on the property value and find that the property remains marketable.

**Railroad Tracks and Other High Noise Sources** Properties located near railroad tracks, and other noise sources must meet the following guidelines relating to high noise sources:

- **Proposed, under construction and less than one year old**

Appraisers and builders are to pay particular attention to Item 1.b. "Noise" on form [HUD-92541](#), Builder's Certification of Plans, Specifications & Site.

- **Existing Construction (over 1 year of age)**

Noise exposure by itself should not necessarily result in the rejection of the property for VA financing. All marketability factors must be considered. It must be determined if there is evidence of acceptance in the market and if use of the dwelling is expected to continue. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area. The appraiser must quantify the effect of the noise on the property value and find that the property remains marketable.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Environmental Hazards (continued)

### Properties Affected By Airport Noise and Hazards

#### Airport Noise

Properties with airport influences and noise must have evidence of properties acceptance in the market and if use of the dwelling is expected to continue. Continued use of the dwelling indicates market acceptance. Special consideration should be given to determine if there is indication that adverse changes in market attitude are taking place in the area.

#### **Special Airport Hazard - Runway Clear Zones (a/k/a Runway Protection Zones) at Civil Airports or Clear Zones or Accident Potential Zone I at Military Airfields**

Proposed, under construction and properties existing less than one-year old are not acceptable if the property is located within a Runway Clear Zone at civil airports or a Clear Zone or Accident Potential Zone I at military airfields.

Existing dwellings, more than one year old, may be acceptable provided the prospective purchaser is aware that the property is located in a Runway Zone / Clear Zone. This notification must be provided to the borrower at the time of the loan application.

#### Sample Certification

#### **NOTICE TO PROSPECTIVE BUYERS OF PROPERTIES LOCATED IN RUNWAY CLEAR ZONES AND MILITARY AIRPORT CLEAR ZONES**

*(In accordance with 24 CFR 51.303(a)(3), notice must be given to anyone interested either in buying an existing HUD property, or using HUD assistance to buy an existing property, which is located in either a Runway Clear Zone at a civil airport or Clear Zone at a military installation.)*

*The property which you are interested in purchasing at*

*is located in the Runway Clear Zone/Clear Zone for*

*Studies have shown that if an accident were to occur it is more likely to occur within the Runway Clear Zone/Clear Zone than in other areas around the airport/airfield. Please note that we are not discussing the chances that an accident will occur, only where one is most likely to occur.*

*You should also be aware that the airport/airfield operator may wish to purchase the property at some point in the future as part of a clear zone acquisition program. Such programs have been underway for many years at airports and airfields across the country. We cannot predict if or when this might happen since it is a function of many factors, particularly the availability of funds, but it is a possibility.*

*We wanted to bring this information to your attention. Your signature on the space below indicates that you are now aware that the property you are interested in is located in a Runway Clear Zone/Clear Zone.*

\_\_\_\_\_  
Date

\_\_\_\_\_  
Signature of Prospective Buyer

\_\_\_\_\_  
Type or Print Name of Prospective Buyer

This notification must be provided to the prospective purchaser at loan application and maintained as part of the HUD Case Binder.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Water and Sewage Systems

<b>Connection to Public System</b>	For properties served by individual water and/or sewer systems, connection to public water and/or public sewer will only be mandatory when such connection is required by the local building, planning, or health authorities.
<b>Private Water Systems</b>	If the property has a private water system see <a href="#">Individual Water Supply</a> for additional requirements.
<b>Cisterns</b>	CMS does not consider springs or cisterns an acceptable water supply. Properties with water supplied by a spring or cistern are not eligible for CMS financing.
<b>Community Water and Sewer Systems</b>	<p>A Community Water System or a Community Sewer System is a central system, owned, operated and maintained by a private corporation or a non-profit property owners association.</p> <p>If the property is served by a community water system, the appraiser must note on the Uniform Residential Appraisal Report the name of the water company. The operations personnel are responsible for ensuring that the community system(s) are licensed and adequate to service the property.</p>
<b>Shared Wells</b>	<p>The following requirements must be met for a shared well:</p> <ul style="list-style-type: none"><li>• The well must be capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes.</li><li>• There must be a permanent easement which allows access for maintenance and repair.</li><li>• There must be a well-sharing agreement which:<ul style="list-style-type: none"><li>○ makes reasonable and fair provisions for maintenance and repair of the system and the sharing of those costs</li><li>○ is binding on the signatory parties and their successors in title, and is recorded in local deed records.</li></ul></li></ul>
<b>Individual Sewage Systems</b>	<p>It is acceptable for a property to have an individual sewage system if the property cannot connect to a public system. The individual sewage system must be acceptable to the local health authority. This includes numerous types of sewage systems including cesspools, individual pit privies, and mound systems.</p> <p>Certifications are only required if the appraiser suspects a problem with the system, or problems are customary in the area. In those instances, the appraiser is to condition for a certification by the local health authority, a licensed sanitarian or an individual determined to be qualified by the Direct Endorsement Underwriter.</p> <p>The appraiser must comment on availability of public services to the property. If public services are available, the benchmark to require hook-up to public services is 3% or \$8,000, whichever is less.</p> <p>In some Home Ownership Center jurisdictions, the appraiser will require a certification when the property has been vacant at the time of the appraisal.</p> <p>A certification is acceptable up to 90 days.</p> <p>Properties with a wastewater stabilization pond/lagoon (aka sewage lagoon) are not eligible for CMS financing.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Certifications

### Overview

When the appraiser requires certifications, such as termite, roofing, structural, electrical, plumbing, heating, or property inspection, a qualified professional from that field must complete the inspection and certification. If the subject property's state requires licensing or certification for the profession, CMS is responsible for verifying the professional's license or certification is current. LDP checks must be performed on all certification companies. If any of the inspections result in necessary repairs, the repair bills should be itemized and the repairs verified as satisfactorily completed with a clear certification issued.

### Utilities

When utilities (water, gas, electric) are not turned on at the time of initial appraisal inspection, the appraiser must condition for certifications that will state that all of the utilities have been turned on and tested and that they appear to be in working order. The certification can be done with a re-inspection by the appraiser (with the utilities turned back on) or by professionals in the specific fields (i.e. electricians, plumbers, etc. These professionals should be licensed in states where licensing applies.)

### Carbon Monoxide (CO) Detectors

The VA appraiser is required to address the presence of a CO detector for states that require detectors in residential properties. For a complete list of state requirements, see the National Conference of State Legislators (NCSL) Carbon Monoxide Detectors State Statutes page (<http://www.ncsl.org/issues-research/env-res/carbon-monoxide-detectors-state-statutes.aspx>).

### Property Inspection

If a home inspection is performed, and is included in the loan file, and identifies the need for repairs, which were not identified in the appraisal report, the underwriter is responsible for determining that the property meets VA minimum property standards.

If minimum property standards are not met, the underwriter must request the appropriate documentation, certifications and/or repairs to ensure the property meets minimum property standards.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Certifications (continued)

### **Termite Inspection**

Wood destroying insects and other organisms can cause serious problems in the wood structural components of a house. VA requires maximum assurance that a home is free of any infestation. While HUD does not require a cleared termite report on a Streamline refinance, the Direct Endorsement Underwriter may impose the condition based upon his or her discretion.

The inspection must be performed by a state licensed pesticide business (registered pest control technician). Borrowers may be charged wood destroying pest inspection fees, where required by the Notice of Value (NOV). Borrowers may also pay for any repairs required to ensure compliance with MPRs. Borrowers are encouraged to negotiate the cost of the wood destroying pest inspection and repairs with the seller.

The National Pest Control Association's HUD Form NPMA-33 - [Wood Destroying Insect Inspection Report](#) form must be used for existing construction, unless the state mandates a specific form.

- The form NPMA-33 is valid for 90 days from the date of the inspection
- The form must be signed by the borrower either electronically or handwritten

If any documentation within the loan file indicates a termite/pest inspection has been ordered, requested, required, and/or completed (even if the borrower elected to have an inspection completed), CMS requires a copy of the termite/pest inspection.

### **Existing Properties**

Purchases and refinances (except streamline refinances) must have a complete report that is not more than 90 days old at the time of closing. All structures within the legal boundaries of the property, including garages, must be inspected. Exceptions are minor detached structures such as a small shed. See #6 Home Ownership Center Requirements below for specific locational requirements.

### **Condominiums**

The first floor units of a condominium unit are subject to the same inspection requirements as other single-family homes. The inspection must include ground floor attached and/or detached garages, sheds, and other structures that are a part of the subject.

If a unit is on the second floor or above, a termite inspection report is not automatically required. If the appraiser detects evidence of possible dry rot or infestation by some wood-destroying organism, the appraiser must call for the inspection report.

In order to waive the repair requirements on a condominium, obtain a letter from the Homeowners' Association listing the date of scheduled repairs, name of the contractor awarded the work and acknowledgment that the funds necessary to pay for those repairs have already been budgeted and /or collected. This letter must be attached to the Homebuyers Summary.

### Certifications (continued)

#### Termite Inspection (continued)

#### Termite Damage

Active infestations must be treated and all related damage must be properly corrected. If either the pest control inspector or the appraiser indicates termite damage is present, an inspection by an approved fee compliance inspector, a qualified home building inspector, or an engineer with expertise in structural related matters must be conducted to determine the degree of damage and recommend corrective action, if necessary. If the damage is structural in nature, the inspector must be qualified to complete structurally related inspections and repairs. CMS is responsible for verifying the inspector's qualifications, including state licensing where required. If the termite inspector chooses to draw a diagram of the property, the certificate will contain a grid showing where the damage and /or infestation exist.

For those states whose mandated form does not address damage but does indicate evidence of either active or previous infestation, it should be assumed that some degree of damage is present.

This requirement does not apply to HUD REO sales, since a second inspection is performed prior to issuance of the termite letter for closing.

#### Clearing the Termite Inspection Report

- **Section I** - Section I recommendations must be satisfied prior to closing. All infestation must be cleared and the damage corrected.
- **Section II** - Action on Section II items should be at the Direct Endorsement Underwriter's discretion and that all items must be considered to determine their impact on value.

Items such as peeling paint, health and safety, and those leading to structural unsoundness (dry rot, excessive moisture, etc.), are general criteria items and should not be waived.

The inspector will check the appropriate box in Section II of Form NPMA-33 to indicate if any visible damage from insects was noted. However, the termite inspector is not expected to distinguish between structural and cosmetic damage.

Escrow holdback for repair of termite damage is not permitted.

When the termite certification indicates the presence of termite related infestation, the following requirements for corrective action apply:

- **Previous infestations, currently inactive termites - no previous damage**  
Neither structural **inspection** nor certification is required.
- **Previous infestations, currently inactive termites - damage noted**  
Obtain a statement from one of these qualified sources that the repairs have been completed.
  - Qualified Independent Contractor
  - HUD Fee Panel Inspector
  - Engineer with expertise in structurally related matters
  - Qualified Home Building Inspector



### Certifications (continued)

#### Termite Inspection (continued)

- **Active infestation - no damage noted**

Treatment must be performed. No structural inspection required.

- **Active infestation - damage noted**

Treatment must be performed and all repairs must be completed. An inspection must be made by one of the following sources:

- HUD Fee Panel Inspector
- Engineer with expertise in structurally related matters
- Qualified Home Building Inspector

#### Termite Control in New Construction Properties

For new construction treatments, [Subterranean Soil Treatment Guarantee - HUD Form NPCA 99-A](#) is required, and [Subterranean Soil Treatment Record-Form HUD-NPMA 99-B](#) -must be used, if applicable. If a state has more stringent record keeping requirements than HUD-Form NPCA-99-B, the state form can be accepted in lieu of the NPCA-99-B, in which case the state form would be attached to HUD-Form NPCA-99-A.

The acceptable methods of treatment for protection against subterranean termite attacks are:

- Chemical soil treatment
- Pressure preservative treated wood
- Naturally termite resistant wood (i.e. redwood, cedar)
- Physical barriers (such as metal or plastic termite shields)

The National CABO Dwelling Code permits the use of pressure preservative treated wood as a measure of termite protection. The seven areas requiring pressure treated wood by the CABO Dwelling Code are:

- Wood joists or the bottom of a wood structure floor when closer than 18 inches (457 mm) or wood girders when closer than 12 inches (305 mm) to exposed ground in crawl spaces or unexcavated areas located within the periphery of the building foundation
- All sills or plates that rest on concrete or masonry exterior walls and are less than 8 inches (203 mm) from exposed ground
- Sills and sleepers on a concrete or masonry slab that is in direct contact with the ground unless separated from such slab by an impervious moisture barrier
- The ends of wood girders entering exterior masonry or concrete wall having clearance of less than 0.5 inch (12.7 mm) on tops, sides and ends
- Wood siding, sheathing and wall framing on the exterior of a building having a clearance of less than 6 inches from the ground
- Wood structural members supporting moisture-permeable floors or roofs that are exposed to the weather, such as concrete or masonry slabs, unless separated from such floors or roofs by an impervious moisture barrier

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Certifications (continued)

### Termite Inspection (continued)

- Wood furring strips or other wood framing members attached directly to the interior of exterior masonry walls or concrete walls below grade except where an approved vapor retardant is applied between the wall and the furring strips or framing members

Pressure treated wood must be used in all framing members up to and including the top plate of the first floor level wall. This includes the sub-floor and floor joists of the first floor. The use of pressure treated wood in only the sill plate is not acceptable and must not be used as a physical barrier unless it can be inspected for any termite shelter tubes around the inside and outside edges and joints of a barrier. Field cut ends, notches, and drilled holes of pressure treated wood must be re-treated in the field.

If the builder used pressure treated wood, Form HUD-NPMA-99-A is not necessarily required. In lieu of Form HUD-NPMA-99-A, the builder must provide a letter, on letterhead, stating that the house is protected from termites by the use of pressure treated wood. The builder must provide the buyer with a one-year warranty against termites similar to that required on Form HUD-NPMA-99-A. If the builder chooses to use Form HUD-NPMA-99-A he or she needs to check the box next to **wood** under the section titled **Type of Treatment** and insert the following statement:

*Complies with Mortgagee Letter 2001-04 for use of preservatively treated wood.*

If the building does not require termite protection because there is no wood in the locations identified in the Mortgagee Letter (such as when using all steel, masonry or concrete building components), under **Type of Treatment** and in the space to the right of the block titled, **Soil** the builder must add the following:

*Masonry (steel or concrete) construction - no treatment needed. Complies with Mortgagee Letter 2001-04.*

The use of post-construction soil treatment where the chemicals are applied only around the perimeter of the foundation is not acceptable in new construction properties.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Certifications (continued)

### Termite Inspection (continued)

#### Existing Properties (over 1 year old) Single Family

A clear pest inspection is required for all homes:

- TIP Zone 1 over 1\* year of age
- TIP Zone 2 over 2\* years of age
- TIP Zone 3 will be required at the discretion of the appraiser and underwriter. (See Appraiser's Inspection section noted below.)

#### New Construction

(proposed construction, under construction and existing less than 1 year old)

- TIP Zones 1 and 2 require termite soil treatment
- TIP Zone 3 requires soil treatment at the discretion of the appraiser and underwriter. If there is a possibility of termites at or near the general area of the site then treatment is required

**Form HUD-NPMA-99-A** - [Subterranean Termite Soil Treatment Builder's Guarantee](#) must be used.

**HUD-Form NPCA-99-B** - [New Construction Subterranean Termite Soil Treatment Record](#) is used with Form HUD-NPMA-99-A only if the property is treated with a soil termiticide.

The licensed pest control company is responsible for completing HUD form NPCA-99-B as appropriate, and providing it to the builder.

The builder is responsible for attaching the forms together and distributing the completed forms to the Client.

Provide one copy to the buyer at closing and include a copy in the loan file for the HUD endorsement binder.

## VA Property Eligibility and Appraisal Requests

### Overview

This section contains information about the eligibility of property to be security for a VA guaranteed loan and the accompanying appraisal request. An appraisal is required to help ensure that any property which will become security for a VA-guaranteed loan has sufficient value and is in a condition acceptable for the program.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Requesting the Appraisal

**Requirements** CMS orders the appraisal for all loans under the VA guaranty program. CMS will access the Appraisal System (TAS) to contact VA via the intranet to obtain VA assignment of a case number and fee appraiser. TAS is accessed at <http://tas.vba.va.gov> (additional instructions are available when accessing the site).

**Requesting the Appraisal** To request a VA appraisal the following steps must be followed:

Step	Action
1	<p>Ensure that the property is eligible for appraisal <b>and</b> all other appraisal request requirements can be satisfied (see <a href="#">Property Types Eligible for Appraisal</a>, <a href="#">Property Types Not Eligible for Appraisal</a>, <a href="#">Other Appraisal Request Restrictions</a>, <a href="#">New Construction</a>, <a href="#">Proposed or Under Construction</a>, <a href="#">Construction Exhibits</a>). Contact the VA office of jurisdiction for the property if there are:</p> <ul style="list-style-type: none"><li>• questions about the property's eligibility, or</li><li>• if the property is not eligible for appraisal but is already the security for a VA loan.</li></ul> <p><b>Note:</b> Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a detailed explanation.</p>
2	<p>Access TAS, and provide all necessary information about the case. TAS will:</p> <ul style="list-style-type: none"><li>• assign<ul style="list-style-type: none"><li>○ a case number (in liquidation cases, this will be the existing VA loan number for the property, as provided by the requester)</li><li>○ an appraiser (since VA is required by law to select the fee appraiser on a rotational basis from a panel maintained by VA), and</li><li>○ an inspector, if appropriate, and</li></ul></li><li>• issue a complete VA Form 26-1805-1, VA Request for Determination of Reasonable Value, which includes the above information</li></ul> <p><b>Note:</b> LAPP lenders and loan holders/servicers who wish to have the appraisal report e-mailed to them must provide an e-mail address in Item 5 of the appraisal request.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Requesting the Appraisal (continued)

### Requesting the Appraisal (continued)

Step	Action
3	<p>The same day as the assignment is made e-mail, fax or mail the TAS-generated VA Form 26-1805-1, and any other required documentation, to the appraiser assigned.</p> <p>For <b>liquidation appraisals</b>, include the name and telephone number of the current or last known occupant. If the property is vacant, also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property; for example, the name and telephone number of a local person to contact.</p> <p>If appraised as <b>Proposed or Under Construction</b>,</p> <ul style="list-style-type: none"><li>• ensure that the construction exhibits meet the requirements in <a href="#">Construction Exhibits</a></li><li>• mark the case number assigned on the outside of each set of the construction exhibits</li><li>• include a set of the construction exhibits with the appraiser's VA Form 26-1805-1. This will be considered the VA file copy, and</li><li>• send the inspector, if assigned, a copy of VA Form 26-1805-1 and a set of the construction exhibits.</li></ul> <p>If the veteran is acting as the general contractor in building a home for his or her own occupancy, include:</p> <ul style="list-style-type: none"><li>• any construction exhibits needed for appraisal purposes, and</li><li>• the veteran's written agreement to pay for any special VA fee inspections that may be needed to ensure that the work meets VA Minimum Property Requirements for existing (not proposed) construction.</li></ul>

### If Access to TAS is Unavailable:

If Internet access to TAS is not available, complete Step 1 for the previously listed procedures. Then complete VA Form 26-1805, VA Request for Determination of Reasonable Value. A typed, fully completed form is required for every request, except for the following:

- properties already listed on a valid VA Form 26-1843a, Master Certificate of Reasonable Value
- loans for alterations, improvements or repairs of \$3,500 or less (**Reference:** See [Property Types Eligible for Appraisal](#)), or
- partial release of the security for a VA-guaranteed loan (**Reference:** See [Property Types Eligible for Appraisal](#))

For LAPP Cases, write "LAP" as the prefix for the case number in Item 1 of VA Form 26-1805 and write "LENDER APPRAISAL PROCESSING PROGRAM" in capital letters under the lender's name and address in Item 5. This lets the appraiser know to forward the appraisal report to the lender, not VA, for processing.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Requesting the Appraisal (continued)

### Requesting the Appraisal (continued)

For liquidation cases, write "LIQUIDATION APPRAISAL" in capital letters in Item 28 of VA Form 26-1805. Also include the name and telephone number of the current or last known occupant. If the property is vacant, the request must also include the keys to the property, or sufficient information to enable the appraiser to gain access to the property (such as, the name and telephone number of a local person to contact).

Then telephone the necessary information to the VA office of jurisdiction for the location of the property, or fax or mail VA Form 26-1805 and any exhibits to that office.

Finally, for telephoned or faxed requests:

- enter the case number assigned by VA in Item 1 of VA Form 26-1805 and the name of the appraiser (and inspector, if assigned) in Item 43, **and**
- complete Step 3 in the previously listed procedures.

## Property Types Eligible for Appraisal

### Overview

CMS exercises due diligence in determining appraisal eligibility. This section describes the types of properties that are eligible for the VA guaranty.

### Existing Construction

A home which has either been previously owner-occupied or had all onsite and offsite improvements fully completed for one year or more is eligible.

### New Construction

Newly completed properties (completed less than one year and never owner-occupied) are eligible if either;

- covered by a one-year VA builder's warranty
- enrolled in a HUD-accepted ten-year insured protection plan, or
- built by a veteran, as the general contractor, for his/her own occupancy.

**Note:** An exception may be made for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing and will not provide either a one-year VA builder's warranty or a ten-year insured protection plan.

### Proposed or Under Construction

Property is eligible for appraisal prior to construction or during construction, if

- the appraisal is based on proposed construction exhibits, and
- the property is inspected by VA or HUD during construction

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Property Types Eligible for Appraisal (continued)

### Manufactured Homes

To be eligible for a VA loan term of 30 years, a manufactured home must be;

- classified and taxed as real property and title must have been purged.
- properly affixed to a permanent foundation
- conform with [VA MPRs](#), and
- conform to applicable building code and zoning requirements for real estate.
- the unit must have been built after June 15, 1976. Manufactured homes built prior to June 15, 1976 are not eligible.
- the unit must be a minimum double wide; CMS does not extend financing on single wide manufactured homes.
- The HUD certification label must be located on each unit or an Institute for Building Technology and Safety (IBTS) letter provided.
- The maximum amortization term is 30 years.

### Additions to Manufactured Homes

CMS requires that manufactured homes with acceptable alterations or additions must have marketability, “like” comparables, and gross living area (GLA).

### Modular Homes

Modular homes are eligible, provided they are covered by a HUD structural engineering bulletin, or constructed to the standards of the State in which the factory is located and receive that State’s approval certification. They are delivered to the building site in sections, but are not attached to a chassis supported by wheels. For homes processed as “proposed or under construction.

For traditional manufactured homes (not classified as real estate and attached to a chassis which is supported by wheels), **Reference:** See Title 38 CFR 36.4200 series.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Property Types Eligible for Appraisal (continued)

### Property to be Altered/ Improved/ Repaired

A VA-guaranteed loan may be acquired to alter, improve or repair a property owned and occupied by the veteran as the veteran's home. The property is eligible for appraisal either

- prior to being altered, improved or repaired. (When extensive alterations, improvements or repairs are to be made, VA must determine on a case-by-case basis at the time of the appraisal request which of the construction exhibits in [Construction Exhibits](#) are required. All work must be inspected, to the extent determined appropriate by VA on a case-by-case basis.), **or**
- after being altered, improved or repaired.

**Note:** This usually involves a VA-guaranteed loan for refinancing purposes. No construction exhibits or inspections are generally required, if the work was completed prior to the appraisal.

In either situation, all work must be acceptably completed prior to loan closing. .

### Security for Existing VA Loan

Property securing an existing VA loan is eligible for appraisal for the following purposes:

#### Refinancing

- cash-out, which requires both an appraisal and a VA notice of value, or
- interest rate reduction only, which requires neither an appraisal nor a notice of value. However, if the new loan balance will exceed the original loan amount by 5% or more, the lender may wish to consider requesting an appraisal.

#### Partial release of security

The request must be in writing and include any information that the VA office of jurisdiction considers necessary. A formal appraisal is not required if there is sufficient information for VA staff to determine the reasonable value of the property being released and the value of the security remaining.

#### Foreclosure

When the VA loan is in default. A liquidation appraisal should be requested at the time the notice of sale is forwarded to VA, but no later than 30 days prior to the estimated or scheduled sale date. The lender/holder/servicer is responsible for assisting the appraiser in gaining access to the interior of the property.

### Properties Not Likely to Meet MPRs

Property in a badly deteriorated condition is not eligible for appraisal unless VA agrees there is a reasonable likelihood that it can be repaired to meet VA Minimum Property Requirements (MPRs) prior to loan closing.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Property Types Eligible for Appraisal (continued)

### Location Related Problems

Property is not eligible for appraisal if the improvements are or will be located in;

- a Special Flood Hazard Area (SFHA) and either
  - it is proposed/under/new construction with elevation of the lowest floor below the 100 year flood level, or
  - flood insurance is not available (**Reference:** See [Proposed Construction](#))
- an area subject to regular flooding for whatever reason, whether or not it is in an SFHA (**Reference:** See [Proposed Construction](#))
- a Coastal Barrier Resources System area (**Reference:** See [Proposed Construction](#))
- an airport Noise Zone 3, if proposed or under construction (**Reference:** See [Proposed Construction](#))
- a transmission line easement involving high-pressure gas or liquid petroleum or high voltage electricity, if any part of the residential structure is located within the easement (**Reference:** See [Fuel Pipelines and High Voltage Electric Lines](#)), or
- an area susceptible to geological or soil instability (earthquakes, landslides or other history of unstable soils), if proposed/under/new construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design

## Property Types Not Eligible for Appraisal

### Condo Not Approved

CMS requires all condo projects to be approved by VA.

### Ownership Not Fee Simple

Property involving a less than fee simple ownership (i.e., leaseholds, cooperatives, ground rental arrangements) is not eligible for appraisal without prior VA approval of the specific legal arrangement or project. Submissions to VA Central Office (262A) must include

- details of the ownership arrangement
- copies of leases or other instruments creating the estate, and
- recommendations of the VA office of jurisdiction.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Other Appraisal Request Restrictions

#### No Duplicate Appraisals

No new appraisal can be requested on property which already has a valid VA value determination.

#### Builder ID Required

For any property appraised as either “proposed or under construction” or “new construction”, the builder must have a valid builder identification number prior to a VA notice of value being issued.

To obtain and maintain a valid, VA-assigned builder ID, all of the following must be fully-executed, up-to-date and on file at the VA office of jurisdiction over the location of the property:

- VA Form 26-421, Equal Employment Opportunity Certification.
- VA Form 26-8791, VA Affirmative Marketing Certification.

#### No Appraisal Due to Sanction

Property is ineligible for VA appraisal if any party of interest to the transaction, other than the purchaser, is debarred Government-wide, or otherwise excluded from participation in the Loan Guaranty program due to a VA-imposed sanction for substantially prejudicing a veteran by either

- failing to correct justified construction complaint items
- violating VA Minimum Property Requirements
- deviating from plans and specifications without VA approval
- failing to honor other contractual obligations on houses previously built and sold with VA financing, or
- using a sales contract or marketing method or practice which VA considered to be unfair or unduly prejudicial to the veteran involved.

When the sanctioned party is a builder, this restriction applies to any property still owned by the builder, including houses under construction and existing houses. VA's refusal to appraise will not be affected by either the fact that;

- a fee inspector approved the work on which the sanction was based, or
- the builder changes the company's name or organization or becomes a principal or officer in another organization.

**Reference:** See Program Participants. Lenders are responsible for identifying builders on the GSA list. For sanctioned builders not on the GSA list, each VA office of jurisdiction will either;

- periodically provide lenders with a list of such builders to check or
- assume responsibility for ensuring that those builders do not participate in the VA loan guaranty program.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Other Appraisal Request Restrictions (continued)

### Building Code Enforcement

If there are local building authority requirements due to building code enforcement or urban renewal, either

- provide evidence with the appraisal request that those requirement(s) are satisfied, or
- the notice of value will be conditioned to require such evidence.

### Potential Restriction to Veterans Under Contract

During times of heavy VA workload or limited resources, a VA field station may notify lenders that it will temporarily accept only appraisal requests involving a veteran under contract. In that situation, the appraisal request must either;

- be accompanied by a copy of the fully-executed purchase agreement, or otherwise clearly identify the transaction with a proposed VA loan, or
- indicate that the appraisal is for a purpose not affected by this restriction (such as, proposed construction, refinancing, foreclosure, or a loan for alterations/improvements/repairs).

### Potential “Master” Appraisals Restrictions

During times of heavy VA workload or limited resources and with VA Central Office concurrence, a VA field station may temporarily refuse a builder's requests for “master” appraisals if experience with that builder or location indicates that a minority of the units will receive VA financing. In that situation, the builder may obtain an individual appraisal on any property sold to a veteran.

With VA Central Office concurrence, a VA field station may also limit the number of

- units in a “master” appraisal to the number which it believes can be successfully marketed during the validity period of the VA value notice, or
- optional items of equipment or variations from basic house types to be included in a “master” appraisal.

### If No Inspector Available

In areas where there is no qualified VA or HUD fee inspector, properties cannot be appraised until they qualify as

- “new construction”
- “existing construction”

### Definition Construction Exhibits and Inspections

To be eligible for appraisal as “new construction”, the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering, appliances, fixtures and equipment, etc.) and those improvements for which escrows are permitted.

Neither construction exhibits nor VA or HUD inspections during construction are required for properties appraised as “new construction”.

**Note:** Appraisal without VA or HUD inspections during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain VA or HUD inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with this restriction.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### New Construction

#### Construction Warranty

Properties appraised as “new construction” must be covered by either;

- a one-year VA builder’s warranty, or
- a ten-year insurance-backed protection plan.

If the builder will provide a one-year VA builder’s warranty, then both of the following will be required

- the veteran purchaser’s written acknowledgment that, “I am aware that VA did not inspect this property during construction and that VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported in writing during the one-year VA builder’s warranty period.” **Reference:** See [Notice of Value Conditions and Requirements](#), “Not Inspected Acknowledgment.”
- a one-year VA builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction. **Reference:** See [Notice of Value Conditions and Requirements](#), “Construction Warranty”.

If the builder will provide a ten-year insurance-backed protection plan, then both of the following will be required

- the veteran purchaser’s written acknowledgment that, “I am aware that VA did not inspect this property during construction and that it does not qualify for VA assistance with construction complaints.” **Reference:** See [Notice of Value Conditions and Requirements](#), “Not Inspected Acknowledgment”.
- evidence of enrollment of the property in a ten-year insured plan acceptable to HUD. **Reference:** See [Notice of Value Conditions and Requirements](#), “Ten Year Insured Protection Plan”.

**Exception:** An exception may be made for a veteran who wishes to purchase a new home from a builder who is **not more than occasionally** involved with VA financing and will **not** provide either a one-year VA builder’s warranty or a ten-year insured protection plan. In that situation, **all** of the following will be required:

- the veteran purchaser’s written acknowledgment that, “I am aware that this property does not qualify for VA assistance with construction complaints, since it was not inspected by VA during construction. I am also aware that this new property will not be covered by either a one-year VA builder’s warranty or a ten-year insured protection plan, as is normally required in this situation.”
- the builder’s written certification that, “This company is not more than occasionally involved with VA financing and is aware that this property is being accepted without any VA-required warranty on an exception basis only upon the request of the veteran purchaser. The dwelling was constructed according to standard building practices and is in conformity with all applicable building codes and complies with the energy conservation standards of the 1992 Council of American Building Officials Model Energy Code,” **and**,
- the lender obtains a copy of documentation issued by the local building authority to verify that construction was acceptably completed, such a final inspection or occupancy permit. Where local authorities do not perform building inspections, the builder must certify in writing that “The dwelling was not inspected during construction by any State, county or local jurisdiction.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Proposed or Under Construction

<b>Individual vs. “Master” Appraisals</b>	<p>Properties can be appraised prior to the start or completion of construction either</p> <ul style="list-style-type: none"><li>• individually, or</li><li>• as a group of 5 or more on a “master” appraisal. Each model or house type is appraised at the same time by the same fee appraiser on a separate appraisal report. All of the properties are included on the same <i>VA Master Certificate of Reasonable Value</i>.</li></ul>
<b>Construction Exhibits</b>	<p>Construction exhibits must be provided with the request to appraise properties as “proposed or under construction”.</p>
<b>Construction Inspections</b>	<p>Properties appraised as “proposed or under construction” must be inspected by VA or HUD during construction. The purpose of the inspection(s) is to help ensure that the property;</p> <ul style="list-style-type: none"><li>• is built according to the construction exhibits used in the appraisal, and</li><li>• meets VA Minimum Property Requirements for proposed construction.</li></ul> <p>Only a final inspection is required if either</p> <ul style="list-style-type: none"><li>• the property is to be covered by a ten-year insured protection plan, or</li><li>• VA can rely on local building authority inspections in lieu of first and second stage VA inspections.</li></ul> <p><b>Note:</b> VA acceptance of only a final VA or HUD inspection during construction is a privilege available only to builders who routinely provide good quality construction. Builders who are required to obtain a full complement of inspections during construction will be notified by VA in writing. VA, not lenders, will monitor builder compliance with the restriction.</p>
<b>Construction Warranty</b>	<p>In every case processed as proposed or under construction, the builder must provide the veteran home buyer with a one-year VA builder’s warranty on VA Form 26-1859, Warranty of Completion of Construction.</p> <p>If only a final VA or HUD inspection is made during construction (<b>Reference:</b> See “Construction Inspections” above), a ten-year insured protection plan acceptable to HUD is also required (unless the builder provides evidence of local building authority inspections acceptable to VA in lieu of VA first and second stage inspections).</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Proposed or Under Construction (continued)

### Determining the Type of Warranty

Use the table below to determine the type of warranty required.

When the property is appraised as...	Then...
Existing construction	No warranty is required
New Construction	either: <ul style="list-style-type: none"><li>• 1 year builder's warranty is required, <b>or</b></li><li>• a 10 year insured protection plan is required.</li></ul>
Proposed or under construction with a full complement of VA inspections	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are accepted in lieu of VA first and second stage inspections per <a href="#">VA Reliance on Local Building Inspections for First and Second Stages</a> )	only a 1 year builder's warranty is required.
proposed or under construction (with only a final VA inspection and local inspections are not accepted in lieu of VA first and second stage inspections per <a href="#">VA Reliance on Local Building Inspections for First and Second Stages</a> )	<ul style="list-style-type: none"><li>• both a 1 year builder's warranty, and</li><li>• a 10 year insured protection plan are required.</li></ul>

## Room Additions and Car Storage Conversions

### GLA Considerations

Room additions and enclosures of garages and carports into the living area should be included in the GLA if the added space is:

- accessible from the interior of the main dwelling in a functional manner,
- has a permanent and sufficient heat source, and
- is similar in design, quality of construction and appeal to the main dwelling.

### Non-GLA Areas Valued Separately

Added space that does not meet the criteria listed above must be valued separately from the GLA on the market data grid. The appraiser must consider the effect on marketability of an inferior addition or conversion when arriving at the line item adjustment for the added space. When selecting and analyzing comparable sales, the appraiser should consider the differences in quality and utility of room additions and converted spaces when compared with originally constructed space.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Construction Exhibits

### General Requirements

Construction exhibits are required for properties appraised as “proposed or under construction.” They are **not** required for properties appraised as either “new construction” or “existing construction.”

### Required Exhibits

Each set of proposed construction exhibits must include:

- specifications on VA Form 26-1852, Description of Materials, signed and dated by the builder in all cases and by the veteran when one is under contract in an individual case processed as “proposed or under construction”. Other specification formats are also acceptable, provided they are signed and dated by the builder and veteran as described above and are sufficiently detailed for VA appraisal and compliance inspection purposes.
- plot plan which includes the location of the well/septic systems, if applicable.
- all exterior building elevations.
- foundation or basement plan.
- plan of all floors.
- sectional wall details.
- a certification signed and dated by a technically qualified and properly identified individual (such as, builder, architect, engineer, etc.) which states, “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.” VA will accept HUD Form 92541, Builder’s Certification of Plans, Specifications and Site, in lieu of this certification.

**Note:** In most cases for HUD Form 92541 to be acceptable, it must have the identifying information at the top completed, as well as Items 2 and 4 **or** Items 5, 6, 9, 10, 12 and 13.

### Number and Distribution of Exhibit Sets

If inspections during construction are to be made by:

- VA, then two sets of construction exhibits are required.
- HUD, then only one set of construction exhibits is required. The appraisal requester will include that set with the assignment notice to the appraiser.

### Reduced-Size Plans

VA highly recommends the use of reduced-size construction drawings to save reproduction, mailing and storage costs for all parties involved. Building plans, elevations and details, traditionally drawn at ¼ inch scale and larger, can be photographically reduced or computer-drawn to be clearly readable on 8½ by 14 inch sheets.

While VA will currently accept 11 by 17 inch sheets, this size is not compatible with standard industry scanner equipment generally available to VA and program participants. Therefore, this size is discouraged and in the future may be eliminated as an option. Other exhibits normally provided in an 8½ by 11 inch format (such as specifications, certifications, etc.) must not be further reduced.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Construction Exhibits (continued)

### **“Master” Appraisals**

In addition to the other requirements in this section, a “master” appraisal request must include the following:

- Plat showing the locations of each lot or unit to be included in the appraisal,
- completed VA Form 26-1843b, Master Certificate of Reasonable Value Worksheet, and
- Building Program Statement, which includes:
  - total number of dwellings to be built in the project
  - number of dwellings contemplated in the primary construction phase, and anticipated starting and completion dates of that phase
  - arrangements regarding the construction, dedication and maintenance of streets and utilities, and
  - information regarding any special assessments to be assumed by purchaser.

### **Modular Construction**

In addition to the other requirements in this section, an appraisal request involving modular construction must include either:

- evidence of coverage by a HUD structural engineering bulletin, or
- a certification of approval by the State in which the unit is fabricated. This requirement will be made a condition of the VA value notice if not submitted with the appraisal request.

**Note:** CMS does not extend financing on modular construction.

### **Manufactured Homes**

Below is the criteria for manufactured homes under construction.

**Note:** CMS does not extend financing on manufactured homes with proposed construction or under construction. The appraisal for all manufactured homes must be completed as existing construction. All construction must be completed and the unit permanently affixed to be eligible for CMS financing.

CMS will not finance the construction of the structure, but will allow payoff of the construction loan.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Construction Exhibits (continued)

### Geological or Soil Instability

In areas that have a history of geological or soil instability, the builder must submit either:

- a certification that to the best of the builder's knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill, **or**
- evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements.

Qualified geologists are State licensed or are a member of a national or State organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology.

### Inspections to be Made by HUD

If HUD will make the inspections during construction, the appraisal request must include:

- The construction exhibits required above, except for the certification regarding those exhibits.
- The certification directly above item 38 on VA Form 26-1805.
- A certification by the builder or lender that the construction exhibits submitted to VA, including any HUD-accepted change orders, are identical to those submitted to HUD.
- A copy of the final HUD inspection report countersigned by HUD or a HUD Direct Endorsement underwriter, or a letter from HUD that the property has been completed in accordance with the approved plans and specifications and acceptable change orders, if any. This requirement will be made a condition of the VA notice of value if not submitted with the appraisal request.
- If the final HUD inspection report stipulates that certain incomplete work, such as street improvements, will be completed according to requirements specified by HUD elsewhere, a copy of the documentation that states those requirements must be furnished. In that situation, there must also be a VA-approved escrow agreement and a subsequent VA or HUD re-inspection report or other acceptable evidence of satisfactory completion. The veteran cannot be charged the cost of that re-inspection.

If there is a question about HUD consistency with VA in the interpretation and application of VA/HUD Minimum Property Requirements, the VA field station may impose a VA inspection, at an appropriate inspection stage, in addition to the HUD inspections.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Conversion of HUD Value Notices for VA Use

#### Overview

Generally, HUD value notices cannot be converted for VA use, since VA is required by law to assign fee appraisers and HUD allows lenders to select appraisers.

There is one exception.

#### Exception

To eliminate duplicative efforts and unnecessary appraisal costs for veterans, VA staff will convert a HUD conditional commitment issued by either HUD staff or a Direct Endorsement lender to a VA Certificate of Reasonable Value (CRV) if **all** of the following requirements are met:

- The appraiser is:
  - a VA fee panel member, and
  - not a staff employee of the lender.
- The property:
  - was appraised as an individual case (that is, not listed on a valid HUD “master” value determination)
  - did not already have a valid VA value determination on the date of the purchase agreement, and
  - was appraised for HUD purposes and the lender documents a legitimate need to change to VA financing after the appraisal was made. That is, the buyer changed from HUD to VA financing while under contract, or the property is being purchased with VA financing after a contract with a previous buyer requiring HUD financing fell through.
- The lender submits to the VA office of jurisdiction:
  - the lender’s written request for conversion, which includes a certification that identifies the property and addresses **each** of the above requirements
  - a completed VA Form 26-1805, Request for Determination of Reasonable Value
  - the HUD value notice and
  - the original appraisal report, including photographs and all other addenda.

VA will list applicable VA requirements and conditions on the CRV.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Conversion of HUD Value Notices for VA Use (continued)

<b>Setting Property Related Conditions</b>	<p>All property related documents required as a condition of loan approval must be reflected on the Conditional Commitment/Direct Endorsement Statement of Appraised Value form HUD 92800.5B. Some specific commitment conditions are identified on the back of the form listing both their codes and their specific names.</p> <p>In an effort to provide clear closing instructions to the Closing Agent (Title/Escrow Company or Attorney), when any of these conditions are required, the full name of the condition item should be entered into the origination system. As an alternative, enter the code and an additional comment for the closing agent to refer to the Conditional Commitment Direct Endorsement Statement of Appraised Value for an explanation of the codes.</p>
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## Fees for Appraisals and Inspections

<b>Policy</b>	<p>The maximum appraisal and inspection fees allowed by each VA field station is based on customary fees for similar services in that station's jurisdiction. Regardless of the amount of the maximum fee, appraisers and inspectors must not charge veterans more than they charge other clients for similar services.</p>
<b>Liquidation Appraisal Fees</b>	<p>The appraisal requester will pay the appraiser's fee and the expense will be included in the claim under loan guaranty.</p> <p>If the borrower attempts to pay the full arrears after the appraisal is obtained, the holder must include the cost of the appraisal in its computation of the total amount delinquent.</p>
<b>"Master" Appraisal Fees</b>	<p>Veterans cannot be charged for any portion of a "master" appraisal fee.</p> <p><i>Total maximum "master" appraisal fee = (Fee per House Type x Number House Types x Number Appraisers Assigned) + (Fee per Lot x Number Lots) + (Fee per Option x Number Options).</i></p>
<b>Construction Inspection Fees</b>	<p>The builder, sponsor, or lender will pay the inspection fees, which are not to exceed \$100 per inspection unless otherwise specified by the VA field station.</p> <p>While the veteran can be charged for all regular inspections of an individual property, the veteran <b>cannot</b> be charged for re-inspections due to</p> <ul style="list-style-type: none"><li>• the builder's noncompliance with VA requirements</li><li>• the builder's failure to provide access to the property or have the work ready for inspection, or</li><li>• the inspector's failure to arrive at the appointed time.</li></ul>

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Fees for Appraisals and Inspections (continued)

#### Mileage Fee

If a property is located outside of the fee person's normal business area, an additional fee may be charged **only** for that portion of travel beyond the normal business area and at a mileage rate not to exceed that allowed for federal employee travel.

That travel must be by the most direct route and the billing must include a breakdown of the mileage. VA offices will consider adding more fee panel members to provide better coverage in areas where mileage-related fees are excessive.

#### Fee Payment Problems

VA offices may allow a fee panel member to require payment in advance from a particular appraisal or inspection requester if both

- a regular, ongoing payment problem that is well outside of normal business practices is documented by the fee person, and
- the party responsible for payment fails to reasonably respond to the fee person's written notice about the problem and its possible consequences.

In such cases, VA will review the documentation from the fee appraiser. If in concurrence, VA will contact the requester to discuss and attempt to resolve the problem. If this contact does not resolve the matter, VA will notify the requester that written authority will be sent to all fee appraisers indicating that they are authorized to require advance payment in future cases from this particular appraisal/inspection requester.

**Note:** Appraisers may not require advance payment from requesters unless they have been given this written authority from VA.

#### Late Fees

Late fees may be authorized by VA Regional Loan Centers. Fee appraisers must have prior authorization by VA to assess late fees.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

## Appraisal Requirements

### Overview

For VA loan guaranty purposes, the “reasonable value” of a property is that figure which represents the amount a reputable and qualified appraiser, unaffected by personal interest, bias, or prejudice, would recommend to a prospective purchaser as a proper price or cost in the light of prevailing conditions.

VA considers reasonable value and market value to be synonymous. VA’s definition of market value is consistent with that used by Fannie Mae, Freddie Mac and major appraisal organizations.

### General Requirements

Every VA appraisal must:

- name VA as the client on the appraisal report form,
- insert “Any Qualified Veteran,” rather than the veterans name in the borrower field of the appraisal report form,
- be performed within VA timeliness requirements,
- conform to Uniform Standards of Professional Appraisal Practice (USPAP),
- meet the additional requirements (as outlined in this section) that VA considers to be supplemental to USPAP, and
- be uploaded into E-Appraisal by the appraiser as a Portable Document Format (PDF) document.

Fee appraisers must complete VA assignments as quickly as appraisals for conventional loans are generally completed in the area where the property is located. An exception may be allowed in a particular case if:

- Valid extenuating circumstances are documented, and the
- VA Regional Loan Center (RLC) with jurisdiction is notified on IND cases, or the
- Lender Appraisal Processing Program (LAPP) lender, indicated on [VA Form 26-1805](#), Request For Determination of Reasonable Value (Real Estate), item 5a, is notified on LAPP cases.

**Note:** Liquidation appraisals must be completed within five business days. The time required to gain interior access will not be counted against this standard. VA will consider reasonable explanations for delays beyond the control of the appraiser.

RLCs will consider adding appraisers to the fee panel in areas where it consistently takes lenders longer to obtain a VA appraisal than a comparable conventional appraisal.

Every VA appraisal must meet the USPAP requirements. Lenders and their Staff Appraisal Reviewers are expected to be familiar with applicable USPAP provisions.

Any appraisal that is not based on recognized appraisal practices in order to “accommodate” the sale price is unacceptable and will result in VA disciplinary action.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Appraisal Requirements (continued)

### General Requirements (continued)

The VA assigned fee appraiser must personally:

- view the interior and exterior of the subject property (except on proposed construction -cases) and the exterior of each comparable,
- select and analyze the comparables,
- make the final value estimate, and
- sign the appraisal report as the appraiser.

If the VA assigned appraiser relied on significant professional assistance in performing the appraisal or in preparing the appraisal report (except as prohibited) the name of that individual and the specific tasks performed must be shown in the “Reconciliation” section of the appraisal report.

## Appraisal Report Contents

### Required Items

Every VA appraisal report must include the following items:

- A properly completed (according to the requirements in this section) appraisal report using one of the following forms:
  - Uniform Residential Appraisal Report (URAR), Freddie Mac Form 70/Fannie Mae Form 1004, if the property is a single-family residence, not a manufactured home or a unit in a condominium.
  - Manufactured Home Appraisal Report, Freddie Mac Form 70B/Fannie Mae Form 1004C, if the property is a single-family manufactured home.
  - Individual Condominium Unit Appraisal Report, Freddie Mac Form 465/Fannie Mae Form 1073, if the property is a condominium unit.
  - Small Residential Income Property Appraisal Report, Freddie Mac Form 72/Fannie Mae Form 1025, if the property has two to four living units.
- A location map, showing the location of the subject and each comparable.
- Building perimeter sketches showing the “footprint” of all improvements, including floor plan layout of residential spaces. The calculation for the square foot size of the improvements must also be shown either here or in the “Comments on Cost Approach” section of the URAR.
- Photographs – exterior and interior photos per VA requirements.
- An itemized list of any observed repairs required to be completed, customer preference items to be installed, inspections to be performed, or conditions to be corrected, for the property to meet VA minimum property requirements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Appraisal Report Contents (continued)

### Required Items (continued)

- A copy of the appraisal invoice should be included preceding the report.
- Any additional appraisal or repair-related information that may be needed to support the fee appraiser's conclusions. The appropriate areas of the computer-generated URAR can be expanded to include such information, provided the standard sequence of the URAR instructions, information entries, etc., does not change and the "Sales Comparison Analysis" does not appear on two separate pages.

Each appraisal report requires:

- photographs of the subject property showing a front and rear view (preferably including a different side view in each photograph) and the street scene, and
- a photograph of each comparable (only a front view of the comparable sales is required).

Exception:

If ...	Then ...
it is a proposed construction case and no improvements are under construction,	only a photograph of the subject site and street scene are required in addition to a front view photograph of each comparable.
the property is in a condominium more than three units high,	no photographs of the comparable sales are required, provided they are located in the same project as the subject property and are substantially identical to the subject property.
the appraiser documents an inability to take photos of the comparable sales due to lack of access, poor visibility, etc.,	copies of listing service or advertising pictures are acceptable for the comparable sales if they clearly depict the properties. Copies of listing service or advertising pictures in lieu of photographs are never acceptable for the subject property.

Additional certifications required by State law or related to continuing education or membership in appraisal organizations, etc., can be made on a separate form or page, provided they do not conflict with the language on the Statement of Assumptions and Limiting Conditions or with any VA policy.

**Note:** Appraisal reviewers must determine that additions or changes to the Statement of Assumptions and Limiting Conditions do not conflict with VA requirements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Submission of Appraisal Reports

### Electronic Transmissions

Fee appraisers are required to upload their appraisals into E-Appraisal at the VA [Veterans Information Portal](https://vip.vba.va.gov) (VIP) web site (<https://vip.vba.va.gov>).

System failures of VIP or E-Appraisal should be reported to: [VIP@vba.va.gov](mailto:VIP@vba.va.gov).

In the event of system unavailability(ies), VA appraisers may e-mail their report to the Lender Appraisal Processing Program (LAPP) Lender or to VA (IND Cases), but must upload into E-Appraisal at a later time when the system(s) is available.

As with all other aspects of the VA appraisal process, fee appraisers must meet all Uniform Standards of Professional Appraisal Practice (USPAP) requirements applicable to electronically transmitted appraisal reports.

The appraiser must upload a fully completed appraisal report with all related exhibits, including photographs, into E-Appraisal using the Portable Document Format (PDF) from Adobe Acrobat®.

### Access to Appraisal Reports

VA staff, lenders, agents, servicers, and other requesters with VA issued ID numbers that are associated with the loan number will be able to retrieve the appraisal from E-Appraisal for review, issuance of the Notice of Value (NOV), or other functions. Only the latest copy of the appraisal uploaded into E-Appraisal will be available for retrieval.

### Appraiser E-Appraisal Exemption

An exemption to the E-Appraisal upload requirements may be granted when warranted. Appraisers must request and obtain written authorization from the Regional Loan Center (RLC) of jurisdiction to be exempt from the E-appraisal requirement.

If an exemption to E-Appraisal is granted, the appraiser must send the appraisal report by overnight mail delivery to the:

- VA RLC of jurisdiction, and
- LAPP lender, indicated on VA Form 26-1805, Request for Determination of Reasonable Value (Real Estate), item 5a, for LAPP cases or
- Servicer, indicated on VA Form 26-1805, Request for Determination of Reasonable Value (Real Estate), item 5, for SAPP cases.

### Appraiser Signature and Electronic Signature

Appraisal reports must have the appraiser's signature, either electronically or handwritten.

The electronic signature may be a digitized image controlled through a personal identification number or other verified signature electronic media where the appraiser has the sole control of affixing the signature.

**Note:** USPAP provides specifics on what can be considered an electronically verified signature. Please refer to these standards for more information.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Approaches to Value

### **Sales Comparison Approach**

VA relies exclusively on the sales comparison approach to value, except in very unusual circumstances involving inadequate or nonexistent comparable sales or an extremely unique property. The VA value estimate should never exceed what has been indicated through the sales comparison approach.

This approach recognizes that a well-informed purchaser will generally pay no more for a property than the price of acquiring a similar property of equal desirability and utility without an undue delay.

### **Cost Approach**

Since the residential real estate market does not base transaction decisions on a property's reproduction or replacement cost, the cost approach to value may only be used to support the sales comparison approach in the final reconciliation. VA does not require the completion of the cost approach unless it is applicable to the appraisal.

**Example:** The cost approach may be useful in supporting the sales comparison approach in an appraisal of a new manufactured home in a rural area that has only recent sales of stick-built homes and much older manufactured homes.

### **Income Approach**

Development of an income approach for a single family property is not required. If the appraisal involves an income-producing property (more than one living unit), the appraiser will use the Small Residential Income Property Appraisal Report, Freddie Mac Form 72 or Fannie Mae Form 1025, which requires value estimates developed through both the income approach and the sales comparison approach in the final reconciliation.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



## Selection and Analysis of Comparable Sales

### Overview

The appraiser must select the three best closed comparable sales available and properly adjust the sales price of each comparable sale for market recognized differences between it and the subject property. The goal is to obtain a VA value estimate that does not exceed the price at which similar properties can be purchased in the current market.

The appraiser must adequately explain any reliance on sales that are not truly comparable to the subject.

Sales listings, contract offers, and unsettled sales must not be used as comparables.

### Sales Price Range:

Comparable sales should preferably exhibit a narrow price range. The appraiser must adequately explain a wide range in the sale prices of comparables before or after adjustment.

### Data and Verification:

A single data source is adequate if it provides quality sales data verified by closed transactions. Sales data provided by a party to the sale or financing of the subject property must be verified by a secondary data source or a party without an interest in the transaction.

### Sales Dates:

Comparable sales should be recent sales, typically within 6 months and generally not more than 12 months old. In some markets, sales over 6 months old may be considered outdated.

**Note:** The appraiser must adequately explain the use of sales over 12 months old.

### Location:

Comparable sales should be located as close to the subject as practical. Their proximity to the subject (such as three blocks north) must be described. Generally, blocks should be used in cities and miles in rural areas to locate properties.

The appraiser must adequately explain any reliance on sales located either:

- further from the subject than similar recent comparable sales readily available in the subject neighborhood, or
- outside of the subject's market area.

**Note:** In suburban or rural communities, the market areas may be greatly expanded and suitable comparable sales may be many miles away from the subject. In such cases, the appraiser should specify why those comparable sales were used and how they compare/compete with the subject. The appraiser should evaluate whether extended distances are normal for this market, submit a description of the market area, and determine whether the comparable sales are within the subject's market. The appraiser should also indicate whether or not any adjustments were made for locality or proximity. If there are any other recent comparable sales closer to the subject, include a discussion regarding why they were not used. Providing detailed commentary about the market and comparable selection may reduce the number of requests for revisions of appraisals.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Selection and Analysis of Comparable Sales, continued

### Overview, continued

#### Value Adjustments:

To be in a condition acceptable to VA, properties must meet VA's Minimum Property Requirements (MPR) (see the [Minimum Property Requirements](#) section). Since MPR repairs identified in the appraisal report must be completed as a condition of the report, value adjustments to the comparables are to be made as if the repairs to the subject have been accomplished.

Generally, good comparables require minimal adjustment for individual feature differences and a minimal total net adjustment. The appraiser must adequately explain large adjustments.

Adjustments based on some factor other than market reaction, such as builder costs for materials, project development, etc., are not generally acceptable.

## Other Market Analysis Considerations

### Overview

Market analysis considerations are provided as a reminder of VA appraisal expectations and as an aid in development of the appraisal report. Reporting each consideration, separate from the requirements of the appraisal report form is optional, unless time adjustments are used in the report.

#### Sales or Financing Concessions

The appraiser should report:

- in the "Neighborhood" section of the Uniform Residential Appraisal Report (URAR) or on an addendum, the prevalence of sales or financing concessions (for example, interest rate buy-downs, inclusion of non-realty items in the transaction, seller payment of any buyer closing costs, etc.); and
- if any comparable sale involved concessions, the effect of the concessions on the sales price of the comparable should be noted. In doing so, the appraiser should consider:
  - that the effect of financing/sales concessions can vary in different locales,
  - that the amount of any adjustment should generally be based upon the real estate market reaction to the concession, and not on the dollar-for-dollar cost of the concession(s) to the seller, and
  - in proposed construction cases, closed sales by the same builder, sales in competitive subdivisions, and re-sales of similar existing properties.

#### Housing Supply and Demand

In every case, the appraiser should:

- consider the supply and demand for available housing in the subject market area, and
- report, either in the "Neighborhood" section of the URAR or on an addendum, the average listing price to sale price ratio for the subject market area. Professional judgment must be used to estimate that ratio if it cannot be determined from available data sources.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Other Market Analysis Considerations (continued)

### Overview (continued)

#### Marketing Time and Trend

In every case, the appraiser should:

- consider the marketing time trend (increasing or decreasing) in the subject market area, and
- report, either in the “Neighborhood” section of the URAR or on an addendum, the extent of increase or decrease in the average marketing time (listing period) in that market area.  
For example, “In the last 3 months, the listing period in the subject’s market area decreased from 180 to 90 days.”

#### Sales Listings and Contract Offers

In every case, the appraiser should:

- Analyze sales listings, contract offers, and unsettled sales to determine if market conditions changed between the date each comparable sold and the date of the subject property appraisal. This is especially important in markets with rapidly increasing or decreasing values. If the subject property is in a new subdivision, the analysis should include the builder’s closed sales, sales in competitive subdivisions, and sales of similar existing properties.
- Certify, either in the “Neighborhood” section of the URAR or on an addendum: “I have considered relevant competitive listings/contract offerings in performing this appraisal, and any trend indicated by that data is supported by the listing/offering information included in this report.”

Provide a listings/offers addendum if a significant market transition is indicated in the “Neighborhood” section due to changes in employment opportunity, housing supply/demand, average marketing time, seller concessions, etc.

#### Sales Listings and Contract Offers

If a sales listing and/or contract offers addendum is submitted:

- It should provide all of the following information regarding competitive listings or verifiable, bona fide contract offerings considered the most similar and proximate to the subject:
  - The information usually found in a Multiple Listing Service (MLS) entry or other listing.
  - How long each property has been on the market (total time listed).
  - Any change in the listing price of each property (if known).
  - A short statement comparing the property to the subject.
- Contract offerings are more desirable than listings.
- Any new construction contract must clearly identify all optional items and variations from the basic house type and any sales/financing concession included in the sales price.
- Listings should be properly identified and may include a legible copy of a MLS entry.

Although not required, it may be helpful to make adjustments or otherwise use a sales comparison analysis grid.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Other Market Analysis Considerations (continued)

### Overview (continued)

#### Existing Construction

Fee appraisers are experienced observers who must view both the interior and exterior of the subject property to:

- determine its overall condition, and
- recommend any readily observable repairs necessary to make it meet VA Minimum Property Requirements (MPRs)

On the Uniform Residential Appraisal Report (URAR), the fee appraiser must select the appropriate box in the “Reconciliation” section following, “This appraisal is made”

- “As is”, if the property meets MPRs with no repairs required, or
- “Subject to the following repairs...”, if repairs are required for the property to meet MPRs. The appraiser must also provide an itemized list of observed repairs, customer preference items to be installed on new construction cases, or other action necessary to ensure the property meets MPRs.

When there is an indication of a potential environment problem (e.g., abandoned underground fuel storage tank), the appraisal report must contain a requirement for correction of the problem in accordance with any local, state or federal requirements.

Appraisers must not recommend electrical, plumbing, heating, roofing or other inspections only as a measure of liability protection. Improvements or site conditions that do not appear to meet MPR's should, in most instances, be required to be corrected, repaired or replaced, rather than inspected. An inspection should be recommended only if there is an indication of a complex problem requiring a professional opinion, such as, pests, site drainage, structural defects, safety concerns, code violations, etc.

**Note:** Fee appraisers are required to view, but not enter, any accessible crawl space and/or attic areas of the home and report any significant defective conditions observed.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Remaining Economic Life of Improvements

### Overview

Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home.

For VA Loan Guaranty purposes, the remaining economic life of the security must be at least as long as the loan repayment term, typically 30 years.

A remaining economic life estimate of less than 30 years must be adequately explained and not arbitrarily established. This is to avoid depriving veterans of the home of their choice in an area where they can afford to live.

### What the Appraiser Must Consider

In estimating remaining economic life, the appraiser must consider:

- the relationship between the property and the economic stability of the block, neighborhood, and community;
- comparisons with homes in the same or similar areas;
- the need for a home of the particular type being appraised;
- the architectural design, style and utility from a functional point of view;
- the workmanship and durability of the construction, its physical condition, and probable cost of maintenance and/or repair;
- the extent to which other homes in the area are kept in repair; and in areas where rehabilitation and code enforcement are operating or under consideration, their expected results in improving the neighborhood for residential use.

### What the Appraiser must Report

If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation, based on either known economic factors or observed physical condition.

If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate at its maximum (for example, 40 years).

For condominium units, the estimate of remaining economic life must be reported in the "Reconciliation" section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Proposed Construction

### Overview

This section describes the appraisal requirements to be met when considering proposed construction.

### Appraiser Certification Required

Proposed construction appraisals based on construction exhibits must include the following certification:

"I hereby certify that the information contained in [*specific identification of all construction exhibits (e.g., Smith Construction Plan Type A, 9 sheets, [VA Form 26-1852](#), Description of Materials, plot plan by Jones, Inc.)*] was used to arrive at the estimate of reasonable value noted in this report.

[*appraiser's signature*] \_\_\_\_\_"

### "Master" Appraisal Reports

Each "master" appraisal must include:

- a separate Uniform Residential Appraisal Report (URAR) completed for each basic house type in the appraisal;
- narrative analysis of the project to include:
  - current status of project (development stage, number of sales, etc.),
  - status of off-site improvements (streets, common area improvements, etc.), and
  - any condominium/planned unit development related or other information not sufficiently covered in the URAR;
- list of all options with the value estimate for each one (see [Valuing "Options"](#));
- list of all offsite improvements included in the value estimate; and
- list of all lots/units, to include:
  - each lot number or legal description,
  - value estimate for each lot (according to its relative size and desirability), and
  - total value estimate for each lot and the basic improvements to be built on it (or a schedule which provides for the substitution of models on individual lots).

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Proposed Construction (continued)

### Valuing “Options”

“Options” are items of equipment and variations from the basic house type (such as kitchen appliances, fireplace, building elevation variations, etc.) not included in the base price of the house.

Personal-type items (such as, blenders, fireplace equipment, furniture, drapes, rugs, etc.) cannot be included in the VA valuation.

VA value estimates for options must be:

- based on real estate market data (the contribution to the home’s basic value, based on sales of properties with such options).
- applied uniformly and should not vary considerably from one subdivision to another in the same real estate market.

VA will consider requests to increase the established value of options and make appropriate changes if warranted by sufficient and valid market data.

**Note:** Cost handbook data can only be used to supplement insufficient market data.

### Manufactured Homes

The appraiser must enter the manufactured home (MH) unless it is both:

- new, and
- has not been delivered to the dealer or to the site.

In those cases where the appraiser is unable to access and/or inspect the new MH, the appraiser must obtain the following documents to be included in his/her appraisal:

- MH plans: design or floor plans showing room layout and exterior dimensions for MH unit, and elevation plans;
- Specifications: information on all standard items of inclusion such as flooring, heating, plumbing, electrical equipment, and appliances;
- Supplemental information on any selected options or upgrades included in the subject sale; and
- Foundation plan.

If other MH’s classified as real estate on permanent foundations are not available for use as comparables, the appraisal report must:

- state that fact, and
- show in the market analysis grid that the sales prices of the best comparable conventional home sales available were properly adjusted.

### Property to be Altered/ Improved/ Repaired

When the purpose of the VA loan is to make alterations, improvements, or repairs costing in excess of \$3,500, the appraiser must estimate reasonable value both on an “as is” and an “as repaired” basis and disclose the full extent of the work to be done.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Proposed Construction (continued)

### Partial Release of Loan Security

If an appraisal is required, the appraisal report will contain three values. The estimated reasonable value of:

- the entire property on an “as is” basis,
- the described parcel to be released, and
- that portion of the property which will remain as security, after release of the described parcel.

### Planned Unit Developments (PUDs) and Condos

The appraisal report must:

- Show the amount of the current monthly assessment.
- For condominiums, indicate which utilities are/are not included.
- Comment on the adequacy of the monthly assessment, based upon the appraiser’s opinion of the adequacy of the project’s budget and a comparison to competitive projects. If the assessment is considered inadequate, a “fair” or “market” assessment must be recommended.
- Report any known pending litigation involving the subject project or its homeowners association.

### Solar Energy Systems

For VA purposes, the value of a solar energy system must be based on real estate market data.

### Local Housing/ Planning Authority Code Enforcement

If the property is existing construction which is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser’s report must take this into consideration.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Proposed Construction (continued)

### Properties Subject to Flooding

Special Flood Hazard Areas (SFHAs) are those areas in 100-year floodplains delineated on Federal Emergency Management Agency (FEMA) flood maps. SFHAs are usually designated Zones A, AO, AH, AE, A99, VO, VE, or V. Older maps use numbered A and V Zones (for example, A2, V30).

The appraiser must:

- Check FEMA flood map(s) for the area in which the property is located.
- Notify VA and the lender if it appears that the property may **not** be eligible for VA appraisal because
  - it is proposed or new construction and there is an indication that the elevation of the lowest floor is below the base flood level (100-year flood level). See 24 CFR 200.926d(c)(4), or
  - there is an indication that it is subject to regular flooding, for whatever reason. Regular flooding would cause the property to not meet VA Minimum Property Requirements (MPRs) whether or not it is located in a SFHA.
- If the property is eligible for appraisal and located on a flood map
  - identify the map number and flood zone on the appraisal report, whether or not the property is located in a SFHA.
  - If any part of the dwelling is in a SFHA, provide appropriate information in the “Site” section of the appraisal report.
  - If a “master” appraisal, provide a list of the lots located in a SFHA.

Flood insurance is not required in Zones B, C, X, and D.

Also see the [Properties in Coastal Barrier Areas](#) section.

### Properties in Coastal Barrier Areas

Properties located in a Coastal Barrier Resources System (CBRS) area, as delineated on a CBRS map, are not eligible as security for a VA-guaranteed loan. Affected areas include portions of the Great Lakes, Gulf Coast, Puerto Rico, Virgin Islands, and the Atlantic coast.

Appraisers who work in CBRS areas must obtain the appropriate maps from the U.S. Fish and Wildlife Service. Prohibited areas on the maps are those inside the solid heavy black lines.

## Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

### Proposed Construction (continued)

#### Properties Near Airports

The appraisal report must identify any airport noise zone or safety-related zone in which the property is located.

Noise Zones are defined in decibels (db) in the table below.

Noise Zone	CNR (Composite Noise Rating)	NEF (Noise Exposure Forecast)	DNL (Day/Night Average Sound Level)
1	Under 100 db	Under 30 db	Under 65 db
2	100-115 db	30-40 db	65-75 db
3	Over 115 db	Over 40 db	Over 75 db

- Clear zones are areas of highest accident risk located immediately beyond the ends of a runway.
- Accident potential zones are beyond the clear zones but still have significant potential for accidents. Only military airports identify them.
- No existing property will be rejected because of airport influence if that property is already the security for an outstanding VA loan.

Depending on the type of construction and the airport noise or safety-related zone involved, the following requirements also apply with regard to the appraisal and/or VA Notice of Value (NOV):

Type Construction	Noise Zone One	Noise Zone Two	Noise Zone Three	Clear Zone	Accident Potential Zone
Proposed	A	A, B, C, D	E	F	A, C, H, I
New/Existing	A	A, D	A, D	A, C, G	A, C, I



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Proposed Construction (continued)

### Properties Near Airports (continued)

Requirement	
A	The fee appraiser's market data analysis must include a consideration of the effect on value, if any, of the property being located near an airport.
B	Sound attenuation features must be built into the dwelling to bring the interior DNL of the living unit to 45 decibels or less.
C	Available comparable sales must indicate market acceptance of the subdivision in which the property is located.
D	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an area near an airport, and that aircraft noise may affect livability, value, and marketability of the property.
E	Not acceptable as the security for a VA loan unless the project was accepted by VA before noise zone three contours were changed to include it. In that situation, the requirements for proposed construction in noise zone two must be met.
F	Not acceptable as the security for a VA loan.
G	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located near the end of an airport runway, and that this may have an effect upon livability, safety, value, and marketability of the property.
H	The project in which the properties are located must be consistent with the recommendations found in the airport's Air Installation Compatible Use Zone (AICUZ) report.
I	The veteran must sign a statement which indicates his/her awareness that the property being purchased is located in an accident potential zone and that this may have an effect upon livability, safety, value, and marketability of the property.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## MINIMUM PROPERTY REQUIREMENTS

### Minimum Property Requirement Procedures

<b>MPRs</b>	VA has established Minimum Property Requirements (MPRs) to protect the interests of Veterans, lenders, servicers, and VA. Properties must meet these requirements prior to guaranty of the loan by VA.
<b>Appraisal is Not a Home Inspection</b>	While VA-assigned fee appraisers must note any readily apparent repairs that are needed, it is important to distinguish the differences between a real estate appraisal and a home inspection report. The fee appraiser will not perform operational checks of mechanical systems or appliances. The fee appraiser estimates the value of the property to ensure that it is sufficient for the amount of the proposed loan.
<b>Safe, Sound, Sanitary</b>	MPRs help ensure that the property is safe, structurally sound, and sanitary. The scope of MPRs also includes issues related to the property's location and legal considerations
<b>Appraisal Subject to Repairs to meet MPRs</b>	Appraisers must not prepare appraisals subject to inspections. The appraiser must recommend repairs, not inspections, for any conditions that do not appear to meet MPRs.
<b>Cosmetic Items</b>	The appraiser should not recommend repairs of cosmetic items, items involving minor deferred maintenance or normal wear and tear, or items that are inconsequential in relation to the overall condition of the property. While minor repairs should not be recommended, the appraiser should consider these items in the overall condition rating when estimating the market value of the property.
<b>Detached Improvements</b>	Detached sheds or other improvements on the site may be included in value if the improvement meets VA's MPRs. If the improvement does not meet MPRs it must be excluded from value. If the improvement presents a health or safety hazard, the appraisal must be completed subject to the removal of the improvement.
<b>Home Inspection Recommended</b>	After an origination appraisal is completed, the Notice of Value (NOV) that is issued to the Veteran includes a recommendation that the Veteran may wish to obtain a home inspection.
<b>Local Requirements</b>	Information about MPRs concerning properties in specific locations are listed by state at <a href="http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp">http://www.benefits.va.gov/HOMELOANS/appraiser_cv_local_req.asp</a> .
<b>SAH</b>	Additional MPRs apply to Specially Adapted Housing (SAH) program cases. The Regional Loan Center (RLC) of jurisdiction should be contacted for assistance with SAH questions.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Marketable Real Estate Entity

<b>Single Real Estate Entity</b>	The property must be a single, readily marketable real estate entity.
<b>Multiple Parcels</b>	More than one parcel or lot may be included as long as all of the property is contiguous and legally marketable. VA does not set a limit on the number of acres that the property may have. If the property being appraised includes more than one parcel, the appraisal must be prepared subject to placing all of the parcels on one deed.
<b>Road or Waterway Dividing the Property</b>	If a property is divided by a road or waterway, the appraiser must determine the effect on the utility of the property to ensure that the property is a readily marketable, real estate entity.

## Space Requirements

<b>Space Requirements</b>	Each living unit must have the space necessary to assure suitable: <ul style="list-style-type: none"><li>• living</li><li>• sleeping</li><li>• cooking and dining accommodations, and</li><li>• sanitary facilities.</li></ul>
<b>Non-Standard Construction</b>	Non-standard house styles which may be unique in a market area, for example, log houses, earth sheltered houses, dome houses, and houses with lower than normal ceiling heights, must meet any local building codes. The appraiser must consider the marketability of the home in the appraisal.

## Access

<b>Street Access</b>	Each property must be provided with a safe and adequate pedestrian or vehicular access from a public or private street with an all-weather surface.
<b>Private Road Requirements</b>	Private roads and shared driveways must be protected by a recorded permanent easement or recorded right-of-way from the property to a public road.
<b>Maintenance Agreement</b>	Joint maintenance agreements for private roads and shared driveways are not required.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Access (continued)

<b>Private Street in PUD or Condominium</b>	If private street maintenance is covered in the organizational documents for a planned unit development (PUD) or condominium, or by state law, the NOV may be issued without a requirement for further documentation.
<b>Easements Must Run with the Land</b>	Each living unit must be accessible without passing through any other living unit or trespassing on adjoining properties. Any easements required must run with the land.
<b>Backyard Access</b>	<p>Access to the backyard must be provided without passing through any other living unit. For a row-type dwelling, the access may be by means of</p> <ul style="list-style-type: none"><li>• an alley,</li><li>• easement, or</li><li>• passing through the subject dwelling.</li></ul>
<b>Exterior Wall Access</b>	Adequate space to perform maintenance of the exterior walls must be present between buildings.
<b>Property Constructed Adjacent to Another Property Line</b>	A building constructed on or next to a property line must be separated from the adjoining building by a wall extending the full height of the building from the foundation to the ridge of the roof.

## Encroachments

<b>Encroachments</b>	The appraiser must report any apparent encroachments of the subject's dwelling, garage, or other improvements onto an adjacent property, right-of-way, utility easement, or building restriction line and any apparent encroachments of a neighboring dwelling, garage, or other improvements onto the subject property.
<b>Prompt Notification</b>	The appraiser must notify the lender of the encroachment promptly to provide as much time as possible to resolve the issue.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Drainage and Topography

<b>Grading</b>	The site must be graded so that it <ul style="list-style-type: none"><li>• provides positive, rapid drainage away from the perimeter walls of the dwelling, and</li><li>• prevents ponding of water on the site.</li></ul>
<b>Topographic Conditions</b>	The appraiser must report any danger due to topographic conditions, such as mudslides from adjoining properties, falling rocks, or avalanches.

## Geological or Soil Instability, Subsidence, and Sinkholes

<b>Soil Conditions</b>	The appraiser must report any readily observable soil conditions of the site, and other physical features that affect the value of the site. The appraiser should also consider any published reports regarding the instability of the soil and surface support of the land concerning the subject and nearby properties. The appraiser must consider any effect on the estimated market value of the property.
<b>Subsidence</b>	Subsidence may be encountered where homes are constructed on uncontrolled fill or unsuitable soil, in locations near mining activity or extraction of subsurface minerals (to include fracking), or where the subsoil or subsurface is unstable and subject to slippage or expansion. Signs of subsidence may include cracks in the terrain, sinkholes, foundation damage or settlement problems.
<b>Dangerous Subsidence or Sinkholes</b>	The appraiser must report any probable or imminent danger of subsidence or sinkholes. Depending on the extent of the problem, it could be considered a hazard (see Topic 21 of this Chapter) which would make the property ineligible. The appraiser must notify the lender promptly when a hazardous condition is found.
<b>Repairs by Contractor</b>	If a settlement problem that does not have the severity of a hazard is apparent, the appraisal must be prepared "subject to repair" by a licensed contractor (for example, step-cracks in an exterior wall, or cracked flooring with significant vertical displacement).
<b>Hairline Cracks</b>	Minor hairline cracks hairline cracks due to expansion or normal settlement that are common in the market area do not typically require repair.
<b>New or Proposed Property</b>	For new or proposed construction properties, in areas that have a history of geological or soil instability, the builder must submit either: <ul style="list-style-type: none"><li>• a certification that to the best of the builder's knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill, or</li><li>• evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements. (Qualified geologists are state licensed or are a member of a national or state organization which requires responsibility, experience, education and demonstrated ability in the field of engineering geology.)</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Special Flood Hazard Area

<b>Flood Insurance</b>	Properties located in a FEMA Special Flood Hazard Area (SFHA) must be covered by a flood insurance policy. Properties located in a SFHA are not eligible if flood insurance is not available.
<b>Regular Flooding</b>	Based on the appraiser's knowledge of the market area, properties that are subject to regular flooding are not eligible, whether or not the area has been designated an SFHA.
<b>Verification of Flood Zone</b>	While appraisers must provide flood zone information on the appraisal report, flood zone maps do not typically indicate the location of specific properties. Lenders are responsible for verifying the flood zone information.
<b>Flood Zones</b>	SFHAs are usually designated Zones A, AO, AH, A1-A30, AE, A99, AR, AR/AE, AR/AO, AR/A1-A30, AR/A, V, VE, and V1-V30. Flood insurance is not required in Zones B, C, X, and D.
<b>Excluding Non-Residential Improvements</b>	At the Veteran's request, non-residential improvements such as detached garages and small sheds may be excluded from the flood insurance policy if they are also excluded from the appraised value. The cost of flood insurance with and without coverage for the detached building should be compared as excluding a detached building may not be worthwhile.
<b>Private Flood Insurance</b>	Veterans may elect to obtain private flood insurance instead of obtaining flood insurance through the National Flood Insurance Program.

## Coastal Barrier Resources System

<b>Eligibility</b>	Properties located in Coastal Barrier Resources System (CBRS) areas are not eligible for an appraisal.
<b>Appraiser Responsibilities</b>	Appraisers who perform appraisals for VA near the Atlantic Ocean, the Great Lakes, the Gulf of Mexico, or the Caribbean Sea must be familiar with any CBRS areas. If the appraiser finds that a property on which an appraisal has been ordered is located in a CBRS area, the appraiser must stop work and promptly notify the lender.

## Lava Flow Hazard Zones

<b>Appraiser Responsibility</b>	Lava Flow Hazard Zones are designated by the United States Geological Survey. Appraisers who perform appraisals for VA in affected areas must be familiar with these zones.
<b>Property Eligibility</b>	Properties in Zones 1 and 2 are not eligible for appraisal. If the appraiser finds that a property on which an appraisal has been ordered is located in Zone 1 or 2, the appraiser must stop work and promptly notify the lender.
<b>Market Value to be Considered</b>	If the property is in a Lava Flow Hazard Zone other than Zone 1 or 2, the appraiser must report the zone information in the appraisal and analyze the effect on market value.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Non-Residential Use

<b>Eligibility Considerations</b>	<p>A property that has both a residential and business use may be eligible for loan guaranty if:</p> <ul style="list-style-type: none"><li>• the property is primarily for residential use,</li><li>• the non-residential use does not impair the residential character,</li><li>• the property contains no more than one business unit, and</li><li>• the property is legally permitted and conforms to current zoning, or is a legal, non-conforming use that is accepted by the local authority.</li></ul>
<b>No Value to Business or Commercial Property</b>	<p>No value may be given to the business operations or commercial fixtures in the appraisal.</p>

## Zoning

<b>Zoning Compliance</b>	<p>The property must comply with all applicable zoning ordinances.</p>
<b>Legal, Non-Conforming Use</b>	<p>If the property does not comply with current zoning ordinances, but is accepted by the local authority, the appraiser must describe the property as “Legal Non-Conforming” and comment on the property’s marketability and any adverse effect this classification may have on value. The appraiser must state whether or not the dwelling may be legally rebuilt if destroyed.</p>

## Local Housing/Planning Authority Code Enforcement

<b>Local Authority Requirements</b>	<p>If the property is located in an area where specific local housing/planning authority code requirements are enforced in conjunction with the sale of homes, the appraiser must describe the requirements in the appraisal report.</p>
<b>Repairs Required by a Local Authority</b>	<p>If the appraiser is aware of any repairs that will be required due to local code enforcement, for example, the removal of unpermitted improvements, the appraiser must prepare the appraisal subject to these repairs.</p>

## Utilities

<b>Electricity</b>	<p>Each living unit must have electricity for lighting and for necessary equipment.</p>
<b>Appraiser Not Conducting Operational Checks</b>	<p>Since the appraiser does not perform any operational checks of mechanical systems or appliances, the utilities are not required to be turned on when the appraiser visits the property.</p>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Utilities (continued)

<b>Electrical Wires</b>	Any visible frayed or exposed electrical wires must be repaired.
<b>Utilities for Living Units</b>	Utility services must be independent for each living unit, except <ul style="list-style-type: none"><li>• units in a two to four-unit property may share water, sewer, gas, or electricity as long as there are separate service shut-offs for each unit, and</li><li>• units under separate ownership may share connections from the main to the building line when those connections are protected by an easement and a maintenance agreement acceptable to VA.</li></ul>
<b>Access for Maintenance and Repair</b>	Individual utilities serving one living unit shall not pass over, under, or through another living unit unless there is a legal provision for a permanent right of access for maintenance and repair of the utilities without trespass on adjoining properties.

## Water Supply and Sanitary Facilities

<b>Water and Sewer</b>	The property must have: <ul style="list-style-type: none"><li>• a continuous supply of safe and potable water for drinking, bathing, showering and sanitary uses,</li><li>• hot water,</li><li>• sanitary facilities, and</li><li>• a safe method of sewage disposal.</li></ul>
<b>Safe Drinking Water</b>	Given the importance of safe drinking water, appraisers must ensure that accurate water supply information is reported in the appraisal and the Staff Appraisal Reviewer (SAR) must condition the NOV appropriately. If the appraiser is aware of any issues regarding the water supply, the appraiser must comment in the appraisal.
<b>Market Value Considerations</b>	Appraisers must comment and adjust for any market reaction discovered as a result of water contamination, as well as any environmental stigma.
<b>Filtration of Water</b>	Proper mitigation of lead contaminated water must include a central filtering system which filters all water that could serve the property's occupants. When public water must be filtered, the requirements for individual water filtering under Topic 17, Subsection d of this Chapter including a Veteran's acknowledgement, must be applied. Information about water filtration is available at <a href="http://www.nsf.org/newsroom/consumer-guide-to-nsf-international-certified-lead-filtration-devices">http://www.nsf.org/newsroom/consumer-guide-to-nsf-international-certified-lead-filtration-devices</a> .
<b>Individual Water Supply</b>	If the property has an individual water supply see <a href="#">Individual Water Supply</a> for additional requirements.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Water Supply and Sanitary Facilities (continued)

<b>Hauled Water</b>	Properties served by hauled water are considered ineligible collateral per CMS.
<b>Individual Sewer Supply</b>	If the property has an individual sewer supply see <a href="#">Individual Sewage Disposal</a> for additional requirements.
<b>Connection Mandated by a Local Authority</b>	If public water or sewer is available and the local authority mandates connection, the appraiser must prepare the appraisal “subject to” connection.

## Individual Water Supply

<b>Health Authority Requirements</b>	Water quality for an individual water supply must meet the requirements of the health authority having jurisdiction. If the local authority does not have specific requirements, the guidelines established by the Environmental Protection Agency (EPA) will apply. Additional information is available at the following websites: <a href="https://www.epa.gov/privatewells/private-drinking-water-well-programs-your-state">https://www.epa.gov/privatewells/private-drinking-water-well-programs-your-state</a> and <a href="https://www.cdc.gov/healthywater/drinking/private/wells/testing.html">https://www.cdc.gov/healthywater/drinking/private/wells/testing.html</a> .
<b>Third Party Testing</b>	All testing must be performed by a disinterested third party. This includes collecting and transporting the water sample from the water supply source. The sample may be collected and tested by the local health authority, a commercial testing laboratory, a licensed sanitary engineer, or other party that is acceptable to the local health authority. At no time will the Veteran or other interested party collect and/or transport the sample.
<b>Conditions Requiring a Veteran’s Signed Statement</b>	The appraiser must comment in the appraisal and the Veteran must acknowledge awareness in writing when the water to the property is: <ul style="list-style-type: none"><li>• supplied by dug wells, cisterns, or holding tanks used in conjunction with water purchased and hauled to the site,</li><li>• provided with a mechanical chlorinator,</li><li>• provided through springs, lakes, rivers, sand-point or artesian wells, or</li><li>• supplied with a rainwater catchment system.</li></ul>
<b>Water Filtration System</b>	If the property has a water filtration system, the Veteran must acknowledge in writing that the water must be continuously treated as required by the local health authority to be considered safe for human consumption and for this to be effective, the system must be inspected and maintained to include filter replacements per the manufacturers’ recommendations.
<b>Distance Requirements</b>	The appraiser must be familiar with the minimum distance requirements between private wells and sources of pollution. The appraiser is not required to sketch or note distances between the well, property lines, septic tanks, drain fields, or building structures.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Individual Water Supply (continued)

<b>Testing Validity Period</b>	Water quality test results are valid for 90 days from the date certified by the local health authority unless the local authority indicates otherwise.
<b>Connection Mandated by a Local Authority</b>	If public water is available and the local authority mandates connection, connection is required.

## Individual Sewage Disposal

<b>Individual Sewage Disposal</b>	An individual sewage disposal system must adequately dispose of all domestic wastes in a sanitary manner which will not create a nuisance, or in any way endanger the public health.
<b>Pit Privies</b>	Individual pit privies are acceptable where such facilities are customary and installed in accordance with the recommendations of the local health authority.
<b>Health Authority Approval</b>	On proposed construction cases, or new or existing construction cases where the appraiser notes a problem, or if the area is known to have soil percolation problems, health authority approval of the individual sewage disposal system is required.
<b>Connection Mandated by a Local Authority</b>	If public sewer is available and the local authority mandates connection, connection is required see <a href="#">Water Supply and Sanitary Facilities</a> .

## Shared Wells

<b>Shared Well Requirements</b>	<p>A shared well refers to a well that serves two or more properties. The shared well must be:</p> <ul style="list-style-type: none"><li>• capable of providing a continuing supply of safe and potable water to each property simultaneously, so that each dwelling will be assured a sufficient quantity for all domestic purposes,</li><li>• protected by a permanent easement, which allows for maintenance and repair, and</li><li>• maintained under a well-sharing agreement containing provisions for the cost of repairs that is binding on the signatory parties and successors in title and has been recorded in public records.</li></ul>
<b>Appraiser Responsibility</b>	The appraiser must report that the property is served by a shared well and note any readily apparent deficiencies.
<b>Lender Responsibility</b>	The lender must obtain the shared well agreement and review the agreement to determine eligibility.
<b>Water Quality</b>	The water quality must meet the requirements for individual wells described in <a href="#">Water Supply and Sanitary Facilities</a> .

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Community Water Supply/Sewage Disposal Requirements

<b>Community Water/Sewer to be Noted in an Appraisal</b>	A community water/sewage system refers to a central system that is owned, operated, and maintained by a private corporation or a nonprofit property owners' association. The appraiser must note that the property is on a community water/sewage system in the appraisal report.
<b>Sufficient Water Supply</b>	The water supply must be sufficient in size for the project. Water quality must be approved by the local or state health authority.
<b>Adequate Size Sewage System</b>	The sewage system must be adequate in size and properly operated and maintained to prevent it from becoming a menace to public health.
<b>Local/State Authority Approval</b>	The lender must obtain evidence of approval of the facilities by the local or state health authority.
<b>Trust Deed</b>	<p>A trust deed is required if the local or state authority that approved the system does not:</p> <ul style="list-style-type: none"><li>• enforce compliance with its requirements,</li><li>• fix rates, and</li><li>• provide for prompt relief in case of deficient operation, service, or exorbitant rates.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Community Water Supply/Sewage Disposal Requirements (continued)

<b>Trust Deed for Private System</b>	If a trust deed is required for a privately-owned system, it should be similar to the trust deed found in HUD Handbook 4075.12.
<b>Documentation Required</b>	<p>For properties appraised as existing or new construction, the only requirement is evidence of approval of the facilities by the appropriate State or local public utility and health authorities.</p> <p>For properties appraised as proposed or under construction, the VA field station will review the following documentation:</p> <ul style="list-style-type: none"><li>• evidence of the financial stability and technical experience of the corporation, firm or organization operating the facilities</li><li>• evidence of approval of the facilities by the appropriate State or local public utility and health authorities, and</li><li>• rates for the water supply and/or sewage disposal systems (to ensure that they are not greater than the charges for like services to properties similarly situated).</li></ul>
<b>Acceptability of Trust Deed</b>	<p>The VA field station will accept the trust deed if</p> <ul style="list-style-type: none"><li>• the trustee is a responsible firm</li><li>• the description of the property in the trust deed is accurate and complete, and</li><li>• the charges set forth and the trustee's fee (normally about 5 percent and in no event in excess of 10 percent of gross receipts) are reasonable.</li></ul> <p>The trustee will preferably be a VA or HUD-approved lender, but may be any responsible, established firm (such as a title company) in the community. In the latter case, there must be no identity-of-interest between the sponsoring group and the trustee.</p>
<b>Builder Costs Included in Valuation</b>	If the builder recoups system installation costs via sale of lots and the VA value estimate is predicated on the inclusion of such cost in the value of the lots, the service rate must not permit the builder to realize the installation costs a second time.
<b>System Transfer</b>	<p>When the VA value estimate considers the system installation costs to be paid in full by the builder, then additional controls are needed to protect against possible future excessive rates or assessment charges which may result if the system is transferred to a public utility company.</p> <p>The trust deed must provide that transfers</p> <ul style="list-style-type: none"><li>• may be made only to a governmental authority or public utility company controlled by a State utility commission or similar body, and</li><li>• any funds gained from such transfer shall be distributed among property owners served by the system.</li></ul> <p>This protection will be obtained by insertion of an alternate paragraph 1 in the trust deed.</p> <p><b>Reference:</b> See HUD Handbook 4075.12, Appendix A, page 11, or Appendix B, page 11, as applicable.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Community Water Supply/Sewage Disposal Requirements (continued)

<b>Lower Valuation</b>	Any lack of assurance of satisfactory service, at reasonable rates, without the possibility of a future charge to pay for the utility systems would be reflected in a lower reasonable value.
<b>Field Station Review for Problems or Changes</b>	If trust deed amendments are proposed or the above conditions are not satisfied, the situation must be reviewed by the VA field station legal staff prior to acceptance. In this situation, the field station may also need to coordinate with the local HUD office.

## Hazards

<b>Hazards</b>	The property must be free of hazards which may: <ul style="list-style-type: none"><li>• adversely affect the health and safety of the occupants,</li><li>• adversely affect the structural soundness of the dwelling and other improvements to the property, or</li><li>• impair the customary use and enjoyment of the property by the occupants.</li></ul>
<b>Prompt Notification of the Lender</b>	The appraiser must notify the lender promptly when a hazard is identified so that the eligibility of the property may be addressed and, depending on the nature of the hazard, to provide as much time as possible to resolve the situation.

## Defective Conditions

<b>Definition</b>	Conditions which impair the safety, sanitation, or structural soundness of the dwelling will cause the property to be unacceptable until the defects or conditions have been remedied and the probability of further damage eliminated. The integrity of the envelope of the structure must not be compromised.
<b>Appraisals "Subject to" Repair of Defective Conditions</b>	Appraisals must be prepared "subject to" the repair of any defective conditions with the contributory value of the completed repair included in value.
<b>Examples</b>	Examples of defective conditions include: <ul style="list-style-type: none"><li>• defective construction,</li><li>• poor workmanship,</li><li>• evidence of continuing settlement,</li><li>• excessive dampness,</li><li>• leakage,</li><li>• decay, and</li><li>• termites.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Mechanical Systems

<b>Requirements</b>	Mechanical systems must be: <ul style="list-style-type: none"><li>• safe to operate, and</li><li>• protected from destructive elements.</li></ul>
<b>Appraiser Responsibility</b>	While the appraiser is not required to test the operation of any mechanical systems, the appraiser should recommend the completion of any repairs that are readily apparent.

## Heating

<b>Requirement</b>	Heating must be permanently installed and maintain a temperature of at least 50 degrees Fahrenheit in areas with plumbing.
<b>Non-Vented Heater</b>	If the dwelling will have a permanently installed, non-electric, non-vented fireplace or other non-vented space heater: <ul style="list-style-type: none"><li>• the NOV must be conditioned to require the Veteran's written acknowledgement that the dwelling contains a non-vented fireplace or space heater which has not been inspected by VA, and</li><li>• a licensed heating/air conditioning contractor must certify in writing that the non-vented appliance is equipped with an approved Oxygen Depletion Sensor and meets the local building authority requirements (if there are no local requirements, the installation must meet the manufacturer's recommendations).</li></ul>
<b>Mild Climate</b>	In areas with a mild climate, heating may not be required (see <a href="#">Local Requirements</a> ).
<b>Air Conditioning</b>	Air conditioning is not required, but if installed, must be operational. If any needed repairs to the air conditioning equipment are apparent, the appraiser must prepare the appraisal subject to the repair of the air conditioning system by a licensed heating/air conditioning contractor.

## Leased Mechanical Systems and Equipment

<b>No Value to Leased Equipment</b>	The appraiser must not include the value of any leased mechanical systems or any other leased equipment in the estimated market value as leased items are not suitable security for a loan. This includes but is not limited to fuel or propane storage tanks, solar or wind systems (including power purchase agreements), and other alternative energy equipment.
<b>Leased Equipment to be Noted in the Appraisal</b>	The appraiser must identify leased items in the appraisal report. Some leases may encumber the title making the property less than fee simple. The appraiser must consider any detrimental effect on the value of the property if the leased items are removed by the lessor.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Alternative Energy Equipment

<b>Alternative Energy Systems</b>	Alternative energy systems use wind, geothermal, or solar energy to produce energy to support the habitability of the structure.
<b>Market Acceptance to be Considered</b>	The appraiser must analyze the market acceptance of special energy-related building components and equipment, including solar energy components, high-energy efficiency housing features and components, geothermal systems, and wind powered components.
<b>No Value to Leased Equipment</b>	Leased equipment must not be given value in the appraisal.

## Roof Covering

<b>Requirement</b>	The roof covering must: <ul style="list-style-type: none"><li>• prevent entrance of moisture, and</li><li>• provide reasonable future utility, durability, and economy of maintenance.</li></ul>
<b>Multiple Shingle Layers</b>	When a defective roof with three or more layers of shingles must be replaced, all old shingles must first be removed.
<b>Appraiser Expectation</b>	The appraiser is not required to climb onto the roof.
<b>Appraisal Considerations when the Roof is Not Visible</b>	When the appraiser is unable to view the roof, the appraiser must explain why the roof is unobservable and report how the condition of the roof was determined. For example, a roof may be covered with snow yet the appraiser observed no evidence of leaks and documentation was provided to the appraiser verifying the age of the roof. If available, other methods such as drones could be utilized to show the area.

## Attics

<b>Appraiser Expectations</b>	Fee appraisers must view the interior of readily accessible attic spaces. The appraiser is not required to climb into the attic. The appraiser is not required to move insulation or personal items that may hinder visibility. If there is no scuttle or other access to the attic, there is no requirement to provide access.
<b>Deficient Conditions</b>	If a deficient condition (for example, a water-stained ceiling or insufficient ventilation) is apparent, the appraiser must prepare the appraisal subject to the repair.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Crawl Space

<b>Appraiser Expectation</b>	Fee appraisers are required to view, but not enter, the crawl space.
<b>Requirements</b>	The crawl space must: <ul style="list-style-type: none"><li>• have adequate access,</li><li>• be clear of debris, and</li><li>• be properly vented.</li></ul>
<b>Floor Joists</b>	The floor joists must be sufficiently above the highest level of the ground to provide access for maintenance and repair of ductwork and plumbing.
<b>Dampness</b>	Any excessive dampness or ponding of water must be corrected.
<b>Vacant Area Beneath House</b>	Not all houses with a vacant area beneath the flooring are considered to have a crawl space particularly if no mechanical systems are present, and there is no reason for access. If the area is properly vented and free of moisture, this condition is acceptable.

## Basements

<b>Dampness or Structural Problems</b>	The appraiser must report any dampness, or obvious structural problems that might affect the health and safety of occupants or the soundness of the structure.
<b>Sump Pump</b>	If a sump pump is present, the appraiser must recommend repair if it is not hard-wired by an acceptable wiring method or equipped with a factory electrical cord that is connected to a suitable receptacle.

## Swimming Pools

<b>Pool Equipment</b>	If the pool water contains algae or if the pool has been winterized, and the appraiser cannot determine if the pool equipment is in good working order, the appraiser may complete the appraisal under the extraordinary assumption that the pool and its equipment can be repaired at minimal cost without recommending any repairs.
<b>Structural Defects</b>	The appraiser must report readily observable defects including unstable sides and structural issues that would render the pool inoperable or unusable. Depending on the extent of the damage, the appraiser must prepare the appraisal report "subject to" the repair of the pool, and include the pool in value, or prepare the appraisal "subject to" permanently filling in the pool, in accordance with local guidelines, and re-grading the yard, if necessary.
<b>Above-Ground Pools</b>	Above-ground pools which include water filtering equipment and decking may be included in value if the appraiser determines that above-ground pools are customary and accepted in the market area.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Swimming Pools (continued)

<b>Local Requirements for Securing Pools</b>	Swimming pools must be secured in accordance with any local requirements. On a liquidation appraisal, if the pool is unsecure, securing the pool must be included on the repair list and reported as a safety hazard on the liquidation addendum.
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## Burglar Bars

<b>Requirement</b>	If a property has burglar bars, at least one window per bedroom must have a quick-release mechanism, unless there is an exterior door from the bedroom providing rapid egress.
<b>Removal of Burglar Bars</b>	If the appraiser is not able to confirm that quick release mechanisms are in good working order the appraiser should prepare the appraisal subject to removal of the burglar bars as a safety consideration.

## Lead-Based Paint

<b>Properties Built in 1978 or Later</b>	If the dwelling or related improvements were built in <b>1978 or later</b> , the appraiser must report all defective paint surfaces on the exterior and require repair of any defective paint that exposes the subsurface to the elements. Interior defective paint on a dwelling built in 1978 or later is normally considered cosmetic.
<b>Properties Built before 1978</b>	If the dwelling or related improvements were built <b>before 1978</b> , the presence of lead-based paint must be presumed. Any defective lead-based paint is a safety hazard that must be remediated. The appraiser must clearly identify the location of any defective paint. Economic feasibility is not an acceptable reason for waiver of a repair involving lead-based paint.
<b>Correction of Defective Lead-Based Paint</b>	Any defective lead-based paint must receive adequate treatment to prevent the ingestion of contaminated paint. Either: <ul style="list-style-type: none"><li>the surface requiring treatment must be thoroughly washed, scraped, wire brushed or otherwise cleaned to remove all cracking, scaling, peeling, chipping and loose paint and then repainted with two coats of a suitable nonleaded paint, or</li><li>the paint shall be completely removed or the surface covered with a suitable material such as gypsum wallboard, plywood, or plaster before any painting is undertaken if the integrity of the surface needing treatment cannot be maintained.</li></ul>
<b>Appraiser Certification of Repairs</b>	The completion of all repairs involving defective lead-based paint must be certified by the VA-assigned appraiser.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

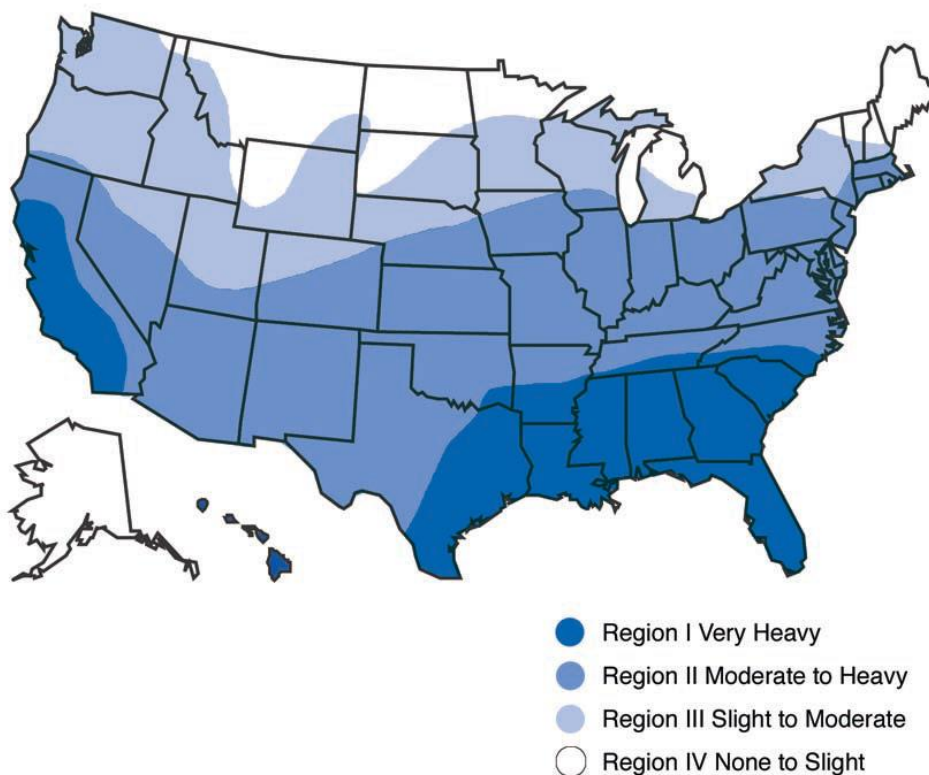
## Wood Destroying Insects/Fungus/Dry Rot

### Apparent Damage

Appraisers must report any apparent evidence of wood destroying insect infestation, fungus growth or dry rot. The appraisal must be prepared subject to a wood destroying insect inspection if any infestation or damage is apparent, and all damage must be repaired.

### Termite Infestation Probability Map

If the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy" on origination appraisals, a wood destroying insect inspection report must be required on the NOV.



USDA Forest Service Home and Garden Bulletin 64 (revised 2006)

### Local Requirements Webpage

The specific borders for some of the zones are difficult to determine from this map. Additional information may be found on VA's local requirements webpage.

### Non-Residential Improvements

Small sheds or other detached, non-residential improvements which were not given value on the appraisal report may be excluded from the inspection report.

### Requirements for Properties in Condominium Developments

A termite inspection is not required on units in high-rise condominiums (units are stacked vertically). For villa and townhome style condominiums where units are side by side, not stacked, if located in a "very heavy" or "moderate to heavy" zone, a termite inspection must be required on the NOV unless the homeowners association provides evidence of treatment.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Radon Gas

<b>Testing Recommended by VA</b>	On the NOV that is provided to Veterans with the results of the appraisal, VA recommends testing for radon gas.
<b>Builder Certification</b>	<p>On proposed and new construction cases, the builder must certify that radon resistant construction techniques were used where applicable and that construction meets any local or state building codes for radon control. Radon resistant construction techniques are considered to be applicable for properties located in Radon Zone 1 as designated by the EPA at the following website: <a href="https://geopub.epa.gov/Radon/">https://geopub.epa.gov/Radon/</a>.</p> <p>Additional information about radon resistant construction techniques is available at the following link: <a href="https://www.epa.gov/radon/radon-resistant-construction-basics-and-techniques">https://www.epa.gov/radon/radon-resistant-construction-basics-and-techniques</a>.</p>
<b>Additional Information</b>	<p>Additional information about radon gas is available at the following link: <a href="https://www.epa.gov/radon">https://www.epa.gov/radon</a>.</p>

## Potential Environmental Problem

<b>Potential Environmental Problem</b>	The appraiser must report and consider the effect on value of any apparent indication of a potential environmental problem.
<b>Examples</b>	<p>Examples include, but are not limited to:</p> <ul style="list-style-type: none"><li>• underground storage tanks,</li><li>• slush pits,</li><li>• oil and gas wells (operating or abandoned),</li><li>• hydrogen sulfide gas emitted from petroleum product wells,</li><li>• chemical contamination (including methamphetamine) or</li><li>• soil contamination from sources on or off the property.</li></ul>
<b>Appraisal Considerations</b>	The appraisal report must be prepared subject to correction of the problem in accordance with any local, state, or federal requirements, or documentation from the appropriate local, state, or federal authority that the condition is acceptable.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Stationary Storage Tanks

<b>Distance Requirement</b>	If the property is located within 300 feet of an above-ground or subsurface stationary storage tank with a capacity of 1,000 gallons or more containing flammable or explosive material, the appraiser must report this information in the appraisal. This includes storage tanks for domestic and commercial uses as well as automotive service station tanks.
<b>Comparable Sales</b>	The appraiser should use comparable sales in similar locations, if available.
<b>NOV Requirement</b>	The SAR must include the information on the NOV, requiring the Veteran's signed acknowledgement to ensure the Veteran is fully informed of the situation.

## Mineral, Oil, and Gas Reservations or Leases

<b>Influence on Property</b>	The appraiser must analyze and report the degree to which residential benefits may be impaired or the property damaged by the exercise of the rights set forth in oil, gas, and mineral reservations or leases.
<b>Appraisal Considerations</b>	<p>The appraiser should consider the following:</p> <ul style="list-style-type: none"><li>• the infringement on the property rights of the fee owner caused by the rights granted by the reservation or lease, and</li><li>• the hazards, nuisances, or damages to the subject property from exercise of reservation or lease privileges on neighboring properties.</li></ul>

## High Voltage Electric Transmission Lines

<b>Residential Structure</b>	No part of any residential structure may be located within a high voltage electric transmission line easement.
<b>Detached Improvements</b>	Any detached improvements even partially in a transmission line easement will not receive value for VA purposes.
<b>Distance Requirement</b>	If the property is within 100 feet from the nearest boundary of a high voltage electric transmission line easement, the appraiser must comment in the appraisal.

## High Pressure Gas and Liquid Petroleum Pipelines

<b>Residential Structure</b>	No part of any residential structure may be located within a high-pressure gas or liquid petroleum pipeline easement.
<b>Detached Improvements</b>	Any detached improvements even partially in the pipeline easement will not receive value for VA purposes.
<b>Distance Requirement</b>	If the property is within 100 feet from the nearest boundary of a high-pressure gas or liquid petroleum pipeline easement, the appraiser must comment in the appraisal.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Properties near Airports

<b>Appraiser Responsibility</b>	Appraisers must be familiar with noise zones and safety-related zones surrounding airports in areas where they perform appraisals for VA.
<b>Appraisal Considerations</b>	Whenever a property is located near an airport, appraisers must consider the effect on value of any airport noise and select comparable sales, if available, with the same airport influence.
<b>Proposed Construction in a Clear Zone</b>	Proposed construction located in a Clear Zone (also known as a Runway Protection Zone) is not eligible. The appraiser must stop working on the appraisal and notify the lender immediately.
<b>Existing or New Construction in a Clear Zone</b>	For existing or new construction located in a Clear Zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located near the end of an airport runway and this may have an effect upon livability, safety, value and marketability of the property."
<b>Accident Potential Zone</b>	For all properties located in an accident potential zone, the following Veteran's acknowledgement must be required on the NOV and signed by the Veteran: "I am aware that the property being purchased is located in an accident potential zone and this may have an effect upon the livability, safety, value, and marketability of the property."
<b>Maps Available Online</b>	Airport noise zone maps may be found at <a href="https://www.faa.gov/airports/environmental/airport_noise/noise_exposure_maps/">https://www.faa.gov/airports/environmental/airport_noise/noise_exposure_maps/</a> .

## Manufactured Home Classified as Real Estate

<b>MPRs</b>	Manufactured homes must meet the VA MPRs described in this Chapter.
<b>Real Estate Entity</b>	The manufactured home and site must be considered a real estate entity in accordance with state law and meet all local zoning requirements for real estate.
<b>Permanent Foundation</b>	The manufactured home must be placed on a permanent foundation, constructed to withstand both supporting loads and wind-overturning loads that meets state and local requirements.
<b>HUD Standards</b>	The manufactured home must be built to HUD Manufactured Home Construction and Safety Standards.
<b>Space Requirements</b>	The manufactured home must have a floor area of not less than 400 square feet for a singlewide, or 700 square feet for a double wide manufactured home.
<b>State/Local Requirements</b>	Fee appraisers are expected to be familiar with state and local regulations governing manufactured homes (for example, missing HUD labels, alterations, modifications, additions, or component replacements), and to prepare appraisals subject to appropriate requirements for compliance.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Manufactured Home Classified as Real Estate (continued)

### Proposed Construction

If the manufactured home is appraised as proposed construction, the following exhibits are required:

- foundation plan,
- floor plan showing room layout and exterior dimensions,
- elevation plans, and
- specifications for flooring, heating, plumbing, electrical equipment, appliances and other items included with the manufactured home.

### Eligible Loan Purposes – Manufactured Housing

The VA will guarantee manufactured home loans made to eligible veterans for the following purposes:

Allowable Loan Purpose	Maximum Loan The loan amount is limited to:
To purchase a manufactured home to be affixed to a lot already owned by the Veteran.	The lesser of: <ul style="list-style-type: none"><li>• the sum of the purchase price plus the cost of all other real property improvements, and the VA funding fee, or</li><li>• the VA NOV for the property, plus the VA funding fee.</li></ul>
To purchase a manufactured home and a lot to which it will be affixed.	The lesser of: <ul style="list-style-type: none"><li>• the total purchase price of the manufactured home unit and the lot, plus the cost of all other real property improvements, plus the VA funding fee, or</li><li>• the purchase price of the manufactured home unit, plus the cost of all other real property improvements, plus the balance owed by the Veteran on a deferred purchase money mortgage or contract given for the purchase of the lot, plus the VA funding fee.</li></ul>
To obtain a regular “Cash-Out” refinance for an existing loan on a manufactured home and purchase the lot to which the home will be affixed.	The lesser of: <ul style="list-style-type: none"><li>• the sum of the balance of the loan being refinanced, plus the purchase price of the lot, not to exceed its reasonable value, plus the costs of the necessary site preparation as determined by VA, plus a reasonable discount on that portion of the loan used to refinance the existing loan on the manufactured home, plus authorized closing costs plus the VA funding fee, or</li><li>• the total reasonable value of the unit, lot, and real property improvements, plus VA. funding fee.</li></ul>
An IRRRL to refinance an existing VA loan on a permanently affixed manufactured home and lot.	The sum of: <ul style="list-style-type: none"><li>• the balance of the VA loan being refinanced, plus</li><li>• allowable closing costs, plus</li><li>• up to two discount points, plus</li><li>• the VA funding fee.</li></ul> <b>Note:</b> The provisions applicable to IRRRLs apply. (See CMS VA IRRRL Underwriting Guidelines).

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Modular Homes

<b>State/Local Codes</b>	Modular homes must meet all state and local building codes.
<b>Comparable Sales</b>	The appraiser will typically treat modular housing and on-frame modular housing in the same manner as conventionally built housing. The appraiser must select comparable sales that would be competing properties on the market which may include modular homes, conventionally built homes, or manufactured homes.
<b>On-frame Modular Home Requirements</b>	<p>On-frame modular housing is factory built on a permanent chassis. The appraiser must ensure that:</p> <ul style="list-style-type: none"><li>• all running gear is removed,</li><li>• the crawl space is covered by a vapor barrier with vented permanent masonry skirting,</li><li>• the skirting has an access hatch, and</li><li>• the home is secured to a permanent foundation that meets state and local requirements.</li></ul>

## Energy Conservation and Sustainability

<b>Energy Efficient Mortgages</b>	Energy efficient mortgages are described in Chapter 7 of this Handbook. Veterans are provided information about this program in item #1a on NOVs issued for existing properties (see Chapter 13, Appendix A of the Handbook).
<b>Energy Conservation Encouraged</b>	VA encourages home improvements that conserve energy, reduce water usage, enhance safety or strengthen disaster preparedness.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Requests for Waiver of MPR Repairs

<b>Waiver Requested by a Veteran</b>	<p>After the NOV has been issued, at the request of the Veteran, VA will consider waiving MPR repairs if the following conditions are met:</p> <ul style="list-style-type: none"><li>• the request is signed by the Veteran,</li><li>• the lender concurs with the Veteran's request, and</li><li>• the property is habitable from the standpoint of safety, structural soundness, and sanitation.</li></ul> <p>These requests should not allow for the Veteran to waive MPRs that could result in safety issues with the home.</p>
<b>Inspection Report</b>	<p>In support of the waiver request, while not required, providing an inspection report from a licensed professional who is qualified to assess the condition of the item in question will ensure the Veteran is fully informed about the condition of the item.</p>
<b>Contributory Value</b>	<p>If the request is approved, VA staff will amend the NOV, removing the repair requirement(s). Since appraisals are prepared "subject to" repairs, VA staff may reduce the value by the contributory value of the waived repair(s). If the contributory value of the repair item(s) is not material, the NOV may be issued without a change in value.</p>
<b>Materials Shortage Following a Natural Disaster</b>	<p>Following a natural disaster, shortages of materials could delay the completion of repairs. The RLC of jurisdiction should be contacted for consideration of repair waivers on a case-by-case basis when a Veteran wishes to proceed with purchasing or refinancing a home in need of repairs when needed materials are not readily available.</p>
<b>Escrowed Funds for Completion of Repairs</b>	<p>Depending on the nature of required repairs, it may be advantageous for the Veteran to have the MPR repairs completed after closing on the loan. Lenders may hold funds in escrow for repairs to be completed after closing, however all repairs must be completed and escrowed funds distributed before the loan may be guaranteed by VA.</p>

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Manufactured Homes

#### Existing Construction

When the foundation for a manufactured home has been fully completed and the manufactured home unit has been installed, the home is considered to be “existing construction.”

There are two MPR-related requirements for these existing construction cases:

- The site, manufactured home unit, and other on-site improvements must meet VA MPRs for existing construction described in this section.
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.

**Note:** If the fee appraiser has reasonable doubts as to the acceptability of the foundation system where there are no local requirements, a statement from a registered professional engineer is acceptable. Considering their cost, such statements should be required only when necessary and not just as a measure of liability protection for fee appraisers.

#### Proposed or Under Construction

When the foundation for a manufactured home has **not** been fully completed and the unit has not been installed, the home is considered to be “proposed or under construction.”

There are two MPR-related requirements for these proposed or under construction cases:

- The site and on-site improvements (but not the manufactured unit itself) must meet the requirements outlined in [Proposed Construction](#).
- The manufactured home unit must be properly attached to a permanent foundation system which is constructed to withstand both supporting loads and wind-overturning loads, and is acceptable to the building authority having jurisdiction.
- **References:** In addition to Proposed Construction MPRs in this section, additional information regarding manufactured home installations can be found in
  - the manufacturer's installation instructions (used to determine the permissible points of support for vertical loads and points of attachment for the anchorage system used to resist horizontal and uplift forces), and
  - the Appendix section of the CABO One and Two Family Dwelling Code.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Manufactured Homes (continued)

### Foundation Requirements

The following table lists each foundation component and any related requirements for “proposed or under construction” cases.

Foundation Component	Requirement
Piers and Footings	<p>The load-bearing piers and footings must</p> <ul style="list-style-type: none"><li>• be of sufficient size and number to distribute the weight of the manufactured home evenly</li><li>• be of materials acceptable to the building authority having jurisdiction, and</li><li>• (where applicable) have footings which extend below the frost line.</li></ul>
Concrete Slabs or Continuous Footings	<p>Concrete slabs or continuous footings are acceptable in areas where their use is permitted by local building authorities. Steel anchorage devices must be cast into the concrete slab or footing and be capable of providing holding strength to resist horizontal and uplift forces.</p>
Anchoring Devices	<p>Anchoring devices, adequate to resist all loads, must</p> <ul style="list-style-type: none"><li>• be attached to the main frame of the unit by a bolted, welded, or mechanical connector</li><li>• be placed at every supporting pier or as specified by the manufacturer, and</li><li>• extend into the pier footing.</li></ul> <p>Anchoring straps or cables affixed to ground anchors, other than pier footings, <b>will not</b> meet this requirement <b>unless</b> specifically allowed by the building authority of jurisdiction.</p>
Hurricane Ties	<p>Properties located in Wind Zone II or III (wind speeds in excess of 80 mph) must be provided with diagonal hurricane ties which have been properly engineered for the location, and comply with the requirements of the building authority having jurisdiction.</p> <p><b>Important:</b> The installation procedures included in both the manufacturer's foundation instructions and <i>NCS BCS Handbook A225.1</i> are <b>not</b> generally adequate for manufactured homes in these areas.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Manufactured Homes (continued)

### Foundation Requirements (continued)

Foundation Component	Requirement
Flexible Connections for Seismic Activity	<p>Properties located in areas of high seismic activity require special foundation designs to compensate for the effects of ground movement and to provide flexible connections between the foundation system and the manufactured home and all utility connections.</p> <p>Building authorities in these areas should be consulted for acceptable design features and special code requirements.</p>
Permanent Perimeter Enclosure	<p>A permanent perimeter enclosure (not “skirting”) with a continuous foundation-type footing will be required only when specifically required by the local building authority. When required, it must be</p> <ul style="list-style-type: none"><li>designed to resist all forces which cause frost heave, soil settlement, or the shrinking or swelling of expansive soils without transmitting the movement or effects to the manufactured home, and</li><li>properly secured to the perimeter of the manufactured home to exclude entry of vermin and water, and provide ventilation and a means of access to the crawl space.</li></ul>
Moisture and Humidity Reduction	<p>The reduction of moisture and humidity in an enclosed under floor space is required. Except in arid regions with dry soil conditions, a continuous moisture barrier that covers the natural or excavated ground surface within the perimeter enclosure of the home must be installed.</p> <p>Provisions should also be made to prevent water from entering the crawl space and for the control and diversion of surface water away from the manufactured home.</p>

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Value Notices

#### Overview

Accurate value estimates based on proper appraisal reviews are essential to the viability of the VA Loan Guaranty program and have a direct effect on the interests of the Government, veterans and lenders.

Since appraisal reports are subject to change upon review, lenders and holders should rely only upon a VA notice of value issued by the appraisal reviewer.

#### Issuing a Notice of Value

The table below describes the steps to follow when issuing a Notice of Value.

Step	Description
1	Confirm eligibility of property for appraisal and LAPP processing.
2	Review the appraisal report.
3	Resolve any appraisal-related problems.
4	Document the appraisal review.
5	Prepare the Notice of Value.
6	Distribute the Notice of Value.

**Note:** Every property eligible for the Lender Appraisal Processing Program (LAPP) should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a *detailed* explanation.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Reviewing Appraisal Reports

### Purpose of the Review

Every appraisal made for VA purposes **must** be reviewed either by the lender's VA-authorized staff appraisal reviewer (SAR) under the Lender Appraisal Processing Program (LAPP), or a VA staff appraiser in order to:

- confirm that the photographs accurately reflect the appraiser's description of the subject and comparable properties,
- verify that the appraisal report is fully complete, clear and prepared according to industry-accepted appraisal techniques and VA instructions,
- determine that the appraiser's methodology is appropriate and that the appraiser's conclusions are consistent, sound, supportable, logical and based upon data in the appraisal report,
- determine, through use of reasonably available information, that the appraiser's value recommendation and other conclusions are consistent with those in similar cases recently processed,
- identify all property-related conditions and requirements that must be satisfactorily resolved before the property can become the security for a VA guaranteed loan, and
- issue a Notice of Value.

The appraisal reviewer must maintain an up-to-date handbook to contain the following:

- VA-issued directives and other reference material pertaining to the Loan Guaranty program.
- Material issued by VA field stations having jurisdiction over each area where the lender originates LAPP loans.
- Applicable Federal statutes and VA regulations
- *"Uniform Standards of Professional Appraisal Practice,"* published by The Appraisal Foundation ([www.appraisalfoundation.org](http://www.appraisalfoundation.org)), and
- real estate market sales data (to be used for comparative purposes).
- Any publications providing instructions for completing the *Uniform Residential Appraisal Report* (URAR). In the event of a conflict between VA and private source material, however, the VA-issued material must be considered controlling.
- Other current reference materials regarding major real estate market conditions and trends. This includes weekend subscriptions to major newspapers, which typically have expanded real estate sections; industry-related newsletters; publications which provide analyses and forecasts of various housing and mortgage trends and relevant statistical data.

**Note:** Although VA has no requirement that appraisal reviewers visit the geographic areas where appraised properties are located, they should keep up-to-date on major real estate market conditions and trends, in order to properly analyze the location-related information contained in appraisal reports.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Resolving LAPP Appraisal Review Problems

### Contact and Cooperation

LAPP lenders are expected to take reasonable steps to resolve problems detected during their appraisal reviews. VA fee appraisers are expected to cooperate in addressing concerns about the content of their appraisal reports and timeliness in completing assignments.

When information, methodology or conclusions in the appraisal report require additional clarification or support, the SAR must contact the fee appraiser and obtain the necessary information.

Any clarification, correction or revision by a fee appraiser to an appraisal report must be in writing, signed and dated. The fee appraiser must clearly identify any revised appraisal report as such in bold letters.

The lender must attach any clarification, correction or revision to the original appraisal report provided by the fee appraiser. The withholding of this or any other appraisal documentation is unacceptable and may result in administrative action against the lender and/or fee appraiser, as appropriate.

LAPP lenders are responsible for resolving any timeliness problems involving authorized agents and branch personnel.

SARs should notify VA when fee appraiser timeliness expectations are not being met.

### Referral to VA

When a substantive problem is not corrected after a reasonable effort, the SAR must send the VA office of jurisdiction:

- a written report which clearly outlines the problem(s) and the dates and results of contact with the fee appraiser, and
- the appraisal report and/or other pertinent documentation.

VA will subsequently notify the appropriate parties of its decision and document the fee appraiser's performance file, the lender's file and the case file, as appropriate. It may be necessary for VA staff to review the appraisal report and issue a VA Certificate of Reasonable Value.

**Note:** Refer all **complaints** about property condition or appraiser performance to VA.

### VA Consistency

VA offices are expected to be as consistent as possible regarding NOV conditions and requirements. They must notify LAPP lenders by posting changes to the "approved local conditions" section of the C&V web pages when a local situation dictates an additional condition or requirement not listed on the standard NOV.

### SAR's are not Appraisers

VA does not consider the lender's staff appraisal reviewer (SAR) to be acting as an "appraiser" when reviewing appraisal reports, or taking on the responsibility of a "cosigner" or a "supervisory appraiser." Except for the certification described below, the SAR should not sign, initial or make any comments or adjustments anywhere on the appraisal report.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Resolving LAPP Appraisal Review Problems (continued)

### Implication of SAR Certification

By issuing the Notice of Value, the SAR is stating that in every case he/she:

- personally reviewed the appraisal report
- concurred with the fee appraiser's recommendation, except as noted in an attachment to the report
- determined that the appraiser:
  - used methodologies that were appropriate and reasonable in light of industry-accepted appraisal techniques,
  - made conclusions that were consistent, based upon data in the report, and
  - complied with applicable VA requirements.
- did not exert pressure or undue influence on the appraiser to change information or to reach a predetermined value for the subject property in order to accommodate the sale price or mortgage transaction, if clarification or corrections to the appraisal report were requested.

## LAPP – Issuing A NOV at Other than the Appraiser's Value Estimate

### Change Restrictions

The CMS staff appraisal reviewer (SAR) must issue the NOV at the appraised value reflected in the appraisal report and may not issue an NOV that deviates from the fee appraiser's value estimate.

Questions regarding appraisal errors, omissions, or discrepancies that arise during the initial review should be handled by following normal procedures involved in contacting the appraiser. If contact results in the appraiser uploading an amended appraisal report with a changed value in webLGY, the SAR must issue the NOV at that changed (current) value.

VA staff may continue to make adjustments to the NOV, as necessary.

### Other Changes

Changes in fee appraiser repair recommendations are addressed in [Notice of Value Conditions and Requirements](#) (under "NOV Item-Repairs").

Value increases of more than five percent or other changes requested after the notice of value is issued.

### Penalty for Abuse

If VA determines that the SAR's value change was unwarranted and resulted in a VA loss due to payment of a claim under guaranty, the lender must indemnify VA to the extent that VA determines such loss was caused or increased by the increase in value.

### Potential Conflict with State

SARs may not wish to exercise this authority where it is considered to be in conflict with State requirements.

In some states, the agency which regulates appraisers may take the position that any change in value by an appraisal reviewer subjects that individual to the State's requirements for appraisers.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Preparing Notices of Value

<b>Format Under LAPP</b>	Under LAPP, the lender's VA-authorized staff appraisal reviewer (SAR) must complete the standard notice of value form in TAS, or on: <ul style="list-style-type: none"><li>the lender's corporate letterhead, <b>or</b></li><li>attached to a statement on that letterhead which references it.</li></ul>
<b>Format if Prepared by VA Staff</b>	If prepared by VA staff, the notice of value may be TAS generated or prepared on VA Form 26-1843a, Master Certificate of Reasonable Value (MCRV) for a group of related properties.
<b>Notice of Value</b>	Every notice of value will include: <ul style="list-style-type: none"><li>estimated reasonable value of the property (See <a href="#">Appraisal Requirements</a>)</li><li>estimated remaining economic life of the property (See <a href="#">Remaining Economic Life of Improvements</a>), and</li><li>a list of any property-related conditions and requirements necessary for VA loan guaranty.</li></ul>

## Notice of Value Conditions and Requirements

<b>Overview</b>	Every notice of value (NOV) issued in conjunction with an appraisal review must include a list of any conditions and requirements that must be satisfied for the property to be eligible for VA loan guaranty.
<b>Table of NOV Conditions &amp; Requirements</b>	<p>The Table of NOV Conditions and Requirements below</p> <ul style="list-style-type: none"><li>lists each condition and requirement shown on the standard LAPP NOV in the same order as shown on that NOV,</li><li>explains when each item is applicable,</li><li>explains what action is required to satisfy the condition or requirement, and</li><li>references any additional information about the item in this handbook.</li></ul>

Table of NOV Conditions and Requirements:

NOV Condition	Details for including this condition on an NOV
Energy Conservation	Item 1a should be marked on NOVs for existing properties (over 1-year old or previously occupied) to allow lenders to increase the loan amount for Veterans wishing to make energy efficiency improvements (see Chapter 7 of this Handbook). Item 1b should be marked on NOVs for new or proposed construction excluding manufactured homes. For new and proposed manufactured homes, energy efficiency is already covered by the manufacturer's so this item should not be marked.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Notice of Value Conditions and Requirements (continued)

**Table of NOV  
Conditions &  
Requirements  
(continued)**

NOV Condition	Details for including this condition on an NOV
Wood Destroying Insect Information	If the property is located in an area on the Termite Infestation Probability Map where the probability of termite infestation is "very heavy" or "moderate to heavy," a wood destroying insect inspection report must be required on the Notice of Value (NOV). Mark 2a if the property is existing or new construction, or item 2b if the property is proposed. For new construction, if a soil treatment guarantee is provided, this is preferable and will satisfy condition 2a. The pest control operator must meet all state requirements. State-required inspection forms are acceptable. Inspection reports are valid for 90 days. Soil treatment guarantees differ from an inspection and are consequently valid well beyond 90 days. A wood destroying insect inspection is not required on units in low-rise or high-rise condominiums (units are stacked vertically) unless the appraiser notes a potential infestation problem. For site condominiums, and villa or townhome style condominiums where units are not vertically stacked, an inspection must be required on the NOV unless evidence of a treatment guarantee has been provided by the homeowners association.
Lien Supported Assessment	If the property is located in a planned unit development (PUD) or condominium, mandatory homeowners association fees must be shown on the NOV. Special assessments including local authorities collecting Community Development District (CDD) fees or other fees on the HOA's behalf should be reported here as well.
Condominium	If the condominium is conditionally accepted by VA, this item should be marked. This item is not required if the condominium is fully accepted by VA. If the condominium has not been accepted by VA, the NOV must not be issued.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Notice of Value Conditions and Requirements (continued)

**Table of NOV  
Conditions &  
Requirements  
(continued)**

NOV Condition	Details for including this condition on an NOV
Private Road/Shared Driveway	Item 5 of the Notice of Value will no longer be marked as item 5 of the NOV conditions no longer applies (Circular 26-22-17).
Flood Insurance	If the property is located in a Special Flood Hazard Area, this item must be marked. It is the lender's responsibility to ensure that flood insurance is obtained and maintained on properties located in SFHAs, whether or not the appraiser correctly identifies the property as being in an SFHA. If flood insurance is not available, a property in a SFHA is not eligible to be the security for a VA-guaranteed loan.
Water/Sewer System Acceptability	If the property has an individual water supply, such as a well, this condition must be marked. For proposed construction cases, acceptance of an individual sewage system must be required. Acceptance of the sewage system is also required for existing or new construction cases in which there is an indication of a problem or the property is in an area known to have soil percolation problems. Certifications are valid for 90 days unless the local authority indicates otherwise.
Connection to Public Water/Sewer	This condition is required only if the property does not have public water and/or sewer and the state or local authority has mandated connection to public utilities.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Notice of Value Conditions and Requirements (continued)

**Table of NOV  
Conditions &  
Requirements  
(continued)**

NOV Condition	Details for including this condition on an NOV
Repairs	The repairs recommended on the appraisal should be reviewed and only those which are needed for the property to meet VA MPRs should be listed on the NOV. Any apparent defective conditions observed by the appraiser must be addressed by requiring correction, rather than an inspection. The completion of any repairs that could involve lead-based paint must be certified by the fee appraiser.
Post Construction Inspection	This condition must be marked on all proposed construction properties and properties appraised subject to alterations such as a room addition.
New Construction Inspections/ Warranty	For new construction properties, either 11a or 11b must be required based on whether or not local building inspections are performed. Since new construction must have either a 1 year or a 10-year warranty, either 11c or 11d must be marked.
Proposed Construction Inspections/Warranty	For proposed construction properties, either 12a or 12b must be required based on whether or not local building inspections are performed. Warranty requirements are determined accordingly.
New or Proposed Manufactured Home	If the subject is a new or proposed manufactured home, 13a or 13b must be required based on whether the local authority issues a certificate of occupancy. VA Form 26-8599, Manufactured Home Warranty, is provided by the manufacturer and the 1-year warranty is provided by the manufactured home installer who placed the home on the foundation.
Lead/Water Distribution System	This condition must be required on all new or proposed construction properties, and on properties having repairs to the potable water distribution system.
Radon Gas	This condition must be required on all new or proposed construction properties.
Other Conditions	Any additional requirements should be listed in Item 16, for example, an unvented space heater, an airport safety zone, requirements for cisterns, stationary storage tanks containing flammable, or any local requirements.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Distributing Notices of Value

### LAPP Cases

For cases processed under LAPP, the SAR must send the;

- veteran borrower the NOV and a copy of the reviewed appraisal report, within five business days of the lender's earliest receipt of the appraisal report by the SAR or an authorized agent/broker.

**Note:** Any delay without documented, reasonable extenuating circumstances, such as the need to obtain additional information from the fee appraiser, will not be acceptable.

- VA office of jurisdiction
  - a copy of the NOV, and
  - a complete set of the appraisal report contents (Appraisal Report Contents), either on the same day the NOV is sent to the veteran or by the last day of the month along with the other NOVs issued that month, and
  - fee inspector if assigned by VA, a copy of the NOV, if applicable.

### NOV Issued by VA

For VA processed cases, VA will send the

- lender the original NOV or Master CRV and an original copy of the VA-reviewed appraisal report with all related exhibits, **and**
- veteran borrower a copy of the NOV. If the borrower is unknown at the time the NOV is prepared, the copy will be
  - retained in the case file and mailed to him/her upon VA receipt of the Uniform Residential Loan Application (in "prior approval" cases), **or**
  - sent [ ] after the loan is guaranteed (for loans processed on the automatic basis).

**Note:** For properties valued on a Master CRV, the veteran borrower's notice of value will be considered to be VA Form 26-1820, Report and Certification of Loan Disbursement.

## How Long Notice of Value is Valid

### Existing or New Construction

A notice of value for property appraised as existing or new construction is valid for six months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.

### Proposed or Under Construction

A notice of value for a property appraised as proposed or under construction is valid for 12 months. Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period.

### Extension of Validity Period

VA will extend the validity period only when it is determined that current market conditions make it likely that the original value estimate will remain valid through the extended period.

Generally, extension requests will be sent to the VA office of jurisdiction, which will contact the fee appraiser involved, if appropriate, and issue an endorsement to the notice of value, if justified.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Requesting Changes to the NOV

### Making Changes

After a notice of value is issued, the value estimate or any NOV condition or requirement may be changed if either

- the change is clearly warranted and fully supported by real estate market or other valid information which would be considered adequate and reasonable by professional appraisal standards, or
- the NOV's issuance involved fraud, misrepresentation or substantial VA or LAPP lender administrative error and action is necessary to make the valuation consistent with the real estate market.

### How to Make a Change

Any party of interest may request a change to a NOV. For documentation purposes, every such request must be in writing.

The change request should be submitted to the lender.

### Submission of Real Estate Market Data

Although there is no requirement that comparable sales or other real estate market information be submitted with a request for a change in value, such supporting information will greatly assist in reviewing the request.

**Note:** A new VA appraisal must not be requested for any property which already has a valid NOV. However, an additional appraisal not assigned by VA can be used to support a request for an increase in value, provided the veteran purchaser was not required to pay any portion of the cost of that additional appraisal.

### Processing Change of NOV Request

Upon receipt of a request to change a notice of value, the lender will either:

- Process the request per [Value Notices](#) ("LAPP-Issuing NOV at Other Than Appraiser's Value Estimate") or [Value Notices](#) ("NOV Item – Repairs"), if applicable, **or**
- Forward the request to the VA-assigned appraiser if it involves a request for increase in the value estimate of more than five percent but less than 10 percent or otherwise needs fee appraiser involvement, (i.e. repairs/condition waivers) **or**
- Forward the request to the VA office of jurisdiction if it involves a request for increase in the value estimate of 10 percent or more or if it involves matters regarding appraiser's performance.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Requesting Changes to the NOV (continued)

### Appraiser's Role

When a fee appraiser receives a request from a lender regarding a change in a notice of value, the fee appraiser will

- record on the request the date that it was received (for VA timeliness calculation purposes)
- review the request and any supporting documentation
- prepare a written recommendation, with justification that would be considered adequate and reasonable by professional appraisal standards, and

**Note:** In most cases, this will include a sales comparison analysis grid or similar analysis.

- forward the recommendation and all related documentation to either the
  - lender, if the case is being processed under LAPP and an increase in value of not more than 5 percent is justified, or
  - VA office of jurisdiction, in all other cases.

**Note:** The appraiser may charge a reasonable fee (not to exceed that allowed by VA) if the market data necessary to reconsider the value estimate was not available at the time of the appraisal.

### VA's Role

Upon receipt of either a request from a lender to change a notice of value or a fee appraiser's recommendation regarding a change to a notice of value, VA staff will:

- review the material received,
- contact the fee appraiser, if necessary, and otherwise determine if the requested change is justified, and
- notify the lender of VA's decision.

### Lender's Role

For cases processed under LAPP, an amended NOV will be issued in TAS and provided to the veteran purchaser,

- upon reconsideration by the SAR of additional data justifying an increase in value, of not greater than five percent, or
- upon receipt of a fee appraiser's justified recommendation for an increase in value, of not greater than five percent, or
- upon receipt of the VA letter authorizing an increase in value or other changes to the NOV.

Documentation concerning the change is to be retained for future VA reference. The amended NOV will replace the original NOV which will not be retained.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Transfer of Appraiser's Reports between Lenders

<b>Lender Cooperation</b>	Lenders are expected to cooperate on a reciprocal basis when a veteran purchaser chooses to have his/her mortgage transaction completed by a lender other than the one who ordered the appraisal.
<b>LAPP Cases</b>	A LAPP notice of value is <b>not</b> transferable to another lender. However, an appraisal report requested by one lender can be subsequently used by a LAPP lender, if the LAPP lender assumes full responsibility for LAPP processing by performing a complete review of the appraisal report and issuing, on its own letterhead, a notice of value to the veteran borrower.
<b>Other Cases</b>	<p>If the subsequent lender does not have LAPP authority and no VA Form 26-1843, Certificate of Reasonable Value, was ever issued by VA staff, then all appraisal documentation must be submitted to VA. VA staff will review that material and issue a VA Form 26-1843 to the subsequent lender.</p> <p>A notice of value issued by VA staff on VA Form 26-1843 can be transferred to a subsequent lender.</p>
<b>If Unable to Obtain Appraisal</b>	If a subsequent lender is unable to obtain an original copy of a needed appraisal report and all addenda, including clear copies of all pictures, that lender may contact the fee appraiser involved for that documentation. The fee appraiser may negotiate a reasonable fee, to be paid by the lender or veteran, for any additional work that may be necessary.

### Requirement to Notify VA

<b>Requirement to Notify VA</b>	<p>Any title limitation or condition discovered after examination of the title but prior to loan closing must be submitted to the VA office of jurisdiction (along with a copy of the appraisal report in LAPP cases), unless it</p> <ul style="list-style-type: none"><li>• was considered in the appraisal report, or</li><li>• is listed in 38 CFR 36.4350 as <b>not</b> materially affecting the reasonable value of residential property.</li></ul>
<b>If VA Value Based on HUD Appraisal</b>	<p>If the VA notice of value was based on a HUD value determination per <a href="#">Property Eligibility and Appraisal Requests</a>, and neither of the above two exclusions apply, the lender must</p> <ul style="list-style-type: none"><li>• contact HUD to determine what effect, if any, the limitation or condition has on the value of the property, and</li><li>• provide the VA office of jurisdiction with the results so that office can issue a VA Form 26-6363, Endorsement to Certificate of Reasonable Value.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Discovery of Title Limitations & Conditions

### Limitations and Conditions Not Affecting Value

Per, the following conditions or limitations to title have been determined by VA as not materially affecting the VA value estimate of residential property (whether or not enforceable by a reverter clause), provided there has been no breach of the conditions affording a right to an exercise of the reverter clause.

When the limitation or conditions is...	There is no material effect on the VA value estimate if...
Building or Use Restriction	<ul style="list-style-type: none"><li>no violation exists, and</li><li>the proposed use by the veteran is not likely to result in a violation.</li></ul>
Violation of Building or Use Restrictions of Record	<ul style="list-style-type: none"><li>they have existed for more than one year,</li><li>are not the subject of pending or threatened litigation, and</li><li>do not provide for a reversion or termination of title, condemnation by municipal authorities, or a lien for liquidated damages which may be superior to the lien of the guaranteed or insured mortgage.</li></ul>
Easement	<ul style="list-style-type: none"><li>public utility/drainage easement along one or more of the property lines or easement for drainage or irrigation ditches, provided the exercise of the rights of such easement does not interfere with the use of any of the buildings or improvements located on the subject property</li><li>mutual easement for joint driveway located partly on the subject property and partly on adjoining property, provided the agreement is recorded in public records, or</li><li>easement for underground conduits which are in place and which do not extend under any buildings on the subject property.</li></ul>
Encroachment	<ul style="list-style-type: none"><li>encroachment on the subject property by improvement on the adjoining property when such encroachment does not exceed one foot within the subject boundaries, provided such encroachment does not touch any buildings or interfere with the use or enjoyment of any building or improvement on the subject property</li><li>encroachment by hedges or removable fences belonging to subject or adjoining property</li><li>encroachment not exceeding one foot on adjoining property by driveway belonging to subject property, provided there exists a clearance of at least eight feet between the buildings on the subject property and the property line affected by the encroachment, or</li><li>lot line variation between the length of the subject property lines as shown on the plot plan or other exhibits submitted to VA and as shown by the record or possession lines, provided such variation does not interfere with the current use of any of the improvements on the subject property and does not involve a deficiency of more than two percent with respect to the length of the front line, or more than five percent with respect to the length of any other line.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Discovery of Title Limitations & Conditions (continued)

### **Conditions Affecting Value**

For limitations/conditions submitted to VA which were not considered in the appraisal report or covered by 38 CFR 36.4350, the VA office of jurisdiction will

- contact the fee appraiser (via VA Form Letter 26-209) if additional information is needed to determine the effect of the limitation/condition on the value estimate
- consider the impact of the condition/limitation on the reasonable value of the property, and
- notify the lender or other interested party of its determination via either VA Form Letter 26-210 or an endorsement (containing the language found on FL 26-210) to the request for VA consideration of the condition/limitation.

### **VA Notice to Program Participants/ Natural Disaster**

As soon as practicable after a major natural disaster, VA offices in the area(s) affected by the disaster will send their program participants instructions regarding the handling of cases in which a notice of value is outstanding.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Construction Inspections

### Overview

The purpose of VA inspections during construction is to ensure that all onsite and offsite improvements have been acceptably completed according to

- the construction exhibits on which the VA value estimate is based, and
- VA Minimum Property Requirements (MPRs)

### Consequences of Inspections

A lender may close a loan based on a “clear” final inspection report.

Deviations from the construction exhibits may necessitate revision of the VA value estimate, if appropriate.

Properties that fail to meet VA MPRs will *not* be acceptable as the security for a VA loan.

### Determining the Types of Inspection

Use the table below to determine the type of inspection required.

When the property is appraised as...	Then...
proposed or under construction with no insured ten year protection plan	<ul style="list-style-type: none"><li>• required, or</li><li>• a final (third stage) inspection is required, only if local building authority inspections are acceptable in lieu of VA first and second stage inspections.</li></ul>
proposed or under construction with an insured ten year protection plan	only a final (third stage) inspection is required.
existing construction with major <ul style="list-style-type: none"><li>• alterations</li><li>• improvements, or repairs</li></ul>	VA will determine on a case-by-case basis <ul style="list-style-type: none"><li>• what regular or special inspections are required, and</li><li>• if it is appropriate, based on the nature of the work, to have the lender certify that it has been satisfactorily completed.</li></ul>

### Specially Adapted Housing Cases

The compliance inspection procedures applicable in Specially Adapted Housing cases are identical with those for other types of cases, except that special emphasis should be given to the adaptive features.

Any questions should be referred to the VA Specially Adapted Housing Agent at the VA field station.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Construction Inspections (continued)

### How to Assign an Inspector

VA assigns, without favoritism or discrimination, an inspector from its fee inspector roster

- at the same time as the appraiser, in most cases, or
- at the time a notice of value is issued by VA staff, if the appraisal requester does not choose to have the inspectors assigned at the same time as the appraiser **and** the value determination will be made by VA staff.

VA may assign more than one inspector in the case of master appraisals.

### Early Start Assignments

To avoid builder delays in starting construction, VA can assign the inspector prior to assigning the appraiser. The builder or sponsor must submit a written request which includes:

- a statement of understanding of the special nature of the procedure and the fact that inspection fees will be paid whether or not a VA value notice is issued, and
- construction exhibits which are properly certified.

### Requesting an Inspection

The builder contacts the inspector directly to schedule inspections as each phase of construction is completed.

### Inspection Report Form

All compliance inspections will be reported on VA Form 26-1839, Compliance Inspection Report.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Inspection Stages

### Overview

This section contains information about;

- displaying legal notices
- the stages of inspection
- what inspectors look for during the inspection
- re-inspections
- special inspections, and
- missed inspections.

### Equal Employment Opportunity Poster Requirements

At the initial inspection, inspectors will note any failure of the builder to prominently display VA Poster 26-83-1, Equal Employment Opportunity is the Law, as a noncompliance item on the inspection report. Each contractor and subcontractor must display the poster in conspicuous places at job sites covered by VA value notices for proposed construction.

In all areas with significant concentrations of Spanish-speaking people, VA Poster 26-83-1(S) printed in Spanish, must be displayed next to the poster in English.

When noncompliance with the poster requirement is found, the VA office of jurisdiction will immediately inform the builder that no further inspections will be made until the poster is displayed.

### Obtaining Equal Employment Opportunity Posters

VA supplies the poster to the builder with the VA value notice, if issued by the VA. Although one poster may be used to cover a group of properties being constructed simultaneously by a builder, VA will furnish additional posters needed for adequate coverage.

Posters are available from the VA Forms and Publications Depot.

### First Inspection Stage Alternatives

VA will notify builders, lenders, and inspectors which of the following first stage inspection alternatives are to be used in specific areas:

- Excavation complete and ready for footings and foundations usually applies in localities where it is advisable to have the bearing soil examined before construction proceeds, or
- Foundation walls complete and ready for backfill usually applies where soil conditions are generally uniform and free of faults likely to cause foundation problems.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Inspection Stages (continued)

### Completion of Excavation Alternative

For the completion of excavation alternative, VA inspects:

- display of VA Poster 26-83-1, Equal Employment Opportunity is the Law
- the nature of the bearing soil
- form work for footings or the condition and quality of the footing trench if forms are not required, and
- compliance with construction exhibits and VA Minimum Property Requirements regarding
  - the location of the structures on the plot, and
  - depth of excavation and its relation to street and proposed finish grades and to grades of adjoining improved properties.

### Completion of Foundation Alternative

For the completion of foundation alternative, all of the above items will be observed and reported. In addition, VA will inspect:

- the size, location, and condition of all footings, foundation walls, piers, and other supporting members, and
- the quality of materials and workmanship of masonry, damp proofing, and foundation drainage.

### Second Inspection Stage

During the second inspection stage VA inspects:

- all construction below the superstructure not installed or which was installed but not inspected or reported upon at the first inspection stage, including footings, foundations, piers, columns, waterproofing and drainage provisions
- construction of the superstructure, including quality of materials and workmanship, details of construction, and the suitability of arrangement of all items for subsequent installation of equipment and of interior and exterior finishing materials
- plan of the dwelling, including the arrangement of partitions and the sizes and placement of all openings
- roughing-in of mechanical work, including plumbing, heating, and electric installations with respect to
  - providing for the correct installation of fixtures, equipment, and accessories
  - avoiding impairment of the strength of structural members, and
  - proper operation of the completed systems.

**Note:** No second stage inspection of the dwelling is required for modular construction since the unit is fabricated in a factory and must be inspected to state standards.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Inspection Stages (continued)

### Third Inspection Stage

During the third inspection stage VA inspects for acceptable completion of *all* specified onsite and offsite improvements.

The table below lists the exterior and interior items to be inspected and reported upon during the third inspection stage.

Exterior Inspection:		
<ul style="list-style-type: none"><li>• compaction of fill material</li><li>• finish grading</li><li>• drainage</li><li>• utility connections</li><li>• walks</li><li>• drives</li><li>• accessory buildings</li><li>• retaining walls</li><li>• planting</li><li>• safety provisions at<ul style="list-style-type: none"><li>○ terraces</li><li>○ porches</li><li>○ areaways</li></ul></li></ul>	<ul style="list-style-type: none"><li>• protection against the elements and penetration of moisture</li><li>• masonry pointing</li><li>• caulking at openings</li><li>• paint coverage</li><li>• flashing</li><li>• design of dwelling structure</li><li>• materials and details of their installation and finish</li></ul>	<ul style="list-style-type: none"><li>• offsite improvements including<ul style="list-style-type: none"><li>○ utilities</li><li>○ storm sewer system</li><li>○ drainage channels</li><li>○ grading</li><li>○ curbs</li><li>○ gutters</li><li>○ paving</li><li>○ pavement edging</li><li>○ subgrade, and</li><li>○ base and wearing surface and erosion control</li></ul></li></ul>
Interior Inspection:		
<ul style="list-style-type: none"><li>• design</li><li>• materials, equipment, and details of their installation</li><li>• interior surfaces and their finish treatment</li></ul>	<ul style="list-style-type: none"><li>• cabinets and millwork</li><li>• details and operation of systems, equipment, and fixtures related to<ul style="list-style-type: none"><li>○ plumbing</li><li>○ heating</li><li>○ ventilating</li><li>○ electric</li></ul></li></ul>	<ul style="list-style-type: none"><li>• quality and operation of hardware</li><li>• quality of<ul style="list-style-type: none"><li>○ tilework</li><li>○ glass</li><li>○ linoleum</li><li>○ venting of attics and under floor spaces</li></ul></li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Inspection Stages (continued)

### Individual Water Supply and Sewage Disposal System

The inspector will include with the inspection report evidence obtained from the builder that installation is satisfactory to the health authority having jurisdiction.

### Final Inspection

Generally, this coincides with the third inspection stage and requires the Compliance Inspection Report, VA Form 26-1839 to:

- include two photographs (preferably taken from the diagonally opposite front and rear corners) to record the appearance of the dwelling and indicate the grading and drainage of the site
- describe the condition, suitability, and readiness for use of all equipment, fixtures and observable construction of the property
- report shortcomings such as scratches in painted surfaces, poorly fitted doors, stuck windows, cracks in walls, irrespective of any arrangements made on the site for corrections, and
- confirm that any instance of inferior workmanship, defective materials or equipment, or faulty installation or application of materials or equipment and/or deviation from approved plans and specifications is reported on VA Form 26-1839, and
- if the property is a unit on a *master* appraisal either
  - clearly identify any optional variation or item of equipment included in the construction, or
  - state that none is included.

### Special Inspections

VA may also require special inspections by the VA-assigned fee inspector at any stage of construction to help monitor cases involving:

- unusual site features
- construction methods, or
- builders with frequent construction complaints.

For cases involving major alteration or repair work, the stages at which special inspections are to be made will be determined according to the nature of the proposed work.

### Re-Inspections

A re-inspection is required:

- whenever a first- or second-stage, or special inspection shows noncompliance and the work involved will be concealed before the next regular inspection, or
- as a result of noncompliance or incomplete work reported at the third-stage inspection, unless the VA field station waives the re-inspection because
  - the incomplete work is of a minor nature, and
  - the lender is willing to certify that it has been satisfactorily completed.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Inspection Stages (continued)

### Missed Inspections

Occasionally a required inspection may be missed through oversight by the builder or other party responsible for requesting them. To waive a missed inspection, the VA field office must be provided with:

- a written request signed by the lender and the veteran
- evidence that the local building authority inspected the construction at the stage(s) not inspected by VA, and

**Note:** In areas without local inspections at prescribed construction stages, the VA inspector must provide a statement regarding his/her experience with the quality of the builder's workmanship and the builder's conformity with both constructions exhibits submitted to VA and VA minimum property requirements.

- evidence of HUD's consent to the waiver, if the case is HUD related.

## VA Reliance on Local Building Inspections for First and Second Stages

### Waiving First and Second Stage Inspection

The requirement for a first and second stage VA inspection is waived in all proposed or under construction cases in which both of the following requirements are met:

- The property is located in an area where the inspection procedures of the local building authority are acceptable to the Department of Housing and Urban Development (HUD) for loan insurance purposes, and
- a third stage (final) VA compliance inspection is performed by a VA fee inspector assigned by the VA office of jurisdiction.

### Exception

This provision has no effect on other proposed or under construction-related VA requirements and does not apply to cases involving a VA Specially Adapted Housing grant.

### Lender's File Documentation

For each loan processed under this provision, the lender's loan origination file must include *both*:

- a properly executed *clear* third stage (final) compliance inspection report on VA Form 26-1839, and
- an occupancy permit or other appropriate documentation issued by the locality to verify that all construction has been acceptably completed.

### Discontinuing VA Reliance on Local Inspections

VA may discontinue relying on the inspections of a particular building authority if VA staff detects:

- excessive construction deficiencies, or
- construction complaint activity in that building authority's jurisdiction.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## VA Reliance on Local Building Inspections for First and Second Stages (continued)

### Additional Inspections for Used Manufactured Homes

In cases involving a *used* manufactured home moved to the purchaser's lot to be affixed to a permanent foundation, all of the following additional manufactured home inspection reports are required to ensure the safety of the dwelling:

- Water-Plumbing Systems Inspection Report, VA Form 26-8731a
- Electrical Systems Inspection Report, VA Form 26-8731b
- Fuel and Heating Systems Inspection Report, VA Form 26-8731c, and
- Certification that the roof was coated after set-up on the site.

These reports must be completed by qualified third-party inspectors, for example, experienced plumbers, electricians, heating and air-conditioning contractors and manufactured home service personnel, following the installation and setup of the manufactured home on the lot. The roof coating certification can be made by the lender.

### Qualified Inspectors

While inspectors will perform only those inspections for which they are qualified, licensed manufactured home service personnel will be permitted to perform any of the required inspections.

Lenders must order the inspections and retain the original of the reports in their loan origination file. No loan on a manufactured home with unsatisfactory inspections is eligible for VA guaranty.

## Delayed Installation of Appliances and Finished Floor Covering

### What is Required

With the exception of floor covering in bathrooms and wood finish flooring, installation of appliances and finished floor covering may be delayed until as late as just prior to loan closing, provided the third-stage inspection report includes the following:

- In Section 1, a description of
  - all appliances and finish floor covering to be installed as identified in the specifications, for example, carpet manufacturer's name and carpet quality code number, and
  - the living area(s) involved, if not obvious.
- In Section 6, check
  - "Prefinal Report Approved," and
  - "Certification is required that lender's inspection prior to loan closing reveals satisfactory installation of specified appliances and finish floor covering as described in Item 1 in the area(s) identified in Item 1."

### What is not Required

A revised VA Value Notice is not required.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Lender Use of Inspection Reports

### Receipt of Inspection Reports

If construction is acceptable and there are no deviations or substitutions, the compliance inspector will submit the inspection report (VA Form 26-1839) in the following manner:

- If the lender is known:
  - Provide the lender with a copy,
  - Provide the builder with a copy, and
  - Keep a copy for his/her file.
- If the lender is not known:
  - Provide the builder with two copies, one of which the builder will forward to the lender when known, and
  - Keep a copy for his/her file.

### Use of Inspection Reports

Considering the requirements to obtain VA loan guaranty, before the loan is closed, the lender should ensure that

- all VA value notice requirements regarding inspections are met
- any deviations and/or noncompliance items listed on the third-stage inspection report are resolved to VA's satisfaction
- any appliances or floor coverings installed under [Delayed Installation of Appliances and Finished Floor Covering](#) are the same as those described in Section 1 of the third-stage inspection report, and
- the third stage inspection report includes all of the information required for a final inspection.

### Retention of Inspection Reports

The lender must retain all inspection-related material in their loan origination file.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Changes to Construction Exhibits

### Change Request Form

VA Form 26-1844, Request For Acceptance of Changes in Approved Drawings and Specifications must be used to request the change. There are two exceptions:

- If there is no veteran-purchaser involved and the change is limited to substitution of mechanical equipment of equal value, then the fee inspector may check VA Form 26-1839, Section 1B, Substitutions or Deviations, describe the change of equipment and the value attributed to the substituted equipment and note the change on the related plans and specifications.
- If the property was inspected by HUD, provided
  - the additions, substitutions or variations are clearly described on the HUD inspection report
  - the veteran-purchaser has signed his/her acceptance of the changes, and
  - the change items are of a minor nature with no additional cost to the veteran involved and no change in reasonable value is indicated.

**Example:** Substitution of water heater, furnace, hardware, bath fixtures and/or relocation of electrical outlets, windows, etc.

### Approval of Changes not Affecting Property Value

Fee inspectors may approve and distribute a properly completed VA Form 26-1844, containing all required signatures, which does not involve deletions or a change in value. In these cases, the builder must complete VA Form 26-1844 in duplicate and have the form at the job site at the time of the scheduled inspection.

The inspector

- confirms the above information
- inspects the property according to the plans, specifications and change order
- signs the change order in the appropriate space
- gives the builder the original counter-signed change order to forward to the lender, and
- retains one copy.

### Notification

For changes approved by the VA staff, VA

- mails a copy of the amended NOV directly to the veteran-purchaser,
- places copy of amended NOV in the VA loan file, and
- notifies the lender that the amended NOV is available through TAS.

If no veteran is under contract, a copy will be attached to the veteran's copy of the notice of value in the loan file and mailed to him/her upon receipt of a loan application or loan report.

### Cancellation of VA Approval

Any violation of the Conditions of Acceptance printed on the reverse of VA Form 26-1844 will be cause to withdraw or cancel VA's acceptance of the changes.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Lender Appraisal Processing Program (LAPP)

### Purpose of LAPP

The purpose of the Lender Appraisal Processing Program (LAPP) is to speed up the time to loan closing by allowing VA-authorized lenders to receive appraisal reports directly from appraisers and process them without VA involvement.

### How LAPP Works

There are basically four steps in processing LAPP cases.

Stage	Description
1	The LAPP lender requests VA assignment of a fee appraiser and a VA loan number (same as any other case) and identifies the case as "LAPP."
2	The VA-assigned appraiser sends the appraisal report directly to the LAPP lender's VA-approved staff appraisal reviewer (SAR).
3	The LAPP lender's SAR <ul style="list-style-type: none"><li>reviews the appraisal report for completeness and conformity with industry-accepted appraisal practices and techniques as well as other VA requirements,</li><li>determines the reasonable value of the property and any conditions which must be met prior to VA guaranty of the loan, and sends the veteran buyer a written notice of the value which includes any conditions or requirements upon which the VA loan guaranty is contingent.</li></ul>
4	The LAPP lender then underwrites and closes the loan on the automatic basis and requests VA guaranty.

### LAPP Eligibility and Requirements

VA may grant Lender Appraisal Processing Program (LAPP) authority to any automatic lender that requests it and meets the qualification criteria outlined in this section, including the Lender Quality Control System Requirements.

### Role of Staff Appraisal Reviewer

The lender exercises its LAPP authority through an employee who is a VA-approved staff appraisal reviewer (SAR).

### SAR Requirements

A lender's staff appraisal SAR must:

- be a full-time salaried employee of the lender, and
- have at least 3 years of work experience which qualifies him or her to competently perform administrative appraisals reviews in conjunction with underwriting loans for VA loan guaranty purposes.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Lender Appraisal Processing Program (LAPP) (continued)

### SAR's Work Experience Requirements

The SAR's work experience must indicate that he or she has:

- general knowledge of the principles, methods, practices and techniques of appraising and the ability to apply that knowledge,
- the ability to review the work of others and recognize deviations from accepted appraisal principles and practices,
- the ability to detect errors in computations, and
- ability to detect conclusions which are not supported.

It is also desirable for the SAR to have:

- knowledge of general realty practices and principles related to real property valuation,
- skill in collecting and assembling data, and
- ability to prepare clear and concise reports.

**Note:** Three years of experience related to the HUD Direct Endorsement program satisfies the experience requirement provided all other application requirements are satisfied.

### Location of SAR

There is no restriction on the location of a lender's SAR.

### Geographic Extent of LAPP

Once a SAR has satisfied the LAPP training and initial case review requirements (SAR Training and Initial Case Reviews in this section), their LAPP authority may be used for properties in any state in which the lender has authority to close loans under the automatic procedure.

If a lender's automatic authority is extended into a new state, their SAR's LAPP authority is immediately extended as well.

**Note:** It is the SAR's responsibility to stay informed about any local VA processing requirements unique to the VA jurisdiction in which a property is located.

### SAR Conflicts of Interest

There must not be a conflict of interest between the SAR's role as SAR and any other activities that he or she conducts. Examples of other activities which would be a conflict of interest include:

- SAR is on the VA fee appraisal panel, or
- SAR is employed by or performs appraisal review services for another lender.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Lender Quality Control System Requirements

<b>Overview</b>	<p>To qualify for LAPP authority, the lender must have an effective quality control (QC) system which ensures the adequacy and quality of its staff appraisal reviews. This QC system must be independent of the lender's loan production operation.</p> <p>Upon request, the lender must agree to furnish VA with findings and information about the system. The senior officer must certify on each SAR's Lender's Staff Appraisal Reviewer Application (SAR) Application, <a href="#">VA Form 26-0785</a>, that the QC system meets the requirements detailed in this section.</p>
<b>QC Reviewers</b>	<p>Reviews of the SARs' work may be performed by an independent party or independent internal audit division which reports directly to the lender's chief executive officer. QC personnel should possess a basic familiarity with appraisal theory and techniques and the ability to prescribe appropriate corrective actions when problems in the appraisal review process are identified.</p>
<b>Frequency and Scope of Reviews</b>	<p>Perform desk reviews of each SAR's appraisal reviews on a routine basis (monthly or quarterly). The sample size should be no less than 5 percent of the SAR's LAPP cases processed monthly or a minimum number of cases (for example, five cases).</p> <p>There must be a procedure for expanding the scope of the reviews if a pattern of deficiencies is identified.</p>
<b>QC Review Criteria</b>	<p>QC reviews should consider the:</p> <ul style="list-style-type: none"><li>• overall quality of the SAR's appraisal review,</li><li>• acceptability of the property in light of VA minimum property requirements, and</li><li>• appropriateness of the reasonable value determination.</li></ul>
<b>Maintenance of VA Publications</b>	<p>The QC system must provide assurance that all current pertinent VA regulations, directives, and other releases are maintained and immediately available to the quality control personnel and SARs.</p>
<b>Management Notification and Corrective Action</b>	<p>The QC system must provide for written notification of deficiencies cited as a result of audits or reviews at least quarterly to the lender's senior management or chief executive officer.</p> <p>The QC system must require senior management to promptly initiate and document actions to correct deficiencies and provide SARs with corrective instructions.</p>
<b>Review of VA Fee Panel Appraisals</b>	<p>In addition to reviews of the SARs' work, random field reviews of VA fee panel appraisals should be performed. These reviews can be done by the SAR, or an independent appraiser on a contract basis.</p> <p><b>Note:</b> Formally report any substantive negative findings to the VA Regional Loan Center where the appraiser is a member of the fee panel.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Applying for LAPP Authority

### Application and Fees

Submit a separate Lender's Staff Appraisal Reviewer Application (SAR) Application, [VA Form 26-0785](#), and fee for each SAR approval request to the VA regional office with jurisdiction over the SAR's physical location.

Legitimate requests to submit the application to a VA office more conveniently located for training and other interactions between the SAR and VA will be considered.

For each SAR approval request, include a \$100 processing fee plus the information, statements and certifications exactly as detailed on the application, either on lender letterhead or attached to a statement on lender letterhead which references it.

The same procedure applies to subsequent requests for VA approval of additional SARs.

### Notification of VA Decision

The VA regional office will review the application materials submitted and notify the lender of its decision as quickly as possible.

If VA determines that the SAR meets basic LAPP qualification requirements, it will inform the lender that the SAR must fulfill the [SAR Training and Initial Case Review](#) requirements detailed in this section.

### SAR ID Number

The notice from VA will provide a permanent ID number for each SAR approved. The SAR always retains the same ID number, even if he or she goes to work for another lender and is approved as a SAR for that lender.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## SAR Training and Initial Case Reviews

### Training and Case Review Requirements

The Staff Appraisal Reviewer (SAR) may not begin performing appraisal reviews independently after VA's notification of approval until he or she fulfills VA training requirements and VA initial case review requirements. Generally, VA staff will train the SAR and then conduct the initial case reviews.

### Exceptions to Training and Case Review Requirements

The following are the three exceptions to the SAR training and initial case review requirements:

#### SAR Training During or After Case Reviews

The lender may request that the training be conducted during or after the case review requirement.

#### SAR With Prior LAPP Experience

The lender may request a waiver of the training and case review requirements for a SAR who previously satisfied those requirements while employed by another LAPP lender, and has satisfactorily processed LAPP cases within the last year.

#### Experienced SAR to Train and Supervise New SAR

The lender may request that one of its experienced SARs train and review the initial cases of a new SAR. The experienced SAR must:

- have full LAPP authority and be performing acceptably,
- provide adequate training to the new SAR, and
- review and ensure the acceptability of the new SAR's initial LAPP cases.

### Training and Case Reviews Completed by Experienced SAR

Once the training and case reviews are acceptably completed, the lender's senior officer must send the VA office a signed and dated notice which includes

- the name and SAR ID number of both the trainee and trainer, and
- a letter stating that
  - the training covered all VA LAPP requirements, and
  - the trainer reviewed at least five cases successfully completed by the trainee.

**Note:** The letter must include the VA case numbers for at least five cases.

### Training by VA Staff

If the training and case review requirements are not waived by VA or completed by an experienced SAR upon receipt of VA's notification that the SAR meets the basic LAPP qualification requirements, the lender must call that VA office to arrange for SAR training. VA will normally provide the training at the VA office (but may provide it in meetings or seminars at other locations in conjunction with scheduled VA field travel) and within 30 days.

At a minimum, the training by VA staff should consist of a 1 day session to discuss LAPP processing procedures and guidelines and any local VA office requirements and conditions.

**Note:** Due to the need for consistency between VA offices nationwide, each office is expected to limit local requirements and conditions to only those that are essential.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## SAR Training and Initial Case Reviews (continued)

### Procedure for Case reviews

Each SAR's first five cases must be processed as described in the table below:

Stage	Description
1	SAR fully reviews the fee appraiser's report.
2	SAR determines the reasonable value of the property.
3	SAR drafts a notice of value (NOV) to the veteran purchaser. <b>Note:</b> SAR should not send it to the veteran purchaser.
4	VA staff or an experienced SAR with VA permission reviews the following items: <ul style="list-style-type: none"><li>• the NOV,</li><li>• the appraisal request,</li><li>• the appraisal report, and</li><li>• any related documents.</li></ul>
5	If the SAR's work on the case is acceptable <ul style="list-style-type: none"><li>• VA staff will issue a NOV to the lender within 5 work days of receipt of the package, or</li><li>• The experienced SAR reviewer will also update and sign the SAR certification and mail the NOV to the veteran purchaser.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## SAR Training and Initial Case Reviews (continued)

### Case Reviews by VA Staff

Refer to the following table when the initial case reviews are made by VA staff:

If the SAR's appraisal Review is...	...then...
deficient in any respect	VA will send a letter to the lender detailing the specific problems within 5 days of receipt of the package.
found to have substantive deficiencies such as failure to <ul style="list-style-type: none"><li>identify significant appraisal errors, or</li><li>correctly note minimum property requirements or other conditions or requirements on the NOV</li></ul>	VA's letter to the lender <ul style="list-style-type: none"><li>will state that the SAR must continue to submit LAPP cases for VA review and issuance of a VA NOV prior to closing, and</li><li>may direct the SAR to visit the VA office for counseling or further training.</li></ul>
fully acceptable	VA will not provide feedback on the individual case.
fully acceptable and the last item necessary to satisfy all initial case review (and training) requirements	VA will notify the lender by letter that the SAR has satisfied all requirements and may process cases independently and issue the NOV.

## Change in SAR's Employment of Lender's Status

### SAR No Longer Employed or Performing SAR Work

The lender must promptly notify VA if the Staff Appraisal Reviewer is no longer employed or is no longer functioning as an SAR for the lender.

If either of these two apply, the SAR's LAPP authority automatically ceases and the lender's eligibility to participate in LAPP is terminated if that individual was the lender's only SAR.

### SAR Employed By New Lender

If the SAR begins work for a new lender, that lender must promptly submit to VA a new [VA Form 26-0785](#), Lenders Staff Appraisal Reviewer Application, and \$100 processing fee.

The lender may request a waiver of the training and case review requirements for that SAR by including a copy of VA's notice that the SAR has satisfied those requirements and a statement that the SAR processed LAPP cases and issued NOVs within the last year.

### Lender Charges

The lender must notify VA any time there is a

- change in ownership,
- merger, or
- acquisition.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Lender Responsibilities under LAPP

#### Due Diligence

Lenders are expected to exercise due diligence in processing LAPP cases and are responsible for complying with all applicable:

- VA policies and procedures,
- VA regulations, and
- statutory requirements.

VA considers due diligence to be care which is properly expected from, and ordinarily exercised by, a reasonable and prudent lender who is entirely dependent on the subject property as a security to protect their investment.

#### What LAPP Lenders Can Expect

In assuming the responsibilities involved with processing an appraisal under LAPP and subsequently underwriting the VA loan on the automatic basis, the lender has reasonable certainty that the VA Form 26-1899, *Loan Guaranty Certificate*, will be issued by VA, except in cases of fraud or willful material misrepresentation by the lender.

#### LAPP Privilege

LAPP authority is a privilege delegated to lenders at VA's discretion. Lenders maintain this privilege by complying with all applicable LAPP-related requirements.

If VA finds proper cause, the privilege extended to lenders under LAPP may be:

- amended,
- suspended, or
- withdrawn.

### LAPP Processing Procedures

#### Property Eligibility and Appraisal Requests

The appraisal of any property eligible to be the security for a VA loan can be processed under LAPP except:

- master appraisals,
- foreclosure appraisals,
- those involving partial release of VA loan security, and
- those involving HUD value determinations.

#### Submitting Cases to VA for Processing

An appraisal which the lender chooses not to process under LAPP can be submitted to the VA office of jurisdiction for VA staff to review and issue an NOV. The submission must include the SAR's draft NOV letter to the veteran and all of the appraisal documentation required per Appraisal Report. All other VA requirements for a case submitted on the prior approval basis by an automatic lender must also be met.

**Note:** Every property eligible for the LAPP should be processed under LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a **detailed** explanation.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### LAPP Processing Procedures (continued)

#### **Affiliates**

Unless approved by VA, lenders are not authorized to use LAPP for any:

- builder,
- land developer,
- real estate broker, or
- other entity which they own or have a financial interest in or are otherwise affiliated with.

This restriction may not apply if

- the only relationship between the lender and a builder is a construction loan, or
- the lender can provide a formal corporate agreement or other documentation which demonstrates to VA's satisfaction that the lender and builder, or other affiliate, are essentially separate entities operating independently from one another, free of all cross-influences.

The lender's quality control plan must specifically address the insulation of the fee appraiser, appraisal reviewer, and the underwriter from the influence of the affiliate.

#### **Lender/Agent Relationship**

Agents can be involved in LAPP processing only when the sponsoring (funding) lender has an established ongoing agency relationship with the agent, as evidenced by a corporate resolution accepted by VA.

#### **Corporate Resolution**

The corporate resolution must provide that the sponsoring lender accept full responsibility for the actions of its agents. Additionally, the sponsoring lender is responsible for assuring that the agent is appropriately trained and knowledgeable about VA appraisal assignment procedures and the restrictions on their role in LAPP.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## LAPP Processing Procedures (continued)

### Agents and Appraisals

Refer to the following table for rules regarding agents and appraisals.

If the agent...	...then...
is acting on behalf of an approved LAPP lender and is authorized by that lender	he or she may request VA appraisals, receive appraisal reports, and forward them to the lender's staff appraisal reviewer.
requests an appraisal	<p>he or she may use either the sponsoring (funding) lender's VA Assignment System logon or his or her own logon to request appraisals. An appraisal cannot be requested unless the sponsoring lender is known at the time of the request.</p> <p>If the agent is to receive the appraisal report, the request must include the agent's:</p> <ul style="list-style-type: none"><li>• address in item 5,</li><li>• signature in item 38,</li><li>• firm's name in item 39, and</li><li>• telephone number in item 40.</li></ul> <p><b>Note:</b> In requesting an appraisal, the authorized agent is making the required certifications on behalf of the sponsoring lender.</p>
receives an appraisal report	he or she must immediately forward it to the sponsoring lender who must issue a LAPP NOV within 5 business days of the <b>agent's</b> receipt of the appraisal report.
contacts the fee appraiser	that contact may only be about the timeliness of the appraisal, and not about the value or condition of the property which only the lender's LAPP SAR is authorized to discuss with the fee appraiser.
does not have LAPP authority but advertises or otherwise represents in any way that he or she is "LAPP approved"	he or she will have violated a VA prohibition against such advertising or representation.
has LAPP authority	he or she cannot issue a LAPP NOV for any other lender.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Common Interest Communities, Condominiums, and Planned Unit Developments

### Common Interest Community

A common interest community is a subdivision containing common land, often including recreational amenities. That common property is typically owned by an association of the homeowners (HOA), to which they all must belong and pay lien-supported assessments for a proportionate share of the expenses of the HOA.

Condominiums and planned unit developments (PUDs) are common interest communities.

### Basic VA Requirements

There are VA requirements applicable to **all properties** located in either a PUD or condominium. Also, **condominiums** (but not PUDs) must be **approved** by VA before any lots or units in the project are eligible for VA loan guaranty.

- *Requirements Applicable to All Properties in Common Interest Communities, and*
- *Condominium Approval Procedures.*

### VA Approved Condominium List

A nationwide list of VA-approved condominiums, the *Condominiums, Planned Unit Developments and Builders* list, can be reached via The Appraisal System (TAS).

The internet address is <http://condopudbuilder.vba.va.gov>.

## Requirements for Properties in Common Interest Community

### Overview

VA's goal is to help protect the interests of veterans and the Government by ensuring that all properties located in a common interest community meet VA regulatory requirements. Meeting this goal as efficiently and cost effectively as possible serves the best interests of all program participants involved.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Requirements Applicable to All Properties in Common Interest Communities

<b>Requirements</b>	While only condominiums must be approved by VA, lots or units securing VA loans in condominiums and other planned unit developments must meet both title and lien-related VA regulatory requirements. The lender is responsible for ensuring that these requirements are met for each VA loan. Although there is no specific VA requirement that lenders maintain evidence in the loan file that these requirements are met, they may wish to be guided by the advice of their legal counsel in this regard.
<b>Acceptable Title</b>	<p>The title requirements for every VA loan, whether or not the property is located in a common interest community, are stated in VA regulations (38 CFR 36.4350). These requirements indicate:</p> <ul style="list-style-type: none"><li>• the estate must not be less than fee simple, except under certain circumstances (38 CFR 36.4350(a))</li><li>• title must to be subject to unreasonable restrictions</li><li>• use and occupancy, except under certain circumstances (38 CFR 36.4350(b)), and</li><li>• certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property (38 CFR 36.4350 (c)).</li></ul>
<b>Superior VA Lien</b>	<p>VA regulations require that every VA loan be secured by a first lien on the property, except under certain circumstances. (38 CFR 36.4351 and 38 CFR 36.4352)</p> <p>When a property is located in a condominium or planned unit development, the lender must ensure that any mandatory homeowner association assessment is subordinate to the VA-guaranteed mortgage.</p>
<b>Appraisal Related</b>	<p>Fee appraisers will use:</p> <ul style="list-style-type: none"><li>• Freddie Mac Form 70 / Fannie Mae Form 1004, Uniform Residential Appraisal Report, for properties located in a planned unit development, or</li><li>• Fannie Mae Form 1073, <i>Individual Condominium Unit Appraisal Report</i>, for properties located in a condominium.</li></ul> <p>Requirements specific to properties located in a condominium are outlined in <a href="#">38 CFR 36.4360a</a>, Appraisal Requirements.</p> <p>If there are any commercial <b>or</b> other non-residential ownership interests in the condominium, the appraisal report must include them and their impact on the value of the residential units.</p> <p>In declarant/developer controlled <b>condominium conversions</b>, the appraiser must</p> <ul style="list-style-type: none"><li>• ascertain the degree to which the converted structure and unit(s) has been or will be rehabilitated for condominium use. The structure may have been, or is proposed to be, remodeled, renovated, rehabilitated, modernized, or “cosmetically” refurbished, and</li><li>• provide a description of the type of work completed or proposed to be completed in the conversion being appraised for declarant/developer sales. This information is not required in spot resales by sellers other than the declarant/developer.</li></ul>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Requirements Applicable to all Properties in Common Interest Communities (continued)

### Notice of Value Related

The notice of value for **all** properties in a PUD or condominium will be conditioned: “This property is located in a development with mandatory membership in a homeowners’ association. The lender is responsible for ensuring that title meets VA requirements for such property and that homeowner association assessments are subordinate to the VA-guaranteed mortgage.”

In addition, the notice of value for a property in a **condominium** which has not been approved by VA or for which VA approval-related requirements remain to be satisfied, will be conditioned “The lender is responsible for ensuring that this condominium is acceptable to VA and that any condominium-related special conditions or requirements have been met. There may be additional information in ‘Other Conditions/Requirements’, below.”

#### Reference: See

- [Acceptable Title](#) and [Superior VA Lien](#)
- [Condominium Approval Procedures](#), and
- pre-sale requirement per 38 CFR 36.4360a(c)
- warranty requirements for the unit and common elements per 38 CFR 36.4360a(d), and
- a wood-destroying insect inspection is required in low rise and high rise units only when the fee appraiser observes a potential problem.

**Note:** CMS does not extend financing in condominium projects not approved by VA.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Condominium Approval Procedures

<b>Overview</b>	<p>CMS does not process VA project approvals and the information contained in this Condominium Approval Procedures section and the following Table of Required Documents, Use of Attorney's Opinion, Contents of Opinion, Assumptions that Opinion may Include, and Qualifications or Limitations that Opinion may Include sections below is included for reference only.</p>
<b>Request for VA Approval</b>	<p>For condominium projects, the lender/sponsor must provide the following to the VA Office of Jurisdiction:</p> <ul style="list-style-type: none"><li>• a written request for VA-approval, and</li><li>• a copy of the condominium's organizational documents.</li></ul> <p><b>Note:</b> These documents must be reviewed for compliance with VA regulations, and approved by VA before any lots or units in the project are eligible for VA loan guaranty.</p>
<b>VA Processing of Approval Requests</b>	<p>VA will:</p> <ul style="list-style-type: none"><li>• review the condominium's organizational documents for compliance with VA regulations, and</li><li>• notify the requesting lender/sponsor.</li></ul> <p><b>Note:</b> The condominium must be approved by VA before any lots or units in the project are eligible for VA loan guaranty.</p>
<b>How to Expedite VA Approval</b>	<p><b>HUD/USDA Approval</b></p> <p>Generally, projects already approved by the Department of Housing and Urban Development (HUD) or the United States Department of Agriculture (USDA) do not need further VA review. Upon receipt of evidence of HUD/USDA approval, such as a copy of the HUD/USDA approved project list or the project approval letter, the VA office of jurisdiction adds the project to the nationwide VA list without issuing a formal VA approval letter.</p> <p>In rare cases, HUD or USDA may approve a project that VA discovers does not comply with VA regulations. In those cases, VA notifies the lender as soon as practicable that it will not guarantee loans in the project.</p> <p><b>Use of Attorney's Opinion</b></p> <p>This is a highly recommended option for condominiums that have not been approved by HUD or USDA.</p> <p><b>Use of Previously Approved Documents</b></p> <p>When the organizational documents being submitted are essentially the same as a set previously approved by VA, the lender/sponsor should include a certification from the declarant or declarant's attorney which</p> <ul style="list-style-type: none"><li>• states the fact</li><li>• specifically identifies the previous set, and</li><li>• describes any variation to the previous set.</li></ul> <p><b>State Agency Certification of a Condominium</b></p> <p>If a state agency certifies that the condominium has been created in compliance with the laws of the state in which it is located, include the certification.</p>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Condominium Approval Procedures (continued)

### VA Decision

After completing its review of the material submitted with the request for project approval, the VA office of jurisdiction sends a written notice of its decision to the lender/sponsor.

When...	Then the notice will...
the project is approved.	indicate any special conditions/requirements which must be met prior to VA guaranty of an individual loan in the project, such as <ul style="list-style-type: none"><li>• recording of documents</li><li>• pre-sale requirement, or</li><li>• completing of common areas.</li></ul> <b>Note:</b> There is no formal VA approval letter for projects accepted by VA based on their approval by HUD or USDA.
there were <ul style="list-style-type: none"><li>• missing/incomplete documents</li><li>• inaccurate/inconsistent information, or</li><li>• correctable deviations from VA requirements</li></ul>	explain what further documentation is needed. <b>Note:</b> VA will then suspend processing pending receipt of the needed information or material.
the project is unacceptable	state the reason. <b>Note:</b> When there are objectionable provisions related to unreasonably retained controls or rights of the declarant/developer, and it is difficult to amend the documents, VA may consider a separate recorded agreement from the declarant/developer relinquishing the objectionable provisions.

### Documents Amendments After Project Approval

VA recommends that declarants have amendment procedures for the declaration or equivalent document, amendable by an instrument approved by not less than 67 percent of unit owners. The association must request VA approval of proposed amendments prior to recordation.

VA approval of **any** amendments to the declaration, bylaws, or other enabling documentation is required while the declarant is in control of the homeowner's association. A written statement signed by an officer of the Association's Board of Directors and submitted with VA Form 26-1844, is required as evidence of approval.

Changes made by the declarant prior to the first sale in a condominium project may require amendment of the organizational documents.

**Note:** VA approval is not required for amendments which annex additional phases to the condominium in accordance with a development plan previously accepted by VA.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Condominium Approval Procedures (continued)

### Mortgagee Rights

The condominium documents may specify the following rights for the holders of first mortgages, provided the lender makes a written request to the Association for the right, and includes

- prior approval by first lienholders before the Association can
  - abandon condominium status or partition or subdivide a unit or the common
  - elements
  - change the percentage interest of unit owners, or
  - materially amend the legal documents
- timely written notice to first lienholders of
  - any condemnation or eminent domain proceeding, and
  - substantial damage or destruction to the common elements
- the right to
  - examine the association books
  - receive annual audited financial statements and record, and
  - be given notice of association meetings and be entitled to a representative at such meetings.

## Table of Required Documents

### Table of Required Documents

The table below identifies the documents that the VA office of jurisdiction must review in order to approve a particular condominium project.

As indicated in the table, some documents are required only;

- if applicable
- if the declarant is in control of the project, or
- for condominium conversion projects.

The last column indicates whether or not it is acceptable to submit a draft of the document. Recorded or existing final documents must be provided if loans have closed in the project.

#	Required Document	New Project	Existing Resales	Draft
1	Declaration of Covenants, Conditions and Restrictions	Yes	Yes	Yes
2	Bylaws for HOA	Yes	Yes	Yes
3	Articles of Incorporation for HOA	If Applicable	If Applicable	Yes
4	“Umbrella” projects, Declaration, Bylaws and Articles of Incorporation, as above	If Applicable	If Applicable	Yes

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Table of Required Documents (continued)

**Table of  
Required  
Documents  
(continued)**

#	Required Document	New Project	Existing Resales	Draft
5	Plat, map and/or air lot survey of project	Yes	Yes	Yes
6	Plat, map and/or air lot survey of unit(s)	If Applicable	If Applicable	Yes
7	Development plan and schedule	If Applicable	If Declarant Controls	Yes
8	Information or Public Offering Statement	Yes	If Declarant Controls	Yes
9	Grant/deed/leasehold agreement form	Yes	If Declarant Controls	Yes
10	State reviewing agency's report	If Applicable	If Applicable	Yes
11	Annexation documents	If Applicable	If Applicable	Yes
12	Cross-easement(s)	If Applicable	If Applicable	Yes
13	Facility Leases	If Applicable	If Applicable	Yes
14	Management agreement	If Applicable	If Applicable	Yes
15	Service contract(s) (either form of or actual)	If Applicable	If Applicable	Yes
16	HOA budget (existing or proposed)	Yes	Yes	No
17	Current financial statements and reserves of project	If Applicable	If Applicable	No
18	Special assessments/litigation statement	Yes	Yes	No
19	Minutes of last two HOA meetings	Yes	Yes	No
20	Registered architect/engineer statement on project condition (conversions only)	If Declarant Controls	If Declarant Controls	No
21	Recorded documents	Yes	Yes	No
22	Recorded annexation document for subject phase (expandable projects only)	Yes	Yes	No
23	Evidence recreational facilities completed and common area conveyed to HOA	Yes	Yes	No
24	Statement on adequacy of utilities serving site (conversions only)	If Declarant Controls	If Declarant Controls	No

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25

## Table of Required Documents (continued)

### Table of Required Documents (continued)

#	Required Document	New Project	Existing Resales	Draft
25	Evidence common area title free of financial encumbrances	Yes	If Applicable	No
26	Evidence of final local authority approval and final VA inspection (Low/High Rises and Conversions only)	Yes	No	No
27	Lender's certification that pre-sale requirement met	Yes	Yes	No

## Use of Attorney's Opinion

### Attorney's Opinion

Lenders/sponsors seeking VA approval of a condominium are encouraged to include an attorney's opinion that the project meets VA requirements, along with the organizational documents.

This will expedite VA approval of the project by reducing the extent of VA's review of those documents.

### General Requirements

The attorney's opinion must:

- be prepared in letter form on the attorney's firm's letterhead
- be signed, dated and show the name and title of the attorney rendering the opinion, and
- address four areas:
  - project identification
  - documents reviewed
  - attorney's qualifications, and
  - attorney's opinion.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25

### Contents of Opinion

#### Identification of Project

Identification of the project must include:

- the name of project (both legal and marketing, if applicable)
- the location of project (address if available, city/county, state and zip code)
- a statement regarding whether or not (if known at the time of submission) the:
  - lots in the project are created and subjected to the Declaration in phases, and
  - approximate number of phases to be developed and the specific identities of the phases

- specific identification of units, and common areas to be subjected to the Declaration in the first phase being submitted for acceptance.

**Note:** If the phases have been recorded, the description must be of those units and common areas legally subjected as of the date of the opinion, or there must be reference to a provided exhibit and the phase currently being proposed for annexation.

- information on the status of the master or umbrella association, if any, including:
  - whether or not the documents are recorded
  - a general description of the overall project, and
  - the number of sub associations that may be planned.

#### List of Documents Reviewed

The list of documents that are reviewed when developing the attorney's opinion must include, at a minimum the:

- Declaration, including all exhibits incorporated by reference  
**Example:** Descriptions of subjected lots and land/lots to be subjected, additional lands, plats and development plans.
- Bylaws for the Association, or similar document governing the internal operation of the association
- Articles of Incorporation for the Association, or similar document, if not an incorporated entity,
- Public Offering Statement or Information Brochure for the project, and
- if applicable, the same documents for any umbrella or master association in which
  - owners in the subject association will be or are members, or
  - the sub associations will be or are members.



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Contents of Opinion (continued)

### Statement of Qualifications

A statement regarding the attorney's qualifications must be similar to the following:

"The undersigned is experienced in the practice of real estate law in (**name of jurisdiction and locality in which the project is located**) and is familiar with the laws, ordinances, regulations, and other legal requirements that, as of the date of this opinion, were applicable with respect to the establishment and administration of property owners associations within that jurisdiction. Consequently, I am qualified to issue this opinion."

### What Opinion must Address

The attorney's opinion must address compliance of the organizational documents with VA regulations 38 CFR 36.4356 through 36.4360a(g) for condominiums.

The attorney's opinion must address compliance of the organizational documents with the technical areas discussed in Exhibit A.

The actual attorney's opinion must:

- address compliance of the organizational documents with the material requirements of applicable state and local laws, ordinances, regulations and other legal requirements governing the creation of property owners associations as of the date of the opinion, and
- identify the above applicable laws, ordinances, regulations and legal requirements by name and citation.

The attorney's opinion must identify any variation from any requirement, including failure to comply with a specific requirement. A recorded amendment correcting a document defect or deficiency with regard to a VA regulation is necessary in most cases, since VA offices do not have the flexibility to approve such defects or deficiencies.

### Master or Umbrella Association

If there is a master or umbrella association, the attorney may provide a separate opinion which addresses the compliance with requirements applicable to that form of association.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Contents of Opinion (continued)

### Special Conditions

The attorney's opinion must state whether or not any of the following conditions are present, and provide a detailed explanation for any that are to ensure compliance with VA guidelines and requirements:

- a conversion of a building from a former existing use such as former rental housing
- HOA owns a community water and/or sewage disposal facility
- alienation restrictions exist in connection with a state or local program designed to assist low or moderate income purchasers, or
- restrictions exist which are associated with housing designed for older persons.

If the development is, or will be mixed-use, such as multi-family, commercial or other non-residential use, the opinion must include:

- a detailed explanation of the arrangements
- the percentage of multi-family or non-residential units/uses, and
- an explanation of the voting rights of those units.

### Opinion is Conditional

When the attorney's opinion is conditional, that is based on unrecorded documents, including plats, the recorded documents **must** be submitted to VA prior to the guaranty of the first VA loan, along with a certification from the attorney giving the original opinion. The certification (on the letterhead of the attorney's firm, signed and dated, giving the attorney's name and title) must either:

- state that the recorded documents are the same as those on which the original opinion was based, or
- specifically address any change in the recorded documents and the effect of the change(s) on the previous opinion.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Assumptions that Opinion may Include

### **Documents are Complete and Accurate**

In each instance, at or prior to the execution of each document, all blanks appearing therein were properly completed with the appropriate information, all signatures and seals were duly made and affixed, and all exhibits were properly completed and attached.

The legal descriptions attached as exhibits to, or incorporated in, the Declaration accurately and completely describe the property subjected, or to be subjected, to the Declaration.

### **Documents are Authorized**

Each party to the documents had, at all material times, full and unconditional power, authority, capacity and legal right to execute and deliver the documents, and to consummate the transaction contemplated thereby, without notice to, or the consent of, any person or entity not a party to the documents.

The documents were duly and validly authorized, executed, acknowledged and delivered by the respective parties. The individuals and entities who executed each of the documents on behalf of an entity or on behalf of any other person were, at all material times, duly authorized to do so and, in each instance, were legally competent.

### **No Violations**

No provision of any document or any transaction contemplated thereby violates any contract, corporate charter, corporate bylaw, corporate resolution, partnership agreement, trust agreement, document, instrument or any other agreement which is or was binding upon any party to the documents or any beneficiary thereof. No provision of any document or any transaction contemplated thereby violates any judicial or administrative order or decision binding upon a party to any document or rendered in a matter in which such party was a party to the proceedings.

### **Qualified Parties**

Each entity (including the declarant) which is a party to any of the documents or which executed any of the documents on behalf of a party was, and at all material times will be, duly organized, effectively registered, validly existing, in good standing under the laws of the jurisdiction in which such entity was formed, and qualified to do business in the jurisdiction in which the project is located.

### **No Waivers or Limitations**

There is no oral or written modification of or amendment to the documents reviewed, and there has been no waiver of any of the provisions of the documents, by actions, by conduct of the parties or otherwise. None of the parties to any of the documents have entered into or will enter into any other agreement, or take any other action, which is inconsistent with, or serves to limit or amend, any provision of any of the documents.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Assumptions that Opinion may Include (continued)

<b>Documents Not Subject to Rescission or Reformation</b>	None of the documents are subject to rescission or reformation for fraud, duress, lack of consideration, mistake, or any other factor affecting its execution.
<b>Recording of Documents</b>	<p>The Declaration (or other recorded covenants) has been, and at all material times shall be duly filed, indexed, and recorded among the Land Records of the jurisdiction in which the project is located.</p> <p>The Articles of Incorporation (or other governing documents) have been, and at all material times shall be duly filed, indexed, and recorded with all applicable state and local governmental agencies.</p> <p>In each instance, all applicable recording fees, charges and taxes have been paid.</p>
<b>Authenticity</b>	All documents submitted to the attorney as originals are authentic; all documents submitted to the attorney as certified or photostatic copies conform to the original documents; all signatures on all documents submitted to the attorney for examination are genuine; and all public records reviewed are accurate and complete.
<b>Accuracy</b>	Each statement and representation contained in the documents is accurate and contains all statements of material fact necessary to prevent them, and the documents generally, from being misleading.
<b>Correct and Complete Copies</b>	The Articles of Incorporation and Bylaws (or other governing documents) of the association, as submitted to the attorney, are true, correct, and complete copies thereof, and have not been amended, modified or canceled and are in full force and effect as of the date of the opinion. Other than the Articles of Incorporation, Declaration and Bylaws (or other governing documents) of the association, there are no other agreements or documents governing the organization or operation of the association.
<b>Other Assumptions</b>	The attorney must identify any other assumptions included in the opinion. They will be reviewed by VA and may be allowed on a case-by-case basis.

## Qualifications or Limitations that Opinion may Include

<b>Subjective Factual Standards</b>	<p>No opinion is given regarding compliance with any subjective factual standards contained in these requirements.</p> <p><b>Example:</b> The attorney is not required to judge whether specific document provisions are “reasonable” or “equitable”.</p>
<b>Zoning Requirements</b>	No opinion is given as to whether the project complies with zoning laws and ordinances, height restrictions, setback requirements, environmental requirements, or other similar requirements applicable to the project, or as to the effect of any such requirement on the operation of the project.

# Underwriting Guidelines (VA)

## Mortgage Lending Division

Version 7.7 – 06/06/25



### Qualifications or Limitation that Opinion may Include (continued)

<b>Subdivision Requirements</b>	No opinion is given as to whether the project complies with the applicable subdivision laws or requirements.
<b>Building Requirements</b>	<p>No opinion is given as to whether the project complies with;</p> <ul style="list-style-type: none"><li>• applicable building code</li><li>• other similar building laws or requirements</li><li>• applicable health, or</li><li>• safety laws or requirements.</li></ul> <p>No opinion is given as to whether the declarant obtained any building permits, or approvals or occupancy certificates, approvals, licenses or permits with respect to all or any portion the project, or any expansion or the development thereof, necessary or required as of the date of creation of the project.</p>
<b>Operation</b>	No opinion is given as to whether the project is being operated or administered in accordance with the provisions of the governing documents and/or applicable law.
<b>Applicability of Laws</b>	No opinion is given as to the applicability or effect of any laws other than those of the jurisdiction in which the project is located. No opinion is given with respect to the tax or securities laws of the jurisdiction in which the project is located (or of the United States of America).
<b>Title</b>	<p>No opinion is given with respect to title to the lots, common area or other property subjected, or to be subjected, to the Declaration, including without limitation</p> <ul style="list-style-type: none"><li>• the ownership of, or legal equitable interests in, such lots, common area or property</li><li>• the priority of the interests of the respective owners, vis-à-vis any other rights, titles, interests or estates in or to such lots, common area or property, or</li><li>• any encumbrances, liens, covenants, rights-of-way, restrictions, declarations, or other instruments which would affect such lots, common area, or property, or the use thereof.</li></ul> <p>The conclusions stated by the attorney are subject in each instance to the operation and effect of any such matters.</p> <p>The attorney may assume that the declarant has, and had at all material times, all requisite legal and equitable title to the property subjected and to be subjected to the Declaration of record and in fact.</p>
<b>Inference</b>	No inference is to be drawn beyond the strict scope of the opinion as expressed by the attorney.
<b>Dated Opinion</b>	The opinion is based upon the status of the documents, and matters pertaining thereto, as of the date the opinion is given. The attorney assumes no obligation to supplement the opinion if any applicable laws change, or if the attorney becomes aware of any facts that might change the opinion after the date the opinion is given.

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Natural Disasters

### Inspection Requirements

### Special Disaster Inspection Certification Alternatives

The following forms may also be used for this certification along with a photograph of the subject property:

- Appraisal Update and/or Completion Report (Fannie Mae form 1004D/Freddie Mac form 442)
- Uniform Residential Appraisal Reports (Fannie Mae form 1004/Freddie Mac form 70)
- Drive-by Appraisal (Fannie Mae/Freddie Mac form 2055). In any situation where the appraiser notes defects in the exterior inspection, a full Fannie Mae form 1004/Freddie Mac form 70 appraisal report with an interior and exterior inspection is required
- Individual Condominium or PUD Unit Appraisal Report (Fannie Mae form 1073/Freddie Mac form 465)
- Special Disaster Inspection Certification may take the form of a letter on the qualified individual's letterhead bearing an original signature. The letter is required to contain the language indicated in the Special Disaster Inspection Certification Instructions
- Standard form used by the property inspector providing it clearly identifies the name, address, and qualifications of the inspector, contains the information required in the Special Disaster Inspection Certification, and bears an original signature

### Properties with Significant Damage

If a property was significantly damaged and an appraiser performed the property damage inspection, the property must be re-inspected by a qualified home inspector, or an engineer to assess the nature and degree of the damage. A significantly damaged property must be repaired before the loan is closed if the damage affects the structural integrity or livability of the property, as determined by the inspector.

### Properties with Minor Damage

Repairs will not be required for a property with minor damage not affecting the structural integrity or livability of the property. Appraisers must certify that value "as is" and that property still meets VA Minimum Standards.

### Insuring Delinquent Loans

The VA Regional Loan Center having jurisdiction over the affected areas has been granted authority on a case by case basis, to guarantee mortgages that are delinquent, provided the delinquency is due to disaster-related circumstances.

CMS will not finance delinquent loans.

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## End of Guidelines

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary

### Revision History

Date	Version	Description of Change
06/06/25	7.6	Revised requirements for Additional COE Conditions.
06/20/24	7.5	Revised <b>Special Instructions for Using Residual Income Table</b> to add 5% reduction requirements.
04/25/24	7.4	<ul style="list-style-type: none"> <li>Revised <b>Credit Processing &gt; Disputed Accounts and Public Records</b> to add requirements for medical collections and/or charged-off medical accounts.</li> <li>Revised <b>Major Adverse Credit &gt; Collection Accounts</b> to add requirements for medical collections and/or charged-off medical accounts.</li> <li>Revised <b>Environmental Hazards &gt; High-Voltage Electric Transmission Lines</b> requirements.</li> </ul>
11/30/23	7.3	Revised <b>Termite Inspection</b> to allow borrowers to be charged for pest inspection fees.
09/05/23	7.2	<ul style="list-style-type: none"> <li>Revised <b>Occupancy Certification</b> to remove VA Form 26-1802a requirement.</li> <li>Revised <b>Documentation Requirements to Close a VA Loan</b> to remove FHA HUD/VA Addendum 92900-A requirements.</li> <li>Revised <b>VA Guarantee Case Binder Document Requirements</b> table to remove Form HUD-92900-A, Addendum to URLA requirement.</li> <li>Revised <b>NOV Issued by VA</b> to remove VA Form 26-1802a requirement.</li> </ul>
04/20/23	7.1	Revised <b>The VA Funding Fee</b> with Loan Fee Rates for Loans Closing On or After 4/7/23 and prior to 11/14/31.
01/20/23	7.0	Revised Down Payment Assistance Program to add a <b>note that</b> Down Payment Assistance in the form of Secondary Financing/Secondary Borrowing must also meet the <a href="#">Secondary Borrowing</a> requirements.
12/07/22	6.9	<ul style="list-style-type: none"> <li>Updated <b>Private Road Requirements, Maintenance Agreement and NOV Condition for Private Road/Shared Driveway</b> to waive maintenance agreement requirements for private roads and shared driveways.</li> <li>Deleted <b>RLC Approval Required if the Veteran is Accepting Additional Responsibility</b> requirements.</li> </ul>
11/01/22 (11/09/22)	6.8	Revised <b>Down Payment Assistance Program</b> to list as permitted and add contact/submission requirements. Rebranded document with new logo (11/09/22).
10/17/22	6.7	Revised the <b>Notice of Value Conditions and Requirements</b> .
06/28/22	6.6	Revised <b>Additional Verification for Non-Exempt Veterans</b> requirements.
05/27/22	6.5	<ul style="list-style-type: none"> <li>Revised <b>VA Prior Approval</b> requirements to remove Veterans rated incompetent by VA.</li> <li>Revised <b>Income of Recently Discharged Veterans or Veterans to be Discharged from the Military</b> to remove VA Fiduciary requirement.</li> <li>Revised <b>Unacceptable Sources of Assets</b> requirements to clarify Cryptocurrency (digital assets such as bitcoins) unless liquidated and trailed into the borrower's bank account.</li> </ul>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
01/31/22	6.4	<ul style="list-style-type: none"><li>Revised <b>Cash Out Refinance</b> to add the loan amount is limited to the standard loan limit (high balance not permitted) when the LTV exceeds 90%.</li><li>Revised <b>Regular refinancing loan (cash-out)</b> maximum loan amount to 100% and added "Refer to the CMS VA program matrix for restrictions when the LTV exceeds 90%."</li><li>Revised <b>Loan Maturity Limits</b> note to "Refer to the CMS VA program matrix for loan term restrictions."</li><li>Revised <b>Loan-to-Value (LTV)</b> to add requirements for LTVs of 90.01%-100%.</li></ul>
11/05/21	6.3	<ul style="list-style-type: none"><li>Revised <b>Refinance Mortgages &gt; Loan Seasoning Requirement</b> for modified loans.</li></ul>
10/01/21	6.2	<ul style="list-style-type: none"><li>Revised <b>Purchase Mortgage</b> to clarify prorated property tax requirements.</li><li>Updated <b>Manufactured Homes</b> to clarify units must be "minimum" double wide.</li></ul>
07/28/21	6.1	Revised VA Funding Fee requirements.
06/23/21	6.0	<ul style="list-style-type: none"><li>Revised <b>Borrowers Fees, Charges and the VA Funding Fee &gt; Overview</b> to remove "Note: CMS offers Lender Paid Compensation only on broker originated loans."</li><li>Revised <b>Lender's One Percent Flat Charge</b> to remove "This option is available for CMS originated loans only."</li><li>Revised <b>Non-Traditional Credit</b> to add "When utilizing non-traditional credit, the Underwriter is responsible to enter a "0" as the credit score in the loan origination system (LOS)."</li><li>Updated references to Letters of Explanation to clarify "Borrower(s) must write, sign, and date all Letters of Explanation themselves. The Lender or Broker may identify the subject matter only and not contribute to the letter's content."</li></ul>
03/22/21	5.9	<ul style="list-style-type: none"><li>Revised <b>Veterans Eligibility and Entitlement</b> active duty eligibility requirements as they no longer apply.</li><li>Revised <b>The VA Funding Fee</b> requirements to clarify Form 26-8937 must be submitted through the COE application in WebLGY.</li><li>Revised <b>Income of Recently Discharged Veterans or Veterans to be Discharged from the Military</b> requirements.</li><li>Updated <b>Debts Owed to the Federal Government</b> requirements.</li></ul>
02/16/21	5.8	<ul style="list-style-type: none"><li>Updated references for 1003 to Uniform Residential Loan Application (URLA) throughout.</li><li>Updated references for 4506-T to 4506-C throughout.</li><li>Revised <b>Cash Reserves &gt; Requirements</b> to remove reserve requirement for borrowers with non-traditional credit.</li><li>Revised <b>Definition Construction Exhibits and Inspections</b> to remove the note stating CMS does not offer Repair Escrows in conjunction with VA loans.</li></ul>
12/18/20	5.7	<ul style="list-style-type: none"><li>Revised <b>Electronic Signatures</b> table to add HUD Form NPMA-33 - Wood Destroying Insect Inspection Report, or State mandated infestation report, if applicable.</li><li>Revised <b>Required Appraisal Forms</b> requirements.</li><li>Revised <b>Termite Inspection</b> to clarify the report must be signed by the borrower either electronically or handwritten.</li><li>Revised <b>Clearing the Termite Inspection Report</b> to remove earth to wood contact as an item leading to structural unsoundness.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
10/20/20	5.6	<ul style="list-style-type: none"> <li>Revised <b>Non-Traditional Credit</b> to remove Additional Documentation Requirements.</li> <li>Added Overview section that clarifies the Condo Approval procedures are included for reference only.</li> </ul>
06/29/20	5.5	<ul style="list-style-type: none"> <li>Revised <b>Eligible Loan Purposes</b> to remove requirements for joint loans.</li> <li>Revised <b>Eligible Loan Purposes</b> to add url for eligible Manufactured Housing eligible loan purposes.</li> <li>Updated <b>The VA Funding Fee</b> requirements for Active Duty Servicemember with a pre-discharge claim pending.</li> <li>Revised <b>Private Water Systems</b> to remove obsolete content and refer to Individual Water Supply for the updated requirements.</li> <li>Added <b>Eligible Loan Purposes – Manufactured Housing</b> requirements.</li> </ul>
05/20/20	5.4	<ul style="list-style-type: none"> <li>Removed <b>HPML</b> section and HPML Flipping Rule reference.</li> <li>Revised <b>Cash-Out Refinance</b> to add “Free and clear properties are not permitted.” And update list of loan purpose to add “To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home.”</li> </ul>
01/28/20	5.3	<ul style="list-style-type: none"> <li>Revised <b>Determining Amount of Entitlement</b> requirements.</li> <li>Updated <b>VA Guaranty Examples</b> for Navy Blue Water.</li> <li>Revised <b>Maximum Loan Amount</b>.</li> <li>Revised <b>Down Payment</b> and <b>Maximum Guaranty Table</b> requirements.</li> <li>Updated <b>VA Funding Fee</b> requirements and rates for loans closing on and after January 1, 2020 through December 31, 2021.</li> <li>Revised <b>Cash-Out Refinance Transactions Effective for loan applications taken 2/15/19 and after</b> to clarify LTV requirements.</li> <li>Revised <b>Converting to VA Appraisal after Completion</b> requirements.</li> <li>Added <b>Assisted Appraisal Processing Program (AARP)</b> requirements.</li> <li>Deleted <b>SAR’s Responsibility</b> and revised <b>Implication of SAR Certification</b>.</li> </ul>
11/06/19	5.2	<ul style="list-style-type: none"> <li>Revised <b>Retirement, Pension, Annuity Income and IRA Distributions</b> to remove “Evidence of continuance of corporate, government, or military retirement/pension need not be documented.”</li> <li>Revised <b>Asset Sources</b> to remove Gifts of Equity as an acceptable source.</li> <li>Revised <b>Gift of Equity</b> to ‘Not Permitted.’</li> <li>Revised <b>Minimum Property Requirements</b> with updated VA requirements.</li> </ul>
09/16/19	5.1	<ul style="list-style-type: none"> <li>Revised <b>Primary Residence</b> to remove requirement that borrowers can only have one VA loan.</li> <li>Revised <b>Loan-to-Value (LTV)</b> to state CMS follows GNMA requirements and limits the maximum LTV for cash-out refinance transactions to 90%.</li> <li>Revised <b>Credit Scores</b> to list FICO range as 300 to 850.</li> <li>Revised <b>Collections and Charge-Offs Paid through Closing Transaction</b> to add requirements for using a credit report or supplement in addition to a payoff demand.</li> <li>Revised <b>Rental Income</b> to add “If the underwriter is unable to determine whether an established rental market exists, use FNMA Form 1007 to assist in the market analysis.”</li> </ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
08/01/19	5.0	<ul style="list-style-type: none"> <li>Revised <b>Cash-Out Refinance &gt; Loan Seasoning Requirement</b> to reflect new GNMA requirement for first payment due date (formerly was first payment made date).</li> <li>Revised <b>Secondary Borrowing</b> to remove Down Payment Assistance requirements.</li> <li>Added <b>Down Payment Assistance</b> is not permitted.</li> <li>Updated <b>Home Buyer Assistance</b> to reflect that it is not permitted.</li> </ul>
07/02/19	4.9	<p>Major changes throughout to align with updated VA Handbook requirements.</p> <ul style="list-style-type: none"> <li>Revised <b>VA Prior Approval</b> requirements.</li> <li>Revised <b>Discharge of Veteran and Proof of Service</b> Requirements</li> <li>Revised <b>Non-Borrowing Spouse</b></li> <li>Revised <b>Transaction Types</b></li> <li>Revised <b>Property Assessed Clean Energy (PACE)</b></li> <li>Revised <b>Documentation Requirements to Close a VA Loan</b></li> <li>Deleted <b>Income/Employment Waivers and Verification Documentation</b></li> <li>Updated <b>Credit Report Standards</b></li> <li>Added <b>Verification and Rating of Debts and Obligations</b></li> <li>Revised <b>Housing Payment History</b></li> <li>Updated <b>Bankruptcy/Foreclosure/Deed-in-Lieu</b></li> <li>Deleted <b>Short Sales</b></li> <li>Revised <b>Consumer Credit Counseling Services (CCCS)</b></li> <li>Revised <b>AUS Refer or Manual Underwrite</b></li> <li>Added <b>Collection Accounts</b></li> <li>Added <b>Charged Off Accounts</b></li> <li>Deleted <b>Delinquent Federal Debt</b></li> <li>Revised <b>Judgments</b></li> <li>Added <b>Payoff of Unpaid or Untimely Debts</b></li> <li>Revised <b>Documentation Age</b> requirements</li> <li>Deleted <b>Stability of Income and Employment</b> section</li> <li>Revised <b>Tax Information Authorization IRS Form 4506-T/2907 Tax Transcripts</b></li> <li>Deleted <b>Puerto Rico Tax Returns</b> requirements</li> <li>Revised <b>Documentation Requirements and Standards</b></li> </ul>
05/02/19	4.8	<ul style="list-style-type: none"> <li>Added <b>VA Prior Approval</b> requirements.</li> <li>Removed requirement to obtain <i>Market Conditions Addendum to the Appraisal Report</i> (Fannie Mae form 1004MC) with all appraisals.</li> </ul>
04/02/19	4.7	<ul style="list-style-type: none"> <li>Revised <b>Veterans Eligibility and Entitlement &gt; Overview</b> to clarify Eligibility is determined by VA and documented on the Certificate of Eligibility (COE).</li> <li>Added requirements for <b>Collections and Charge-Offs Paid through Closing Transaction</b></li> <li>Added requirements for <b>Applicants Employed Less than 12 Months</b></li> <li>Revised <b>Commission Non-Military</b> to remove different treatment of commission income based on the percentage of employment income (25%) and unreimbursed business expenses. Also removed requirement for IRS form 2106 (with the exception of Armed Forces Reservists, qualified performing artists, fee-basis state or local officials, and employees with impairment-related work expenses.)</li> <li>Revised <b>Income Based Repayment (IBR) Plan</b> to add <b>Note</b>: For student loan income-based repayment (IBR) plans, the IBR payment amount may be used without confirming that the payment will not change for at least 12 months after closing.</li> <li>Added requirements for <b>Additions to Manufactured Homes</b></li> </ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
02/20/19	4.6	<ul style="list-style-type: none"> <li>Revised <b>Determining Amount of Entitlement</b> to update loan amounts</li> <li>Revised <b>Discharge of Veteran and Proof of Service Requirements</b> to remove requirement for DD Form 214</li> <li>Revised <b>Maximum Guaranty Table</b> to update loan amounts</li> <li>Revised <b>Refinance Mortgages</b> to update seasoning requirements</li> <li>Added <b>Cash Out Refinance Transactions</b> - Effective for loan applications taken 2/15/19 and after</li> <li>Added <b>Type I and Type II Definitions</b></li> <li>Added <b>Loan to Value</b> requirements</li> <li>Added <b>Loan Comparison Statement</b></li> <li>Added <b>NTB Requirements</b></li> <li>Additional Restrictions for <b>VA-to-VA Type I Refinances – Recoupment and Interest Rate Reduction</b></li> <li>Revised <b>Loan Transactions Paying Off Land Contracts</b> to include 6 month seasoning requirement.</li> <li>Added <b>Calculating Loan-to-Value for Cash-Out Refinances</b> Effective for loan applications taken 2/15/19 and after</li> <li>Revised <b>Documentation Requirements to Close a VA Loan</b> to add Comparison Disclosure (cash-out refinance loan transactions with loan applications dated 2/15/19 and after)</li> <li>Revised <b>Retirement, Pension, Annuity Income and IRA Distributions</b> to align with FNMA requirements since VA only requires one form of verification for retirement income</li> </ul>
10/30/18	4.5	<ul style="list-style-type: none"> <li>Multiple Pages - Removed references to HUD-1 Uniform Settlement Statement, Good Faith Estimate and Truth in Lending Disclosure throughout (replaced by Closing Disclosure and Loan Estimate under TRID)</li> <li><b>Revised Contingent Liabilities &gt; Contingent Liability on Co-signed Obligations</b> to clarify minimum of 12 months regular and timely payments</li> <li>Revised <b>Earnest Money Deposits</b> verification requirements</li> <li>Revised <b>Cash Reserves Requirements</b> to align with VA Matrix.</li> </ul>
08/27/18	4.4	<ul style="list-style-type: none"> <li>Revised <b>Verbal Verification of Employment</b> to add <b>"Note: A VVOE is not required for CMS Portfolio non-credit qualifying VA IRRRL loan transactions."</b></li> <li>Renamed <b>Sale of Other Assets</b> to <b>Sale of Personal Property or Other Assets.</b></li> </ul>
07/12/18	4.3	<ul style="list-style-type: none"> <li>Revised <b>Determining Amount of Entitlement</b> section.</li> <li>Updated calculation in <b>Retirement Accounts</b> section.</li> <li>Revised <b>Non-Taxable Income</b> section to reflect 25%.</li> <li>Updated <b>Compensating Factors</b> section.</li> </ul>
06/01/18	4.2	<ul style="list-style-type: none"> <li>Revised <b>Other Income Overview</b></li> <li>Deleted <b>Foster Care Income</b> from Other Types of Income</li> <li>Added <b>Workers Compensation</b> to Other Types of Income</li> <li>Revised <b>Social Security Income</b> to add 1099 with current back statement to document income</li> <li>Added <b>Special Instructions for Using Residual Income Table</b></li> <li>Revised <b>Total Qualifying Debt-to-Income Ratios</b> to provide direction for completing VA Loan Analysis VA Form 26-6393</li> </ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
05/07/18	4.1	<ul style="list-style-type: none"><li>Updated <b>Refinance Mortgages &gt; Cash-Out Refinance</b> to updated 6 month seasoning requirement and the Texas Cash out is not permitted.</li><li>Updated <b>Alimony, Child Support and Maintenance Payments</b> to current VA requirements</li><li>Updated <b>Income Based Repayment (IBR) Plan</b> to refer to payment calculations listed in <b>How to Calculate a Student Loan Monthly Payment</b> section</li></ul>
03/27/18	4.0	<ul style="list-style-type: none"><li>Added <b>Document Images</b> requirements</li><li>Revised <b>Unacceptable Sources of Assets</b> to add cryptocurrency</li></ul>
02/01/18	3.9	Revised Short Payoff requirements to align with HUD requirements.
12/21/17	3.8	Added the Connection to Public System to Water/Sewage section. Revised the following sections: <ul style="list-style-type: none"><li>Determining Amount of Entitlement with Updated Maximum Loan Amount for 2018</li><li>Maximum Guaranty Table with Updated Maximum Loan Amount for 2018</li><li>Rental Income</li><li>Gifts</li></ul>
11/14/17	3.7	Removed references to HUD Handbook 4150. Revised the following sections: <ul style="list-style-type: none"><li>Refinance Mortgages</li><li>Delinquent Federal Debt</li></ul>
10/13/17	3.6	<ul style="list-style-type: none"><li>Revised Maximum Loan amounts sections to remove references to energy efficiency improvements up to \$6,000 since CMS does not offer energy efficiency programs</li><li>Revised Cash out Refinance to include requirement that All Cash-Out Refinance transactions must be secured by an existing first lien.</li><li>Updated Shared Wells requirements</li><li>Revised Manufactured Homes requirements</li><li>Revised Red Flags requirements</li></ul>
06/23/17	3.5	Added the How to Calculate a Student Loan Monthly Payment section. Revised the following sections: <ul style="list-style-type: none"><li>Determining Amount of Entitlement</li><li>Maximum Guaranty Table</li><li>Documentation Standards</li><li>Sources of Unacceptable Income</li><li>Bank Accounts – removed 100% Access letter</li><li>Property to be Altered/ Improved/ Repaired</li><li>Selection and Analysis of Comparable Sales &gt; Overview</li></ul>
02/16/17	3.4	<ul style="list-style-type: none"><li>Updated Documentation Standards to add reference to Credit Policy for VVOE</li><li>Revised Sources of Unacceptable Income to add Marijuana Dispensaries</li><li>Added How to Calculate a Student Loan Monthly Payment</li><li>Revised Bank Accounts to remove 100% Access Letter</li><li>Revised Property to be Altered/ Improved/ Repaired to “Prior to loan closing.”</li></ul>
12/19/16	3.3	<ul style="list-style-type: none"><li>Revised Veterans Eligibility and Entitlement to add VA Guaranty Examples</li><li>Added Previous Financial Crimes</li><li>Revised Cash out Refinance requirements</li><li>Revised Non-Taxable Income</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
10/24/16	3.2	<ul style="list-style-type: none"><li>Added Property Assessed Clean Energy (PACE) requirements</li><li>Revised Uniform Appraisal Dataset (UAD) section</li><li>Removed duplicated Springs or Cisterns content</li></ul>
09/06/16	3.1	Revised <b>Income Based Repayment (IBR) Plan</b> section Revised <b>Ineligible Borrowers</b> section
06/28/16	3.0	<p>Refinance Mortgages &gt; Cash-Out Refinance</p> <ul style="list-style-type: none"><li>Deleted: Minimum six months property ownership preceding the date of the loan application.</li></ul> <p>Non-Traditional Credit &gt; Additional Documentation Required</p> <p>Deleted: Max LTV</p> <p>The maximum LTV for borrowers with non-traditional credit is 90% and owner occupied transactions only.</p> <p>AUS Refer or Manual Underwrite</p> <p>Added: All collection and charge off accounts with a repayment plan must be included in the borrower's debt ratio. Collection and charge off accounts without a repayment plan are not required to be included in the borrower's debt ratio; however, they must be considered in the borrower's credit analysis.</p> <p>AUS Refer or Manual Underwrite</p> <p>Added: All collection and charge off accounts with a repayment plan must be included in the borrower's debt ratio. Collection and charge off accounts without a repayment plan are not required to be included in the borrower's debt ratio; however, they must be considered in the borrower's credit analysis.</p> <p>Changed Three to Four to Multiple</p> <p>Net Rental Income for Multiple Unit Properties</p> <p>Net Rental Income for Three to Four Multiple Unit Properties Net rental income is defined as the appraiser's estimate of fair market rent from all units (including the unit chosen by the borrower for occupancy) less 25% vacancy factor. Three and Multiple (two to four) unit properties must meet the following requirements</p> <p>Deleted Veteran Under Contract</p> <p>Veteran Under Contract If a veteran signs a purchase agreement during a notice of value's validity period, that notice of value will remain valid until that transaction is either completed or terminated.</p>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
04/19/16	2.9	<ul style="list-style-type: none"> <li>Revised <b>Non-Purchasing Spouse to Non-Borrowing Spouse</b> to align with other guidelines/policies.</li> <li>Removed <b>Virginia Automatic Subordination</b> section and moved content to the Virginia State Specific Manual.</li> <li>Revised <b>VA Liabilities and Debt Ratios &gt; Debt Pay Off/Pay Down</b> section.</li> <li>Added new <b>Income Based Repayment (IBR) Plan</b> section.</li> <li>Revised <b>Water and Sewage Systems &gt; Individual Sewage Systems</b> to add: Properties with a wastewater stabilization pond/lagoon (aka sewage lagoon) are not eligible for CMS financing.</li> <li>Revised <b>LAPP – Issuing A NOV at Other than the Appraiser's Value Estimate &gt; Change Restrictions</b> with the new VA requirements.</li> </ul>
02/26/16	2.8	<ul style="list-style-type: none"> <li>Revised <b>Non Taxable Income</b> section to state "Non-taxable income may be "grossed up" 15%, or the applicable marginal tax rate based on gross qualifying income, if higher. The total debt ratio without gross up must be stated in the comments on the loan analysis. Non-taxable income may not be "grossed up" for borrowers who clearly do not qualify."</li> <li>Revised <b>Public Assistance Programs</b> section to state that "Income received from government assistance programs must be grossed up by 15%, or the applicable marginal tax rate based on gross qualifying income, if higher."</li> </ul>
01/11/16	2.7	<p>Revised <b>Credit Components &gt; Bankruptcies</b> section: Added <b>Chapter 7 Bankruptcy</b> and <b>Chapter 13 Bankruptcy</b></p>
11/06/15	2.6	<ul style="list-style-type: none"> <li>Updated document for <b>TRID requirements. Added Loan Estimate and Closing Disclosure</b> where applicable.</li> <li>Added the following <b>VA Approval requirement for Leasehold Estates</b>: <ul style="list-style-type: none"> <li>VA approval is required prior to the completion of an appraisal for all leasehold properties. Must contact the RLC for guidance regarding obtaining VA approval.</li> <li>Deleted Secondary Financing from the list of Acceptable Asset Sources</li> <li>Updated VA Residual Income Calculation Chart <ul style="list-style-type: none"> <li>Added to Loan Amounts \$79,999 and below that Over 5 must Add \$75 for each additional member up to a family of seven.</li> <li>Updated Loan Amounts \$80,000 and above that for Over 5 must add \$80 (was \$75) for each additional member up to a family of seven</li> </ul> </li> </ul> </li> </ul>
06/22/15	2.5	<ul style="list-style-type: none"> <li>Added <b>Thin Credit</b> requirements.</li> <li>Updated <b>Second Job or Multiple Job Employment requirements to align with VA guidelines.</b></li> <li>Added <b>properties that contain more than one manufactured home to Ineligible Property/Project Types</b></li> <li>Added <b>requirement for mine subsidence insurance to Ground Subsidence</b> section.</li> <li>Updated <b>Termite Inspections to clarify requirements for purchase transactions versus refinance transactions</b></li> </ul>



# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
04/10/15	2.4	<ul style="list-style-type: none"><li>• In the <b>VA Loan Programs and Compliance</b> section, updated the <b>Social Security Number Validation</b> sub-section.</li><li>• In the <b>VA Automated Underwriting</b> section, modified the following:<ul style="list-style-type: none"><li>◦ Updated the <b>Foreign Assets</b> sub-section.</li><li>◦ Added the <b>Changes in Purchase Price</b> sub-section.</li></ul></li><li>• In the <b>Employment and Income Evaluation and Documentation</b> section, updated the <b>Documentation Standards</b> sub-section.</li></ul>
03/13/15	2.3	<ul style="list-style-type: none"><li>• In the <b>VA Loan Programs and Compliance</b> section, modified the following:<ul style="list-style-type: none"><li>◦ Added the <b>Geographic Bachelor-ing</b> sub-section.</li><li>◦ Removed the <b>Borrowers, Co-Borrowers, Co-Signers, and Non-Purchasing Spouses</b> sub-section.</li></ul></li><li>• In the <b>Employment and Income Evaluation and Documentation</b> section, added the <b>Employment by a Relative, Property Seller or Real Estate Broker</b> sub-section.</li></ul>
02/17/15	2.2	<ul style="list-style-type: none"><li>• In the <b>VA Loan Programs and Compliance</b> section, updated the following sub-sections:<ul style="list-style-type: none"><li>◦ <b>Cash to Veteran an Ineligible Purpose</b></li><li>◦ <b>Borrowers, Co-Borrowers And Co-Signers</b></li></ul></li><li>• In the <b>Employment and Income Evaluation and Documentation</b> section, added the <b>Payment Shock Calculation</b> sub-section.</li><li>• In the <b>VA Assets</b> section, updated the <b>Cash Reserves</b> sub-section.</li></ul>
01/28/15	2.1	In the <b>VA Loan Programs and Compliance</b> section, added the <b>Resident Alien Spouses</b> sub-section.
01/22/15	2.0	In the <b>VA Loan Programs and Compliance</b> section, updated the <b>Discharge of Veteran and Proof of Service Requirements</b> sub-section.
01/02/15	1.9	<ul style="list-style-type: none"><li>• In the <b>VA Loan and Guaranty</b> section, updated the sub-sections:<ul style="list-style-type: none"><li>◦ <b>Eligible Loan Purposes</b></li><li>◦ <b>Ineligible Loan Purposes</b></li></ul></li><li>• In the <b>Asset Documentation</b> section, updated the <b>Gifts</b> sub-section.</li><li>• In the <b>Asset Sources</b> section, updated the sub-sections:<ul style="list-style-type: none"><li>◦ <b>Bank Accounts</b></li><li>◦ <b>Gifts</b></li></ul></li><li>• In the <b>Construction Exhibits</b> section, updated the <b>Manufactured Homes</b> sub-section.</li><li>• In the <b>Proposed Construction</b> section, removed the <b>Farm Residences</b> sub-section.</li></ul>
12/09/14	1.8	<ul style="list-style-type: none"><li>• In the <b>VA Loan Programs and Compliance</b> section, added the <b>Ineligible Borrower and Vesting Types</b> sub-section.</li><li>• In the <b>VA Assets</b> section, updated the <b>Gifts</b> sub-section.</li><li>• In the <b>Individual Water Supply/Sewage Disposal Requirements</b> section, added the <b>Hauled Water</b> sub-section.</li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
10/08/14	1.7	<ul style="list-style-type: none"><li>In the <b>Credit Components</b> section, updated the following sub-sections:<ul style="list-style-type: none"><li><b>Bankruptcy/Foreclosure/Deed-in-Lieu</b></li><li><b>Short Sales</b></li></ul></li><li>In the <b>VA Liabilities and Debt Ratios</b> section, added the <b>Child Care Expense</b> sub-section.</li></ul>
09/18/14	1.6	<ul style="list-style-type: none"><li>In the <b>VA Loan Programs and Compliance</b> section, updated the <b>Non-Purchasing Spouse</b> sub-section.</li><li>In the <b>VA Manual Underwrite</b> section, updated the <b>AUS Refer or Manual Underwrite</b> sub-section.</li></ul>
05/05/14	1.5	<ul style="list-style-type: none"><li>In the <b>Asset Document</b> section, updated the <b>Retirement Accounts</b> sub-section.</li><li>In the <b>Self-Employed Income</b> section, added the <b>Meal Deductions</b> sub-section.</li><li>In the <b>Other Income</b> section, updated the <b>Non-Taxable Income</b> sub-section.</li><li>In the <b>Construction Exhibits</b> section, updated the <b>Manufactured Home</b> sub-section.</li></ul>
04/04/14	1.4	Updated the <b>Ineligible Property/Project Types</b> section to remove manufactured homes and add Single Wide manufactured home as ineligible property type.
02/18/14	1.3	<ul style="list-style-type: none"><li>In the <b>Secondary or Subordinate Financing</b> section, added the following sub-sections:<ul style="list-style-type: none"><li><b>Secondary Borrowing (Down Payment Assistance Programs)</b></li><li><b>Homebuyer Assistance Program</b></li></ul></li><li>In the <b>Individual Water Supply/Sewage Disposal Requirements</b> section, updated the following sub-section:<ul style="list-style-type: none"><li><b>Connection to Public System</b></li></ul></li><li>In the <b>Notice of Value Conditions and Requirements</b> section, updated the <b>Connection to Public Water/Sewer</b> NOV item in the <b>Table of NOV Conditions &amp; Requirements</b>.</li></ul>
01/07/14	1.2	Made changes to comply with CFPB rules effective 01/10/14: <ul style="list-style-type: none"><li><b>Safe Harbor Act for Appraisals</b></li><li><b>HPML and Non-HPML Property Flipping Rule</b></li></ul>

# Underwriting Guidelines (VA)

Mortgage Lending Division

Version 7.7 – 06/06/25



## Revision Summary (continued)

Date	Version	Description of Change
12/10/13	1.1	<ul style="list-style-type: none"><li>• In the <b>VA Loan Programs and Compliance</b> section, added references to Modelo SC 2907 transcripts in the following sub-sections:<ul style="list-style-type: none"><li>○ <b>Risk Controls—Fraud/Red Flags</b></li><li>○ <b>Minimum Documentation Requirements—Documentation Requirements to Close a VA Loan</b></li><li>○ <b>Minimum Documentation Requirements—Documentation Requirements to be Eligible for Underwriting</b></li></ul></li><li>• In the <b>VA Manual Underwrite</b> section, added references to Modelo SC 2907 transcripts in the following sub-section:<ul style="list-style-type: none"><li>○ <b>Credit Report Requirements – Non-Traditional Credit</b></li></ul></li><li>• In the <b>Employment and Income Evaluation and Documentation</b> section, made the following updates:<ul style="list-style-type: none"><li>○ Added the Puerto Rico Tax Returns Requirements sub-section.</li><li>○ Added references to Modelo SC 2907 transcripts in the following sub-sections:<ul style="list-style-type: none"><li>▪ <b>Documentation Requirements and Standards—Documentation Requirements</b></li><li>▪ <b>Documentation Requirements and Standards—Documentation Standards</b></li><li>▪ <b>Self-Employed Income—Income Documentation and Evaluation by Tax Returns</b></li></ul></li></ul></li></ul>
11/08/13	1.0	New document.