

VA UNDERWRITING GUIDELINES

Note: The underwriting information contained in this section is intended for use in conjunction with the VA Lender's Handbook and subsequent applicable VA Circulars.

AGE OF DOCUMENTS

- Credit Documents (credit report / employment / income / assets / preliminary title report) must be no more than **120 days from the date the note is signed.**
- New Construction – Credit documents must be no more than 180 days old from the date the note is signed.
- For age requirements related to appraisals, refer to the Appraisal section of the guidelines.

APPRAISAL

An appraisal is required to help ensure that any property that will become the security for a VA-guaranteed loan:

- Has a loan-to-value within program parameters, and
- Is in a condition acceptable to VA

Appraisal Form Requirements

- Loan Amounts up to \$417,000: Form 1004
- Loan Amount \$417,001 - \$65,000: Form 1004
- VA requires appraisers to include Fannie Mae's Market Conditions Addendum, Form 1004MC, in all VA appraisal reports.

Appraisal Review

- Corelogic Desk review or Landsafe LARA reviews are not required, but may be ordered at the Bay Equity Underwriter's discretion

Flipping Policy

- No current Bay Equity restrictions (red flags for property flipping & rapid appreciation must still be addressed by the Bay Equity Underwriter)

Minimum Property Requirements

- VA Minimum Property Requirements (MPRs) provide general acceptability criteria for properties that will become the security for VA-guaranteed loans. MPRs provide a basis for determining that the property is safe, structurally sound, sanitary, and meets the standards considered acceptable in a permanent home in its locality.

Notice of Value (NOV)

- The NOV for the property appraised is valid for six months.

Re-Inspection and Review Requirements for Disaster Areas

- Bay Equity will implement additional property re-inspection and review requirements on loans secured by properties located in disaster areas. It is important to note that not all disaster areas as determined by Bay Equity are qualified as FEMA disaster declarations. Please refer to the following procedures on loans that are located in Bay Equity determined disaster areas.
 - **Any Appraisal Performed on or Before Incident Period End Date for Disaster:** Property must be re-inspected by the original appraiser or acceptable inspection source (such as, a nationally recognized field company or local professional licensed inspector). The appraiser / property

VA UNDERWRITING GUIDELINES

inspector must provide the following commentary / evidence: Property is free from damage and the disaster had no affect on value or marketability.

If the re-inspection indicates damage, the extent of the damage must be addressed. Completion of repairs is required as evidenced by Form 1004D, Appraisal Updated and/or Completion Report, with photos, prior to funding the loan.

- **Standard Appraisal Performed After Incident Period End Date for Disaster (Appraisal report forms 1004, 1004c, 1025, 1073 and 2090):** If the property is free from damage; Preferable, all comparables should be post-disaster; however, if sufficient comparables are not available, then the appraiser must provide current photos of the subject property and comparables. Multiple Listing Service (MLS) photos or photos used for previous appraisals are not acceptable.

If the appraisal indicates damage: The extent of the damage must be addressed. Completion of repairs is required evidenced by Form 1004D/442, Appraisal Update and/or Completion Report, with photos, prior to funding.

- **Non-Standard Appraisal (Property Valuation Update, PIW, 1075, 2055, 2075 and 2095):** Not allowed for **1 Year** after the disaster incident period end date.
- **VA Guaranty Eligibility:** Any loan funded prior to the disaster is eligible for VA guaranty without regard to the disaster.
 - For a loan on a property located within the disaster area to be eligible for VA guaranty, appraised on or before the date of the disaster, and not funded prior to that date, the following certifications must be included in the loan file:
 - Lender Certification – This is to affirm that the property which is the security for VA loan number _____ has been inspected to ensure that it was either not damaged in the recent disaster or has been restored to its pre-disaster condition or better. (The Lender Certification must be signed by the Lender, including Title and Date)
 - Veteran Certification – I have inspected the property located at _____ and find its condition now to be acceptable to me. I understand that I will not be charged for any disaster-related expenses, and now wish to close the loan. (The Veteran Certification must be signed and dated by the Veteran)

ASSETS



Cash Required to Close

- The veteran or spouse must have sufficient cash to cover:
 - Any closing costs or points that are the veteran's responsibility and are not financed in the loan
- AND
- The difference between the sales price of and loan amount, if the sales price exceeds the reasonable value established by VA.
- Verify all liquid assets owned by the veteran or spouse to the extent they are needed to close the loan and/or those that may have a bearing on the overall credit analysis.
- Retirement Accounts: 60% of the veteran's vested balance can be used

VA UNDERWRITING GUIDELINES

Cash Reserves

- The following reserves requirements must be met for purchases and refinances:
 - 1 unit: No reserves required
 - 2-4 units: No reserves required (when rental is not being used to qualify)
 - 2-4 units: 6 months PITI required (when rental income is being used to qualify)
 - Loan amounts \$417,001 - \$650,000: 6 months PITI reserves required
- Note: See the "High Balance Loan Amounts" section for reserve requirements on high balance loans.

Documentation

- Per AUS
- A Verification of Deposit (VOD) is generally NOT acceptable as the only documentation for assets, but may be provided in addition to a bank statement.
- All loans must have sufficient funds verified prior to final approval

Down Payment

- No down payment is required by VA (provided the borrower has full entitlement) unless the purchase price exceeds the reasonable value of the property.

Earnest Money Deposit

- Must be verified and documented by one of the following:
 - If the Earnest Money check has cleared:
 - Copy of the borrower's cancelled check and two month's bank statements (up to and including the date the check cleared) to evidence a sufficient average balance to support the amount of the Earnest Money Deposit.
 - If the Earnest Money check has not cleared:
 - Verification that there are sufficient funds on deposit in the borrower's account(s) to cover Earnest Money and any other required funds to close.
- The source of the deposit check must be documented to ensure that the deposit is not counted twice in the file (deducted from the fund to close and counted in the assets).
- If a VOD is used to document assets, a cancelled check (reflecting a date before the VOD was completed) can be provided to verify that earnest money funds have cleared.

Gift Funds

- Cash on hand by Donor
 - Not acceptable source of donor's gift funds
 - Donor's funds must be verified
- Gift Letter must include
 - Funds given to homebuyer were not made available to donor from any person or entity with an interest in the sale of the property including seller, real estate agent or broker, builder, loan officer, or any entity associated with them unless related.
- Donor borrowed the gift funds
 - Evidence gift funds were borrowed from an acceptable source, i.e. not from a party to the transactions
- Gift funds not allowed on High Balance Transactions

VA UNDERWRITING GUIDELINES

Interested-Party Contributions / Property Seller Concessions

- A maximum of 4% of the value of the property as indicated on the Notice of Value (NOV) may be contributed from an interested party (property seller concession) to be applied toward closing costs and/or prepaid items.
- Any property seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive and unacceptable for VA-guaranteed loans. A reduction of the sales price in the amount equal to the excess is required in these instances.
- Property seller concessions include, but are not limited to the following:
 - Payment of the VA funding fee
 - Prepayment of the veteran's property taxes and insurance
 - Gifts such as a television set or microwave oven
 - Payment of additional discount points to provide permanent interest rate buydowns
 - Provision of escrowed funds to provide temporary interest rate buydowns
 - Payoff of credit balances or judgments on behalf of the veteran
- Property seller concessions do not include:
 - Payment of the veteran's closing costs
 - Payment of points as appropriate to the market

For example: If the market dictates an interest rate of 7.5% with two discount points, the property seller's payment of the two points would not be a property seller concession. If the property seller paid five points, three of these points would be considered a property seller concession

Source of Funds

- Business Funds
 - The use of business funds as a source of down payments, closing costs and reserves are allowed under the following guidelines:
 - Entities: sole proprietors, corporations and partnerships
 - Ownership: Borrower's ownership or interest in the business must be confirmed by documentation such as business license, corporate or partnership tax returns
 - Verification of the ability of funds:
 - Sole Proprietor: Verification of 100% ownership of the business
 - Corporation: If the borrower is not a 100% stockholder, verification of the ability to withdraw funds to the extent of the percentage of ownership is required and approval of the stockholders with a corporate resolution. Note: borrower cannot use business funds for cash reserves (only down payment and closing costs).
 - Partnerships: Borrower must be a general partner. Verification of the ability to withdraw funds to the extent of the percentage of ownership and approval of the other partners is required. Note: borrower cannot use business funds for cash reserves (only down payment and closing costs).
 - A letter from the CPA is required stating that:
 - The borrower has full use of the business funds
 - No repayment is required (and that the funds are not an advancement against future earnings or cash distributions)
 - The withdrawal of funds will not have a negative impact on the business
 - CPA to address if the withdrawal of funds will have any future tax implications

VA UNDERWRITING GUIDELINES

- If business funds are used for down payment and/or closing costs, the accountant may not be related to the borrower or be an interested party to the transaction.
- Cash on Hand
 - Limited user of credit
 - No bank accounts
- Checking deposits
- Gift – Relative or Gift Program
- Proceeds from Sale
- Savings deposit
- Seller paid VA allowable closing costs and/or prepaid expenses
- Withdrawal from 401k (use 60%) of vested balance – not required to include loan in ratio

BORROWERS



Certificate of Eligibility (COE)

- **Full Entitlement:** If the veteran has never had a VA loan or if the previous VA loan has been paid off and the veteran has no other outstanding VA loans.
- **Partial Entitlement:** If a veteran has already used a portion of his or her eligibility and the used portion cannot yet be restored, any partial remaining eligibility would be available for use.
- Eligibility is reusable depending on the circumstances. Normally, if the veteran has paid off their prior VA loan and disposed of the property, they can have their used eligibility restored for additional use.
- **Entitlement Codes:** Entitlement codes are tied to:
 - How the veteran served in the military
 - If they were in the reserves
 - If they are an un-remarried surviving spouse
 - If entitlement has been previously restored

ENTITLEMENT CODE	MEANING
1	World War II
2	Korean
3	Post Korean
4	Vietnam
** 5 **	Entitlement Restored
6	Un-Remarried Surviving Spouse
7	Spouse of POW/MIA
8	Post World War II
9	Post Vietnam
10	Persian Gulf War
11	Selected Reserves

- **Eligible Veterans**
 - For VA home loan purposes, a veteran is a person who has served on active duty in the Army, Navy, Air Force, Marines, or Coast Guard, and who (except for a service member on active duty)

VA UNDERWRITING GUIDELINES

was discharged or released from active duty under conditions other than dishonorable. In general, the following eligibility criteria apply:

- The minimum service required during wartime periods is 90 days of active duty.
 - The minimum service required for the peacetime periods is 181 days of continuous active duty.
 - The veteran must have been discharged or released from active duty under other than dishonorable conditions. Veterans who served less than the minimum required period may be eligible if discharged because of service-connected disabilities.
 - Members of the Reserves or National Guard who are not eligible for loan guaranty benefits are eligible upon completion of six years of service in the Selected Reserve, or upon discharge from the Reserves or National Guard because of a service connected disability before completing six years.
 - The un-remarried surviving spouse of an eligible service member who dies as a result of service or service-connected injuries may also be eligible.
- **Foreign Address**
 - Borrowers currently residing in a foreign country must have a Primary Residence or Second Home in the U.S.
 - The borrower's U.S. residence must be reflected as the present address on the loan application.
 - The borrower's foreign address must be reflected as the mailing address on the loan application.
 - A LOE from the borrower must be obtained to explain the borrower's current residency situation.
 - **Minimum Duty Requirements:**
 - A veteran served on active duty and was discharged under conditions other than dishonorable after:
 - 90 days or more during wartime
 OR
 - 181 continuous days or more during peacetime prior to September 8, 1980
 - Two year requirement:
 - If the veteran enlisted after September 7, 1980 or was an Officer and began service after October 16, 1981
 - These veterans must have completed either:
 - 24 months of continuous active duty
 OR
 - The full period ordered to active duty

Wartime and Peacetime		
Period	Dates	Time Required
WWII	09/16/40 – 07/25/47	90 days
Post WWII	07/26/47 – 06/26/50	181 days
Korean	06/27/50 – 01/31/55	90 days
Post-Korean	02/01/55 – 08/04/64	181 days
Vietnam	08/05/64 – 05/07/75	90 days
Post-Vietnam	05/08/75 – 09/07/80	181 days
Persian Gulf	09/08/80 - present	Full period or 2 years

Power of Attorney

VA UNDERWRITING GUIDELINES

- A Power of Attorney can be an acceptable instrument used to close a loan. All transactions involving a POA must be approved by Bay Equity Management.
 - Limited, Specific or Durable POAs only
 - A copy of the POA is required from Title/Escrow
 - POA cannot be utilized on the initial loan application
 - At least one borrower must be present at loan signing
 - Signatures and typed names must match exactly
 - An Alive and Well statement is required if loan documents are signed with POA

Requires Bay Equity Exception (VA Prior Approval)

- A veteran and one or more non-veterans (other than the spouse)
- A veteran and one or more veterans who will or will not be using entitlement
- A veteran and their spouse, who is also a veteran, where both entitlements will be used
- A veteran in receipt of VA non-service connected pension
- A veteran who is rated incompetent by VA
- IRRRL made to refinance delinquent VA loans

CAIVRS REQUIREMENT



- Perform and document a CAIVRS screening on each veteran and any co-obligor. An applicant 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 arrangements have been made between the veteran and the federal agency.
- CAIVRS is not required for non-purchasing spouses in community property states.

CLOSING REQUIREMENTS



Escrows

- Escrow/impound accounts are required for property tax and insurance. The amount must be included in qualifying ratios.
- Escrow Holdbacks are not allowed.

Interest credit allowed

- Loan may fund by the 5th calendar day of the month preceding the first payment date.
- Exceptions are available with manager approval, but never to exceed the 7th calendar day.

COMMUNITY PROPERTY STATES



- If the subject property is located in a community property state, VA requires consideration of the spouse's credit information/debts (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).
- Judgments, liens or any other delinquent credit that would compromise Bay Equity's first lien position must be paid off prior to closing. Other delinquent debts would only be required to be paid off at the Bay Equity Underwriter's discretion.
- Refer to the "Credit" section ('Consideration of the Spouse's credit history') for further information on community property.

VA UNDERWRITING GUIDELINES

CONVERSION OF PRIMARY RESIDENCE



Conversion of a Primary Residence to a Second Home:

- If the veteran is converting the current principal residence to a second home upon the purchase of the new principal residence:
 - Both the current and proposed principal, interest, taxes and insurance (PITI) must be used to qualify the borrower for the new loan

AND

- Minimum reserves of **6 months PITI for both properties** are required. However, only reserves of two months PITI are required for both properties if 30% equity in the existing principal residence is documented with an HVCC-compliant appraisal report.

Conversion of a Primary Residence to a Rental Property:

- If the veteran is converting a current principal residence to a rental property upon the purchase of a new principal residence, the following requirements apply:
 - Both the current and proposed monthly housing expenses must be used to qualify veteran. **Rental income may not be used to offset the mortgage payment.**

AND

- Evidence of cash reserves totaling six months PITI for both properties must be provided.

- The following exceptions to allow the veteran to qualify using 75% of the gross rental income to offset the mortgage payment and waive the reserve requirements are:
 - The veteran is relocating with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance.

OR

- The veteran has documented equity of at least 30% in the existing property. Acceptable documentation for determining the equity position is an HVCC-compliant appraisal report.

Pending Sale of Real Estate:

- In instances where the veteran intends to sell the property but will not close before the purchase of a new principal residence occurs:
 - The principal, interest, taxes and insurance (PITI) on both the pending sale and the new property must be included in qualifying the veteran AND the following documentation must be obtained:
 - Cash reserves totaling at least six months PITI for both properties

OR

- Cash reserves totaling at least two months PITI for both properties if able to document equity of at least 30% in the existing principal residence property. Acceptable documentation for determining the equity position is an HVCC-compliant appraisal report.

Exception: The PITI of the pending sale does not need to be included in qualifying the veteran as long as the six months of reserves (or two months with documented equity) for both properties are documented and the following additional documentation is provided; the executed sales contract for the current residence and confirmation that any financing contingencies have been cleared.

CREDIT



Accounts in the Spouse's Name

VA UNDERWRITING GUIDELINES

- Upon the applicant's request, the lender must consider any account reported in the name of the applicant's spouse or former spouse that the applicant can demonstrate accurately reflects the applicant's creditworthiness.

Bankruptcy

- **Chapter 7**
 - Bankruptcies discharged more than two years ago are generally disregarded however document per AUS findings.
- **Chapter 13**
 - Documentation of the debt restructure required
 - Acceptable 12 month payment history of the debts included in the bankruptcy
 - Documentation of the court's permission to proceed
 - Any additional requirements per AUS
- **Reason / Explanation for Bankruptcy:** The reason for the Bankruptcy must be documented and not likely to reoccur.

Consideration of the Spouse's Credit History

- Required in the following situations
 - If the applicant is relying on alimony, child support, or maintenance payments from the spouse (or former spouse)
- OR
- In the community property states:
 - If the property is located in a community property state, VA requires consideration of the spouse's credit (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).
- Notes regarding credit requirements for non-purchasing spouse:
 - Even if the non-purchasing spouse does not have a social security number, the credit reporting company should verify that the non-purchasing spouse has no credit history and no public records recorded against them.
 - Judgments, liens or any other delinquent credit that would compromise Bay Equity's first lien position must be paid off prior to closing. Other delinquent debts would only be required to be paid off at the Bay Equity Underwriter's discretion.
 - Credit history of the non-purchasing spouse should not be the basis for declining the loan. The FICO score for the non-occupying co-borrower is not considered for eligibility.

Consumer Credit Counseling Plan

- Documentation of the debt restructure required
- Acceptable 12 month payment history of the debts included in the consumer's debt restructure
- Documentation of the counselor's permission to proceed
- Any additional requirements per AUS

Credit Report

- A Tri-Merged credit report with 3 bureau scores must be used and must be less than 90 days old at the time of closing.
- Tri-Merged Credit Report required on Disclaiming Spouse for Community Property States only
- Non-Traditional Credit reports are ineligible

VA UNDERWRITING GUIDELINES

Credit Scores

- The following minimum credit score requirements apply regardless of the AUS decision:
 - Loan amounts less than or equal to \$417,000: **620**
 Note: all VA IRRRL transactions require a minimum 640 credit score
 - Loan amounts greater than \$417,000 - \$650,000: **720**
- For loan submissions with credit scores listed, at least one credit score, and preferably two or three credit scores, must be obtained for each veteran. The scores must be obtained from the major repositories (Equifax, Experian and TransUnion).

Delinquent Account (including collections)

- Delinquent accounts (including collection) must be satisfied per AUS and Underwriter discretion.

Credit Downgrade Policy to Manual Underwrite

- In the event that credit terms or loan information was not considered in the AUS decision, an Approve/Eligible or Accept decision must be downgraded to Refer and be manually underwritten. Circumstances requiring a downgrade, if not considered in the AUS decision, include but are not limited to:
 - Delinquent federal debt, CAIVRS, and suspended and debarred individuals
 - Disputed accounts, significant inaccuracy or undisclosed debt
 - Previous mortgage foreclosure (within 3 years of application) and bankruptcy (within 2 years of application)
 - Collection accounts, tax lien, charge-off, judgment
 - Delinquent items and any mortgage trade line, including mortgage line of credit payments, during the most recent 12 months consisting of any of the following:
 - Three or more late payments greater than 30 days
 - One or more late payments of 60 days plus one or more 30-day late payments
 - One payment greater than 90 days late
- Bank statements that indicate multiple non-sufficient funds (NSF) charges, Example: more than 1 or 2 isolated incidents over a 60 day period. An explanation for such NSFs will be required and additional asset statements may be required to decision the loan
- Failure to meet the specific conditions of an AUS approval

Foreclosures

- Loans with a satisfactory AUS Certificate: 2 years foreclosure seasoning is required.
 - AUS must recognize the foreclosure
- Manually underwritten loans: 3 years foreclosure seasoning is required.
- If the foreclosure was on a VA loan, the applicant may not have full entitlement available for the new loan. Ensure that the applicant's Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.

Judgments and Tax Liens

- Must be paid prior to or at funding

OR

- Have a repayment plan with 12 month history must subordinate at closing

Required Documentation for Automated Underwriting Cases

VA UNDERWRITING GUIDELINES

SUBJECT AND REFERENCE	DOCUMENTATION CLASSIFICATION	
	Documentation guidelines and Reductions for Refer	Additional Documentation Reductions for Accept
Types of credit reports used in reconciliation	Use either of the following, if <90 days old: <ul style="list-style-type: none"> Merged credit report RMCR 	Use any of the following, if <90 days old: <ul style="list-style-type: none"> Selected in-file report All in-file reports Merged credit report RMCR
Explanation of discrepancies in reported debt	Provide written explanation for any single debt >2% of gross monthly income which appears on the credit report but is not listed on the application.	No explanation is required.
Verification of significant non-mortgage debt	Obtain direct verification for significant debts not reported on the credit report. Note: Significant means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.	Same as Refer. Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any of the omitted debts.
Mortgage payment history	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> Outstanding Assumed Recently retired A written explanation of mortgage payment history is required for borrowers with more than 1x30 day late payment for all mortgages for the past 12 months	Obtain direct verification when ratings are not available on mortgages that are any of the following: <ul style="list-style-type: none"> Outstanding Assumed Recently retired Note: Perform manual downgrade to Refer if direct verification reveals more than 1x30 day late payment in the past 12 months for any mortgage debts.
Account balances	No re-verification is required for an account with an outstanding balance last updated <90 days before the date of the credit report, unless the account has a past due current status	Same as Refer
Rental payment history	Provide a written explanation when ratings are not available on the applicant's rental payment history	No verification of rent is required when a minimum of four credit references is reported for all borrowers, each open for at least four years.
Derogatory credit information	Explain basis of satisfactory credit risk determination in spite of derogatory credit information in the Remarks section of VA Form 26-6393, Loan Analysis.	No explanation is required for adverse or derogatory credit information.
Employment gaps	No explanation for employment gaps is required if the gaps are <30 days.	No explanation for employment gaps is required if all of the following conditions are met: <ul style="list-style-type: none"> Gaps are <60 days New employment is >6 months
Alimony and/or child support payments	Provide the following: <ul style="list-style-type: none"> Proof of deposits on bank statements for three months 	Safe as Refer

VA UNDERWRITING GUIDELINES

	<ul style="list-style-type: none"> • Front page and details of support payments from the divorce decree, indicating evidence of at least three years continuance 	
Verifying current employment for borrowers who are not self-employed	<p>Document telephone contact verifying borrower's current employer. Use only one current pay stub (versus pay stubs for one month) provided that it covers at least one full month of employment and contains the following:</p> <ul style="list-style-type: none"> • Year-to-date (YTD) information • Bonus information • Overtime information 	Safe as Refer
Verifying previous employment	<p>Use a Verification of Employment (VOE) or any of the following, covering the two year period prior to closing:</p> <ul style="list-style-type: none"> • W-2 Forms • Income information obtained from the IRS via one of the following forms: • Form 8821 (or alternate form acceptable to the IRS that collects comparable information) • Form 4506 (or alternate form acceptable to the IRS that collects comparable information) 	<p>No VOE is required if the borrower has been with the same employer for one year and W-2 Forms for one previous year have been collected.</p> <ul style="list-style-type: none"> • No W-2 Forms are required for a borrower on active duty. • No W-2 Forms are required if all of the following are met: • Borrower with same employer >2 years • Employer phone contact verifies the length of employment and current status (still employed) • Borrower not self-employed or commissioned • Bonus, overtime or secondary income not needed to qualify • Stable monthly income to be determined by using current base pay only (rather than total earnings) • Borrower signs one of the following for the previous two tax years: <ul style="list-style-type: none"> • Form 8821, and • Form 4506
Individual tax returns for self employed borrower	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none"> • Signed copies of individual tax returns for the most recent two year period • Individual income information obtained from the IRS via one of the following forms: • Form 8821 (or an alternate form acceptable to the IRS that collects comparable information) • Form 4506 (or an alternate form acceptable to the IRS that collects comparable information) 	Same as Refer
Balance sheets and profit	No balance sheet of YTD Profit and Loss	No balance sheet or YTP P&L is required

VA UNDERWRITING GUIDELINES

and loss statements for self-employed borrowers	<p>(YTD P&L) is required if any of the following occur:</p> <ul style="list-style-type: none"> • Individual and business income information is obtained from the IRS prior to closing, via one of the of the following forms: • Form 8821 (or an alternate from acceptable to the IRS that collects comparable information) • Form 4506 (or an alternate form acceptable to the IRS that collects • Origination date is <seven months from the business' fiscal year end (for which tax returns were provided) • Borrower is a de minimum self-employed borrower 	
Business tax returns for self employed borrower	<p>Provide one of the following, with all line items captured:</p> <ul style="list-style-type: none"> • Signed copies of business tax returns for the most recent two year period • Business income information obtained from the IRS via one of the following forms: • Form 8821 (or an alternate from acceptable to the IRS that collects comparable information) • Form 4506 (or an alternate form acceptable to the IRS that collects 	<p>No business tax returns are required if all of the following conditions are met:</p> <ul style="list-style-type: none"> • Borrower proves ownership of the business for at least the past five years • Individual tax returns reflect consistent income for the past two years • No personal debt (revolving or installment) is being paid by the business (except business-use automobiles) • Funds for down payment or closing costs are not from the business • Business structure (such as, partnership, corporation, sole proprietorship) has not changed in the past five years • Loan is a purchase or no cash-out refinance • Business income is not being used to qualify the borrower
Tax returns for Schedule C self employed borrowers	No business tax returns are required	Same as Refer
Verify closing costs	Verify veteran's source of funds for payment of any difference between sales price and loan amount plus closing costs, if sales price exceeds reasonable value established by a CRV or Notice of Value (NOV)	<p>No verification of veteran's source of funds is required if closing costs plus difference between the sales price of the property and the base loan amount is <4% of the lesser of the following:</p> <ul style="list-style-type: none"> • Sales price • Reasonable value established by a CRV or NOV
Verify assets to close in applicant's name	Provide original bank statements or certified true copies covering the most recent two	Provide original bank statements or certified true copies covering most recent one month

VA UNDERWRITING GUIDELINES

month period

period

GUARANTY / ENTITLEMENT



Guaranty

- 25% minimum guaranty based on the lesser of the purchase price or appraised value. VA's guaranty will be limited to that portion of the loan allocable to the veteran's interest in the property.
- A minimum of 25% of the loan amount must consist of available guaranty. If less than 25% guaranty is indicated on the Loan Guaranty Certificate (LGC), the Bay Equity Underwriter must attach a copy of the worksheet indicating the calculations used to determine the full 25% guaranty.
- Bay Equity's maximum exposure, inclusive of the VA entitlement, is limited to 75% of the lesser of the sales price or appraised value.
- The maximum guaranty is the lesser of the veteran's available entitlement or the maximum potential guaranty amount detailed in the following table:

LOAN AMOUNT	MAXIMUM POTENTIAL GUARANTY
Up to \$45,000	50% of the loan amount
\$45,001 to \$56,250	\$22,500
\$56,251 to \$144,000	40% of the loan amount with a maximum of \$36,000
\$144,001 to \$417,000	25% of the loan amount with a maximum of \$104,250
\$417,001 to \$650,000	25% of the loan amount with a maximum of \$273,656

NOTE: The maximum guaranty for loan amounts >\$417,000 varies depending on the location of the property

- Full Available Entitlement:
 - \$144,000 and below = \$36,000 Basic
 - \$144,001 to \$417,000 = \$104,250 - \$36,000 = \$68,250 (bonus)
- Note: If the veteran has another property tied to his eligibility which will not be restored, available entitlement must be reduced.

ESCROWS



- Escrow waivers not allowed under any circumstances

FEEES AND CHARGES



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. Bay Equity must strictly adhere to the limitations on veteran-paid fees and charges as shown below when making VA loans:

FEEES / CHARGES THE VETERAN CAN PAY	IF 1% ORIGATION FEE IS CHARGED, THE FOLLOWING FEEES CAN NOT BE CHARGED
<ul style="list-style-type: none"> - Loan origination Flat Fee (1% Max) - Discount Points - Appraisal Fee / Compliance Inspection - Credit Report Fee 	<ul style="list-style-type: none"> - Lender's Inspection - Lender's Appraisal - Loan closing or settlement fee - Document Preparation Fees

VA UNDERWRITING GUIDELINES

<ul style="list-style-type: none"> - Title Exam / Title Insurance Fees - Recording Fees and Recording Taxes - Prorated Taxes, Assessments & initial deposit for escrow accounts - Hazard Insurance / Flood Insurance - Survey / Plot Plan - Federal Express and Express Mail (Refinance only) - VA Funding Fee - MERS Registration 	<ul style="list-style-type: none"> - Underwriting Fee - Pest Inspection Fee - Well and Septic Fee - Preparing title company or conveyance fees - Attorney's services other than for title work - Photographs - Postage & other mailing charges - Amortization schedules - Escrow Fees and charges - Notary Fee - Commitment Fee - Trustee Fee - Loan Application & Processing Fee - Fees for preparing Truth in Lending - Fees to Loan Brokers, Real Estate Agents, finders or other third parties* - Tax Service Fee
COSTS THAT A VETERAN MAY NOT PAY – MUST BE PAID BY SELLER	
<ul style="list-style-type: none"> - Well Inspection - Septic Inspection - Termite Inspection (allowed on a refinance) - Courier Fee (allowed on a refinance) 	

*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.

FUNDING FEE

The VA Funding Fee may be financed. On loan amounts exceeding \$417,000, if the combined loan amount plus the funding fee exceed the county limit, the portion of the total funding fee that exceeds the county limit may not be financed into the loan amount.

Funding Fee Tables

The following tables list the percentages for the required VA funding fees for closing:

PURCHASE LOANS			
TYPE OF VETERAN	DOWN PAYMENT	% FOR FIRST-TIME USE	% FOR SUBSEQUENT USE
REGULAR MILITARY	0 – 4.99%	2.15%	3.30%
	5 – 9.99%	1.50%	1.50%
	10% OR MORE	1.25%	1.25%
RESERVES / NATIONAL	0 – 4.99%	2.40%	3.30%

VA UNDERWRITING GUIDELINES

GUARD	5 – 9.99%	1.75%	1.75%
	10% OR MORE	1.50%	1.50%
CASH-OUT REFINANCE LOANS			
TYPE OF VETERAN		% FOR FIRST-TIME USE	% FOR SUBSEQUENT USE
REGULAR MILITARY		10/01/04 – 09/30/11 2.15%	3.30%
RESERVES / NATIONAL GUARD		2.40%	3.30%
INTEREST RATE REDUCTION REFINANCE LOANS (IRRRLs)			
	All IRRRLs		0.50%

The VA funding fee for assumed loans is 0.50%

Funding Fee Exemption

A veteran must establish any claim for exemption from the fee. The following are the only exceptions allowed:

- 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 or active service pay
- Surviving spouses of veterans who died in service or from service-connected disabilities (regardless of whether such surviving spouses are veterans with their own entitlements and whether they are using their own entitlements on the loan)
- Veterans who are rated by the VA as eligible to receive compensation as a result of pre-discharge disability examination and rating

HIGH BALANCE LOAN AMOUNTS



- On VA purchase and refinances with loan amounts greater than \$417,000, the following additional requirements apply (regardless of AUS decision / findings):
 - Cash-Out Amount Maximum \$325,000
 - Cash Reserves: Minimum 6 months PITI
 - Credit Score: 720
 - Gift Funds: Not allowed
 - Loan Terms: 30 year fixed only
 - Property Type: No 2-4 unit properties
- Maximum loan amounts:
 - Refer to the following website for max loan amount by county & state:
http://www.benefits.va.gov/homeloans/docs/2011_county_loan_limits.pdf

INCOME & EMPLOYMENT



Business loss from a non-borrowing spouse:

- All negative income from a non-purchasing spouse must be taken into consideration for borrower qualification

VA UNDERWRITING GUIDELINES

Documentation:

- All VA loans are Full Documentation loans. Verify and treat the income of a co-veteran spouse the same as the veteran's income
- A signed and dated IRS Form 4506-T completed at application and closing, is required for all borrowers. Both 4506-T forms must be provided in the loan file and must include authorization for transcripts for the most recent two years
- Discharged Borrower:
 - VOE
 - And most recent pay stub (if on same job 2 years)
- OR
- Most recent 30 days worth of paystubs, dated within 30 days of submission
- 2 years W-2s
- Verbal VOE
- Active Duty:
 - LES (no W2's needed)
 - Statement of Service
- Retired Borrower:
 - Non-Taxable Income can be grossed up to offset ratios, BUT NOT TO MEET RESIDUAL INCOME REQUIREMENT
- Additional Documentation:
 - 2 yrs Tax Returns required:
 - Self-Employed
 - Self-Employed has 25% or greater interest in company
 - NOTE: If returns are not filed by April 15th, a copy of their extension & YTD profit & Loss Statement will be needed for the prior year
 - Works for family owned business
 - Receives Commission (>25% of salary)
 - Rental Income
 - Interest and Dividend Income
 - Retirement Income

Loan Analysis (VA Form 26-6393)

- Only verified income can be considered in total effective income. The income calculation and analysis performed by the Bay Equity Underwriter to determine the veteran's income must be documented in the file. VA form 26-6393 is used to analyze the veteran's income, debts, and creditworthiness:

ACTIVE MILITARY	
VERIFICATION	ANALYSIS
Obtain an original military Leave and Earning Statement (LES) dated no more than 120 days prior to the Note signing date instead of a VOE.	Determine if the service member is within 12 months of release from active duty or end of the contract term. If the date is within 12 months of the anticipated loan closing date, obtain any of the following: <ul style="list-style-type: none"> • Documentation of re-enlistment to a date beyond the 12-month period following the projected closing of the loan. OR <ul style="list-style-type: none"> • A statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the

VA UNDERWRITING GUIDELINES

	<p>12-month period plus a statement from the service member's commanding officer confirming that the service member is eligible to re-enlist or extend his/her active duty and that the commanding officer has no reason to believe that the re-enlistment or extension of active duty will not be granted.</p> <p>OR</p> <ul style="list-style-type: none"> • Verification of a valid offer of local civilian employment following the release from active duty. <p>OR</p> <ul style="list-style-type: none"> • Documentation of strong mitigating factors, such as a down payment of at least 10%, significant cash reserves, and clear evidence of strong ties to the community coupled with a nonmilitary spouse's income high enough that only minimal income from the active duty service member is needed to qualify.
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SUBSISTENCE AND CLOTHING ALLOWANCES

VERIFICATION	ANALYSIS
The subsistence (rations) and closing allowances are indicated on the LES.	Verified allowances may be included as effective non-taxable income.

MILITARY QUARTERS ALLOWANCE

VERIFICATION	ANALYSIS
Verification is required *	Military quarters allowance may be included as effective nontaxable income** if properly verified. In most areas there will be an additional variable housing allowance that can also be included.

VOLUNTARY SEPARATION PAYMENTS

VERIFICATION	ANALYSIS
Special Separation Benefit (SSB)	<ul style="list-style-type: none"> • A one-time lump sum. • Taxable in the year received. • Treat as any substantial cash reserve.
Voluntary Separation Incentive (VSI)	<ul style="list-style-type: none"> • Annual payments. • Include in effective income. • Taxable in the year received. • Payment period is calculated by multiplying the veteran's years of service time two. • Available only to veteran's with six or more years of service (equating to a minimum of 12 years annual payments).

* Verification of this income may be obtained from the borrower's paystub, or on Military.com under Benefits on the Basic Allowance for Housing (BAH) Rate Tables (amount must be verified based on geographic duty, location, pay grade, and dependency status), or on the Department of Defense website.

** Tax-free income may be "grossed up" only for calculating the debt-to-income ratio, not residual income. Do not add non-taxable income to taxable income before "grossing up."

Recently Activated Reserve or National Guard

VA UNDERWRITING GUIDELINES

- Each veteran must indicate whose income is being used to qualify for a loan if their income is subject to change due to participation in a Reserves/National Guard unit due to activation.
- The Bay Equity Underwriter must determine what the veteran's income will be upon unit activation:
 - **Reduced:** Carefully evaluate the impact the reduction may have on the veteran's ability to repay the loan.
 - **Increased:** Consider the likelihood the income will continue beyond a 12-month period. Carefully and thoroughly document, including reasons for using/not using reserve/guard income, these situations on the Form 1008, Underwriting Transmittal Summary, or on a separate memorandum to the file.

Residual Income

- Residual Income is the amount of net earnings remaining to maintain family living expenses such as food, healthcare, clothing and gasoline.
- The VA Residual Chart is a marginal chart and should not automatically trigger an approval of a loan. Instead, it should be used in conjunction with all other credit factors.
 - An obviously inadequate residual amount alone can be a basis of a declination.
 - If the borrower is Active Duty or a retired applicant who will continue to receive military benefits resulting of the use of a nearby military-based facility, the residual requirement may be reduced by 5%.
 - Maintenance and utilities cost is 14 cents per square foot.

Residual Income by Region

Loan Amounts \$79,999 and less				
<u>Family Size</u>	<u>North East</u>	<u>Midwest</u>	<u>South</u>	<u>West</u>
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

* Add \$75 for each additional family member up to a family of seven

Loan Amounts \$80,000 +				
<u>Family Size</u>	<u>North East</u>	<u>Midwest</u>	<u>South</u>	<u>West</u>
1	\$450	\$440	\$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

* Add \$80 for each additional family member up to a family of seven

STATES BY REGIONS			
<u>North East</u>	<u>Midwest</u>	<u>South</u>	<u>West</u>

VA UNDERWRITING GUIDELINES

Connecticut	Illinois	Alabama	Alaska
Maine	Indiana	Arkansas	Arizona
Massachusetts	Iowa	Delaware	California
New Hampshire	Kansas	District of Columbia	Colorado
New Jersey	Michigan	Florida	Hawaii
New York	Minnesota	Georgia	Idaho
Pennsylvania	Missouri	Kentucky	Montana
Rhode Island	Nebraska	Louisiana	Nevada
Vermont	North Dakota	Maryland	New Mexico
	Ohio	Mississippi	Oregon
	South Dakota	North Carolina	Utah
	Wisconsin	Oklahoma	Washington
		Puerto Rico	Wyoming
		South Carolina	
		Tennessee	
		Texas	
		Virginia	
		West Virginia	

Rental Income

- 2-4 unit subject properties
 - Prospective rental income may only be included in effective income if both the following are met:
 - Evidence indicates that the borrower has a reasonable likelihood of success as a landlord
 - Documentation has been provided to support the borrower's prior experience managing rental units or other background involving both property maintenance and rental
 - The borrower has a minimum of 6 months PITI
 - The amount of rental income to include in effective income is based on 75% of either:
 - Verified rent collected on the units of existing properties
- OR
- The appraiser's opinion of the subject property's fair monthly rental for new construction
- Underwriting analysis on VA loans **may not consider rental income from the property vacated** except under circumstances described under "Exceptions" below (See "Conversion of Primary Residence" section for further information)
 - Relocations*: The homebuyer is relocation with a new employer, or is transferred by the current employer to an area not within a reasonable and locally recognized commuting distance.
 - Sufficient Equity in Vacated Property*, **: The homebuyer has a loan-to value ratio of 75% or less, as determined by either a current (no more than six months old) residential appraisal or by comparing the unpaid principal balance to the original sales price of the property. The appraisal, in addition to using forms Fannie Mae 1004/Freddie Mac 70, may be an exterior-only appraisal using

VA UNDERWRITING GUIDELINES

form Fannie Mae/Freddie Mac 2055, and for condominium units, form Fannie Mae 1075/Freddie Mac 466.

The above guidance applies solely to a primary residence vacated in favor of another primary residence and is not applicable to existing rental properties disclosed on the loan application and confirmed by tax returns (Schedule E of form IRS 1040).

** A properly executed lease agreement (such as a lease signed by the homebuyer and the lessee) of at least one year's duration is required from the date the loan closes. Also obtain evidence of the security deposit and/or evidence the first month's rent was paid to the homeowner.*

*** The underwriter is responsible for determining eligibility of rental income in accordance with VA specifications.*

Reserves or National Guard Income

- Income from service in the Reserves or National Guard may be included in effective income if the length of the veteran's total active and Reserve/Guard service indicates a strong probability that the Reserve/Guard income will continue. Otherwise, this income may be used to offset obligations that have 10 to 24 months duration.

State Withholding Tax Charts

<http://www.paycheckcity.com/NetPayCalc/netpaycalculator.asp>

INTERESTED PARTY CONCESSIONS

- 4% all LTVs
- Allowables do not count towards 4%

INTEREST RATE REDUCTION REFINANCE LOANS (IRRRLS)

Appraisal

- HVCC Exterior 2055 Appraisal is required
 - Note:** All appraisals must be ordered through Bay Equity's Appraisal Department (standard HVCC process must be followed, appraisals may not be processed through WebLGY)
- Required repairs should be addressed – any repairs that impact safety, livability or habitability must be completed. The property condition must be rated "average" or better
- The total loan amount must be supported by the value of the property. The appraised value must be supported and be equal to or greater than the total loan amount

Credit

- Credit Score / Credit Report requirements
 - All VA IRRRL transactions require a 640 minimum credit score**
 - A Mortgage Only Credit Report/Credit Score is required on all VA IRRRL transactions
 - No serious delinquent obligations in the last 12 months
 - Non-Traditional credit reports are not eligible
- Housing (Mortgage/Rental) Payment History Requirements

VA UNDERWRITING GUIDELINES

- Regardless of who is servicing the loan, VA IRRRL loans must be current and have no 30-day or greater mortgage lates in the most recent 12 months (of for the life of the loan, whichever is less). The following documentation is required to be in the loan file:
 - Evidence the existing loan is current
 - If the loan is seasoned 12 months or more, evidence that the existing loan has not had any 30-day or greater mortgage lates in the past 12 months
 - If the loan is seasoned less that 12 months, evidence the following:
 - The existing loan has no 30-day or greater mortgage lates since the inception of the loan
 - AND
 - No 30-day or greater mortgage lates for any other first mortgage loans associated with the property and borrower(s) in the most recent 12 months
 - It may be necessary to verify the current and previous mortgage to establish a 12 month payment history
- A minimum of 6 month payment history on the current mortgage is required. If less than 6 months, loan must be documented and underwritten as a standard VA refinance transaction
- Housing (Mortgage/Rental) Payment History (PITI) is inclusive of all liens regardless of position, as well as all occupancy types

Current first mortgage eligibility

- Existing VA Mortgages

Eligible Borrowers

- Generally the parties obligated on the original VA loan must be the same parties on the new loan and the veteran must still own the property. However, some ownership changes may be acceptable. The following outlines when a change in mortgagors is permitted:

Existing VA Loan	New Loan	Yes / No
Unmarried Vet	Veteran & new spouse	Yes
Unmarried Vet	Spouse only (deceased veteran)	No
Vet	Different veteran who has substituted his/her entitlement	Yes
Vet & Spouse	Divorced veteran only	Yes
Vet & Spouse	Veteran & different spouse	Yes
Vet & Spouse	Spouse only (deceased veteran)	Yes
Vet & Spouse	Divorced spouse only	No
Vet & Spouse	Different spouse only (deceased veteran)	No
Vet & Non-Vet (joint obligors)	Veteran only	Yes
Vet & Non-Vet (joint obligors)	Non-veteran only	No

Funding Fee

- 0.50%

General Guidelines

- The loan being paid off through the refinance must be the loan indicated on the COE. In some cases, a copy of the note may be required to verify the LHG number

VA UNDERWRITING GUIDELINES

- The minimum guaranty on an IRRRL is 25% regardless of the dollar amount of guaranty being transferred from the prior loan
- If the veteran is deceased and the surviving spouse was a co-obligor, the spouse is considered a veteran for the IRRRL
 - Surviving spouse must own the property
- All borrowers must occupy the subject property

Income/Assets

- No income documentation required, except where PITI will increase 20% or more.
 - Documentation for loans if PITI Increases by 20% or more
 - Determine that the borrower has stable and reliable income to support the proposed housing payment along with other recurring monthly obligation
 - Pay stubs covering at least the most recent 30 day-period
 - 2 years W2s
 - Telephone VOE of the borrower's current employment
 - Maximum 50% DTI when PITI will increase 20% or more:
 - DTI > 41% up to 50% requires documented compensating factors
 - VA Interest Rate Reduction Refinance Loans in Colorado
 - Income must be stated on the application
 - No verification of income is required
 - No analysis of Income is performed
- No asset verification required

Loan amount limits

- Maximum guaranty for loans in excess of \$144,000 is calculated by multiplying the loan amount times 25%
- The 25% minimum VA guaranty/entitlement is considered satisfied for Interest Rate Reduction Refinance Loans regardless of the dollar amount of guaranty being transferred from the previous loan

LTV / CLTV Calculation

- 100% LTV / 125% CLTV for existing subordinate financing
- LTVs on IRRRLs are calculated using the TOTAL loan amount (Base Loan Amount + Funding Fee)
- Bay Equity Underwriters must calculate LTV outside of the Bay Equity system to ensure that LTV does not exceed 100% based on the total loan amount

Online status inquiry (in lieu of COE)

- In lieu of obtaining an updated COE from the VA, confirm the status of an existing VA loan by visiting the website: <http://vip.vba.va.gov>
 - To submit IRRRL status inquires:
 - The first six digits of the VA lender identification number and an email address are required
 - If the response from the RLC confirms the loan is an active VA guaranteed loan made to the veteran, a COE will not be required. Use the printout from the RLC
 - Verify the VA case number provided by the VA matches the VA case number of the existing loan before closing the IRRRL

Subordinate financing

- The new IRRRL must replace the existing VA loan as the first lien on the same property. Any second-lien holder would have to agree to subordinate to the first lien holder
- An existing 2nd mortgage may be subordinated (new subordinate financing is not allowed)

VA UNDERWRITING GUIDELINES

Recently Listed Properties

- Properties previously listed for sale are permitted if the listing was cancelled at least one day prior to the loan application date. (Refinances on properties currently listed for sale are not permitted)
- A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing service should be completed to verify that the property is not currently listed by a different agency

Term, interest rate & payment changes

- Term increase
 - The term of the new loan may not exceed the original term by more than 10 years, subject to the maximum term of 30 years and 32 days
- Interest rate decrease
 - The interest rate of the new loan must be less than the interest rate of the existing VA loan unless refinancing an ARM to a fixed rate
- Payment increase
 - The P&I payment must be less than the P&I payment of the existing VA loan unless
 - Refinancing an ARM to a Fixed Rate; OR
 - The term of the new loan is less than the term of the existing VA loan
 - If the PITI increases by 20% or more the veteran's ability to repay must be demonstrated
 - Refer to Income/Asset section for IRRRLs for requirements

Types of financing

- New loan amount may include:
 - Unpaid principal balance (including accrued interest and late fees, if applicable)
 - Allowable closing costs
 - Prepaid expenses
 - Maximum 2 discount points
 - Funding fee
- No satisfaction of junior liens
- 25% guaranty is considered satisfied
- No cash back to borrower permitted (incidental minor adjustment at closing not exceeding \$500.00 cash back is acceptable)

Underwriting

- Manual underwrite only: Not eligible for submission to DU/LP

LIABILITIES & QUALIFYING RATIOS



- Maximum qualifying debt-to-income ratio is 41%
 - Ratios exceeding 41% may be acceptable if the following requirements are met:
 - Acceptable AUS certificate
 - Documented compensating factors
- Refer to the "Underwriting" section and the "Manual Underwriting" topic for further requirements on manually underwritten loans

LOAN AMOUNTS



VA UNDERWRITING GUIDELINES

- To calculate the maximum loan amount (and guaranty) for a particular property, go to: http://www.benefits.va.gov/homeloans/docs/2011_county_loan_limits.pdf
- For High Balance guidelines, refer to the “High Balance Loan Amounts” section
- Maximum Total Loan Amount (base loan amount + funding fee) cannot exceed the mortgage limits for each county

LOAN TERMS



- Standard Loan Amounts:
 - 30 year fixed**
 - 5/1 ARM:**
 - Loan Term: 30 years
 - Caps/Margin/Index:

CAPS	MARGIN	INDEX	FLOOR
1/1/5	2.00%	Constant Maturity Treasury index	margin

- Borrower qualification:
 - Initial note rate
 - Consideration must be given to future payment increases
- High Balance Loan Amounts:
 - 30 year fixed**

LOAN PURPOSE



A VA loan guaranty may be used for:

- Purchase:** The purchase of a single-family residence, 2-to-4 units, condominium, or PUD that the veteran intends to occupy
- OR
- Refinance:** The refinance of an existing home
 - Cash-Out (refer to “Refinance Cash Out” section)
 - IRRRL (refer to “Interest Rate Reduction Refinance Loans”)

LTV / CLTV



LTV Calculation:

- Non-IRRRL loans: LTV is calculated using the Base Loan Amount
- IRRRL loans:
 - LTVs on IRRRLs are calculated using the TOTAL loan amount (Base Loan Amount + Funding Fee)
 - Bay Equity Underwriters must calculate LTV outside of the Bay Equity system to ensure that LTV does not exceed 100% based on the total loan amount

Purchase:

VA UNDERWRITING GUIDELINES

- 100% LTV / 100% CLTV

Refinance:

- Cash Out: 90% LTV / 90% CLTV
- IRRRL: 100% LTV / 125% CLTV for existing subordinate financing
 - LTVs on IRRRLs are calculated using the TOTAL loan amount (Base Loan Amount + Funding Fee)
 - Bay Equity Underwriters must calculate LTV outside of the Bay Equity system to ensure that LTV does not exceed 100% based on the total loan amount

OCCUPANCY



Occupancy requirements are:

- **Primary Residence only:** Veterans purchasing a primary residence, refinancing, or improving their home must certify that they intend to live in the home
- If the buyer is on active duty, a spouse may certify occupancy. Single or married service members deployed from their permanent duty station are considered to be in a temporary-duty status and are able to certify intent to occupy. There is no need to have a spouse, if applicable, certify occupancy.

PROPERTY ELIGIBILITY



Acceptable Property Types:

- SFR (1-4 units)
 - **Note:** 2-4 units are not available on High Balance transaction. See “High Balance Loan Amounts” section
- PUD (Attached & Detached)
- VA-Approved Condo (Attached & Detached)
 - VA approved list: <https://vip.vba.va.gov/portal/VBAH/VBAHome/condopudsearch>

Unacceptable Property Types:

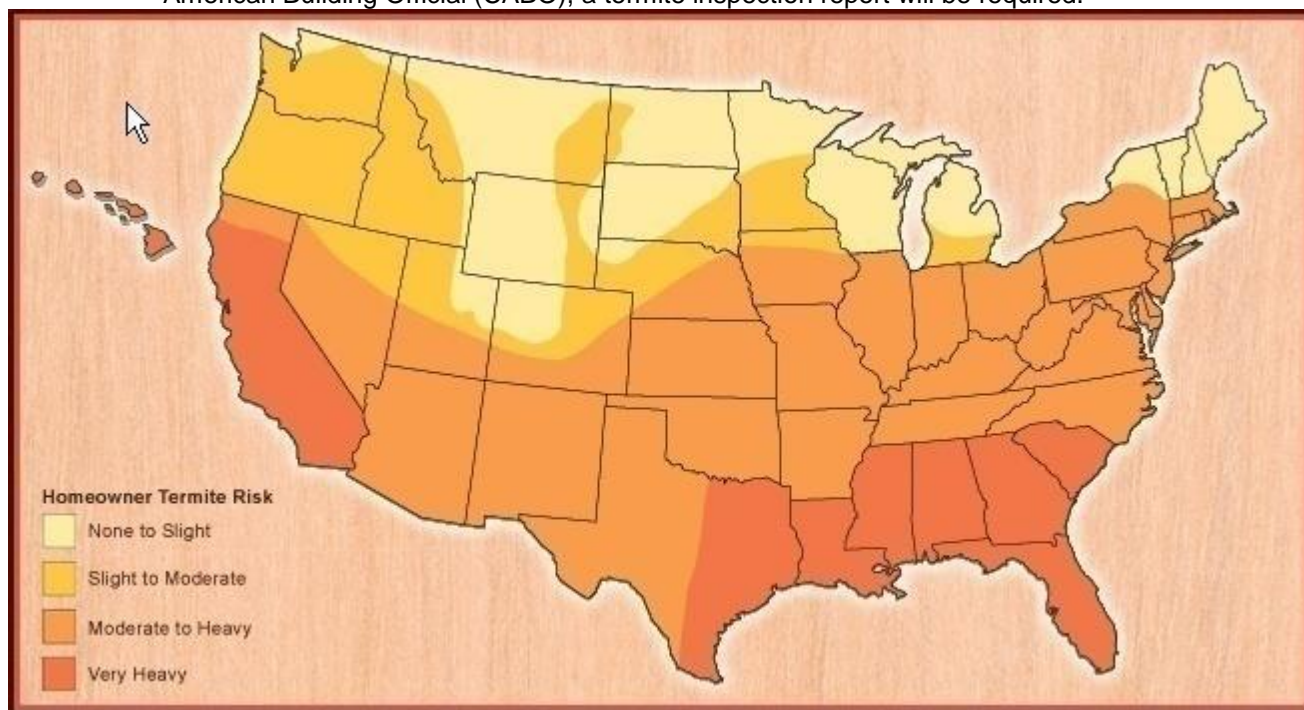
- Condominiums with less than 400 square feet
- Co-ops
- Manufactured Homes
- Modular Homes
- VA REOs
- Additional Unacceptable properties:
 - Properties not likely to meet Minimum Property Requirement (MPRs)
 - Properties with Chinese drywall
 - Location-related problems:
 - A Special Flood Hazard Area (SFHA), and the lowest floor below the 100-year flood level, or flood insurance is not available
 - An area subject to regular flooding whatever reason, whether or not it is in an SFHA
 - A Coastal Barrier Resources System area
 - An airport Noise Zone 3, if proposed or under 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
 - An area susceptible to geological or soil instability (such as 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
 - Condominium project not approved
 - Ownership non fee-simple

VA UNDERWRITING GUIDELINES

Inspections

• Termite Inspections

- If the property is located in an area where the probability of termite infestation is “very heavy” or “moderate to heavy” according to the Termite Infestation Probability Map published in the Council of American Building Official (CABO), a termite inspection report will be required.



- Regardless of the location of the property, an inspection is always required if the appraisal report indicates evidence of wood-destroying insect damage or an active insect infestation.
 - Additional Termite Inspection information
 - Active infestation must be treated prior to closing
 - Debris in crawl space must be removed and property re-inspected
 - Prior infestation may require an engineer’s inspection if damage to structural systems is noted
 - The pest control operator must meet all requirements in the State in which the property is located
 - Inspection reports are valid for VA purposes for 90 days from the date of inspection

• Well Water and Septic System Inspections

- Connection to a public or community water/sewage disposal system is required whenever feasible
- 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 maximum contaminant levels established by the Environmental Protection Agency (EPA) will apply
 - If the health authority is unable to perform the water quality analysis in a timely manner, a commercial testing laboratory or a licensed sanitary engineer acceptable to the health authority may take and test the water sample
- Provide evidence from the local health authority for other source authorized by VA that the individual water supply and/or sewage disposal system is/are acceptable
- Septic systems must be inspected if the property is vacant at time of appraisal, regardless of when property was vacated, on existing construction
- Septic system installation permit must be provided for new construction loans

VA UNDERWRITING GUIDELINES

- **Other “Local” Property Requirements**
 - http://www.homeloans.va.gov/cav_approved_local_conditions.htm
- **Recently listed property** Refer to the “Recently Listed Properties” section
- **Swimming Pool Requirements**
 - All swimming pools must meet the following guidelines:
 - The appraiser must state that:
 - The swimming pool does not pose any health, safety or environmental hazards
 - Whether the pool equipment is fully operational
 - Empty swimming pools may be acceptable if one of the following requirements is met:
 - The swimming pool is covered with a tarp
 - The swimming pool has been filled with dirt
 - A fence surrounds the swimming pool

PURCHASE CONTRACT REQUIREMENTS



- Bay Equity will not accept purchase renegotiated purchase agreements that increase the sales price **after** the original appraisal has been completed if:
 - The appraised value is higher than the contracted sales price provided to the appraiser
 - AND
 - The new purchase agreement and/or addendum used to modify the sales price is dated after the appraisal is received
 - AND
 - The only change to the purchase agreement is an increase in sales price
- If the purchase agreement is re-negotiated subsequent to the completion of the appraisal, the LTV will be based on the lower of the original purchase price or the appraised value, **UNLESS**:
 - Re-negotiation of only seller-paid closing costs and/or prepaids when seller-paid closing costs/prepaids are common and customary for the market and supported by the comparables
 - OR
 - An amended purchase agreement for new construction property is obtained due to improvements that have been made that impact the tangible value of the property. In the event of such changes, an updated appraisal must be obtained to verify the value of the modifications/changes

RECENTLY LISTED PROPERTIES



Refinances on properties listed for sale are not permitted. Properties previously listed for sale must have the listing cancelled six months prior to the loan application date or the loan is subject to 70% LTV.

- A copy of the canceled/expired listing should be placed in the file and a search of the current multiple listing service should be completed to verify that the property is not currently listed by a different agency

REFINANCES (CASH-OUT)



General Refinance Guidelines:

- A VA-guaranteed cash-out refinance may be used to pay off any type of lien or liens against the secured property. The liens to be paid off may be current or delinquent and may be from any source (for example, VA, FHA, or conventional mortgages and/or tax judgments/liens)
- All non-streamline (non-IRRRL) VA refinances are considered “cash-out” (no differentiation between rate/term and cash-out). All refinances are considered cash-out, even if the borrower is paying off a purchase-money lien and/or not receiving any cash back at closing)
- The veteran must have ownership rights to the property with the existing lien
- Free and clear properties are ineligible (subject property must have an existing lien)

VA UNDERWRITING GUIDELINES

Maximum Cash-Out:

- Loan amount <\$417,000: unlimited
- Loan amount >\$417,000: \$325,000

Maximum LTV / CLTV:

- Maximum LTV: 90%. Maximum CLTV: 90%
- Up to 90% of the value of the property indicated on the Notice of Value (NOV) plus the cost of any energy-efficient improvements (less than or equal to \$6,000) plus the VA funding fee
- Cash proceeds from loan may be used to pay fees, charges, and discount points
- If paid from loan proceeds, the total of the following items cannot exceed 90% of reasonable value:
 - Payoff of liens
 - Fees and charges, other than VA funding fee
 - Reasonable discount points
 - Cash to veteran

SUBORDINATE FINANCING

Secondary financing is acceptable as long as the veteran is not placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA. In addition, the following requirements must be met:

FACTOR	REQUIREMENT
CLTV	Must meet CLTV requirements (see LTV / CLTV section)
Simultaneous	Secondary financing must be obtained simultaneously with the VA
Documentation	Documentation must be provided disclosing the source, amount, and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligor
Lien Positions	The second mortgage must be subordinated to the VA first lien
Allowable Purposes	The proceeds of the second mortgage may be items such as, but not limited to: <ul style="list-style-type: none"> • Closing costs • A down payment Secondary financing may not be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over the VA's reasonable value
Cash Back	There can be no cash back to the veteran from the VA first or second mortgage obtained simultaneously
Underwriting	The veteran must qualify for the second mortgage which is underwritten as an additional recurring monthly obligation
Interest Rate	<u>REFINANCES</u> (subordinating existing lien): The interest rate on the second mortgage may exceed the rate on the VA guaranteed first lien; however, it may not exceed industry standards for second mortgages <u>PURCHASES</u> : The interest rate on the second mortgage may not exceed the rate on the VA guaranteed first lien
Assumability	The second mortgage must be assumable by creditworthy purchasers. The second lien should never restrict the veteran's ability to sell the property
Grace Period	There should be a reasonable grace period before: <ul style="list-style-type: none"> • A late charge comes due OR <ul style="list-style-type: none"> • Commencement of foreclosures proceedings in the event of default

VA UNDERWRITING GUIDELINES

Unusual Terms	Second mortgages bearing unusual terms, interest rates, etc. are sometimes offered. The Bay Equity Underwriter may consult VA if it is unclear whether the terms of the second mortgage meet VA standards
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TEMPORARY BUYDOWNS



Not allowed

UNDERWRITING



AUS

- DU Approve/Eligible or LP Accept
 - A copy of the AUS findings must be included in the file
 - AUE not available on IRRRLs
 - 41% + debt ratios (with AUS approval) require significant documented compensating factors (see "Compensating Factors" topic within this section)
- Manual Underwriting
 - Maximum DTA 41%
 - See "Manual Underwriting" topic within this section

Manual Underwriting

- Loans not receiving a DU or LP Approval may be manually underwritten IF:
 - The VA loan file was underwritten and approved by a VA Credit Underwriter (under Bay Equity's Automatic Authority Approval). See "Underwriter Requirements" topic within this section)
 - AND
 - The loan file meets all published loan program guidelines
 - AND
 - The loan file contains documentation to support the underwriting decision (that includes compensating factors)
- All manually underwritten loan files must include compensating factors (see "Compensating Factors" topic within this section)
- On manual or "Refer" recommendations, a written explanation is required for:
 - Bankruptcies
 - Consumer Credit Counseling
 - Foreclosures
 - Lates, collections, etc
 - Inquiries in last 90 days
 - Any single debt greater than 2% of gross monthly income on the credit report but not on application

Compensating Factors (required for Refer/Manual Underwrite with Ratios of 41% - 50%)

- Excellent credit history
- Conservative use of consumer credit
- Minimal consumer debt
- Long-term employment
- Significant liquid assets
- Sizable down payment
- Existence of equity in refinancing loans
- Little or no increase in shelter expense
- Satisfactory homeownership experience
- High residual income
- Tax credits for child care
- Tax Benefits of home ownership

VA UNDERWRITING GUIDELINES

Requires Bay Equity Exception (VA Prior Approval)

- The following scenarios require prior approval from VA. Please allow for additional processing time.
 - A veteran and one or more veterans who will or will not be using entitlement
 - A veteran and their spouse, who is also a veteran, where both entitlements will be used
 - A veteran in receipt of VA non-service connected pension
 - A veteran who is rated incompetent by VA
 - IRRRL made to refinance delinquent VA loans

Underwriter Requirements

- Appraisal Review:
 - Must be a VA-Approved SAR (Staff Appraisal Reviewer), under Bay Equity's VA LAPP Approval (Lender Appraisal Processing Program)
- Credit Underwriting:
 - Must be a VA-Approved Credit Underwriter (under Bay Equity's VA Automatic Authority Approval)