

## Current Issues

### Overview

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**In this chapter** This chapter contains the following topics.

<b>Topic</b>	<b>See Page</b>
CI.01 Electronic Publication of Lender's Handbook	CI-2
CI.02 Misleading Advertisements	CI-3
CI.03 Automated Underwriting	CI-5
CI.04 Home Mortgage Disclosure Act (HMDA)	CI-6
CI.05 VA Restructuring of the Loan Processing Function	CI-10
CI.06 Modified Guaranty Submission Procedure	CI-11

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## CI.01 Electronic Publication of Lender's Handbook

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**Which Publications are Available Electronically?**

VA Pamphlet 26-7, VA Lender's Handbook, along with H26-94-1, VA Servicing Guide, are now available electronically on the Internet. Changes to the handbook and Servicing Guide will be available on the Internet when signed, which will often be before they are printed and mailed. Lenders are strongly encouraged to begin accessing these publications electronically.

Excerpts from certain Loan Guaranty circulars beginning in 1996 are also available electronically. Circulars contain information about changes to VA policies and/or procedures and information that regional offices are required to release to lenders and/or servicers in their area. Circulars which only discuss internal VA procedures are not included.

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**Internet Address**

The Internet address is: <http://www.homeloans.va.gov/lenders.htm>.

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**Commercial Services**

There are also commercial services distributing VA documents electronically. For example, the Mortgage Resource Center (800-848-4904) offers them on diskettes for those without access to the Internet as well as over the Internet (<http://www.allregs.com>). They can notify lenders by electronic mail when lender's handbook changes or circulars are issued.

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## CI.02 Misleading Advertisements

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### Policy

The Department of Veterans Affairs always strives to provide all veterans the most up-to-date and pertinent information about their benefits. Toward that end, all appropriate efforts by lenders to further educate or remind veterans about their home loan benefit and the lender's availability to assist the veteran in obtaining the benefit is appreciated. However, it is inappropriate to direct any information about benefits to veterans which is in any way misleading.

It must be clearly understood that VA has a very specific mission to serve veterans, who are declared by Congress to be a "special class of citizen," and veterans rely on VA to provide dependable service and reliable information concerning their benefits. Any action on the part of lenders or other program participants which jeopardizes VA's credibility with veterans or induces veterans to obtain loans which are clearly not in their best interests would be viewed by VA as actions which are detrimental to the best interests of veterans. If such a determination is made, grounds for suspension from participation in the VA Loan Guaranty Program could be established.

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### Examples

#### *Example 1:*

In increasing numbers, VA has been receiving inquiries and complaints from veterans concerning advertisements and solicitations they have received from lenders which state that VA has a new program to refinance their VA loan and lower their interest rate. In fact, the IRRRL (Interest Rate Reduction Refinancing Loan) program has been available to veterans since the enactment of The Veterans' Disability Compensation and Housing Benefits Amendments of 1980 (Public Law 96-385).

In addition, many of these solicitations suggest that the lender has some special relationship with VA which enables **only** them to offer this loan opportunity. Some even clearly attempt to give the impression that the "letter" the veteran received came from VA.

[\[Public Law 96-385\]](#)

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## CI.02 Misleading Advertisements, Continued

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**Examples**  
(continued)***Example 2:***

Another unacceptable advertising approach that some lenders have been using is to invite veterans to “skip” payments and refinance their loan. It generally gives the appearance that VA condones skipping payments and rolling them into the new IRRRL. This is not the case. It is irresponsible to suggest to any mortgagor that this program encourages skipping payments, or that this is an appropriate means of getting around the prohibition against receiving cash from the transaction. Any advertising that promotes skipping payments as a means of obtaining cash for other purposes is unacceptable.

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**Lender  
Responsibility**

VA encourages all lenders to continue offering VA financing to all eligible and qualified veterans, and it is recognized that mortgage lending is a competitive industry. However, VA insists that lenders refrain from any and all practices which might mislead veterans into actions which are contrary to their own best interests.

If your firm has been engaging in such advertising, or is considering doing so, VA strongly recommends that anything in your promotional material which is in any way inaccurate or misleading be deleted. If there is uncertainty about the accuracy or propriety of the advertisement or solicitation, please consult with the appropriate local VA office or the Loan Policy staff at VA Central Office at (202) 273-7368.

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## CI.03 Automated Underwriting

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### General

VA has approved the use of several automated underwriting systems. The systems are

- Freddie Mac's Loan Prospector
- Fannie Mae's DU, and
- Countrywide's CLUES System.

*Note:* Countrywide's system is only for use in connection with Countrywide loans.

The systems are **only** for use by VA automatic lenders, and **only** on loans eligible for automatic processing.

These systems assign a risk classification which determines the level of underwriting and documentation needed.

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### Lender Responsibility

The automated systems do not approve or disapprove loans. They merely determine a risk classification. It is still the lender's decision whether or not to approve the loan.

Lenders are still responsible for meeting all VA requirements for all loans; however they may take advantage of certain documentation waivers based on the risk classification.

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### VA's Role

Although VA has approved the use of these systems, we are not the vendor. The terms and conditions of use must be negotiated directly with Fannie Mae and/or Freddie Mac.

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## CI.04 Home Mortgage Disclosure Act (HMDA)

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### **Compatibility of VA Program with HMDA**

As a result of releases of Home Mortgage Disclosure Act (HMDA) data, many lenders are increasingly concerned that they are taking all appropriate measures to assure access by minorities and lower income households to home mortgage loans. VA believes that it is important for lenders to be aware of how effectively the VA Home Loan Program can assist them in meeting this goal.

The no down payment feature is, of course, a primary advantage for individuals with low-to-moderate incomes. However, lenders should not overlook other aspects of the VA program that will help in underwriting loans for such applicants. The “VA Credit Standards” are written as guidelines and are meant to be interpreted and used just that way, taking into consideration all of an individual loan applicant’s financial, employment and family circumstances.

This topic provides guidance on areas of underwriting that may be of particular concern when processing applications for low-to-moderate income borrowers. Many of the concepts are discussed in Chapter 4, Credit Underwriting, but are repeated here to emphasize their importance and applicability to underwriting loans to minority and low-to-moderate income applicants.

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### **Purpose**

This topic in the “VA Lender's Handbook” is intended to encourage underwriters to find ways to approve loan applications which ought to be approved but may not appear approvable upon direct application of the credit standards. The examples discussed are certainly not all inclusive, but they should help the underwriter recognize that there are those whose lifestyle, minority status, or location require consideration of extraordinary, yet valid, factors in the underwriting process in order to find a basis for correctly making an approval decision.

Underwriters are encouraged to give consideration to every possible appropriate factor in seeking a proper basis for approving loan applications for every qualified veteran.

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## CI.04 Home Mortgage Disclosure Act (HMDA), Continued

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**Use of VA Prior Approval Procedure** Although lenders that have automatic authority should use that authority to the maximum extent possible, another important tool available to lenders seeking to increase credit access by minority and lower income borrowers is the optional use of VA's prior-approval processing.

Loan applications that may not be clearly approvable under VA's published credit standards but which, in the lender's view, contain compensating strengths, may be sent to VA on the prior-approval basis. Lenders should submit an explanation as to why the loan was not closed automatically and point out the reasons why they believe the loan may be approvable.

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**Employment and Income Stability** A borrower's employment and income stability are vital to the underwriting of a loan. There are characteristics that should be considered when underwriting loans for low-to-moderate income borrowers when evaluating acceptable employment and income.

### *Changing of Jobs*

It is possible to establish stable and reliable income without having established a stable employment history in one position or job. It is not unusual for some borrowers to change jobs frequently, even changing lines of work. The borrower may be simply going where there is available work. To establish stability and continuance of income, the borrower must demonstrate the ability to maintain an income at a constant level over the recent 2-year period even if he or she has worked for a variety of employers.

### *Part-Time Employment*

It is not uncommon for people with limited income from their primary employment to take on part-time jobs to supplement their incomes. Ideally the borrower should show a two-year history, but one year may be considered for an otherwise strong borrower. Underwriters must review such income for probable continuance and try to assure that the part-time employment is reasonable and sustainable.

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**CI.04 Home Mortgage Disclosure Act (HMDA), Continued**

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**Employment  
and Income  
Stability**  
(continued)***Periods of Unemployment***

In parts of the country, it is not unusual for some individuals to work for certain times of the year and draw unemployment for the remainder of the year (such as field workers). A period or periods of unemployment will not automatically be considered unfavorably, provided the unemployment is regular and seasonal, or is a limited occurrence between jobs, and unemployment compensation has been received during those periods. If the applicant has a history of such an income pattern, unemployment compensation as well as income received during periods of employment may be used when calculating an individual's income for loan approval purposes.

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**Source of  
Funds to Close**

Another area where low-to-moderate income borrowers sometimes differ from others is the source of funds to close loans. It is not unusual or unacceptable for some borrowers to save money at home versus using depositories. In order to be acceptable, a reasonable explanation of how the borrower saved the funds should be provided.

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**Credit History**

In the area of credit, the lack of an established credit history should not be a deterrent to loan approval. As provided in the credit standards, a satisfactory payment history on items such as rent, utilities, phone bills, etc., may be used to establish a satisfactory credit history.

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## CI.04 Home Mortgage Disclosure Act (HMDA), Continued

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**Consider All Factors**

As stated in the credit standards, no single factor is a determinant in any applicant's qualification for a VA-guaranteed loan.

- A veteran who has maintained an excellent credit history, (such as satisfactory payment of a shelter expense comparable to the proposed shelter expense) may be approvable in spite of shortfall in the residual income. In such an instance, it might be appropriate to consider that the veteran has established a lifestyle which is substantially different from the average used in establishing the residual income tables in the credit standards.
  - A veteran with a good credit record who meets the residual income guideline (without exceeding it by 20 percent) may be approvable in spite of a high debt-to-income ratio if the proposed shelter expense is not significantly greater than the amount the veteran has been accustomed to paying.
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**Compensating Factors**

The use of compensating factors is encouraged for marginally approvable VA loans, and a detailed explanation of their use in underwriting loans is provided in the credit standards.

A compensating factor that has come into play quite recently is the numerous financial and homeownership counseling programs being provided by a variety of sources including banks, mortgage lenders, and community groups. These counseling programs are designed to help applicants work out payment plans for old debts, design savings plans, and teach basic budgeting skills. Programs often include homebuyer education lessons and post-closing counseling to assist the new homeowners once the loan is made. Participation by an applicant in such a counseling program can be viewed as a strong compensating factor for a case in which it is otherwise difficult to conclude that a borrower is qualified under a traditional interpretation of the credit standards.

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## CI.05 VA Restructuring of the Loan Processing Function

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**Rationale**

Due to reduced staffing in many VA offices, it has become extremely difficult for VA to process prior approval loan applications in a timely manner. Lenders with automatic authority must therefore use their automatic authority in every possible instance.

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**Use of Prior Approval Processing by Automatic Lenders**

Except for cases specifically precluded from automatic processing, such as joint loans, the **only** cases lenders should consider submitting to VA for prior approval are those in which the underwriter firmly believes approval can be justified. However, the specific facts of the case appear to preclude approval. In such instances, the underwriter must include a

- detailed explanation of why the loan should be approved by VA, plus
- thorough justification for not approving the loan on the automatic basis.

It will **not** be sufficient to justify submitting the loan to VA solely to comply with the veteran's or the real estate agent's request to do so.

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## CI.06 Modified Guaranty Submission Procedure

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### What must Lenders Submit?

Lenders must submit copies (except for the COE, which must be an original) of only the items listed below, in the order listed, to VA when requesting guaranty for all loans except Interest Rate Reduction Refinancing Loans (IRRRLs). There are no changes to IRRR procedures for requesting guaranty.

1. [VA Form 26-0286, Loan Summary Sheet](#)
2. Certificate of Eligibility (VA Form 26-8320 or VA Form 26-8320a), if not previously submitted in connection with a prior approval loan application.
3. Evidence of payment of funding fee (VA Form 26-8998, Acknowledgment of Receipt of Funding Fee from Mortgagee, **or** VA Form 26-0500, Notification to Mortgagee of Funding Fee Shortage **and** VA Form 26-8999, Acknowledgment of Receipt of Funding Fee Shortage to Mortgagee, **or** evidence borrower is exempt).
4. Certificate of Reasonable Value (VA Form 26-1843), **or** copy of Master Certificate of Reasonable Value with front page and options pages highlighted to pertain to the specific property, **or** Lender's Notice of Value under LAPP, as applicable.
5. [VA Form 26-1820, Report and Certification of Loan Disbursement](#)
6. HUD 1 Settlement Statement
7. Name and mailing address to be used in requesting file for full review or post audit
8. E-mail address, if available, which may be used to request file in lieu of letter.

### VA will select cases for full review

VA field stations will identify cases selected for full review or other audit purposes at least weekly within 30 days of receipt by VA. Lenders will then be notified of selected cases by letter or e-mail. Lenders must forward the complete origination package to the requesting VA office within 15 days of receiving notification from VA.

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## CI.06 Modified Guaranty Submission Procedure, Continued

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**How will this work**

1. Lender processes loan and gets all documentation needed to process the loan.
  2. Lender submits only the items identified above when requesting guaranty.
  3. Lender will be notified by letter, or e-mail, from VA identifying which cases must be submitted to VA for full review/audit purposes.
  4. Lender submits copy of origination package to VA.
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**Termination of Lender's participation in the modified guaranty submission**

VA field stations may, at their discretion, terminate a lender's participation in this modified guaranty submission procedure if that lender demonstrates an ongoing inability or unwillingness to be timely in responding to requests from VA.

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