

Chapter 1

The Lender

Overview

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1.01 Definitions and Authorities

Lender	Any person or entity (private sector or government) that originates, holds, services, funds, buys, sells or otherwise transfers a loan guaranteed by VA.
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Supervised Lender	<p>A lender that is subject to mandatory periodic examination and supervision by an agency of the United States or of any state or territory, including the District of Columbia.</p> <p>VA determines whether the level of examination and supervision to which a lender is subject satisfies the requirement.</p> <p>Examples of supervised lenders include</p> <ul style="list-style-type: none"> • Federal savings banks • national banks • Farm Credit System institutions • state banks • insurance companies • credit unions, and • private banks. <p>A state acting as a lender is also considered supervised.</p>
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Nonsupervised Lender	Any lender that is not a supervised lender.
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Nonsupervised Automatic Lender	A nonsupervised lender who, after applying to VA for authority to close loans on an automatic basis, has been formally granted such authority by VA.
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Agent	A person or entity that performs any portion of the work involved in originating and closing a VA-guaranteed loan on behalf of, or in the name of, a sponsoring lender.
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1.01 Definitions and Authorities, Continued

Sponsoring Lender A lender that uses an agent to perform **any** portion of the work involved in originating and closing a VA-guaranteed loan is the “sponsoring lender” for that agent.

Prior Approval Submission of a loan to VA for underwriting and approval prior to closing the loan.

All lenders, whether or not they have automatic authority, **must** submit the following types of loans to VA for prior approval.

- Joint loans
- Loans to veterans in receipt of VA nonservice-connected pension.
- Loans to veterans rated incompetent by VA.
- Interest Rate Reduction Refinancing Loans (IRRRLs) made to refinance delinquent VA loans.
- Manufactured home loans (except when the manufactured home is permanently affixed to the lot and considered real estate under state law) **unless** the lender has been separately approved for this purpose.
- Cooperative loans.
- Unsecured loans or loans secured by less than a first lien.
- Supplemental loans.

Lenders with automatic authority may also elect to submit a loan (of a type not on the above list) for prior approval when issues or circumstances cannot be resolved by the lender’s own underwriting staff.

- The submission must include the underwriter’s analysis and explanation of why it is being submitted for prior approval.
- Do **not** use this provision to shift the burden of a loan rejection to VA.

Lenders without automatic authority must submit all loans to VA for prior approval except IRRRLs made to refinance VA loans that are **not** delinquent.

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1.01 Definitions and Authorities, Continued

Automatic Authority (Authority to Close Loans on an Automatic Basis)

Automatic authority is authority for a lender to close VA-guaranteed loans without the prior approval of VA. The following lenders have automatic authority:

- all supervised lenders
- certain nonsupervised lenders who apply for and are granted automatic authority by VA, and
- any lender (even a lender who does not otherwise have automatic authority) for the limited purpose of closing an IRRRL, as long as the loan being refinanced is not delinquent.

Lenders with automatic authority should use it to the maximum extent possible.

Supervised Versus Nonsupervised Automatic Lenders

A nonsupervised lender that wishes to close loans on an automatic basis must not only obtain VA authorization for automatic authority; it must also obtain VA approval of other elements of its automatic lending operations (that is, underwriter approval). This difference between supervised and nonsupervised lenders is outlined below.

Authority	Supervised Lender	Nonsupervised Automatic Lender
To close loans on the automatic basis	No VA approval needed, once VA establishes that the lender is supervised.	Must submit application and be authorized by VA to close loans on an automatic basis.
To use certain underwriters	No VA approval needed. Any of the lender's underwriters may underwrite loans processed on the automatic basis.	Must submit application and obtain VA approval for each person to underwrite VA loans processed on the automatic basis.

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1.01 Definitions and Authorities, Continued

Supervised Versus Nonsupervised Automatic Lenders (continued)

Authority	Supervised Lender	Nonsupervised Automatic Lender
To close loans in particular states	No VA approval needed. Lender may close loans in any state if supervised by a Federal entity, or, in the state where supervised if supervised by a state.	Must submit request and obtain VA approval to use its automatic authority in each state where it wishes to close loans.
To use agents to process VA loans	Must submit request and obtain VA recognition of each agent with which lender has an ongoing relationship.	Must submit request and obtain VA recognition of each agent with which lender has an ongoing relationship.

Exception

IRRRLs, except those intended to refinance delinquent VA loans, can be closed automatically by any lender in any state without specific approval of automatic authority, underwriters, or the state the loan is made in.

Note: Use of agents to process IRRRLs is subject to the same requirements as agent processing of other types of loans (See Section 1.08).

1.02 Before a Lender Starts Making VA Loans

Send Information to VA

This section applies to ALL lenders (supervised, nonsupervised automatic, and nonsupervised prior approval).

For first-time VA lenders, or lenders who have not made VA loans for several years, send the following information to the VA office with jurisdiction over the lender's home office (a complete list of VA Regional Offices and Regional Loan Centers may be found in Appendix A):

- specimen signatures of all officers, underwriters, or other personnel authorized to sign documents related to VA-guaranteed loan activities
- [VA Form 26-8812, VA Equal Opportunity Lender Certification](#)
- a letter identifying
 - the lender's corporate address
 - the lender's owners
 - any lending personnel or officers that VA or HUD ever debarred or took other adverse action against, and
- a list of all the lender's branch offices that are involved in VA mortgage lending.

In addition, VA may at its discretion

- order a credit report on a lender, and/or
- interview principal officers.

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1.02 Before a Lender Starts Making VA Loans, Continued

What Happens Next?

The VA office of jurisdiction will provide information to the lender, including

- VA Poster 26-77-2, Equal Opportunity Lender
- Training on VA loan processing, and
- VA ID number to use for all VA lending transactions and documents as an identifier of the lender.

Note: The lender should download a copy of this Lenders Handbook, MVA Pamphlet 26-7, at <http://www.homeloans.va.gov/handbook.htm>.

The VA office of jurisdiction will place the lender on appropriate mailing lists to receive future VA publications.

The VA office of jurisdiction will serve as the lender's primary contact point with VA. Please direct all technical questions, requests for training, or requests for VA publications and materials to that office.

As soon as a lender becomes familiar with the laws, regulations, and procedures pertaining to VA-guaranteed loans, it may begin making VA loans.

A nonsupervised lender must submit all loans except certain IRRRLs to VA for prior approval unless the lender applies for and receives specific authority from VA to close loans on the automatic basis.

A lender supervised by one of the Federal entities described in Section 1.04, can begin closing loans on the automatic basis immediately.

A lender that must submit a request to VA for recognition as supervised (See Section 1.04), must submit all loans except certain IRRRLs to VA for prior approval until it receives recognition as supervised.

1.03 Before a Lender Starts Making VA Loans in a New State

Send Information to VA

These instructions apply to ANY lender (supervised, nonsupervised automatic, or nonsupervised prior approval) that has already submitted the information required under Section 1.02, to the VA office with jurisdiction over its home office, and wishes to expand its VA loan origination activities to a new state(s).

Send the following information to the VA office(s) with jurisdiction over the additional state(s) the lender wishes to make loans in. The lender may omit any items which have previously been furnished to the particular VA office:

- specimen signatures of all officers, underwriters, or other personnel authorized to sign documents related to VA-guaranteed loan activities in the new state(s)
- [VA Form 26-8812, VA Equal Opportunity Lender Certification](#)
- a letter identifying
 - the lender's VA ID number, and
 - location of the home office, and any branch offices within the new state(s) that are involved in VA mortgage lending
- for nonsupervised lenders with automatic authority, a copy of the VA letter approving extension of automatic authority into the new state(s), and

This item is **not** required for a lender who will just be making IRRRLs in the new state.

- nonsupervised automatic lenders must always request an extension of their automatic authority into the new state in accordance with the instructions in Section 1.07 of this chapter if they wish to process loans automatically (other than IRRRLs).
-

1.04 Lenders That are Considered Supervised

Supervision by Certain Federal Entities

VA considers any lender subject to mandatory periodic examination and supervision by any of the following Federal entities to be supervised:

- The Board of Governors of the Federal Reserve System
- The Federal Deposit Insurance Corporation
- The Comptroller of the Currency
- The Office of Thrift Supervision
- The National Credit Union Administration, and
- The Farm Credit Administration.

No request for VA recognition as supervised is needed for lenders supervised by these Federal entities.

Indicate which of the above Federal entities supervises the lender in the letter of introduction submitted to VA (See Section 1.02.).

If VA needs clarification of the lender's status, VA will request appropriate documentation from the lender.

Supervision by the State of Illinois or New Jersey

VA recognizes supervision by the state of Illinois or New Jersey as conveying supervised status to a lender operating within the state. The lender's supervised status does **not** extend to any lending activities it conducts outside the state of supervision.

If the lender is supervised by either of these states, the lender must submit a copy of the appropriate state license along with the information required under Section 1.02, to the VA office with jurisdiction over the lender's home office.

- For Illinois lenders, the license must be issued by the Office of the Commissioner of Savings and Residential Finance.
 - For New Jersey lenders, a State of New Jersey Mortgage Bankers License is required.
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1.04 Lenders That are Considered Supervised, Continued

Circumstances under which VA Recognition as Supervised is Needed

These instructions apply to a lender that wishes to be recognized as a supervised lender by VA but is not directly supervised by one of the Federal entities listed in this paragraph or the state of Illinois or New Jersey. The lender must request that VA specifically recognize it as supervised. The lender should fit one of the following circumstances:

- the lender is a wholly-owned subsidiary or affiliate of a VA-recognized supervised lender, or
- the lender is examined and supervised by a state agency or a Federal agency **not** listed in this paragraph.

Submit the following to the VA office with jurisdiction over the lender's home office:

- Description of the nature and extent of the examinations performed by a Federal or state agency.
- Letter or statement from the Federal or state supervising agency that the specific applicant is subject to mandatory periodic examination and supervision by the agency.
 - A general statement of statutory or regulatory requirements for examination of supervised lenders and their affiliates is **not** sufficient.
 - A lender's voluntary submission to examination is **not** sufficient.
 - A lender's receipt of a license from a state is **not** necessarily sufficient.
- If the relationship between a wholly-owned subsidiary or affiliate of a VA-recognized supervised lender and that supervised lender is to be the basis for recognition as supervised, documentation of the structure, capitalization, and ownership of the subsidiary or affiliate and its legal/financial relationship to the supervised lender.

VA will inform the lender of its decision by letter.

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1.04 Lenders That are Considered Supervised, Continued

If a Lender is Supervised

A supervised lender has the authority to close VA-guaranteed loans on an automatic basis (without the prior approval of VA) except for certain types of loans that must be submitted to VA for prior approval by all lenders.

Note: These loan types are listed in Section 1.01 under “Prior Approval.”

The supervised lender must obtain VA recognition of agents it uses to make VA loans (See Section 1.08).

If the lender uses ongoing agency relationships (“ongoing” generally means use of an agent more than four times per year), it must submit the following to the VA office with jurisdiction over its home office by January 31 of each year:

- a list of the VA-recognized agency relationships it wishes to renew
- the annual renewal fee (See Section 1.11) for each lender agent that acts for the lender on an ongoing basis and had been recognized by VA as the lender’s agent as of September 30 (120 days before payment is due), and
- any other information requested by VA.

Although VA offices may issue an annual reminder notice to lenders that the above information is due, lenders bear the ultimate responsibility for timely submission of the information and appropriate fees.

1.05 How a Nonsupervised Lender Applies for Automatic Authority

Procedures and Criteria for Qualification

Submit a completed VA Form 26-8736, Application for Authority to Close Loans on an Automatic Basis-Nonsupervised Lenders, to the VA office with jurisdiction over the lender's home office, along with

- The documentation specified in the tables that follow
- The appropriate fee(s), and

Reference: See Section 1.11

- The information specified in Section 1.02, if not already submitted, or any updates to that information (including a current list of branch offices involved in VA mortgage lending).

The tables in this Section describe the criteria that must be met to qualify for automatic authority, and the documentation the lender must submit with its application to meet each criterion.

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Lender Experience</p> <p>Either:</p> <ul style="list-style-type: none"> • the lender must have at least two years active VA origination experience and have originated and closed at least 10 VA loans (properly documented and submitted) within the past two years, or • the lender (with less than two years active VA origination experience) must have originated and closed at least 25 VA loans (properly documented and submitted), or • each principal officer (president or vice president) who is actively involved in managing origination functions must have at least two recent years management experience in the origination of VA loans, or • the lender, acting as an agent for an automatic lender(s), must have originated at least 10 VA loans over the past two years - or - 25 VA loans (if less than two years). 	<p>(<i>Note:</i> For purposes of determining whether the experience criteria are met, IRRRLs do not count as VA loans originated, since no underwriting is involved.)</p> <p><i>For all lenders:</i> Completed VA Form 26-8736</p> <ul style="list-style-type: none"> • VA ID number, and • resume for each principal officer (president plus any officers involved in managing loan origination functions) showing mortgage lending experience <p><i>Additional documentation for lenders qualifying based on experience as agent</i></p> <ul style="list-style-type: none"> • copy of the VA letter(s) recognizing the lender as an agent for the sponsoring lender(s) • copy of the corporate resolution sent to VA by the sponsoring lender describing the functions the agent was to perform, and • a letter from a senior officer of the sponsoring lender(s) indicating <ul style="list-style-type: none"> – the number of VA loans submitted by the agent each year, and – that the loans have been documented and submitted in compliance with VA requirements and procedures

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Qualified Underwriter(s)</p> <p>A senior officer of the lender must nominate at least one full-time qualified employee to act as an underwriter who has either:</p> <ul style="list-style-type: none"> • at least three years' experience in processing, pre-underwriting or underwriting mortgage loans • at least one year of the most recent three years must have included making underwriting decisions on VA loans, or • a current ARU (Accredited Residential Underwriter) designation from the Mortgage Bankers Association (MBA), or • all VA-approved underwriters must be familiar with VA's credit underwriting standards and this Lender's Handbook. 	<p><i>For all underwriters</i></p> <p>VA Form 26-8736a, No supervised Lender's Nomination and Recommendation of Credit Underwriter, completed by a senior officer if the underwriter is not located in the lender's corporate office, a senior officer's certification that the underwriter reports to and is supervised by an individual who is not a branch manager or other person with production responsibilities</p> <p><i>Additional documentation for underwriters qualifying based on 3 years' experience</i> Underwriter's resume, outlining the underwriter's specific experience with VA loans.</p> <p>(Note: For purposes of determining whether the experience criteria are met, IRRRLs do not count as processing, pre-underwriting or underwriting.)</p> <p><i>Additional documentation for underwriters qualifying based on ARU designation</i></p> <p>Evidence that he or she is a current ARU as designated by the MBA.</p> <p>See "Underwriter Approval" in Section 1.07 for mandatory training requirements for newly approved underwriters and underwriters who have not underwritten VA loans in the past 24 months.</p>

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Minimum Working Capital Or Net Worth</p> <p>The lender must maintain either</p> <ul style="list-style-type: none"> • a minimum of \$50,000 working capital <p>working capital is the excess of current assets over current liabilities.</p> <ul style="list-style-type: none"> – Current assets are defined as cash or other liquid assets convertible into cash within one year. – Current liabilities are debts that must be paid within one year, or <ul style="list-style-type: none"> • a minimum of \$250,000 in adjusted net worth <p>Reference: See Figure 1-A at the end of this chapter for VA’s calculation requirements.</p>	<p>For all lenders</p> <p>Lender’s most recent annual financial statements audited and certified by a CPA if the date of the financial statements precedes the application date by more than six months, attach a copy of the latest internal financial statement.</p> <p>Additional requirement if qualifying based on working capital</p> <p>Either</p> <ul style="list-style-type: none"> • the balance sheet must be classified to distinguish between current and fixed assets and between current and long-term liabilities, or • the information must be provided in a footnote to the statement. <p>Additional requirement if qualifying based on net worth. Adjusted net worth must be calculated by a CPA in accordance with the requirements in Figure 1-A.</p>
<p>Lines Of Credit</p> <p>The lender must have one or more unrestricted lines of credit totaling at least \$1 million.</p> <p>Unrestricted = funds are available upon demand to close loans and are not dependent on prior investor approval.</p>	<p>Letter(s) from the company(ies) verifying the amount(s) and unrestricted nature of the warehouse lines of credit.</p>

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Procedures and Criteria for Qualification (continued)

Criteria	Required Documentation
<p>Permanent Investors</p> <p>If the lender customarily sells loans it originates, it must have a minimum of two permanent investors .</p>	<p>Names, addresses and telephone numbers of two or more permanent investors.</p>
<p>Quality Control Plan</p> <p>The lender must implement a written quality control plan which ensures compliance with VA requirements and meets the criteria outlined in Figure 1-B.</p>	<p>Copy of quality control plan which meets the criteria outlined in Figure 1-B (at the end of this chapter).</p>
<p>Liaison</p> <p>The lender must designate one qualified employee and an alternate to be the primary liaison with VA.</p> <p>The liaison officers should be thoroughly familiar with the lender's operation and be able to respond to any query from VA concerning a particular VA loan or the firm's automatic authority.</p>	<p>VA Form 26-8736 contains a space in which to indicate liaison selections.</p>
<p>Sanctions For Prior Acts</p> <p>There must be no factors indicating the lender would not exercise the necessary care and diligence.</p>	<p>A statement of facts is required in any case where</p> <ul style="list-style-type: none"> • the lender, or any director or principal officer was ever debarred or suspended or otherwise formally sanctioned by the Government, or • any director or officer was ever a director or officer of a debarred or suspended firm, or • the lender had a servicing contract with an investor terminated for cause.

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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Application Checklist

Figure 1-C (at the end of this chapter) provides a quick-reference checklist of application materials and requirements.

States in which the Lender Originates VA Loans

List the states in which the lender originates VA loans in item 9 of VA Form 26-8736. Explain the nature of the lender's presence in each state in which it wants to close loans on an automatic basis.

The explanation may be included on VA Form 26-8736 or a separate document in the application package.

VA approves a lender's automatic authority for use **only** in specific states where the lender has a presence.

- A "presence" can be a branch office or a VA-recognized agent located within the state.
Note: The lender may request VA recognition of an agent simultaneously with its application for automatic authority. (See Section 1.08.)
- Presence in a bordering state can qualify if it is within a reasonable commuting distance for conducting on-location lending transactions (50 miles or an hour's drive).

The "presence" requirement can also be satisfied if the lender operates in the state through telemarketing or the Internet. The lender must submit to VA an explanation of how

- the lender will conduct operations in the state, and
 - contacts with prospective borrowers will be made.
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1.05 How a Nonsupervised Lender Applies for Automatic Authority, Continued

Notification of VA Decision

The VA office of jurisdiction reviews the application materials submitted, writes comments and recommendations regarding the lender's qualifications, and forwards its comments and recommendations and the application to VA's Central Office for a determination.

VA's Central Office sends the lender written notice of its decision and, if approved, any conditions attached to its automatic authority.

The lender is expected to use its automatic authority to the maximum extent possible.

Note: Loans submitted for prior approval that are **not** required to be submitted for prior approval **must** include a written explanation from the underwriter.

Probationary Period

The lender will be subject to a probationary period of one year, during which the VA offices to which it submits loans will carefully review the quality of the lender's underwriting, completeness of loan submissions, compliance with VA requirements and procedures, and delinquency and foreclosure rates.

- VA may withdraw automatic authority at any time during the probationary period based on poor underwriting and/or consistently careless processing.
 - At the expiration of the probationary period, VA sends the lender written notice of its decision to terminate the probationary period, extend it, or revoke automatic authority.
-

1.06 Certifications a Nonsupervised Automatic Lender Must Comply With

Don't Close Loans for Others

The president or principal officer must certify on VA Form 26-8736 that the lender will **not** close loans on an automatic basis:

- As a courtesy or accommodation for other mortgage lenders regardless of whether or not such lenders are approved themselves to close on an automatic basis, (This does not prevent the lender from closing loans based on documents prepared by an authorized agent.)
 - For any builder or other entity in which the lender has a financial interest or which it owns, is owned by, or with which it is affiliated, without the express approval of the VA.
 - See “Approval to Close Loans Involving an Affiliate” in Section 1.07, for details.
 - If the only connection between the lender and the builder is a construction loan, the lender may close the permanent mortgage on an automatic basis without VA approval.
-

Notify VA of Significant Changes including Merger or Acquisition

The president or principal officer must certify on VA Form 26-8736 that the lender will notify the VA office with jurisdiction over its home office of any changes in its corporate structure, operations, or financial condition which **may** have a bearing on the lender's continued qualifications for authority to close loans automatically.

Note: This includes **all** mergers and acquisitions. See Section 1.09, for requirements in the case of a merger, acquisition, or change in ownership.

If the lender no longer meets the qualifications for automatic authority, but **no** change in ownership has occurred (that is, working capital becomes inadequate), submit a plan of correction to the VA office of jurisdiction.

- Continue to close loans on the automatic basis until the lender receives a determination from VA, except
 - if the lender no longer has a VA-approved underwriter, it may no longer close loans on the automatic basis.
-

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1.06 Certifications a Nonsupervised Automatic Lender Must Comply With, Continued

Notify VA of Significant Changes including Merger or Acquisition
(continued)

A change in the ownership of a nonsupervised automatic lender always extinguishes the automatic authority of the lender unless the new entity is supervised.

Reference: See Section 1.09, for consequences to the lender.

All Loans Must be Reviewed by a VA-Approved Underwriter

The president or principal officer must certify that **all** prospective VA loans to be closed on an automatic basis will be reviewed and either approved or rejected by a VA-approved underwriter.

All VA-approved underwriters must be familiar with VA's credit underwriting standards and this Lender's Handbook.

Submit Annual Financial Statements

The president or principal officer must certify that the lender will submit annual financial statements audited and certified by a CPA to VA within 120 days of the end of its fiscal year. The financial statements must be sent to

Department of Veterans Affairs (262a)
810 Vermont Avenue, NW
Washington, DC 20420

The statements must show either

- a minimum of \$50,000 working capital
Either the balance sheet must be classified to distinguish between current and fixed assets and between current and long-term liabilities or the information must be provided in a footnote to the statement, or
 - a minimum of \$250,000 in adjusted net worth
Adjusted net worth must be calculated by a CPA in accordance with the requirements in Figure 1-A.
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1.06 Certifications a Nonsupervised Automatic Lender Must Comply With, Continued

**Submit Annual
Financial
Statements**
(continued)

When the lender submits its financial statements to VA Central Office, the lender **must** submit the following to the VA office of jurisdiction:

- if the lender uses agents for making VA loans, a list of VA-recognized agent relationships the lender wants to renew, and
- the annual fees specified in Section 1.11.

Any other information requested by VA. Although VA offices may issue an annual reminder notice to lenders that the above information is due, lenders bear the ultimate responsibility for timely submission of this information.

**Other
Certifications**

When the president or principal officer signs VA Form 26-8736, he or she certifies that the lender will comply with a number of other requirements. These include

- complying with VA regulations, directives, and law
 - submitting at any time to VA examination of its records and accounts
 - furnishing VA any requested information
 - maintaining \$50,000 working capital or \$250,000 adjusted net worth, and
 - using its automatic authority to the maximum extent possible; if not used, submitting an explanation as to why a loan was processed prior approval.
-

1.07 How a Nonsupervised Automatic Lender Requests Extension of Authority, Underwriter Approval, or Approval to Close Loans involving an Affiliate

Extension of Authority (Geographic)

The lender may close VA loans on an automatic basis **only** in states in which VA has approved its automatic authority, except in the case of IRRRLs. The lender may close IRRRLs (except IRRRLs to refinance delinquent VA loans) on an automatic basis in any state without a formal extension.

When the lender first applies for automatic authority, VA will approve its automatic authority for use in the states where the lender indicates it originates VA loans (item 9 on VA Form 26-8736) and has a presence.

Reference: See the letter from VA which granted the lender automatic authority to verify which states were initially approved.

Any time thereafter, the lender may request approval to close loans on an automatic basis in additional state(s) in which it has a presence.

Reference: See “States in which the Lender Originates VA Loans” in Section 1.05, for an explanation of presence.

To request an extension, send a request letter to the VA office with jurisdiction over the lender’s home office

- explain the nature of the lender’s presence in the state(s) requested, and

If “presence” in the state is based on a branch office, include a list of all branch offices in the new state.

- include the appropriate fee.
 - For an extension request (without an agent recognition request) the fee is \$100 per request regardless of the number of states requested.
 - If the lender is simultaneously requesting agent recognition in the state(s) it is requesting an extension to, submit \$100 for each agent, but no separate fee for the extension(s) requested.

The lender may **not** exercise automatic authority in the state(s) requested until VA approval is received.

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1.07 How a Nonsupervised Automatic Lender Requests Extension of Authority, Underwriter Approval, or Approval to Close Loans involving an Affiliate, Continued

Underwriter Approval

All VA loans to be closed on an automatic basis must be reviewed and either approved or rejected by a VA-approved underwriter.

A VA-approved underwriter must sign a [VA Form 26-6393, Loan Analysis](#), on each loan to certify his or her review of such loan.

The lender may request approval of additional underwriters at any time after its initial approval for automatic authority by submitting a request to the VA office with jurisdiction over its home office, including

- the appropriate fee (See Section 1.11)
- the documentation for underwriter approval described under “Procedures and Criteria for Qualification” in Section 1.05.

All VA-approved underwriters must be familiar with VA’s credit underwriting standards and this Lender’s Handbook.

All VA-approved underwriters must attend a one-day (eight hour) training course on underwriter responsibilities, VA underwriting requirements, and VA administrative requirements, including the usage of VA forms, within 90 days of approval. If the VA office of jurisdiction is unable to make such training available within 90 days, the underwriter must attend the first available training. This training is required of **all** underwriters whether approved based on experience or based on an ARU designation. It is also required of underwriters who have not underwritten VA guaranteed loans in the past 24 months. Underwriters who consistently approve loans that do not meet VA credit standards may be required to retake this training.

VA approval of an underwriter is automatically terminated (without notice) if the underwriter is no longer employed by the same lender. The lender **must** report any such circumstances to VA.

The lender may **not** continue to close loans automatically without a VA-approved underwriter.

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1.07 How a Nonsupervised Automatic Lender Requests Extension of Authority, Underwriter Approval, or Approval to Close Loans involving an Affiliate, Continued

Approval to Close Loans Involving an Affiliate

The lender may request VA approval to close loans involving an affiliate on an automatic basis (“affiliate” as used here includes a real estate brokerage firm and/or residential builder or developer that the lender has a financial interest in, owns, is owned by, or is affiliated with). The lender may request such approval at the time it applies for automatic authority or any time thereafter. Submit the request to the VA office with jurisdiction over the lender’s home office along with a corporate resolution from the lender and each affiliate indicating they are separate entities operating independently of each other.

- The lender’s corporate resolution must indicate that it will not give more favorable underwriting consideration to its affiliate’s loans.
- The affiliate’s corporate resolution must indicate that it will not seek to influence the lender to give their loans more favorable underwriting consideration.

Letters from permanent investors indicating the percentage of all VA loans based on the affiliate’s production originated by the lender over a one-year period that are past due 90 days or more. This delinquency ratio must be no higher than the national average for the same period for all mortgage loans.

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent

Limitations on Use of Agents

A lender must request VA recognition of an ongoing relationship with an agent. “Ongoing” generally means use of an agent more than four times per year.

The lender may designate any individual or entity as an agent to perform loan-related functions on its behalf or in its name.

The extent of the relationship between the lender and the agent is at the lender’s discretion.

- The lender must accept full responsibility for the acts, errors, or omissions of the agent in processing and/or closing loans.

The lender accepts this responsibility by certification on [VA Form 26-1820, Report and Certification of Loan Disbursement](#), and the corporate resolution.

- The lender may **not** subsequently claim that it should not be held accountable for inaccurate or fraudulent credit information or other loan data because it relied on the agent.
- Irregularities resulting from acts or omissions of the agent are treated as acts or omissions of the lender.
- The lender’s use of an agent will not prevent VA from taking actions in appropriate cases such as
 - denial of liability
 - claim adjustments
 - collection of the amount of any loss incurred due to irregularities, and
 - imposition of sanctions against both the lender and the agent.

If the lender is a nonsupervised automatic lender, loans made by an agent on its behalf which are closed automatically must

- only involve agents operating in states for which the lender’s automatic authority has been approved by VA, and
- be reviewed and approved by a VA-approved underwriter employed by the lender.

Continued on next page

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

Use of an Agent on a Onetime Basis If the lender uses an agent one time or very infrequently (2 to 4 times per year), it may authorize the agency relationship on a loan-by-loan basis using the lender's certification on [VA Form 26-1820](#).

- The lender must identify the agent and its function on that form.
 - No VA recognition of the agency relationship is needed.
-

How to Request VA Recognition of an Agent If the lender wishes to maintain an ongoing relationship with an agent, submit a request for recognition of the agency relationship to the VA office with jurisdiction over the lender's home office. Include a corporate resolution which contains

- the agent's name, address and the geographic area in which the agent will be originating and/or closing VA loans
- the agent's function(s) (such as, taking the loan application, ordering the credit report and verifications of employment and deposit, holding settlement)
- a statement that the lender takes full responsibility for all acts, errors, or omissions of the agent and its employees, and
- if the agent will enter into interest rate lock-in agreements on the lender's behalf, a statement that the lender will honor the lock-in.

Note: A conditional loan purchase agreement, wherein the lender agrees only to purchase the agent's production subject to the lender's review and approval, is unacceptable.

Continued on next page

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

How to Request VA Recognition of an Agent (continued)

Also include appropriate fees with the request.

- Remit a \$100 fee for each agent.
- There is no additional fee for a nonsupervised lender's simultaneous request for extension of automatic authority into a new state based on a new agent's area of operation.

The lender may begin to use an agent after VA sends recognition of the relationship to the lender in writing. Even with formal VA recognition, the lender **must** identify the agent and its function on [VA Form 26-1820](#) for each loan involving the agent.

Lenders That use a Multitude of Agents

Lenders that use a multitude of agents on an ongoing basis may submit a “blanket” corporate resolution that contains

- the agents' function(s) (such as., taking the loan application, ordering the credit report and verifications of employment and deposit, holding settlement)
- a statement that the lender takes full responsibility for all acts, errors, or omissions of its agents and agents' employees
- if agents will enter into interest rate lock-in agreements on the lender's behalf, a statement that the lender will honor the lock-in, and
- the identity of the officer(s) of the lender who is (are) delegated authority to request recognition of additional agents under the “blanket” corporate resolution and to delete agents.

Even using a “blanket” corporate resolution, a request for VA recognition must be made for each new agent and appropriate fees paid. Include the agent's name, address and the geographic area in which the agent will be originating and/or closing VA loans and refer to the “blanket” corporate resolution, giving the date the board adopted it. The lender may begin to use an agent after VA sends recognition of the relationship to the lender in writing.

Continued on next page

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

VA ID Number Each agent must contact the VA office with jurisdiction over its home office to obtain a VA lender ID number if it does not already have one. This number is used as the agent’s identifier in all VA lending transactions, whether the agent is acting as an “agent,” or on its own behalf as a “lender.”

How to Complete [VA Form 26-1820 \(Report and Certification of Loan Disbursement\)](#) If the loan is closed and funded by the lender (**not** the agent) or an agent conducts the closing but a sponsoring lender buys (funds) the loan at closing (commonly called table funding), enter the

- lender’s VA ID number in item 2b, and
- name and function of the agent in item 24J.

Note: The lender must complete items 25 and 26

If the loan is closed and funded in the agent’s name pursuant to an agency agreement, enter the

- agent’s VA ID number in item 2b
- name and function of the agent in item 24J, and
- agent’s name, followed by the words “agent for (lender’s name),” and agent’s address in 25A.

Note: The agent must complete items 25 and 26

Enter Both ID Numbers on [VA Form 26-0286](#) [VA Form 26-0286, VA Loan Summary Sheet](#), contains spaces marked “Lender VA ID Number” and “Agent VA ID Number (*If applicable*).” Always enter both ID numbers if an agent has performed any function(s) on behalf of the sponsoring lender in connection with the loan.

Continued on next page

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

Who is the LGC Issued to?

VA will issue the Loan Guaranty Certificate (LGC) to the sponsoring lender at the address which corresponds to the lender VA ID number entered on [VA Form 26-0286, VA Loan Summary Sheet](#), unless the lender requests that it be sent to the agent in the “Remarks” block of that form.

When Can an Agent Close Loans Automatically?

If the lender has automatic authority, its agent can close loans automatically on its behalf. This can be done to the extent the loans could be closed automatically if made by the lender, provided VA requirements for recognition of an agency relationship and reporting it on [VA Form 26-1820](#) have been complied with.

If the lender is a nonsupervised automatic lender, this means

- The agent must be located in a state for which the lender’s automatic authority has been approved by VA
- All loans must be reviewed and approved by a VA-approved underwriter employed by the lender

Note: The underwriter’s certification must appear on [VA Form 26-6393](#), Loan Analysis, as required for VA loans closed on the automatic basis that do not involve agents.

In other words, it does not matter whether the agent itself has automatic authority. When the agent is acting as the lender’s agent pursuant to a VA-recognized agency relationship, the conditions of the lender’s automatic authority must be complied with.

Loans closed by a lender’s agent without a VA-recognized agency relationship in place are considered loans of that agent, and **not** of the lender.

- If the agent does not itself have automatic authority, the loans are not automatically guaranteed and cannot subsequently be assigned to the lender as automatically guaranteed.
 - If the agent itself has automatic authority, the lender may purchase the loans from the agent and consider them automatically guaranteed.
-

Continued on next page

1.08 How a Supervised or Nonsupervised Automatic Lender Requests VA Recognition of an Agent, Continued

Use of Agents by Prior Approval Lenders

If the lender does not have automatic authority and wishes to use the services of an agent, the lender does **not** need to request VA recognition of the agency relationship.

- Submit all loans to VA for prior approval, and
 - when reporting the loan after closing, follow the instructions in “How to Complete VA Form 26-1820” (in this topic) to document use of the agent.
-

1.09 Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders

The Issue

Changes in the ownership or corporate structure of a lender may impact its continued qualifications for automatic authority. Lenders must notify VA whenever a merger, acquisition, or change in the ownership of the lender occurs, so that VA can evaluate any impact on the lender's participation in the VA-guaranteed loan program.

Although only the terms “merger” and “acquisition” and “selling,” “acquiring” or “surviving” entities are used in this paragraph, the concepts and procedures in this paragraph apply to every type of restructuring that has a significant impact on an organization's ownership, structure, or assets, and so on.

Required Submissions

Whenever a lender with automatic authority is involved in a merger or acquisition, it **must** submit a \$100 processing fee along with the following information to the VA office with jurisdiction over its home office:

- The names of the acquiring and selling entities, and the surviving entity
- the information listed in the “Send Information to VA” heading in Section 1.02, as applied to the surviving entity.

Note: Any of these items that remain unchanged do **not** have to be resubmitted; simply indicate that they are unchanged.

- a general description of the assets being acquired
- the addresses of all branch offices that are involved in VA mortgage lending, and whether they will continue to operate or be closed
- a list of agents to be used by the surviving entity that had already been recognized by VA as agents of the selling or acquiring entities, and
- requests for recognition of **new agents** may accompany the submission along with appropriate fees and corporate resolutions. (See Section 1.08.)

Since each merger or acquisition is unique, VA may discover that it needs to request additional information from the lender during its review.

Continued on next page

1.09 Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

Additional Submissions for Nonsupervised Automatic Lenders

Nonsupervised automatic lenders must also provide

- a resume for each new owner or principal officer (president plus any officers involved in managing loan origination functions) of the surviving entity showing mortgage lending experience, and
- a list of underwriters to be employed by the surviving entity who had already been approved by VA as underwriters for the selling or acquiring entities.

Requests for approval of new underwriters and extensions of authority may accompany the submission along with appropriate fees and application materials.

Reference: See Section 1.07.

Continued on next page

1.09 Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

Additional Submissions for LAPP Lenders

LAPP lenders must also provide a list of LAPP SARs to be employed by the surviving entity who had already been approved by VA as SARs for the selling or acquiring entities. Include their SAR ID numbers and a copy of any VA letter(s) which state that these SARs have met the VA training and case review requirements.

Additional Submissions

An additional submission is required for any of these SARs **if** the entity that employed them when they were approved by VA bore a different company name than the surviving entity. For each such SAR, submit a newly executed SAR application and lender certifications by the surviving entity, in the prescribed order. (See Chapter 15 of this Handbook.)

Exception: If the entity that previously employed the SAR was a wholly owned subsidiary of the surviving entity, this additional submission may not be required.

Also provide a list of the LAPP SARs (and their ID numbers) of the selling or acquiring entities that will no longer be employed by the surviving entity.

Requests for approval of new SARs may accompany the submission along with appropriate fees and application materials.

Reference: See Chapter 15.

Continued on next page

1.09 Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

Immediate Impact while VA Reviews Submission

A change in the ownership of a nonsupervised automatic lender always extinguishes the automatic authority (and therefore the LAPP authority) of the lender unless the new entity is supervised; such as, automatic authority is not for sale.

Whenever a supervised lender undergoes merger or acquisition, apply the standards detailed in Section 1.04, to determine whether the surviving entity is supervised.

The following table lists some of the scenarios that can emerge from a merger or acquisition and provides

- whether the surviving entity can exercise automatic authority while VA is reviewing its merger/acquisition submission, and
- any additional submissions the entity must send to VA.

Note: These are in addition to the required submissions detailed in the preceding material in this Section.

Prior Status of Restructured Entity(ies)	Status of Surviving Entity Appears to be	Additional Submissions Needed	Authority of Surviving Entity while Awaiting VA Review
Supervised and/or Nonsupervised Automatic	Supervised by a Federal entity listed in Section 1.04.	None	Automatic authority continues.
Supervised and/or Nonsupervised Automatic	Supervised by the state of Illinois or New Jersey	Copy of state license specified in Section 1.04.	Automatic authority continues.

Continued on next page

1.09 Mergers and Acquisitions Involving Supervised or Nonsupervised Automatic Lenders, Continued

Immediate Impact while VA Reviews Submission (continued)

Prior Status of Restructured Entity(ies)	Status of Surviving Entity Appears to be	Additional Submissions Needed	Authority of Surviving Entity while Awaiting VA Review
At least one of the entities was supervised	Supervised, but status is not clear. VA recognition as supervised is required under Section 1.04.	Request for recognition as supervised and information specified in Section 1.04.	If the nature and source of supervision of the surviving entity is the same as for the prior supervised entity, automatic authority continues. If supervision has changed, submit all loans for prior approval until VA makes a determination.
Nonsupervised Automatic only	Supervised, but status is not clear. VA recognition as supervised is required under Section 1.04.	Request for recognition as supervised and information specified in Section 1.04.	Submit all loans for prior approval until VA makes a determination.
Nonsupervised Automatic with different ownership than surviving entity and/or a supervised lender	Nonsupervised lender	If the surviving entity wishes to have automatic authority, it must submit a complete new application for automatic authority with the appropriate fee. (See Section 1.05.)	Automatic authority is extinguished. Submit all loans for prior approval until VA makes a determination on the application for automatic authority.
Nonsupervised Automatic with same ownership as surviving entity	Nonsupervised Lender	None	Automatic authority continues if lender retains its VA-approved underwriter(s).

1.10 Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders

General

VA can withdraw a lender's automatic authority for proper cause, after giving the lender 30 days' notice.

- This applies to both supervised and nonsupervised lenders.
- VA regulations at [38 CFR 36.4349](#) provide the framework.
- The lender may continue processing loans on a prior approval basis after its automatic authority has been withdrawn.

The remainder of this paragraph gives the reasons a lender's automatic authority can be withdrawn, and the corresponding period for which the withdrawal will be effective.

[[38 CFR 36.4349](#)]

Withdrawal for an Indefinite Period

Withdrawal for an indefinite period can be based on any of the following:

- Failure to continue meeting basic qualifying criteria.
 - For supervised lenders this includes loss of status as an entity subject to examination and supervision by a Federal or state regulatory agency.
 - For nonsupervised lenders this includes no approved underwriter, failure to maintain \$50,000 working capital or \$250,000 adjusted net worth, and/or failure to file the required financial statements.
- Any of the causes for debarment set forth in [38 CFR 44.305](#).
- During the probationary period for newly-approved nonsupervised automatic lenders, automatic authority may be withdrawn for poor underwriting or consistently careless processing.

[[38 CFR 36.4349](#)]

Continued on next page

1.10 Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders, Continued

Withdrawal for 60 Days Withdrawal for 60 days can be based on any of the following:

- Loan submissions show deficiencies in credit underwriting after repeatedly being called to the lender's attention.

Examples:

- Use of unstable sources of income to qualify borrower.
- Ignoring significant adverse credit items affecting applicant's creditworthiness.
- Employment or deposit verifications are handcarried by applicants or otherwise improperly permitted to pass through the hands of a third party.
- Consistently incomplete loan submissions after repeatedly being called to the lender's attention.
- Continued instances of disregard of VA requirements after repeatedly being called to the lender's attention.

Continued on next page

1.10 Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders, Continued

Withdrawal for 180 Days Withdrawal for 180 days can be based on any of the following:

- Loans conflict with VA credit standards and would not have been made by a lender acting prudently.
- Failure to disclose to VA significant obligations or other information so material to the veteran's ability to repay the loan that undue risk to the Government results.
- Employment or deposit verifications are handcarried by the applicant or otherwise mishandled, resulting in submission of significant misinformation to VA.
- Substantiated complaints are received that the lender misrepresented VA requirements to veterans to the detriment of their interests.

Examples:

- The veteran was dissuaded from seeking a lower interest rate based on lender's incorrect advice that such options were excluded by VA requirements.
- Closing documents show instances of improper charges to veteran after the impropriety of such charges are called to lender's attention by VA, or the lender refuses to refund such charges after notification by VA.
 - Other instances of lender actions prejudicial to the interests of veterans such as deliberate delays in scheduling loan closings.

Continued on next page

1.10 Withdrawal of Automatic Authority from Supervised or Nonsupervised Automatic Lenders, Continued

Withdrawal for 1 to 3 Years

Withdrawal for 1 to 3 years can be based on any of the following:

- Failure to properly disburse loans

Example: Loan disbursement checks are returned due to insufficient funds.

- Involvement by the lender in the improper use of a veteran's entitlement.

Example: Knowingly permitting the veteran to violate occupancy requirements.

- Lender involvement in the veteran's sale of entitlement to a third party (such as Lender makes the loan with the knowledge that the veteran is not purchasing the property to be his or her home. Instead, the veteran intends to transfer title to a third party who assumes the loan shortly after closing.)
-

1.11 Participation Fees for Supervised and Nonsupervised Automatic Lenders

Introduction

VA collects fees from lenders with automatic authority to help defray the costs of administering the Loan Guaranty Program. Always submit fees to the VA office with jurisdiction over the lender's home office. Fees consist of

- Annual participation fees, and
- administrative fees (for processing lender requests).
 - If the lender submits a request for administrative action without the correct processing fee, VA will delay processing of the request until the fee is received.
 - Fees are nonrefundable, even if the request is denied (except in cases of accidental overpayment).

Pay all fees by lender's check to the Department of Veterans Affairs.

If an agent, underwriter, or staff appraisal reviewer recognized or approved by VA for a role with one lender begins work for another lender, the new lender must request and pay the fee for a new VA recognition or approval of that individual.

Continued on next page

1.11 Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

Annual Fees for Nonsupervised Automatic Lenders

Remit fees within 120 days of the end of the lender's fiscal year to the VA office with jurisdiction of the lender's home office. If the lender has ongoing VA-recognized agency relationships, a list of agency relationships the lender wants to renew.

The fees are

- \$200 annual recertification fee, plus
- \$100 for annual renewal of each agent that acts for the lender on an ongoing basis and had been recognized by VA as the lender's agent as of the end of its fiscal year.

Exception: No annual fee is due for an agent if VA's letter of recognition is dated within the last quarter of the lender's most recent fiscal year.

- \$500 for processing an application for automatic authority.

The fee

- includes any requests submitted simultaneously for the review of underwriter nominees, and
- does not include simultaneous requests for recognition of agents. This requires an additional \$100 fee per agent.

Continued on next page

1.11 Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

**Other
Administrative
Fees for
Nonsupervised
Automatic
Lenders**

Remit fees along with requests for approval, recognition, or other VA action related to lender status.

The fees are

- \$100 for processing requests for approval of each nominee for underwriter
Not required if submitted with the request for automatic authority
- \$100 for processing requests for VA recognition of each lender agent
- \$200 for processing requests for reinstatement of lapsed or terminated automatic authority, and
- A minimum fee of \$100 per request for any other VA administrative actions pertaining to a lender's participation in the automatic lending program.

Examples:

Submission from a lender that undergoes a merger.

Processing request for extension of automatic authority to additional states.

Note: For extensions, the fee is \$100 per request no matter how many states are requested.

- If the fee to process a request is greater than \$100, VA will notify the lender.

Continued on next page

1.11 Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

Annual Fees for Supervised Lenders

Annual fees for supervised lenders are **only** required of lenders with ongoing agency relationships. Remit fees by January 31 of each year based on the lender's agency relationships in the previous calendar year, along with a list of agency relationships the lender wants to renew.

The fees are

- \$100 for annual renewal of each lender agent that acts for the lender on an ongoing basis and has been recognized by VA as the lender's agent, and
 - annual fee is due for an agent if VA's letter of recognition is dated within the last quarter of the most recent calendar year.
-

Administrative Fees for Supervised Lenders

The fees are

- \$100 for processing requests for VA recognition of each lender agent
- A minimum fee of \$100 per submission for any other VA administrative actions pertaining to a lender's participation in the automatic lending program.

Example: Submission from a lender that undergoes a merger.

- VA will notify the lender if the fee to process a request is greater than \$100.
-

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1.11 Participation Fees for Supervised and Nonsupervised Automatic Lenders, Continued

LAPP Fees

Lenders must pay a one-time \$100 fee for each staff appraisal reviewer (SAR) applicant. Remit the fee with the SAR application to the appropriate VA office. The fee is nonrefundable, even if the applicant is found not to be acceptable.

If a SAR is approved and subsequently moves to another lender, a \$100 application fee must be paid by the new employer.

For detailed information on the Lender Appraisal Processing Program (LAPP), see Chapter 15 of this Handbook.

1.12 Maintenance of Loan Records

Requirement Lenders must maintain copies of all loan origination records on VA guaranteed home loans for at least two years from the date of loan closing. Even if the loan is sold, the original lender must maintain these records (or legible copies) for the required period.

Examples of Loan Records Loan origination records include

- the loan application (including any preliminary application)
- verifications of employment and deposit
- all credit reports (including preliminary credit reports)
- copies of each sales contract and addendum
- letters of explanation for adverse credit items, discrepancies and the like
- direct references from creditors
- correspondence with employers
- appraisal and compliance inspection reports
- reports on termite and other inspections of the property
- builder change orders, and
- all closing papers and documents.

Accessibility Lenders must make these records accessible to VA personnel conducting audit reviews.

1.13 Lender ID Numbers

Purpose Each lender is assigned an ID number by VA to use as an identifier in all VA loan transactions. The ID number is linked to the mailing address provided by the lender to VA. It enables the lender to receive documents through VA's automated systems. These documents include

- information mailings to all lenders, or lenders within a certain geographic area
 - VA-generated documents pertaining to individual loans, such as the Loan Guaranty Certificate, and
 - receipts for payment of the VA funding fee.
-

Agents Agents also must have a lender ID number. Agents should use this ID number for all VA lending transactions, whether acting as an "agent" or a "lender."

The 11 Digits of the ID Number The first six digits are unique to each lender and always stay the same.

The next four digits indicate the home or branch office of the lender.

- The home office is always four zeros.
- Anything other than four zeros indicates a branch office.

A unique four digit number is assigned to each branch office for which the lender requests an ID number.

The eleventh digit is a check digit assigned by VA.

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1.13 Lender ID Numbers, Continued

How to Obtain a Lender ID Number

Most lenders obtain their lender ID numbers after sending an initial information package to VA, as described in Section 1.02 of this chapter. VA will automatically assign an ID number to the lender at that time for the home office, and may assign separate ID numbers to branch offices. (If the lender knows that it wants ID numbers for its branch offices at that time, the lender should specifically request this.)

A lender must specifically request assignment of an ID number in the following circumstances:

- The lender has not previously obtained an ID number from VA and will be acting as an agent for another lender.

Note: Request the ID number from the VA office with jurisdiction over the agent's home office location.

- The lender already has a VA ID number for its home office, but wants correspondence and loan documents related to loan transactions in a certain geographic area sent to the address of a branch office for which no separate lender ID number has previously been assigned.

Note: Request the ID number from the VA office with jurisdiction over the branch office location.

1.14 Lender Access to Training and Information

VA Training Sessions

Each VA office of jurisdiction conducts regular training sessions on VA requirements, credit standards, procedures, and so on, for lenders and other program participants in its jurisdiction.

- At a minimum, have a representative attend one VA training session per year.
- Increase participation if lender management or VA identifies a greater need.

Discuss any special training needs with the VA office of jurisdiction.

Nationally Televised Training

VA has begun offering a series of interactive televised training sessions to lenders and holders/servicers on a nationwide basis. Current and future training broadcasts are announced on VA's Lender/Servicer Internet page: <http://www.homeloans.va.gov/L&S.htm>.

Videotapes of previous broadcasts may be purchased from Multi Video Services at 1-800-800-3827.

Training Software

Free VA training software which addresses VA loan processing and appraisal issues is available through VA's Lender/Servicer Internet page.

- The file is a self-extracting compressed file named HOMESAFE.EXE.
 - Documentation is contained on a "readme.doc" file.
 - The file is very large (>5 mb). Use a 14.4 or higher speed modem or direct Internet connection.
-

Electronic Documents and Files

The Lender's Handbook, Servicing Guide, selected VA Circulars, the VA training game for lenders, and other information are all available through VA's Lender/Servicer Internet page.

To access the information on the Internet, point your browser to <http://www.homeloans.va.gov>.

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1.14 Lender Access to Training and Information, Continued

Receipt of VA Mailings

It is essential that lenders inform the appropriate VA office whenever they have an address change. Informational mailings are sent to the address associated with a lender's VA ID number.

VA Offices of Jurisdiction

Contact the VA office with jurisdiction over the lender's home office to request any information not found in this Lender's Handbook. Some VA offices have their own Internet sites with information of interest to lenders. These sites can be accessed through VA's Lender/Service Internet page.

To discuss issues on a particular loan, contact the VA office with jurisdiction over the geographic area in which the property is located.

Figure 1-A Calculation of Adjusted Net Worth

Same as HUD The method for calculating adjusted net worth for VA purposes is the same as the method for calculating adjusted net worth required by the Department of Housing and Urban Development (HUD).

CPA Requirement Adjusted net worth **must** be calculated by a CPA using an audited and certified balance sheet from the lender's latest financial statements.

Calculation Adjusted net worth is total assets minus total liabilities Minus the following unacceptable assets:

- Any assets of the lender pledged to secure obligations of another person or entity.
- Any asset due from either officers or stockholders of the lender or related entities, in which the lender's officers or stockholders have a personal interest, unrelated to their position as an officer or stockholder. Personal interest indicates a relationship between the lender and a person or entity in which that specified person (such as, spouse, parent, grandparent, child, brother, sister, aunt, uncle or in-law) has a financial interest in or is employed in a management position by the lender.

Note: In other words, amounts due from officers or stockholders of the lender, their family members, or related entities in which these officers, stockholders or family members have a financial or managerial interest.

- Any investment in related entities in which the lender's officers or stockholders (or their family members) have a personal interest unrelated to their position as an officer or stockholder.
- That portion of an investment in joint ventures, subsidiaries, affiliates and/or other related entities which is carried at a value greater than equity, as adjusted ("equity, as adjusted" means the book value of the related entity reduced by the amount of unacceptable assets carried by the related entity).

Continued on next page

Figure 1-A Calculation of Adjusted Net Worth, Continued

Calculation
(continued)

- All intangibles, such as goodwill, covenants not to compete, franchisee fees, organization costs, and so on., except unamortized servicing costs carried at a value established by an arm's-length transaction and presented in accordance with generally accepted accounting principles.
 - That portion of an asset not readily marketable and for which appraised values are very subjective, carried at a value in excess of a substantially discounted appraised value. Assets such as antiques, art work and gemstones are subject to this provision and should be carried at the lower of cost or market.
 - Any asset that is principally used for the personal enjoyment of an officer or stockholder and not for normal business purposes.
-

Figure 1-B Elements of a Quality Control Plan

Purpose	A quality control plan must be submitted with every nonsupervised lender's application for automatic authority. This exhibit outlines the criteria which the quality control plan (QC plan) must satisfy.
<hr/>	
Audit Program	<p>The QC plan must provide for</p> <ul style="list-style-type: none"> • a program of internal or external audit of the lender's compliance with VA loan processing and underwriting requirements, or • independent review by management personnel knowledgeable of such requirements who have no direct loan processing or underwriting responsibilities.
<hr/>	
Adequate Scope	<p>The QC plan must provide</p> <ul style="list-style-type: none"> • that the scope of audits or reviews be not less than 10 percent of all VA-guaranteed mortgages originated by the lender monthly, including its branches and authorized agents <p><i>Note:</i> Except that lenders making more than 140 VA mortgages monthly may use statistical sampling methods in lieu of the 10 percent</p> <ul style="list-style-type: none"> • that the loan sample include loans processed by all loan officers and underwriters and a random selection which includes loans from all branch offices and authorized agents • procedures for expanding scope when fraudulent activity or patterns of deficiencies are identified • for lenders participating in LAPP, that reviews include the quality control procedures, and • that for each branch office that originates VA loans, an on-site branch office review should be conducted at least once annually.
<hr/>	
Management Notification	The QC plan must provide for written notification of deficiencies cited as a result of audits or reviews at least quarterly to the lender's senior management.

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Figure 1-B Elements of a Quality Control Plan, Continued

**Corrective
Action by
Management**

The QC plan must require

- prompt and effective corrective action by senior management on all deficiencies identified by either the lender or VA
 - maintenance of documentation of deficiencies and corrective actions taken
 - that employees be held accountable for performance failures or errors, and
 - that for patterns of deficiencies identified, corrective instructions be provided to all relevant employees.
-

**Deficiencies
Reported to VA**

The QC plan must

- Require prompt reporting of any violation of law or regulation, false statements or program abuses by the lender, its employees or any other party to the transaction to the VA office of jurisdiction, and
 - provide for furnishing audit or review findings to VA on demand.
-

**Current VA
Underwriting
Policies and
Procedures
Maintained**

The QC plan must ensure that

- the lender's procedures are revised in a timely manner to accurately reflect changes in VA requirements. Personnel are informed of the changes.
 - Each of the lender's offices, including its approved agent(s) and branches, maintains copies of all VA publications, including regulations, handbooks, releases, and so on., which are relevant to the lender's VA loan origination activities. They must be accessible to all employees, periodically reviewed with appropriate staff, and kept current.
-

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Figure 1-B Elements of a Quality Control Plan, Continued

Only Authorized Persons Process Loans

The QC plan must ensure that all loans submitted by the lender to VA for guaranty are processed by employees of the lender or its authorized agent(s).

Funding Fees Paid

The QC plan must ensure that VA funding fees are remitted within 15 days from the date of loan closing and late charges and interest penalties are promptly submitted.

Escrow Fund Management

The QC plan must ensure that escrow funds received from borrowers are **not** excessive and are **not** used for any purposes other than that for which they are received.

Debarred Persons Not Employed

The QC plan must ensure that the lender does not employ for VA loan origination's or underwriting any individual who is debarred or suspended.

Review of Loans

The QC plan must provide for the following on loans selected for review:

- Review of loans within 90 days of loan closing.
- Written reverification of borrower's employment, deposits, and all sources of funds.
- Reordering of a new credit report from another credit source.
Note: Report may be a RMCR (Residential Mortgage Credit Report) or an in-file report which merges the records of the three national repositories of credit files, commonly known as a 3-file merge.
- The reviewer, on each loan, to determine whether underwriting conclusions and lender documentation are overall complete and accurate. Specifically, the reviewer must make a determination on each item in the table below:

1	Does each loan file contain all required loan processing, underwriting and legal documents?
2	Were all relevant loan documents not signed in blank by the borrower or employee(s) of lender, and were all corrections initialed by the borrower or employee(s) of lender?

Continued on next page

Figure 1-B Elements of a Quality Control Plan, Continued**Review of Loans** (continued)

3	Were verifications of employment, verifications of deposit and the credit report not handled by the borrower or any interested third party?
4	Do credit reports conform to Residential Mortgage Credit Report Standards (if RMCR used), and if more than one credit report was ordered, were all credit reports submitted with the loan package to VA?
5	Is there a correlation of each outstanding liability and each asset of the borrower and coborrower used to qualify for the loan to those listed on the initial loan application? <i>Note:</i> If discrepancies exist, the loan file must show they have been explained or otherwise resolved.
6	Were any outstanding judgments appearing on the credit report listed on the application with an accompanying explanation and documentation? <i>Note:</i> When there is a delinquency or judgment involving debt to the Federal Government, evidence must be provided showing the delinquent account was brought current or satisfactory arrangements were made between the borrower and the Federal agency owed, or the judgment was paid or otherwise satisfied.
7	Does the loan file contain required tax returns? <i>Note:</i> If the borrower is self-employed, the loan file must include two years' tax returns and a profit and loss statement for year to date since the end of the last fiscal year (or whatever shorter period records may be available), and a current balance sheet showing all assets and liabilities.
8	Was the HUD-1 settlement statement accurately prepared and properly certified?
9	Were fees charged to the veteran appropriate and accurate?
10	Was the loan properly documented and submitted in accordance with VA standardized loan file set-up procedure?
11	Was the loan current at the time its was submitted to VA for guaranty?
12	Did the borrower transfer the property at the time of closing or soon after, indicating possible misuse of the veteran's loan entitlement?
13	Was all conflicting information or discrepancies resolved and properly documented in writing prior to submission of the loan to VA for guaranty?

Figure 1-C Checklist—Application for Authority to Close Loans on an Automatic Basis

□ 1) **Experience - *Your firm must meet one of the following experience requirements***

□ **Company Experience**

Firm Actively Engaged In Originating VA Loans For At Least 2 Years; **And**, Firm Has Originated And Closed A Minimum Of 10 VA Loans (Excluding IRRRLs); **Or**,

Firm Actively Originating And Closing VA Loans For Less Than 2 Years; **And**, Firm Has Originated And Closed At Least 25 VA Loans (Excluding IRRRLs)

□ **Principal Officer Experience**

Documentation

Resumes For Each Principal Officer (President Plus Any Officers Involved In Managing Loan Origination Functions) Showing Mortgage Lending Experience

Experience Requirement

All Principal Officers Engaged In Origination Have **2 Recent** Years Management Experience In The Origination Of VA Loans

□ **Agent Experience**

Documentation

A Copy Of The VA Letter Approving The Firm As An Agent For The Sponsoring Lender; **And**, A Letter From A Senior Officer Of The Lender Indicating The Number Of VA Loans Submitted And Compliance With VA Requirements And Procedures; **And**, A Copy Of The Corporate Resolution

Experience Requirement

Firm Actively Operating As An Agent For An Automatic Lender For 2 Years; **And**, Originated A Minimum Of 10 VA Loans; **Or**,

Firm Actively Operating As An Agent For An Automatic Lender For Less Than 2 Years; **And**, Originated A Minimum Of 25 VA Loans

Continued on next page

Figure 1-C Checklist—Application for Authority to Close Loans on an Automatic Basis, Continued

2) **Underwriter(s)**

Documentation

[VA Form 26-8736a](#) Completed By A Senior Officer; **And**, A Current Resume Outlining The Underwriter's Specific Experience With VA Loans. If Underwriter Is Not Located In The Home Office, Certification From A Senior Officer That The Underwriter Reports To And Is Supervised By An Individual Who Is Not A Branch Manager Or Other Person With Production Responsibilities

Experience Requirement

Minimum 3 Years Experience In Processing, Preunderwriting Or Underwriting Mortgage Loans; **And**, *At Least One Recent Year Of This Experience Making Underwriting Decisions On VA Loans* (Recent = Within The Past 3 Years); **Or**,

Accredited Residential Underwriter (ARU) By The Mortgage Bankers Association

3) **Working Capital or Net Worth**

A Minimum Of \$50,000 In Working Capital Must Be Demonstrated; **Or**,

Lender Has \$250,000 Net Worth As Defined By HUD And Reported By CPA In Annual Financial Statements (See Figure 1-A)

4) **Financial Statements**

Audited And Certified By A CPA; **And**
Current To Within 6 Months Of The Application Date

5) **Line Of Credit Of At Least \$1 Million Dollars**

6) **Two Permanent Investors With Addresses, Telephone Numbers And Name(s) Of Contact Person(s)**

7) **Quality Control Plan That Meets VA Requirements** (See Figure 1-B)

8) **Designated Liaison Officer**

Continued on next page

Figure 1-C Checklist—Application for Authority to Close Loans on an Automatic Basis, Continued

- 9) Corporate Resolutions And Delinquency Data For Affiliates**
 - 10) List Of Branch Offices Or Corporate Resolutions For Agents Submitted For Additional States Approvals**
 - 11) Application Fee Submitted**
-

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