

## Chapter 3 The VA Loan and Guaranty

### Overview

---

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

Topic	See Page
3.01 Basic Elements of a VA-Guaranteed Loan	3-2
3.02 Eligible Loan Purposes	3-5
3.03 Maximum Loan	3-8
3.04 Maximum Guaranty on VA Loans	3-11
3.05 Occupancy	3-13
3.06 Interest Rates	3-17
3.07 Discount Points	3-18
3.08 Maturity	3-20
3.09 Amortization	3-21
3.10 Eligible Geographic Locations for the Secured Property	3-23
3.11 What Does VA Guaranty Mean to the Lender?	3-24
3.12 Post-Guaranty Issues	3-27

---

### 3.01 Basic Elements of a VA-Guaranteed Loan

**General rules** The following table provides general rules and information critical to understanding a VA loan guaranty. Exceptions and detailed explanations have been omitted. Instead, a reference to the section in this handbook which addresses each subject is provided.

Subject	Explanation	Handbook Section
Purpose of Guaranty	To encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure.	3.11
Amount of Guaranty	The lesser of <ul style="list-style-type: none"> <li>• the veteran’s available entitlement indicated on the COE (plus up to \$14,750 additional for certain loans over \$144,000), or</li> <li>• the maximum potential guaranty from the maximum guaranty table. (Highest possible guaranty is \$50,750)</li> </ul>	3.04
Maximum Loan Amount	Unlike other programs, VA has no specified dollar amount(s) for the “maximum loan.” The maximum loan amount depends upon <ul style="list-style-type: none"> <li>• the reasonable value of the property indicated on the CRV or NOV, and</li> <li>• the lender’s needs in terms of secondary market requirements.</li> </ul>	3.03
Down payment	No down payment is required by VA unless the purchase price exceeds the reasonable value of the property, or the loan is a GPM. The lender may require a down payment if necessary to meet secondary market requirements.	3.03
Occupancy	The veteran must certify that he or she intends to personally occupy the property as his or her home.	3.05

*Continued on next page*

### 3.01 Basic Elements of a VA-Guaranteed Loan, Continued

#### General rules (continued)

Subject	Explanation	Handbook Section
Under-writing	Flexible standards. The veteran must have <ul style="list-style-type: none"> <li>• satisfactory credit, and</li> <li>• satisfactory repayment ability               <ul style="list-style-type: none"> <li>– stable income</li> <li>– residual income (net effective income minus monthly shelter expense) in accordance with regional tables, and</li> <li>– acceptable ratio of total monthly debt payments to gross monthly income (A ratio in excess of 41% requires closer scrutiny and compensating factors.).</li> </ul> </li> </ul>	Chapter 4
IRRRLs (Streamline Refinancing Loans)	Used to refinance an existing VA loan at a lower interest rate <ul style="list-style-type: none"> <li>• No appraisal or underwriting is required.</li> <li>• Closing costs may be financed in the loan.</li> <li>• Any reasonable discount points can be charged, but only 2 discount points can be financed in the loan.</li> <li>• No cash to the borrower.</li> </ul> <p><i>Note:</i> A fixed rate loan to refinance a VA ARM may be at a higher interest rate.</p>	6.01, 6.02
Interest Rate and Points	Interest rate and points are negotiated between the lender and veteran. <ul style="list-style-type: none"> <li>• The veteran and seller may negotiate for the seller to pay all or some of the points.</li> <li>• Points must be reasonable.</li> <li>• Points may not be financed in the loan except with IRRRLs.</li> </ul>	3.06, 3.07

Continued on next page

### 3.01 Basic Elements of a VA-Guaranteed Loan, Continued

#### General rules (continued)

Subject	Explanation	Handbook Section
Funding Fee	<p>The veteran must pay a funding fee to help defray costs of the VA home loan program.</p> <ul style="list-style-type: none"> <li>• Find the percentage appropriate to the veteran's particular circumstances on the funding fee table.</li> <li>• Apply this percentage to the loan amount to arrive at the funding fee.</li> <li>• The funding fee may always be financed in the loan.</li> </ul>	8.08
Closing costs	<p>Those payable by the veteran are limited by regulation to a specific list of items plus a 1% flat charge by the lender.</p> <ul style="list-style-type: none"> <li>• Any other party, including the seller, can pay any costs on behalf of the veteran.</li> <li>• Closing costs cannot be financed in the loan except on certain refinancing loans (See Section 8.07).</li> </ul>	8.02, 8.04, 8.07
Security Instruments	<p>The lender may use any note and mortgage forms they wish as long as they contain certain VA-required clauses.</p>	9.01

## 3.02 Eligible Loan Purposes

---

### List of Eligible Loan Purposes

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

- To purchase or construct a residence to be owned and occupied by the veteran as a home
  - the loan may include simultaneous purchase of the land on which the residence is situated or will be situated
  - loans may also be guaranteed for the construction of a residence on land already owned by the veteran (A portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements.), and
  - the residential property may not consist of more than 4 family units and one business unit except in the case of certain joint loans. (See Section 7.01 for this exception.)
- To refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- To refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the veteran as a home.
- To repair, alter, or improve a residence owned by the veteran and occupied as a home.
- To simultaneously purchase and improve a home.
- To improve a residence owned and occupied by the veteran as the veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure.

These energy efficiency improvement loans can be made in conjunction with any type of VA purchase or refinancing loan.

- To purchase a one-family residential unit in a condominium housing development approved by VA.
- To purchase a farm residence to be owned and occupied by the veteran as a home.

If the loan includes the purchase of farmland, the farmland is appraised at its residential value only. (See Section 11.13.)

---

*Continued on next page*

## 3.02 Eligible Loan Purposes, Continued

---

**Ineligible Loan Purposes**

VA cannot guarantee loans made for purposes other than those listed above.

Examples of ineligible loan purposes include:

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

---

*Continued on next page*

### 3.02 Eligible Loan Purposes, Continued

---

**Cash to  
Veteran  
Generally Not  
an Eligible  
Loan Purpose**

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

- For IRRRLs, see Section 6.01.
- For cash-out refinancing loans, see Section 6.03.

For other types of refinancing loans and all purchase/acquisition loans, the veteran generally cannot receive cash from loan proceeds. The only exception is the refund of items for which the veteran paid cash, which were subsequently included in the loan amount.

*Example:* Earnest money can be refunded to the veteran on a no down payment loan.

---

### 3.03 Maximum Loan

**Does VA have  
Maximum  
Loan Amounts?**

Unlike other home loan programs, there are no maximum dollar amounts prescribed for VA-guaranteed loans.

Limitations on VA loan size are primarily attributable to two factors:

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by GNMA or whatever conduit they use to sell the loans.

GNMA currently limits the size of VA loans acceptable for its program to \$203,000, and

2. VA limits the amount of the loan to the reasonable value of the property shown on the CRV or NOV plus the cost of energy efficiency improvements up to \$6,000 plus the VA funding fee, with the following exceptions.

Exception	Maximum Loan
Interest Rate Reduction Refinancing Loan	<ul style="list-style-type: none"> <li>• Existing VA loan balance, plus</li> <li>• the cost of any energy efficiency improvements up to \$6,000, plus</li> <li>• allowable fees and charges, plus</li> <li>• up to 2 discount points, plus</li> <li>• VA funding fee.</li> </ul> <p>(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)</p>
Regular refinancing loan (cash-out)	<ul style="list-style-type: none"> <li>• 90 percent of the VA reasonable value, plus</li> <li>• the cost of any energy efficiency improvements up to \$6,000, plus</li> <li>• VA funding fee.</li> </ul>

*Continued on next page*

### 3.03 Maximum Loan, Continued

#### Does VA have Maximum Loan Amounts? (continued)

Exception	Maximum Loan
Loan to refinance: <ul style="list-style-type: none"> <li>• A construction loan</li> <li>• an installment land sales contract, or</li> <li>• a loan assumed by the veteran at an interest rate higher than that for the proposed refinancing loan</li> </ul>	The lesser of <ul style="list-style-type: none"> <li>• the VA reasonable value, or</li> <li>• the sum of the outstanding balance of the loan plus allowable closing costs and discounts, plus</li> </ul> (For construction loans, “balance of the loan” includes the balances of construction financing and lot liens, if any.) <ul style="list-style-type: none"> <li>• the cost of any energy efficiency improvements up to \$6,000, plus</li> <li>• VA funding fee.</li> </ul>
Graduated Payment Mortgage loan on existing property	<ul style="list-style-type: none"> <li>• The VA reasonable value, minus</li> <li>• the highest amount of negative amortization, plus</li> <li>• the cost of any energy efficiency improvements up to \$6,000, plus</li> <li>• VA funding fee.</li> </ul> <p><b>Reference:</b> See Section 7.06.</p>
Graduated Payment Mortgage loan on new home	97.50 percent of the lesser of <ul style="list-style-type: none"> <li>• the VA reasonable value or</li> <li>• the purchase price, plus</li> <li>• the cost of any energy efficiency improvements up to \$6,000, plus</li> <li>• VA funding fee.</li> </ul> <p><b>Reference:</b> See Section 7.06.</p>

Continued on next page

### 3.03 Maximum Loan, Continued

---

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

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

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

---

### 3.04 Maximum Guaranty on VA Loans

**Maximum Guaranty Table** The maximum guaranty on a VA loan is the lesser of

- the veteran's available entitlement (plus \$14,750 for purchase or construction loans or IRRRLs greater than \$144,000), or
- the maximum potential guaranty amount indicated below.

Loan Amount	Loan Type(s)	Maximum Potential Guaranty	Special Provisions
Up to \$45,000	All	50 percent of the loan amount	Minimum guaranty of 25% on IRRRLs
\$45,001 to \$56,250	All	\$22,500	Minimum guaranty of 25% on IRRRLs
\$56,251 to \$144,000	All	40 percent of the loan amount, with a maximum of \$36,000	Minimum guaranty of 25% on IRRRLs
Greater than \$144,000	Must be for: <ul style="list-style-type: none"> <li>• Purchase or construction of a home, or</li> <li>• Purchase of a condominium unit, or</li> <li>• Refinancing with an IRRRL</li> </ul>	25 percent of the loan amount, with a maximum of \$50,750	Cash-out refinances have a maximum guaranty of \$36,000  Minimum guaranty of 25% on IRRRLs
Any	Joint Loans	→	See Section 7.01.
	Energy Efficient Mortgages	→	See Section 7.03.
	Construction loans on which construction is incomplete	→	See Section 7.02.
	Supplemental loans	→	See Section 7.05.

*Continued on next page*

### 3.04 Maximum Guaranty on VA Loans, Continued

---

#### Maximum Guaranty Table (continued)

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

For the maximum guaranty on loans for manufactured homes that are not permanently affixed (such as, not considered real estate) see 38 U.S.C. 3712 and/or contact VA.

**[38 U.S.C. 3712]**

---

## 3.05 Occupancy

---

### The Law on Occupancy

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

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

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

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

---

### When Can a Spouse Satisfy the Occupancy Requirement?

Occupancy (or intention to occupy) by the spouse satisfies the occupancy requirement for a veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time; that is, a veteran assigned to an overseas or other remote duty station.

Occupancy by the spouse may also satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time because of distant employment other than military service.

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

For an IRRRL, a certification that the spouse previously occupied the dwelling as a home will satisfy the requirement.

**No family member or person other than the veteran's spouse can satisfy the occupancy requirement for the veteran.**

---

*Continued on next page*

### 3.05 Occupancy, Continued

---

**What is a “reasonable time”?**

Occupancy within a “reasonable time” means within 60 days after the loan closing. More than 60 days may be considered reasonable if both of the following conditions are met:

- the veteran certifies that he or she will personally occupy the property as his or her home at a specific date after loan closing, and
- there is a particular future event that will make it possible for the veteran to personally occupy the property as his or her home on the specific future date.

Occupancy at a date beyond 12 months after loan closing generally cannot be considered reasonable by VA.

---

**Occupancy After Retirement**

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

- verify the veteran’s eligibility for retirement on the specified date, and

*Note:* Include a copy of the veteran’s application for retirement submitted to his or her employer with the loan submission.

- carefully consider the applicant’s income after retirement.

*Note:* If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

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

---

*Continued on next page*

### 3.05 Occupancy, Continued

---

**Delayed  
Occupancy Due  
to Property  
Repairs or  
Improvements**

Home improvements or a refinancing loan for extensive changes to the property which will prevent the veteran from occupying the property while the work is being completed constitute exceptions to the “reasonable time” requirement.

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

---

**Intermittent  
Occupancy**

The veteran need not maintain a physical presence at the property on a daily basis. However, occupancy “as the veteran’s home” implies that the home is located within reasonable proximity of the veteran’s place of employment. If the veteran’s employment requires the veteran’s absence from home a substantial amount of time, the following 2 conditions must be met:

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

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

---

**Unusual  
Circumstances**

Discuss unusual circumstances of occupancy with the appropriate VA office or submit a description of the circumstances to the VA office for prior approval.

---

*Continued on next page*

### 3.05 Occupancy, Continued

---

**The Certification**

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

- [VA Form 26-1802a, Addendum to the Uniform Residential Loan Application](#), at the time of loan application (prior approval loans only), and
- [VA Form 26-1820, Report and Certification of Loan Disbursement](#), at the time of loan closing (all loans).

This satisfies the lender's obligation to obtain the veteran's occupancy certification.

The lender may accept the occupancy certification at face value unless there is specific information indicating the veteran will not occupy the property as a home or does not intend to so-occupy within a reasonable time after loan closing.

Where doubt exists, the test is whether a reasonable basis exists for concluding that the veteran can and will occupy the property as certified. Contact the appropriate VA office if the lender cannot resolve issues involving the veteran's intent by applying this test.

---

## 3.06 Interest Rates

---

**Requirement** VA no longer prescribes interest rates for VA guaranteed loans. The interest rate is negotiated between the veteran-borrower and the lender to allow the veteran to obtain the best available rate.

---

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

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

- reunderwriting to ascertain the veteran's continued ability to qualify for the loan
- documentation of the change, and
- a new or corrected URLA with any corrections initialed and dated by the borrower.

**Reference:** For prior approval loans, see Section 5.04.

---

### 3.07 Discount Points

---

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

---

**When Can Points be Included in the Loan?** Discount points may be rolled into the loan only in the case of refinancing loans, subject to the following limitations:

***Interest Rate Reduction Refinancing Loans***

A maximum of 2 discount points can be rolled into the loan.

If the borrower pays more than 2 points, the remainder must be paid in **cash**.

***Refinancing of Construction Loans, etc.***

For loans to refinance:

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

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

***Reference:*** See the maximum loan limitations in Section 3.03.

***Cash-out Refinancing Loans***

While discount points cannot specifically be included in the loan amount, the borrower can receive cash from loan proceeds, subject to maximum loan limits (See Section 3.03). The cash received by the borrower can be used for any purpose acceptable to the lender, including payment of reasonable discount points.

---

*Continued on next page*

### 3.07 Discount Points, Continued

---

**Changes to the Agreed Upon Discount Points**

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

Any increase in discount points requires

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

**Reference:** For prior approval loans, see Section 5.04.

---

## 3.08 Maturity

---

### Maximum Maturity

- Amortized loans: 30 years and 32 days,
- Nonamortized loans: five years.

In addition, every loan must be repayable within the estimated economic life of the property securing the loan.

The period for repayment of a loan is measured from the date of the note or other evidence of indebtedness.

---

### Maturity Extending Beyond the Maximum

VA regulations provide that any amounts which fall due beyond the maximum maturity automatically fall due on the maximum maturity date.

Thus, if a lender inadvertently makes a loan which exceeds the maximum maturity, it may still be subject to guaranty.

However, the regulations also limit the amount that can be collected as a final installment, such as, they prohibit excessive ballooning. The holder of a loan which violates this provision may desire to correct the situation through means which are legally proper in the jurisdiction.

**Reference:** See Section 3.09.

---

### 3.09 Amortization

---

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

Generally, VA loans must be amortized as follows:

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

Exceptions to these requirements are made in the case of

- Graduated Payment Mortgages (GPMs) - See Section 7.06
  - Growing Equity Mortgages (GEMs) - See Section 7.07
  - Alternative amortization plans prior approved by VA, and
  - Construction loans.
- 

**Alternative Amortization Plans** Certain amortization plans which do not meet the requirements described above may be used if approved in advance by VA. A lender may submit an amortization plan to VA for prior approval if the plan

- is generally recognized; that is, is used extensively by established lending institutions, but
  - does not meet the requirements of approximately equal periodic payments and a reduction in principal not less often than annually (Other than graduated payment mortgages and growing equity mortgages).
- 

*Continued on next page*

### 3.09 Amortization, Continued

---

**Special Provisions for Construction Loans**

See “Amortization” in Section 7.02.

---

**Standard and Springfield Plans**

The Standard and Springfield plans satisfies VA amortization requirements.

- The Standard plan provides for equal payments over the life of the loan. The amount applied to interest decreases, with a corresponding increase in the amount applied to principal.
  - The Springfield plan provides for gradually decreasing payments over the life of the loan. The amount applied to interest decreases, while the amount applied to principal remains constant.
-

### 3.10 Eligible Geographic Locations for the Secured Property

---

<b>Where Can the Property be Located?</b>	Real property securing a VA guaranteed loan must be located in the United States, its territories, or possessions (Puerto Rico, Guam, Virgin Islands, American Samoa and the Northern Mariana Islands).
---	---

---

### 3.11 What Does a VA Guaranty Mean to the Lender?

---

**Protection  
Against Loss**

VA guarantees a portion of the loan, identified on the VA Loan Guaranty Certificate (LGC) by percentage and dollar amount. If a loss ultimately occurs on the loan, VA will reimburse the loan holder for all or part of such loss

- limited by the stated percentage and dollar amount of the guaranty
  - limited by any VA maximums for reasonable and customary foreclosure expenses, and
  - subject to the lender's compliance with applicable law and regulations.
- 

**Lender  
Responsibility**

It is the lender's responsibility to comply with all laws and regulations related to the VA loan guaranty program, and thereby prevent VA's denial or reduction of a payment on a future claim. A lender can accomplish this by ensuring that its employees who perform work related to VA lending

- understand and comply with VA policies, procedures and regulations, and applicable law, and
  - direct questions to VA when issues arise that are not addressed in this handbook or other materials provided by VA.
- 

**When is a Loan  
that was Closed  
Automatically  
Guaranteed?**

A loan is automatically guaranteed by VA upon closing (prior to issuance of the LGC) provided the loan was made by either

- a supervised or a nonsupervised lender with automatic authority, and
  - the lender complied with applicable law and regulations.
- 

*Continued on next page*

### 3.11 What Does a VA Guaranty Mean to the Lender?, Continued

---

**When is a Prior Approval Loan Guaranteed?**

A prior approval loan is also guaranteed by VA upon closing (prior to issuance of the LGC) provided

- the closed loan matches the proposed loan upon which the Certificate of Commitment was based, and
- the lender complied with applicable law and regulations.

---

**What is Evidence of Guaranty?**

Evidence of guaranty is VA Form 26-1899, Loan Guaranty Certificate, which represents tangible proof to the lender that VA's guaranty is given in good faith. It is contingent upon

- the veteran, property and purpose of the loan being eligible
- no fraud or material misrepresentation on the part of the lender, and
- the lender's compliance with applicable law and regulations.

For example, VA may deny or reduce payment on a future claim based on the lender or holder's noncompliance whether or not VA has issued evidence of guaranty on the loan.

---

**Total Loss of Guaranty**

Willful fraud or material misrepresentation by the lender or holder, or by an agent of either, will relieve VA of liability for payment of any claim on the loan. VA also has no liability in the case of

- forgery on the note, mortgage, loan application, or other loan documents, or
- a Certificate of Eligibility or discharge papers that are counterfeited, falsified, or not issued by the Government.

A holder of a VA loan who acquired the loan without notice or knowledge of fraud or material misrepresentation in procuring the guaranty, will not be denied payment of any claim on the loan by reason of such fraud or material misrepresentation.

---

*Continued on next page*

### 3.11 What Does a VA Guaranty Mean to the Lender?, Continued

---

**Partial Loss of Guaranty**

A holder of a VA loan who fails to comply with applicable law and regulations may receive only partial payment of a claim if VA's liability increases due to the holder's noncompliance. Material misrepresentation which is not willful has the same consequence.

No claim will be paid on such loan until the amount of any increase in VA's liability is known. The burden of proof is on the holder to establish that VA's increased liability is not due to the holder's noncompliance or misrepresentation.

Examples of noncompliance with applicable law and regulations which may lead to an increase in VA's liability include

- failure to obtain and retain the required lien on property to secure the loan
  - failure to include the power to substitute trustees
  - failure to procure and maintain insurance coverage
  - failure to advise VA as to default
  - failure to provide notice of intention to begin foreclosure action
  - failure to provide notice to VA in any suit or action, or notice of sale
  - improper release, conveyance, substitution or exchange of security
  - lack of legal capacity of a party to the transaction
  - failure to assure that escrowed/earmarked funds are expended in accordance with the agreement, and
  - failure to take into consideration limitations upon the quantum or quality of the estate or property.
-

## 3.12 Post-Guaranty Issues

---

### **Corrections to LGCs**

An LGC with minor typographical errors that do not compromise accurate identification of the loan is valid.

Lenders and holders may not correct or alter LGCs in any way.

If an LGC contains an erroneous VA loan number, loan amount, guaranty percentage, loan date, lender name, and/or veteran's name, return it to the appropriate VA office for corrective action.

Do not return LGCs with minor inaccuracies that do not affect accurate identification of the loan. Example of minor inaccuracy that does not require correction: Veteran's name appears as John Doe rather than John H. Doe (all other identifying information is correct)

---

### **Replacement of Missing LGC with Duplicate**

A holder may request, in writing, duplicate evidence of guaranty when the original Loan Guaranty Certificate has been lost, or destroyed, and if lost, a reasonable effort has been made to locate it. Requests for a duplicate should include

- a written request indicating the original LGC has been lost or destroyed
- clear identification of the VA loan identification number, veteran and property location
- a copy of the original note, if available
- a copy of the original LGC, if available, and
- a copy of the letter of assignment if the requesting lender is different from the original lender.

Duplicate LGCs are marked "Duplicate" and contain the following language: "By using this Loan Guaranty Certificate, you agree to hold the Department of Veterans Affairs harmless from any loss by reason of the issuance of this duplicate Loan Guaranty Certificate."

---

*Continued on next page*

### 3.12 Post-Guaranty Issues, Continued

---

**Transfer of Loans**

It is not necessary to notify VA of the assignment of a guaranteed loan.

---

**Loan Assumptions**

The assumption of VA-guaranteed loans for which commitments were made on or after March 1, 1988, requires the approval of VA (or certain lenders on VA's behalf).

*Note:* See Sections 1.13 and 1.14 of *VA Handbook H26-94-1, The VA Servicing Guide* ([www.homeloans.va.gov/service.htm](http://www.homeloans.va.gov/service.htm)), for details on authorities and procedures for processing assumptions.

---

**Paid-in-full Loans**

Lenders are required to report paid-in-full loans to VA upon full satisfaction of the loan by payment or otherwise.

***Procedures***

- Mark the Loan Guaranty Certificate (LGC) “**PAID IN FULL**”
- have an authorized officer of the holder date and sign the LGC, then
- return the LGC to VA.

If VA has endorsed the note as evidence of guaranty, cancel the endorsement and send notification to VA.

If the LGC has been lost or inadvertently destroyed, send notification to VA of full satisfaction of the loan and the disposition of the LGC.

---

*Continued on next page*

### 3.12 Post-Guaranty Issues, Continued

---

**Maintenance of Loan Records** 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.

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.

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

---

- Alternative Amortization Plans, 3-21
- Amortization, 3-21
- Amortization Requirement, 3-21
- Amount of Guaranty Rules, 3-2
- Automatically Guaranteed Loans, 3-24
- Cash-out Refinancing Loans, 3-18
- Changes to the Agreed Upon Discount Points, 3-19
- Changes to the Agreed Upon Interest Rate, 3-17
- Closing Costs Rules, 3-4
- Corrections to LGCs, 3-27
- Delayed Occupancy, 3-15
- Discount Point Requirements, 3-18
- Discount Points, 3-18
- Down payment, 3-10
- Down Payment Rules, 3-2
- Elements of a VA-Guaranteed Loan, 3-2
- Eligible Geographic Locations for the Secured Property, 3-23
- Eligible Loan Purposes, 3-5
- Evidence of Guaranty, 3-25
- Funding Fee Rules, 3-4
- Graduated Payment Mortgage Loan on Existing Property Exception, 3-9
- Graduated Payment Mortgage Loan on New Home Exception, 3-9
- Ineligible Loan Purposes, 3-6
- Interest Rate and Points Rules, 3-3
- Interest Rate Reduction Refinancing Loan Exception, 3-8
- Interest Rate Reduction Refinancing Loans, 3-18
- Interest Rate Requirement, 3-17
- Interest Rates, 3-17
- Intermittent Occupancy, 3-15
- IRRRLs Rules, 3-3
- Lender Responsibility, 3-24
- List of Eligible Loan Purposes, 3-5
- Loan Assumptions, 3-28
- Loan to Refinance Exception, 3-9
- Maintenance of Loan Records, 3-29
- Maturity, 3-20
- Maturity Extending Beyond the Maximum, 3-20
- Maximum Guaranty on a VA loan, 3-11
- Maximum Loan, 3-8
- Maximum Loan Amount Rules, 3-2
- Maximum Loan Amounts, 3-8
- Maximum Maturity, 3-20
- Meets GNMA or Other Secondary Market Requirements, 3-10
- Occupancy, 3-13
- Occupancy After Retirement, 3-14
- Occupancy by the spouse, 3-13
- Occupancy Law, 3-13
- Occupancy Requirement Certification, 3-16
- Occupancy Rules, 3-2
- Occupancy within a “reasonable time”, 3-14
- Paid-in-full Loans, 3-28
- Partial Loss of Guaranty, 3-26
- Points be Included in the Loan, 3-18
- Post-Guaranty Issues, 3-27
- Prior Approval Loan Guaranteed, 3-25
- Protection Against Loss, 3-24
- Purchase of More than one Separate Residential Unit, 3-6
- Purchase of Unimproved Land, 3-6
- Purchase or Construction of a Combined Residential and Business Property, 3-6
- Purchase or Construction of a Dwelling, 3-6
- Purpose of Guaranty Rules, 3-2
- Refinancing of Construction Loans, 3-18
- Regular Refinancing Loan Exception, 3-8
- Replacement of Missing LGC, 3-27
- Requirements for Cash to the Veteran from Loan Proceeds, 3-7
- Satisfying the Occupancy Requirement, 3-13
- Security Instruments Rules, 3-4
- Special Provisions for Construction Loans. *See Section 7.02*
- Standard and Springfield Plans, 3-22
- Total Loss of Guaranty, 3-25
- Transfer of Loans, 3-28
- Under Writing Rules, 3-3
- Unusual Occupancy Circumstances, 3-15

VA Guaranteed Loan General rules, 3-2  
VA Loan and Guaranty, 3-1  
VA Loan Size Limitations, 3-8

What Does a VA Guaranty Mean to the  
Lender, 3-24