

**Veterans Benefits Administration  
Department of Veterans Affairs  
Washington, D.C. 20420**

**To: Lenders and Other Participants in the VA Loan Guaranty Program**

**Subject: Transmittal of VA Pamphlet 26-7, Revised, VA Lender's Handbook**

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**Purpose**

Enclosed is revised VA Pamphlet 26-7, VA Lender's Handbook, Guaranty of Loans to Veterans. The new Lender's Handbook generally contains the same information as the edition it replaces. However, the information has been reorganized and reformatted in a manner intended to make it easier to find specific material.

This handbook should be used by all lenders making VA loans, including their branch offices and agents, and any other program participant for whom it is important to know the loan processing and construction and valuation aspects of VA lending.

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**Additional Copies**

Additional copies may be downloaded off the Internet (see section CI.01).

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**Explanation of New Format**

Handbook chapters are broken down into numbered and titled sections, which are further broken down into subject headings. The subject headings appear as captions to the left of the text they describe, enabling the reader to find desired material faster. Detailed tables of contents and a subject matter index have been added to further assist in the search for specific material.

The use of bullets and shortening of sentences and paragraphs are features of the new format intended to simplify the material and enhance understanding. They should not be interpreted as conveying a more rigid approach to VA loanmaking. For example, the intent of chapter 4 on underwriting is still to provide mere guidance, while emphasizing the reasonable judgment and flexibility of lenders in underwriting VA loans.

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**Current Issues  
and Appendices**

The material behind the “Current Issues” tab at the beginning of the handbook is intended to call the attention of program participants to evolving issues. These issues may have only temporary impact or may ultimately be incorporated into the main text of this handbook.

There are three appendices after the main body of the handbook. Appendix A lists the address and phone number of each VA loan guaranty office by VA function and geographic area. Appendix B is an updated list of VA forms and their uses. Appendix C contains instructions for transmitting the VA funding fee electronically.

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**Significant  
Changes to be  
Aware of**

Please note the following areas where substantive policy changes have been incorporated into the new Lender’s Handbook **OR** new clarifying material has been added:

Chapter 1

- Section 1.02 revises the information that any lender who begins originating loans in a particular jurisdiction must submit to the appropriate VA office.
- Section 1.04 clarifies which lenders VA considers “supervised.”
- Section 1.09 describes the information VA needs to evaluate the merger, acquisition or other restructuring of a lender with automatic authority, and the impact of the restructuring on the lender’s automatic authority.
- Section 1.12 explains the requirements for record retention by lenders.
- Section 1.13 explains VA ID codes for lenders.
- Section 1.14 describes how lenders can access training and information pertinent to the VA Home Loan Program, including electronic documents and files.

Chapter 2

- Section 2.02 describes the information on the Certificate of Eligibility and how the lender should interpret that information.
- Section 2.03 explains how to apply for Certificate of Eligibility through the VA Home Loan Eligibility Centers.

Chapter 3

- Section 3.11 describes what a VA guaranty means to the lender, when the guaranty is effective, and what the lender’s responsibilities are with respect to VA-guaranteed loans.

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**Significant  
Changes to be  
Aware of  
(continued)**

Chapter 4

- Section 4.08 discusses the required documentation for Automated Underwriting.

Chapter 5

- Section 5.03 contains procedures for lenders to request approval to use imaged documents.

Chapter 6

- Section 6.01 clarifies who can get an Interest Rate Reduction Refinancing Loan (IRRRL) and procedures the lender should follow if the new obligor(s) are different than the obligor(s) on the loan being refinanced.
- Section 6.01 explains the circumstances under which the borrower can receive cash at closing of an IRRRL.
- Section 6.02 clarifies procedures for processing an IRRRL made to refinance a delinquent loan.

Chapter 7

- Section 7.01 provides details on VA joint loans.
- Section 7.05 provides details on supplemental loans.
- Section 7.11 provides details on loans for manufactured homes classified as real estate.

Chapter 8

- Section 8.03 clarifies fees and charges that the borrower cannot pay, as well as the treatment of attorney's fees.
- Section 8.04 explains that anyone can pay fees and charges on behalf of the borrower.
- Section 8.06 explains what happens to fees and charges already incurred if the loan never closes.
- Section 8.07 identifies which fees and charges may be included in the loan amount.

Chapter 9

- Section 9.04 addresses secondary borrowing.
- Section 9.09 establishes procedures for setting up escrows for postponed completion of improvements.
- Section 9.10 explains VA's policy on flood insurance for properties located in a special flood hazard area.
- Section 9.11 explains VA's policy on escrows for taxes and insurance.

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**Significant  
Changes to be  
Aware of  
(continued)**

Chapters 10-14, generally

These chapters have been revised to clarify and expand upon VA policy for manufactured homes on a permanent foundation regarding appraisal requests, construction exhibits, appraisal procedures, minimum property requirements, notices of value and compliance inspections.

Chapter 10

- Sections 10.03 and 10.04 describe updated appraisal request procedures and encourage the use of the Internet and electronic mail.
- Section 10.05 eliminates the “Special Exemption” processing requirement. This section also specifies that a property that is less than one year old must be owner occupied (not just occupied) in order to be considered existing construction.
- Sections 10.05 and 10.08 clarify the distinction between “proposed construction”, “under construction”, and “new construction.” These sections also explain that a one-year builder’s warranty is acceptable in new construction case, as an option to the ten-year protection plan coverage. The number of veterans who are eligible for VA assistance with construction complaints is increased.
- Section 10.07 explains the streamlining of the builder approval process. The burden of determining that proposed construction contracts are acceptable is shifted from the lender to the builder. This eliminates the need for VA to provide the builder with certain construction exhibit-related information in every proposed construction cases and eliminates the need for a separate VA Form Letter 26-312, Builders and Sponsors Connected With the VA Loan Guaranty Program. (see also Section 10.07, Figure 1).
- Section 10.08 clarifies the definition of “customer preference items” for new construction cases.
- Section 10.10:
  - Reduces construction exhibit requirements. The requirements for grade levels on plot plans and for heating and cooling load calculations and layout, and for certain information required on the Building Program Statement for “masters” are all eliminated.
  - Allows plan certifications to be made by technically qualified builders and eliminates the requirement that plan certifiers be approved by VA.
  - Explains that builders are allowed to submit their own form for specifications if the form is substantially the same as VA Form 26-1852, and that builders are permitted to submit HUD Form 924 in lieu of a separate construction exhibit certification.
  - Encourages the use of reduced-size construction exhibits.

**Significant  
Changes to be  
Aware of  
(continued)**

Chapter 10 (continued)

- Section 10.10 (continued):
  - Changes the plan certification language to eliminate the need for a separate certification regarding energy efficient construction and lead in the water distribution system (see also Section 13.07).
- Section 10.11 clarifies that HUD value determinations are acceptable for conversion for VA use under certain circumstances.
- Section 10.12 explains that VA offices may give fee appraisers permission to collect appraisal fees in advance from appraisal requesters with long-standing, well-documented appraisal payment problems. This section also prohibits fee appraisers from charging veterans more than their customary fee for similar services and permits the fee appraisers to require payment in advance under certain circumstances.

Chapter 11

- Section 11.03 establishes that fee appraisers are required to complete VA appraisals as quickly as appraisers for convention loans are completed in the area where the property is located, but not more than five (5) business days.
- Section 11.05 updates appraisal request procedures and encourages the use of telefax and electronic mail (email), as appropriate (see also Sections 10.03 and 10.04).
- Section 11.12 eliminates the excess land “penalty” for farm residences and explains the new policy for unvented space heaters. (see also Section 13.06).

Chapter 13

- Section 13.06
  - Establishes a 90-day validity period for wood-destroying insect infestation report forms.
  - Limits lead-based paint-related considerations to properties built prior to 1978.
  - Adds language to promote consistency in the application of VA requirements by VA field stations.
- Section 13.07 discourages the unnecessary assignment of a fee compliance inspector to inspect existing construction repairs and further explains the new policy for unvented space heaters (see Section 11.12). This section also clarifies that plan certification language is changed to eliminate the need for a separate certification regarding energy efficient construction and lead in the water distribution system see Section 10.10).

**Significant  
Changes to be  
Aware of  
(continued)**

Chapter 13, (continued)

- Section 13.08 clarifies that the validity period for all proposed construction cases is one year, unless there are extenuating real estate market-based circumstances.
- Section 13.09 streamlines the processing of reconsideration of value requests by allowing lenders to make the request directly to the fee appraiser in every case and allowing the SAR to receive any fee appraiser recommendation regarding the request if an increase in value of not more than two percent is warranted.

Chapter 15

- Section 15.04 explains the reduced requirements for an experienced LAPP SAR to train a new SAR and new quality control-related measures added to the process. Under these reduced requirements, the experienced SAR must no longer be located in the same office as the new SAR. Both SARs must now sign the SAR certification for the new SAR's initial cases, and the letter to VA regarding completion of the new SARs training requirements must include the VA case number for at least five of those initial cases.
- Section 15.07 expands LAPP authority to include all VA appraisals except those involving masters, foreclosures, partial release of security, and conversion of HUD value determinations.

Chapter 16

This chapter:

- Eliminates VA approval of PUDs.
- Explains that VA approval of condominiums can be expedited with an attorney certification that the project's organizational documents meet VA requirements.

Chapter 17

- Section 17.01 explains the impact of VA sanctions on program participants and how to identify parties subject to VA sanctions.
- Section 17.05 provides basic information on debarment and suspension.
- Section 17.06 provides basic information on limited denial of participation.
- Section 17.07 provides basic information on sanctions based on unfair sales contract provisions or marketing practices.
- Section 17.08 provides basic information on sanctions based on violations of equal housing opportunity laws.

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**Rescissions**

VA Pamphlet 26-7, (Revised), dated March 1991, and changes 1 through 33 to that edition

**AND**

Related Circulars: 26-69-31; 26-74-24; 26-77-26; 26-80-34 and changes 1, 2, 3 and 4; 26-83-45; 26-83-50; 26-85-2 and change 1; 26-85-27; 26-85-36; 26-86-17; 26-90-13; 26-91-7; 26-92-14 and change 1; 26-92-26; 26-93-17; 26-93-25; and 26-95-3

Sincerely yours,

Director, Loan Guaranty Service