Section 2.23 – Veterans Administration (VA) Loan Program

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Veteran’s Administration (VA)
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<th>Features</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>No down payment on total loan amounts less than or equal to $417,000 for purchase and construction loans if the veteran has full entitlement.</td>
<td>Veterans may retain their savings, if any, for other purposes. Offers an advantage to borrowers who have been unable to accumulate savings.</td>
</tr>
<tr>
<td>Monthly mortgage insurance is not required.</td>
<td>The monthly payment is less without having to pay a monthly fee.</td>
</tr>
<tr>
<td>Conforming and Jumbo fixed rate loans are available.</td>
<td>The veteran has a choice as to what program is best suited for his/her needs. AUS underwriting on the fixed rate loans only.</td>
</tr>
<tr>
<td>4% seller concession limitation does not include most closing costs.</td>
<td>Allows seller to contribute more toward the transaction.</td>
</tr>
<tr>
<td>Debt ratio of 41% for loans requiring traditional underwriting and 50% for total loan amount of $417,001 to $1,033,000 processed through an AUS engine.</td>
<td>For ease in qualifying, VA does not require a housing ratio and has a higher allowable debt ratio.</td>
</tr>
<tr>
<td>The loan may be assumed under the original terms if the prospective purchaser qualifies for the loan.</td>
<td>The assumption feature offers an attractive resale option, if interest rates at time of resale are higher than the VA loan.</td>
</tr>
<tr>
<td>The borrower can prepay the entire indebtedness without penalty; or an amount not less than one (1) installment or $100; whichever is less may be prepaid.</td>
<td>Allows borrower to payoff loan at any time without restriction or penalty.</td>
</tr>
<tr>
<td>100% cash-out/regular refinance loans are allowed.</td>
<td>No equity is required for loan amounts up to $417,000. Higher loan amounts may be allowed with sufficient entitlement and equity as applicable.</td>
</tr>
<tr>
<td>Jumbo Loan Amounts</td>
<td>Allows total loan amounts $417,001 to $1,033,000 for purchases and cash-out/regular refinances.</td>
</tr>
</tbody>
</table>

Continued on next page
Overview, Continued

Introduction

This product description is designed to provide information on VA loans that are offered through traditional underwriting, Fannie Mae’s Desktop Underwriter (DU), and Freddie Mac’s Loan Prospector (LP).

The information provided in this product description DOES NOT include any Regional Loan Center policies, which may vary from standard Veterans Administration (VA) guidelines. It is the responsibility of the lender to determine the guidelines specific to its location.

General Information

- Department of Veterans Affairs (VA) loans are guaranteed by the Federal Government. They are available to eligible veterans and, under certain circumstances, spouses of veterans.
- For government insuring and servicing requirements, the veteran utilizing VA entitlement in the transaction MUST be the “primary” borrower on a loan application when there is a non-veteran borrower, regardless of the amount of income or credit that is being used to qualify the borrower or the amount of assets being contributed into the transaction.

  Note: If the borrowers are two unmarried veterans and both are utilizing their entitlement, the loan must be underwritten on prior approval basis by VA.

- Conforming and non-conforming fixed rate products are available.

  Note: Total loan amounts of $417,001 to $1,033,000 are eligible for fixed rate transactions ONLY. These loans are considered “jumbo” and will be priced as “jumbo” loans.

- SunTrust sells VA loans on the secondary market by pooling them in Ginnie Mae pass-through mortgage-backed securities. The requirements of both VA and Ginnie Mae must be fulfilled without exception to produce a saleable loan.

AUS Guidelines

Fannie Mae DU and Freddie Mac LP information can be found under the appropriate topic and subtopic when applicable. AU systems setup and processing is located in the AUS section of this product description.

Total Loan Amounts of $417,001 to $1,033,000

- All VA Jumbo applications MUST be evaluated by DU or LP and MUST receive a DU “Approve/Eligible” recommendation or a LP “Accept” recommendation.
- “VA Jumbo Eligibility Checklist” (COR 0360) MUST be included in the loan file submission.
- “VA Entitlement Worksheet” (COR 0341) MUST be included in the loan file submission.

Continued on the next page
Overview, Continued

Sales Contracts
- The sales contract must provide language for the VA Amendatory Clause. The VA Amendatory Clause may be included in the language of the sales contract or as a separate addendum and must be signed and dated by all parties.

- Lead Based Paint Disclosure – if not contained in the sales contract, the Lead Based Paint Disclosure must be signed by the borrowers and is required for the loan file when the property is built in or prior to 1978.

Statement of Limitations
The basic requirements for the VA Loan program are included in this product description. It is the responsibility of the originating lender to ensure that VA loans submitted to underwriting meet all the VA guidelines.

Notes:
- Lenders should refer to the VA Lender’s Handbook (also known as VA Pamphlet 26-7). VA Circular Letters and updates to the VA loan program and policy can be found on VA’s Loan Guaranty website.
- Lenders should check the web site frequently, for updates to the VA Home Loan Program.
- VA issued forms are available directly from the VA’s Electronic Forms website. The VA form number (i.e., 26-8937) or a word from the form’s name must be entered in the search feature.
- VA’s Loan Guaranty web site also provides a listing of Regional VA Loan Centers and the Eligibility Center. Lenders are responsible for checking their Regional Loan Center Site for local updates and clarifications.

Reference: See “VA Eligibility Center” under the topic “Entitlement” for additional information.

VA Loans Underwritten by Correspondent VA Automatic Underwriters
- Correspondent lenders with full VA Automatic Authority and VA Automatic underwriters on staff may sell VA loans to SunTrust Mortgage, Inc. that are underwritten and closed in full compliance with VA regulations.
- SunTrust is not responsible for training correspondent lenders or providing VA handbooks, circulars, or information letters.
Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- 2016
Ability-to-Repay Requirements

Reference: See Section 1.05: Underwriting to view the Ability-to-Repay requirements.

Loan Terms

Assumptions

- VA loans are assumable; borrower(s) must contact their current mortgage servicer for additional information.

Loan Terms

The following table shows loan terms for eligible loan types.

<table>
<thead>
<tr>
<th>Type of VA Loan</th>
<th>Eligible Loan Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase, Rate/Term Refinances, and Cash-Out/Regular Refinances to total loan amounts less than or equal to $417,000.</td>
<td>Fixed Rate: 10, 15, 20, 25, 30 years.</td>
</tr>
<tr>
<td>Jumbo Loans Purchase and Cash-Out/Regular Refinances on total loan amounts of $417,001 to $1,033,000.</td>
<td>Fixed Rate: 30 year only</td>
</tr>
</tbody>
</table>

Continued on next page
Loan Terms, Continued

Maximum and Minimum Loan Amounts

The following table shows maximum and minimum loan amounts for eligible transaction types.

<table>
<thead>
<tr>
<th>Transaction Type</th>
<th>Maximum Total Loan Amount Including Funding Fee</th>
<th>Minimum Total Loan Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>$1,033,000</td>
<td>None</td>
</tr>
<tr>
<td>Rate/Term Refinance</td>
<td>$417,000 See notes below for increasing this loan amount.</td>
<td>None</td>
</tr>
<tr>
<td>Cash-Out/Regular Refinance</td>
<td>$1,033,000</td>
<td>None</td>
</tr>
</tbody>
</table>

Notes:
- The maximum total loan amount must include the VA Funding Fee. To determine maximum loan amount for a purchase loan, refer to the VA Worksheet – Purchase Transaction (COR 0339).
- Ginnie Mae requires the amount of cash down payment or equity plus the amount of the veteran’s available entitlement to equal at least 25% of the lesser of the purchase price or appraised value from the Notice of Value. To determine the amount of down payment required, refer to the VA Entitlement Worksheet (COR 0341).
- Loan amounts (base loan plus funding fee, if financed) may be rounded down to increments of either $1 or $50.
- DU/DO findings will issue a message if the total loan amount (including any financed VA Funding Fee) exceeds the county or state loan limit determined by DU; however, the casefile will not receive an “Approve/Ineligible” recommendation. Lenders are required to independently verify the acceptability of the VA loan amount on each transaction.

Continued on next page
**Loan Terms, Continued**

**Maximum LTVs for Veterans with Full Entitlement**

The following table shows the maximum loan-to-value (LTV) by loan type for veterans with full entitlement.

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Property Type</th>
<th>Maximum LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase</td>
<td>Primary Residences only</td>
<td>• 100% LTV on loan amounts less than or equal to the VA County Loan Limits.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Note:</strong> <a href="#">Click here</a> for the VA County Loan Limits.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Loan amounts that exceed the VA County Loan Limits require equity in the subject property.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Reference:</strong> See VA Worksheet – Purchase Transactions (COR 0339) for total loan amounts up to $1,033,000.</td>
</tr>
<tr>
<td>Cash-Out/Regular Refinance</td>
<td>Primary Residences only</td>
<td>• 100% LTV on loan amounts less than or equal to the VA County Loan Limits.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Reference:</strong> See the Cash-out/Regular Refinance subtopic in the Refinances topic for additional information.</td>
</tr>
<tr>
<td>Rate/Term Refinance</td>
<td>Primary Residences only</td>
<td>100% LTV up to $417,000.</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Reference:</strong> See VA Entitlement Worksheet (COR0341) for loan amounts up to $417,000.</td>
</tr>
</tbody>
</table>

**Note:** Second homes and investment properties are not eligible for VA financing.

**Reference:** See “Maximum LTVs for New Construction” within this topic for additional information.

Continued on next page
**Loan Terms, Continued**

**Maximum LTVs for Veterans with Partial Entitlement**

The table below shows the maximum loan amount for veterans with partial entitlement and the loan calculations.

<table>
<thead>
<tr>
<th>Veterans with Partial Entitlement</th>
<th>Maximum Loan Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Complete the VA Entitlement Worksheet (<a href="#">COR 0341</a>) to assist in determining the maximum mortgage loan amount or the amount of down payment or equity required.</td>
<td></td>
</tr>
<tr>
<td>• The guaranty percentage cannot be less than 25%.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Step 1</strong>: Determine the amount of “Used” entitlement from the COE.</td>
<td></td>
</tr>
<tr>
<td>• <strong>Step 2</strong>: Subtract the “Used” amount from either:</td>
<td></td>
</tr>
<tr>
<td>• $36,000 if the new loan amount is equal to or less than $144,000, or</td>
<td></td>
</tr>
<tr>
<td>• 25% of the VA County Loan Limit if the new loan amount is more than $144,000, and</td>
<td></td>
</tr>
<tr>
<td>• <strong>Step 3</strong>: Perform the following calculation: (lesser of sales price or value x 75%) + the remaining entitlement (as determined in Step 2).</td>
<td></td>
</tr>
</tbody>
</table>
The table below shows the maximum LTV by property type for new construction loans.

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Maximum LTV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home built FOR veteran on lot acquired by veteran.</td>
<td>100% of the lesser of:</td>
</tr>
<tr>
<td></td>
<td>• the appraised value, or</td>
</tr>
<tr>
<td></td>
<td>• the construction contract price, plus any unpaid balance on the note for the land purchase.</td>
</tr>
<tr>
<td>Home built BY veteran on lot acquired by veteran.</td>
<td>100% of the lesser of:</td>
</tr>
<tr>
<td></td>
<td>• the appraised value, or</td>
</tr>
<tr>
<td></td>
<td>• the actual cost of construction (exclusive of veteran's own labor), plus any unpaid balance on the note for land purchase.</td>
</tr>
<tr>
<td>Property (house and lot) purchased from builder as package.</td>
<td>100% of the lesser of:</td>
</tr>
<tr>
<td></td>
<td>• the appraised value, or</td>
</tr>
<tr>
<td></td>
<td>• the contract/sales price.</td>
</tr>
<tr>
<td>Property construction was financed by a construction loan.</td>
<td>100% of the lesser of:</td>
</tr>
<tr>
<td></td>
<td>• the appraised value, or</td>
</tr>
<tr>
<td></td>
<td>• the outstanding balance on the construction loan, plus</td>
</tr>
<tr>
<td></td>
<td>• any unpaid balance on the note for land purchase (if acquired separately), and</td>
</tr>
<tr>
<td></td>
<td>• closing costs, including discount points paid by the veteran.</td>
</tr>
<tr>
<td>Property was financed under an installment land sale contract.</td>
<td>100% of the lesser of:</td>
</tr>
<tr>
<td></td>
<td>• the appraised value, or</td>
</tr>
<tr>
<td></td>
<td>• the balance of any remaining installments payable, plus closing costs, including any discount points paid by the veteran.</td>
</tr>
</tbody>
</table>
Loan Terms, Continued

Maximum LTVs for New Construction, (continued)

**Note:** The lot equity may not be financed in the loan amount. The table below provides an example of the calculation for determining the maximum loan amount.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance of construction loan</td>
<td>$ 70,000</td>
</tr>
<tr>
<td>Lot Value</td>
<td>$ 25,000</td>
</tr>
<tr>
<td>Current balance owed on lot</td>
<td>$ 10,000</td>
</tr>
<tr>
<td>Closing costs &amp; discount</td>
<td>$ 3,000</td>
</tr>
<tr>
<td>Maximum VA loan amount</td>
<td>$ 83,000</td>
</tr>
</tbody>
</table>

Reference: See the "Maximum Number of Financed Properties and Borrower Exposure" guidelines located in Section 1.22: Maximum Number of Financed Properties and Borrower Exposure of the Correspondent Seller Guide for additional information.

Prepayment

There is no prepayment penalty.

Continued on next page
Eligible Transactions

Construction-to-Permanent Loans

Two-time closings where a veteran is paying off an outside construction loan are eligible for refinance.

Reference:
- See the topic “Refinances” in this product description for more information.
- See “Maximum LTVs for New Construction” within the “Loan Terms” topic for information on maximum VA loan financing.
- See the “New Construction” topic in this product description for requirements on new construction properties.

Refinances

Reference: See the topic “Refinances” in this product description for more information.

ARM Alternative

- The ARM Alternative is a lender funded buydown, not an Adjustable Rate Mortgage (ARM).
- The feature is called the ARM Alternative because it is an alternative for borrowers who like the low initial interest rate of an ARM but want the interest rate protection of a fixed rate mortgage.
- The ARM Alternative is a lender funded buydown where the cost of the buydown is built into the pricing and therefore no buydown funds are required at closing.


Non-Arm’s Length/Identity-of-Interest

Eligible Transactions, Continued

<table>
<thead>
<tr>
<th>Buydowns</th>
<th>General Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Borrower paid temporary interest rate buydowns are not eligible.</td>
<td></td>
</tr>
<tr>
<td>• Buydowns are only eligible for loan amounts less than or equal to $417,000.</td>
<td></td>
</tr>
<tr>
<td>• Fixed rate purchase transactions only.</td>
<td></td>
</tr>
<tr>
<td>• Permanent buydowns are eligible provided the EXTRA discount points paid to furnish the permanent interest rate buydown do not exceed the 4% limit on seller concessions by VA.</td>
<td></td>
</tr>
<tr>
<td>• Temporary buydowns are eligible on fixed rate loans only provided the guidelines listed below are met.</td>
<td></td>
</tr>
</tbody>
</table>

Temporary Buydowns

• If it is unclear whether a borrower’s income can keep pace with the increases in loan payment, the borrower must qualify at the note rate. The buydown is only used as a compensating factor.

• If there are strong indications that the income used to support the application will increase to cover the yearly increases in loan payments, the borrower may be qualified on the bought down rate if the requirements shown below are met.
  • The file must contain sufficient verification that the qualifying income will increase on an annual basis in an amount to cover the scheduled increases in loan payments under the buydown.
  • Routine cost of living raises cannot be used for this purpose. Increases resulting from confirmed future promotions or guaranteed by labor contracts may be given favorable consideration.

• An interest rate buydown plan must provide for the following terms:
  • the buydown period must run for a minimum of one (1) year,
  • the payment adjustments must occur on the annual anniversary date of the first mortgage payment, and
  • the annual payment increases must be in equal (or approximately equal) amounts, or equal annual increase in the interest rate.

• A copy of the FHA/VA Buydown and Escrow Agreement (COR 0344) must accompany the loan submission.

• The FHA/VA Buydown and Escrow Agreement (COR 0344) must be executed at closing.

• The buydown funds must be deposited with an escrow agent.

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Continued on next page
Eligible Transactions, Continued

- Seller Paid Interest Payment Reductions/Ease-In Payment Reductions are only eligible on total loan amounts less than or equal to $417,000
- The seller-paid interest buydowns are also known as the “Ease-In Payment Reduction” feature for SunTrust Mortgage marketing purposes.
- Seller-paid interest payment reductions are available only on fixed rate loans.
- It is similar to a buydown and must be in a fixed amount (amount of interest applied to the PITI cannot change from month to month).
- The borrower(s) qualifies at the note rate using the full PITI.
- A copy of the FHA/VA Seller-Paid Interest Buydown Agreement must accompany the loan submission.
- The FHA/VA Seller-Paid Interest Buydown Agreement must be executed at closing.

Reference: See the “Ease-In Payment Reduction” topic for more information regarding seller-paid interest payment reduction.

PACE Financing

- A purchase or cash-out/regular refinance loan transaction with a PACE loan remaining in a first or subordinate lien position to the new mortgage transaction is not eligible. All PACE obligations must be paid off as a condition to obtaining a new mortgage loan.
Refinances

General

- SunTrust offers two (2) types of refinances.
- The two (2) categories are the cash-out/regular refinance and the rate/term refinance. The rate/term refinance is not commonly used due to the limitations of the two (2) types of transactions that may be refinanced under this program.
- All types of VA refinances require clear CAIVR number(s).
- An original, completed, signed Request for Certificate of Eligibility (VA 26-1880), even with a Certificate of Eligibility, is required for VA refinance transactions for submission to VA with the loan file.

Cash-Out / Regular Refinance

- A cash-out refinance is also known as a regular refinance.
- A borrower may refinance an existing VA, FHA, Conventional or other type of mortgage or lien.
- VA considers it as cash-out/regular refinancing when any type of lien or liens against the secured property are being paid off, whether or not the borrower receives any cash at closing.
- All of the following conditions must be met:
  - the property must have an outstanding lien,
  - the veteran must have sufficient entitlement (or entitlement plus equity) if refinancing an existing VA loan to meet guaranty requirements,
  - the veteran must occupy the property as his/her primary residence, and
  - the veteran must furnish an original, completed, signed Request for Certificate of Eligibility (VA 26-1880).
- A cash-out/regular refinance allows the loan proceeds to be used for any reasonable purpose, including debt consolidation and home improvement.
- The maximum LTV is capped at 90% EXCEPT as noted below:
  - SunTrust will allow a maximum LTV of 100% on VA Cash-Out (Regular) refinance transactions when the proceeds of the loan transaction are used to pay the following:
    - costs associated with the refinance transaction,
    - payoff of an existing first mortgage lien,
    - payoff of a purchase money second lien, or
    - an existing SunTrust Bank or SunTrust Mortgage second lien regardless if the proceeds were not used toward the purchase of the home.

Continued on next page
The following additional requirements apply to cash-out/regular refinance transactions when the LTV exceeds 90%:
- all existing liens (to be paid off or remain subordinate to the new first mortgage) require a satisfactory (0x30) six (6) month payment history, and
- proceeds of the loan transaction may not be used for the following:
  - non-SunTrust Bank or Mortgage non-purchase money seconds,
  - payoff other existing debt, and
  - the borrower may receive cash in hand at closing not to exceed $500, or recalculation of the mortgage is required.

Existing second mortgages may be subordinated if the TLTV is 105% or less, inclusive of any financed VA Fund fee. Borrower(s) must qualify for payment based on maximum allowable financing if the second mortgage is an equity line.

The maximum LTV is 100% of the value shown on the VA Notice of Value plus the VA funding fee, not to exceed the limitations set by the maximum guarantee allowed by VA.

The maximum entitlement is 25% of the VA County Loan Limit. The maximum loan amount is limited to the lesser of 100% of the appraised value or the maximum allowable loan amount of $1,000,000 excluding the funding fee, providing there is sufficient entitlement plus equity to meet the required minimum guarantee percentage of 25%. The veteran must have entitlement to use toward the new transaction. The 25% cannot consist of only equity in the property.

**Note:** Total loan amounts of $417,001 to $1,033,000 MUST be processed through DU with an “Approve/Eligible,” or LP “Accept.” LP “Refer” is NOT an acceptable recommendation on these loan amounts.
Refinances, Continued

Home Improvement Loans

Loans for the purpose of home improvement must meet the same requirements as stated in the subtopic “Cash-Out/Regular Refinance” shown previously.

Rate/Term Refinance

- A rate/term refinance loan can be in excess of 90% of the appraised value.
- The existing loan must be in one of the following categories for a rate/term refinance.
  - a construction loan,
  - an installment land sale contract, or
  - an existing loan assumed by the veteran provided the new VA loan is at a lower interest rate than the loan being refinanced.
- The maximum loan amount in these cases is limited to the lesser of the amount of the appraised value or outstanding balance plus allowable closing costs. No cash or equity reimbursement may be received by the borrower at closing.
- The original loan amount at time of purchase must have been greater than $144,000 if using entitlement exceeding $36,000 for a refinance of a construction loan.
- The loan is also subject to VA’s maximum total loan amount of $417,000 including funding fee. (The required minimum guarantee percentage of 25% must be met). The veteran must have entitlement to use toward the new transaction. The 25% cannot consist of only equity in the property.
- The veteran must furnish an original, completed, and signed Request for Certificate of Eligibility (VA 26-1880).

Spousal Buyouts

Loans for the purpose of a spousal buyout may be financed using the cash-out/regular refinance guidelines previously presented.
## Secondary Financing

### General
- The lender must submit documentation disclosing the source, amount and repayment terms of the second mortgage and agreement to such terms by the veteran and any co-obligors.

### Lien Position
The second mortgage must be subordinated to the VA guaranteed loan.

### Allowable Purposes
- Proceeds of the second mortgage may be used for:
  - closing costs and/or prepaids, or
  - a down payment after the secondary market requirements of the lender have been met.

  **Note:** The cash down payment derived from secondary financing cannot be used toward the required VA guaranty of 25%.

- Proceeds of the second mortgage **may not** be used to cover any portion of a down payment required by VA to cover the excess of the purchase price over the reasonable value of the property as established by VA or the LAPP underwriter.

### TLTV's on Purchases
The maximum TLTV inclusive of the VA Funding Fee and the maximum credit line is 105% of the lesser of sales price or value as assigned by VA or the LAPP underwriter for purchase transactions.

### TLTV's on Refinances
The maximum TLTV permitted for SunTrust is 105%, inclusive of the VA Funding Fee when secondary financing is involved for a cash-out/regular refinance transaction.

*Continued on next page*
Secondary Financing, Continued

**Interest Rate**
- The rate on the second mortgage may exceed the rate on the VA guaranteed first; however, it may not exceed industry standards for second mortgages.
- “Rule of thumb” is that second mortgages are one percent (1%) or two percent (2%) above the market interest rates for first mortgages.

**Cash Back**
There can be **NO** cash back to the veteran from the VA first mortgage or a second mortgage obtained simultaneously.

**Underwriting**
- The veteran must qualify for the second mortgage that is underwritten as an additional recurring monthly obligation.
- If the secondary financing is a home equity line, the maximum equity line of credit is used to determine the total indebtedness.
- The veteran must not be placed in a substantially worse position than if the entire amount borrowed had been guaranteed by VA.

**Assumability**
- The second mortgage should not restrict the veteran’s ability to sell the property any more than the VA first mortgage.
- The second mortgage should be assumable by creditworthy purchasers.
Secondary Financing, Continued

<table>
<thead>
<tr>
<th>Grace Period</th>
<th>There should be a reasonable grace period before either of the following:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• a late charge comes due, or</td>
</tr>
<tr>
<td></td>
<td>• commencement of foreclosure proceedings in the event of default.</td>
</tr>
</tbody>
</table>

| Conveyance & Foreclosure                                                     | VA suggests that the rate and provisions concerning conveyance and foreclosure be the same for the first and second mortgages; however, it is not required by VA. |

<table>
<thead>
<tr>
<th>Documenting a Modified HELOC</th>
<th>Lenders in some cases must reduce the available line of credit on a HELOC to meet the new first mortgage’s TLTV and the HTLTV requirements. Obtain one of the following forms of documentation to show a modified line amount for a HELOC:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• A complete and recorded Modification Agreement (fully executed by the HELOC lender and all borrowers under the HELOC).</td>
</tr>
<tr>
<td></td>
<td>• In the event the recorded modification agreement is not back from recordation, an unrecorded modification agreement fully executed reflecting the instrument number or other evidence of submission for recordation stamped by the recorders' office (certified by the clerk of court).</td>
</tr>
<tr>
<td></td>
<td>• A written agreement between the HELOC lender and the borrower agreeing to the reduction in the credit line amount to a specific amount as of a particular date. All borrowers must sign the written agreement.</td>
</tr>
<tr>
<td></td>
<td>• A cover letter from the HELOC lender on company letterhead reflecting a signature from the appropriate company representative that includes confirmation of the reduced credit line to a specific amount as of a specific date, along with evidence of the borrower’s request/consent to the reduction (preferably in writing).</td>
</tr>
</tbody>
</table>

**Note:** Obtain items 1 or 2 for the best evidence of documenting this change whenever possible. Items 3 and 4 are acceptable when the first two are not available. In this case, it is mandatory to maintain appropriately signed documentation.

|                                                                               | If you cannot obtain one of the above forms of documentation, use the original line amount of the HELOC to calculate the TLTV/HTLTV for the new first mortgage. |

*Continued on next page*
Unusual Terms

Second mortgages bearing unusual terms, interest rates, etc., are sometimes offered by parties such as:

- Federal, state, or local government agencies,
- non-profit organizations,
- private individuals,
- a builder, or
- the seller.

Consult VA if it is unclear whether the terms of the second mortgage meet VA standards or if there may be a reasonable basis for VA to make an exception to the standards detailed in this topic.

Automated Underwriting Systems (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU</th>
<th>Freddie Mac LP</th>
</tr>
</thead>
<tbody>
<tr>
<td>• DU will provide a verification message for loans where subordinate financing is present, but no correspondent payment was entered in the liabilities.</td>
<td>Same guidelines as DU</td>
</tr>
<tr>
<td>• In all cases, the first mortgage data must include secondary financing data so that the total loan-to-value (TLTV) is accurate.</td>
<td></td>
</tr>
<tr>
<td>• If secondary financing is a HELOC, the TLTV is based on the total available credit line, regardless of the balance.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
If a second mortgage is obtained to extend the total indebtedness beyond the Ginnie Mae total loan limit of $417,000, the total of both mortgages is limited to the lesser of the following formulas:
- Sales Price (or value) x 75% + entitlement + financed funding fee (if any), or
- Appraised value + financed funding fee (if any).

Example:
- NOV/Property Value = $445,000
- Full entitlement = $104,250
- Sales Price = $440,000
- Total Loan Limit on 1st mortgage = $417,000

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lesser of Sales Price (or Value) x .75 = _____ + Full Entitlement = Max Loan Amount without a Down Payment</td>
</tr>
<tr>
<td></td>
<td>Example: ($440,000 x .75 = $330,000) + $104,250 = $434,250</td>
</tr>
<tr>
<td>2</td>
<td>Lesser of Max Total Loan Amount or Sales Price/Value</td>
</tr>
<tr>
<td></td>
<td>Example: Lesser of $417,000 or $440,000</td>
</tr>
<tr>
<td>3</td>
<td>Sales Price less Maximum First Mortgage = Maximum Second Mortgage or Required Down Payment</td>
</tr>
<tr>
<td></td>
<td>Example: $440,000 less Maximum First Mortgage of $417,000 = $23,000 Second Mortgage</td>
</tr>
<tr>
<td>4</td>
<td>Complete the VA Worksheet – Purchase Transactions (COR 0339) to determine the maximum loan amount. The guaranty percentage cannot be less than 25%.</td>
</tr>
</tbody>
</table>
Geographic Restrictions

General

Generally, standard VA Guidelines apply with the following exceptions:

<table>
<thead>
<tr>
<th>STATE</th>
<th>RESTRICTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>Georgia Power Leasehold properties are not eligible.</td>
</tr>
<tr>
<td>New York</td>
<td>As a result of state legislation primary residences are not eligible if the transaction is determined to be a “subprime home loan.”</td>
</tr>
<tr>
<td>Texas</td>
<td>Cash-out/regular refinances are not eligible.</td>
</tr>
</tbody>
</table>

Reference: See Section 1.02: Eligible Mortgage Loans of the Correspondent Seller Guide for SunTrust specific geographic restrictions that may apply to Alaska, Texas and Hawaii.
Occupancy/Property Types

General

- VA will accept 1-4 unit properties.
- The mortgaged premises must be a detached or semi-detached dwelling, townhouse, or unit within a condominium or PUD.
- The borrower must occupy the property (or at least 1 unit) as his/her primary residence.
- Generally, the veteran must occupy the property as his/her primary residence within 60 days after loan closing.

Special Occupancy Consideration

Special Occupancy Consideration

Occupancy within a period exceeding 60 days after the date of closing may be considered if both of the following conditions are met:

- the veteran certifies that he/she will personally occupy the property as his/her residence at a certain specific date after loan closing, and
- there is a particular future event that will make it possible for the veteran to personally occupy that property on the specific future date (i.e., the future event could be permanent reassignment to a duty station in the vicinity of the property six (6) months following loan closing).

Note: Occupancy for active duty service members, either single or married, while deployed from their permanent duty stations are considered to be in a temporary duty status. The veteran is able to provide a valid intent to occupy certification whether or not a spouse will be available to occupy the property prior to the veterans return from deployment.

Completion of VA Form 26-1820 for Special Occupancy Considerations

- If there is a special occupancy situation on a loan, it must be noted in item #27(b) on the Report and Certification of Loan Disbursement (VA Form 26-1820).
- If an active duty veteran cannot occupy the property, his/her spouse must certify owner-occupancy. Evidence must be provided that the veteran is unable to occupy the property because of such status in the armed forces. This is Certification #2 on VA Form 26-1820.

Continued on the next page
Occupancy/Property Types, Continued

**Primary Residences**
- VA will accept 1-4 unit properties as long as the borrower occupies the property (or at least 1 unit) as his/her primary residence.
- Personal occupancy is required for single veterans, whether or not the veteran is on active duty.
- The occupancy requirement is satisfied if the spouse of a veteran who is on active duty occupies the property, or dependent child of a veteran who is active duty and occupies the property (the veteran’s attorney-in-fact or the dependent child’s guardian makes the occupancy certification).

**Notes:**
- Occupancy by the spouse may satisfy the requirement if the veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military. These loans require VA Prior Approval from the Regional Loan Center (RLC).
- A dependent child for an active duty veteran may be a legitimate child, a legally adopted child, a step child, an illegitimate child (only if acknowledged by the veteran), or a veteran that is judicially ordered to contribute to the child’s support, and is a child/person who is unmarried and meets one of the following criteria:
  - Is under the age of 18 years, or
  - Before turning the age of 18, became permanently incapable of self-support, or
  - After turning the age of 18 and until completion of education or training, (but not older than 23), is pursuing a course of instruction at an approved educational institution.
- No family member or person other than the veteran’s spouse or dependent child can satisfy the occupancy requirement for the veteran.

**Second Homes**
Second homes are not eligible for VA financing.

**Investment Properties**
Investment properties are not eligible for VA financing.

*Continued on the next page*
Occupancy/Property Types, Continued

**Condominiums**

- Condominiums must meet VA Minimum Property Standards.
- A condominium project must be on an approved list provided by VA. The approved list can be accessed on the Internet at the following web address: [https://vip.vba.va.gov/portal/VBAH/VBAHome/condopudsearch](https://vip.vba.va.gov/portal/VBAH/VBAHome/condopudsearch).
- Condominium conversions are eligible if the following conditions are met:
  - the conversion occurred more than one year before the borrower(s)' application for a mortgage, OR
  - either the borrower or co-borrower were tenants of that rental project, OR
  - the conversion of the property is sponsored by a bona fide tenants organization representing a majority of the households, AND
  - the project meets all other VA requirements for approval.
- If the project is not on VA's approved list, the VA regional office must be provided with required organizational documentation for appraisal purposes. This documentation is provided to and reviewed by the VA Loan Guaranty Division and the VA District Counsel. Referral to the District Counsel is not required when the following documentation is provided from the sponsor’s (or homeowner’s association) attorney:
  - A certification stating that the documents are identical to a previously approved and identified set of documents except for name and legal description, and
  - Documentation for any variations from the documents of a previously approved project (only the variations would be subject to the District Counsel review).
- The attorney’s opinion submitted to the VA Loan Guaranty Division and the VA District Counsel must contain the following:
  - Be prepared in letter form on the attorney’s firm’s letterhead,
  - Be signed, dated and show the name and title of the attorney rendering the opinion, and
  - Address the areas of project identification, documents reviewed, attorney’s qualifications and attorney’s opinion.
- Legal review may also be limited if a state agency can certify that the condominium has been created in compliance with the laws of the jurisdiction.

*Continued on next page*
New Construction
Reference: See the topic "New Construction" for information on new construction properties.

PUDs
- Planned Unit Developments (PUDs) must meet VA Minimum Property Standards.
- Although VA does not require a PUD to be prior approved, the lender is responsible for ensuring that both title and lien-related VA regulatory requirements are met for each VA loan.
- The VA regulatory requirements are as follows:
  - The estate must not be less than fee simple,
  - Title must not be subject to unreasonable restrictions of use and occupancy,
  - VA loan is secured by a first (1st) lien on the property,
  - Certain minor title limitations will not be considered by VA, to the extent described, as materially affecting the value of the property (38 CFR 36.4350c), and
  - Any mandatory homeowner association assessment is subordinate to the VA-guaranteed mortgage.

Leasehold Estates

Resale/Deed Restrictions

Manufactured Housing
Manufactured housing (mobile homes) are NOT eligible for VA loan originations with SunTrust Mortgage, Inc.

Mixed Use Properties
Purchase or construction of a combined residential or business property is only eligible if the following conditions are met:
- The property is primarily for residential purposes,
- There is not more than one business unit, and
- The non-residential area does not exceed 25 percent (25%) of the total floor area.

Continued on next page
Occupancy/Property Types, Continued

<table>
<thead>
<tr>
<th>Modular Homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Modular homes are eligible provided they meet the following requirements:</td>
</tr>
<tr>
<td>• Covered by a HUD structural engineering bulletin, OR</td>
</tr>
<tr>
<td>• Constructed to the standards of the State in which the factory is located and receive that State’s approval certification, AND</td>
</tr>
<tr>
<td>• They are delivered to the building site in sections, but are not attached to a chassis supported by wheels.</td>
</tr>
<tr>
<td>Reference: For homes processed as “proposed or under construction” see the “Modular Construction” section in the VA Lender's Handbook (Section 10.05 and 10.10) for additional information.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Properties Purchased at Auction</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Properties Recently Listed for Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The appraiser must note on the appraisal if a property was listed for sale in the last 12 months.</td>
</tr>
<tr>
<td>• If the property is currently listed for sale when the appraisal is completed, the appraiser must note that it is currently listed for sale.</td>
</tr>
<tr>
<td>• If a property was listed for sale in the last 12 months and the borrower was the owner of the property at the time it was listed for sale, the following applies:</td>
</tr>
<tr>
<td>• For rate/term refinances:</td>
</tr>
<tr>
<td>• The property must be taken off the market on or prior to the application (i.e., 1003) date.</td>
</tr>
<tr>
<td>Note: If the property is currently listed for sale, documentation must be provided that the listing agreement is terminated (it is NOT okay just to take the “For Sale” sign down!).</td>
</tr>
<tr>
<td>• When the subject property is the borrower’s primary residence, the borrower must confirm in writing their intent to occupy the subject property by signing an occupancy affidavit at closing, and</td>
</tr>
<tr>
<td>• The current maximum LTV/TLTV ratios for the transaction apply.</td>
</tr>
<tr>
<td>• For cash-out/regular refinances:</td>
</tr>
<tr>
<td>• The property must have been taken off the market for at least 60 days prior to loan application, and</td>
</tr>
<tr>
<td>• If the property was listed for sale within the six (6) months preceding the application (i.e., 1003) date, the maximum LTV/TLTV is limited to 80%.</td>
</tr>
</tbody>
</table>

Continued on next page
Occupancy/Property Types, Continued

Short Sale Property and Restructured Mortgage Loans


Ineligible Properties

The following types of properties are ineligible:

- Manufactured housing (mobile homes),
- Unimproved land,
- Non-residential properties such as farms and business properties,
- all improvements located in areas covered by the Coastal Barrier Improvement Act of 1990 (contact the local VA Regional Loan Center for specific counties affected),
- Improvements located in an airport Noise Zone 3, if proposed or under construction,
- Improvements located in a transmission line easement involving high pressure gas or liquid petroleum or high voltage electricity,
- Improvements located in a Special Flood Hazard Area and either it is proposed/under/new construction with elevation of the lowest floor below the 100 year flood level or flood insurance is not available,
- An area subject to regular flooding, whether or not it is in a Special Flood Hazard Area,
- An area susceptible to geological or soil instability (earthquakes, landslides or other history of unstable soils), if proposed/under/new construction and the builder cannot provide evidence that either the site is not affected or the problem has been adequately addressed in the engineering design,
- Condominiums not VA approved, and
- Ownership is not fee simple, except as noted in General Section 1.10: Leasehold Estate Guidelines of the Correspondent Seller Guide.
Eligible Borrower

General

Eligible borrowers include any man or woman who has served in the past, or is currently serving in the Armed Services for the period of time as required by VA for eligibility of VA benefits, depending upon the era of their service. There may be exceptions to the length of service required. VA strongly suggests a formal eligibility application be submitted to VA in all cases, even if it appears the applicant is not eligible. A lender cannot make a loan to an ineligible applicant under any circumstances.

Reference: See “VA Entitlement Codes and Required Length of Service” subsequently presented in this topic for additional information.

Permanent Resident Aliens

- A permanent resident alien is an individual who is lawfully accorded the privilege of residing permanently in the United States.
- Permanent resident aliens are eligible for a VA loan if they have served in the past or are currently serving in the Armed Services for the period of time required.
- Each borrower on the loan transaction must have a valid social security number.
- SunTrust does not allow the use of an Individual Tax Identification Number (ITIN) in lieu of a valid SSN. An ITIN is a nine digit number, beginning with the number 9, issued by the IRS for tax reporting purposes to non-U.S. citizens who are not eligible to obtain an SSN.
- The following documentation is acceptable proof of permanent resident status:
  - USCIS Form I-551 Alien Registration Receipt (green card), with an unexpired date on the front,
  - USCIS Form I-551 Conditional Alien Registration Receipt, with an unexpired USCIS I-751 Petition to Remove Conditions of Residence (green card by marriage), or

Note: A “green card” that has no expiration date (issued between March 1977 and January 1987) is acceptable with no additional requirements.

- If the green card will expire within six (6) months after closing, the borrower must provide the following:
  - A copy of the filed USCIS I-90 Application to Replace Permanent Resident Card, and
  - A copy of the USCIS I-797 Notice of Action for the I-90.
- Borrowers with a conditional green card (issued for two years) cannot apply for renewal earlier than three months prior to the expiration date. SunTrust Mortgage requires the borrower to file one of the following forms prior to loan application:
  - I-751 Petition to Remove Conditions of Residence (green card by marriage), or
  - I-829 Petition by Entrepreneur to Remove Conditions.

Continued on next page
Eligible Borrower, Continued

<table>
<thead>
<tr>
<th>Non-Permanent Resident Aliens</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-permanent Resident Alien spouses may be on the loan with an eligible veteran.</td>
</tr>
<tr>
<td>• Although VA has no specific guidelines for a Non-Permanent Resident Alien, SunTrust will follow the guidelines outlined in Section 1.24: Non-Permanent Resident Alien Requirements.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Occupant Co-Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-occupant co-borrowers are not eligible for VA loans, except in the instances of an active duty veteran and only the spouse will occupy the property.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Inter Vivos Trusts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information on inter vivos trusts requirements are shown below.</td>
</tr>
<tr>
<td>• <em>Inter Vivos Trusts</em> are also known as a living trust.</td>
</tr>
<tr>
<td>• The borrower (veteran or veteran and spouse) must be the settlor (i.e., one who created the trust) acting in his/her individual capacity and the trustee on behalf of the trust.</td>
</tr>
<tr>
<td>• The settlor (veteran or veteran and spouse) must be the trustee or co-trustee and must occupy the property as a primary residence.</td>
</tr>
<tr>
<td>• The trust documents must allow the trustee to borrow money, purchase, construct or encumber realty and allow the settlor to retain power to revoke or alter the trust.</td>
</tr>
<tr>
<td>• The trust documents must provide for a beneficial interest in a revocable Family Living Trust that ensures that the veteran, or veteran and spouse, have an equitable life estate, provided the lien attaches to any remainder interest and the trust arrangement is valid under state law.</td>
</tr>
<tr>
<td>• Title exceptions from the trust ownership are not allowed.</td>
</tr>
<tr>
<td>• The title to such estate shall be such as is acceptable to informed buyers, title companies, and attorneys in the community in which the property is situated.</td>
</tr>
<tr>
<td>• The note is executed by the settlor individually and the trustee on behalf of the trust.</td>
</tr>
<tr>
<td>• The security instrument is executed by the trustee for the trust and acknowledged by the settlor.</td>
</tr>
<tr>
<td>• The right of rescission does apply to a refinance, owner-occupied loan, holding title in a living trust.</td>
</tr>
</tbody>
</table>

*Continued on next page*
Eligible Borrower, Continued

First-Time Homebuyers

A first-time homebuyer is an individual who meets any of the following criteria:

- An individual who has had no ownership in a principal residence during the three (3) year period ending on the date of purchase of the property. This includes a spouse (if either meets the above test, they are considered first-time homebuyers).
- A single parent who has only owned a principal residence with a former spouse while married.
- An individual who is a displaced homemaker and has only owned a principal residence with their spouse.
- An individual who has only owned a principal residence not permanently affixed to a permanent foundation in accordance with applicable regulations.
- An individual who has only owned a property that was not in compliance with state, local, or model building codes and which cannot be brought into compliance for less than the cost of constructing a permanent structure.

Continued on next page
Eligible Borrower, Continued

VA Entitlement Codes and Required Length of Service

The entitlement code appearing on the Certificate of Eligibility is a tool that may be used in determining eligibility. The code confirms the veteran’s era of service, type of service (i.e., if reservist), if the veteran has previously used his/her entitlement, and aids in determining the applicable funding fee.

Reference: See the topic “VA Funding Fee” in this product description for additional information.

The following table provides required length of service for particular Eras and the applicable entitlement codes.

<table>
<thead>
<tr>
<th>Entitlement Codes</th>
<th>Era</th>
<th>Era Date</th>
<th>Time Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>World War II</td>
<td>09/16/40 – 07/25/47</td>
<td>90 days</td>
</tr>
<tr>
<td>08</td>
<td>Post World War II</td>
<td>07/26/47 – 06/26/50</td>
<td>181 days</td>
</tr>
<tr>
<td>02</td>
<td>Korean War</td>
<td>06/27/50 – 01/31/55</td>
<td>90 days</td>
</tr>
<tr>
<td>03</td>
<td>Post Korean War</td>
<td>02/01/55 – 08/04/64</td>
<td>181 days</td>
</tr>
<tr>
<td>04</td>
<td>Vietnam War</td>
<td>08/05/64 – 05/07/75</td>
<td>90 days</td>
</tr>
<tr>
<td>09</td>
<td>Post Vietnam War</td>
<td>05/08/75 – 09/07/80</td>
<td>Enlisted - 181 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>05/08/75 – 10/16/81</td>
<td>Officers - 181 days</td>
</tr>
<tr>
<td></td>
<td></td>
<td>09/09/80 – 08/01/90</td>
<td>Enlisted – 2 years*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>10/17/81 – 08/01/90</td>
<td>Officers – 2 years*</td>
</tr>
</tbody>
</table>

*Note: The veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime).

Continued on next page
The following table provides required length of service for particular Eras and the applicable entitlement codes.

<table>
<thead>
<tr>
<th>Entitlement Codes</th>
<th>Era</th>
<th>Era Date</th>
<th>Time Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>Persian Gulf</td>
<td>08/02/90 – present</td>
<td>2 years</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>Note:</strong> The veteran must have served two (2) years or the full period for which called or ordered to active duty (at least 90 days during wartime and 181 days during peacetime.)</td>
</tr>
</tbody>
</table>

The table below shows requirements for other eligible people and their applicable entitlement codes.

<table>
<thead>
<tr>
<th>Entitlement Code</th>
<th>Other Eligible Persons</th>
<th>Time Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>Active Duty Member</td>
<td>90 continuous days (181 during peacetime).</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> Certificate only valid while veteran remains on active duty</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Reserves/Guard</td>
<td>6 years in Selected Reserves (unless active duty under Title 10 for 90 continuous days)</td>
</tr>
</tbody>
</table>
| 06               | Unmarried Surviving Spouses | • There is no time requirement.  
|                  |                        | • Veteran must have died on active duty or from a service-connected disability. |
| 07               | POW/MIA Spouses        | Veteran must have been POW or MIA 90 days.                                  |
| 05               | Entitlement Restored   | Time required remains as per tables.                                        |

General Rules for Eligibility

Detailed information regarding eligible borrowers is available on the VA web site at [www.homeloans.va.gov/elig2.htm](http://www.homeloans.va.gov/elig2.htm).
Eligible Borrower, Continued

Veterans Discharged From Regular Military

- For veterans that have been discharged from regular military, the Certificate of Release or Discharge From Active Duty (DD Form 214) will generally contain all the information needed for VA to make an eligibility determination for persons who served in a regular component of the Armed Forces.
- VA will accept originals or legible copies of DD Form 214.
- Persons separated from military service after January 1, 1950 should have received DD Form 214.
- Persons separated after October 1, 1979 should furnish Copy 4 of DD Form 214 that includes character of service and separation reason.
- Persons separated from active duty before January 1, 1950 received documentation other than DD Form 214.
- To be acceptable, the DD form 214 should indicate the length of service and character of service.
- A DD form 215 is issued to correct any incorrect information on a DD-214. If a DD-215 is submitted, the DD-214 must also be included.

Veterans Discharged From the Reserves / Guards

- For veterans that have been discharged from the Reserves/Guards, there is no one form used which is similar to DD Form 214.
- Discharged members of the Army or Air Force may submit either a “Report of Separation and Record of Service” (NGB Form 22 or NGB Form 23), or a points statement.
- Typically, all members of the Reserves and/or Guard receive an annual retirement points summary that indicates the level and length of participation at or near the veteran’s anniversary date...
- The applicant should submit the latest such statement received along with evidence of honorable service. VA will accept originals or legible copies.

Reference: See “Information to Enable a Reservist to Obtain Copies” in the topic “Entitlement” for additional information.

Continued on next page
Eligible Borrower, Continued

Active Duty Service Personnel

- Veterans still on active duty must provide a current Statement of Service signed by, or by the direction of, the adjutant, personnel office or commander of the unit or higher headquarters to which they are attached.
- The Statement of Service is required as proof of service when a veteran is serving on active duty.
- There is no one form used uniformly by the military for a statement of service.
- While statements of service are typically on military letterhead, some may be computer generated.
- The statement of service must clearly show the following:
  - veteran’s full name,
  - social security number (SSN),
  - date of birth,
  - the entry date on active duty,
  - the duration of lost time, if any, and
  - the name of the command providing the information.

Reservists

- Individuals who are still members of the Reserves/Guard must provide a Statement of Service signed by, or by the direction of, the adjutant, personnel office or commander of the unit or higher headquarters to which they are attached.
- The Statement of Service is required as proof of service when a reservist continues to serve in the selected reserves.
- There is no one form used uniformly by the military for a statement of service.
- While statements of service are typically on military letterhead, some may be computer generated.

Note: An “online” printout of the “Statement of Service” is insufficient documentation in lieu of the actual “Statement of Service” signed by the commanding officer due to missing specific information. Branches/Lenders may; however, submit the printout along with the application for the Certificate of Eligibility (COE) to the VA.

- The statement of service must clearly show the following:
  - veteran’s full name,
  - social security number (SSN),
  - the entry date of applicant’s Reserve/Guard duty, and
  - name of the command providing the information.
- Members of the Reserves or National Guard who are not otherwise eligible for home loan benefits are eligible for VA loans.
- They must have completed six (6) years of service in the Selected Reserve and must have been honorably released unless continuing to serve in the Selected Reserve.
- The Selected Reserve includes reserve components of the Armed Forces, the Army National Guard and the Air National Guard.

Continued on next page
Eligible Borrower, Continued

Reservists, (continued)
- A reservist who has been discharged from the Reserves or National Guard due to a service-connected disability prior to completing six (6) years of service is also eligible.
- Members of the Reserves or National Guard, mobilized under Title 10, are eligible once they have served at least 90 days. Once they are mobilized and served the required time, they are considered "regular" veterans.

Certification of Military Reservist Status
- VA is holding Lenders responsible for confirming with the borrower(s) (in writing) their current military reservist status.
- If the borrower is in the reserves, SunTrust also wants to know if the borrower’s status has been activated to active duty.
- If the borrower’s status changes prior to the loan closing, he/she must notify SunTrust as it could affect the underwriting of their mortgage loan.

Unmarried Surviving Spouses
- Some spouses of veteran’s may have home loan eligibility. The conditions to determine if the spouse qualifies are as follows:
  - the unmarried surviving spouse of any veteran who died as a result of service or service-connected causes (there is no time requirement for length of service), and
  - the spouse of an active duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. (Eligibility under this MIA/POW provision is limited to one (1) time use only.)
- The Request for Determination of Loan Guaranty Eligibility – Unmarried Widows and Widowers (VA Form 26-1817) must be completed and forwarded to the VA Eligibility Center.

Reference: See the “VA Eligibility Center” in the subtopic “Entitlement” for the location of the Eligibility Center.

- Eligibility determinations for unmarried surviving spouses may take considerably longer to process than others.
- A loan obtained with a surviving spouse Certificate of Eligibility (VA Form 26-8320) requires an affidavit at closing that the surviving spouse is not married.

Note: A surviving spouse who remarries on or after attaining age 57, and on or after December 16, 2003, may be eligible for the home loan benefit. Applications from surviving spouses who remarried before December 16, 2003 are ineligible.

Continued on next page
Eligible Borrower, Continued

### Other Qualifying Service
- Congress has periodically granted veteran status to groups other than members of the Army, Navy, Marine Corps, and Coast Guard, such as certain members of Public Health Service, cadets at the service academies, certain merchant seaman, etc.
- Lenders should contact the VA Eligibility Center for assistance when one of these unique cases is encountered.

### Spouses of Service Personnel Missing in Action or Prisoners of War
- The spouse of any member of the Armed Forces on active duty who is listed as missing in action or captured or interned in line of duty, and has been so listed for a total of more than 90 days, is eligible for one guaranteed loan for the acquisition of a home.
- Eligibility automatically terminates when the service personnel is no longer listed as “Missing in Action” or as a “Prisoner of War.”
- A loan obtained with a surviving spouse Certificate of Eligibility requires an affidavit at closing that the surviving spouse is not married.

### Veteran and Non-Veteran / Non-Spouse
- SunTrust will not finance a VA loan for a veteran with a non-veteran/non-spouse either in title or on the loan (including “common law marriages.”)
- A veteran and a non-veteran other than a spouse may be eligible under VA guidelines; however, VA WILL ONLY GUARANTY THE PORTION OF THE LOAN THAT IS ALLOCABLE TO THE VETERAN’S INTEREST IN THE PROPERTY.
- No portion of the guaranty applies to the portion of the loan allocated to the non-veteran. In the event of a foreclosure where a loss is sustained, the mortgagee must absorb any loss attributable to the non-veteran’s portion.
- Transactions involving a veteran who will hold title with another party, that is not his/her spouse, are considered joint loans by VA, even if the other party will not be an applicant/borrower on the loan.
- Generally, this does not provide enough coverage for the lender on the loan and is not eligible for financing.

Example: If the transaction has a sales price/loan amount of $100,000 with the veteran and a non-veteran/non-spouse holding title, the veteran’s interest in the property would be 50%. The loan guarantee certificate would only show a loan amount of $50,000 and VA’s guaranty would only apply to that amount.
Eligible Borrower, Continued

Two or More Veterans, Not Married

If the borrowers are two veterans that are not married and both are using their entitlement, the loan must be underwritten on prior approval basis by VA.

Military Personnel Within 12 Months of Active Duty Release

VA Non-AUS

- A veteran borrower or reservist who is within 12 months of release from active duty as of the anticipated date of loan closing requires certain specific information.
- An enlisted veteran borrower’s Leave and Earnings Statement (LES), an officer’s orders, or a member of the National Guard or Reservist’s current contract will show the date of expiration of the veteran’s current contract for active service. If that date is within 12 months of the anticipated date that the loan will close, the loan package submitted for approval must include one (1) of the following:
  - documentation that the veteran or reservist has in fact already re-enlisted or extended his/her period of active duty to a date beyond the 12 month period following the projected closing of the loan, or
  - verification of a valid offer of local civilian employment following release from active duty, including the date employment will begin and earnings must be included, or
  - a statement from the service member that he/she intends to re-enlist or extend his/her period of active duty to a date beyond the 12 month period following the projected loan closing date, plus
  - a statement from the service member’s commanding officer confirming:
    - that the service member is eligible to re-enlist or extend his/her active duty as indicated, and
    - that the commanding officer has no reason to believe that such re-enlistment or extension of active duty will not be granted.
- Documentation of other unusually strong positive underwriting factors may also be used as compensating factors, such as:
  - a down payment of a least 10%,
  - significant cash reserves, and/or
  - clear evidence of strong ties to the community coupled with a nonmilitary spouse’s income so high that only minimal income from the active duty service member is needed to qualify.

Fannie Mae DU

- Loan with the following borrowers are eligible for submission through DU:
  - loans with a single veteran borrower, or
  - loans with a veteran borrower and spouse.
- The number of borrowers is limited to 2 (the veteran and his/her spouse).
- If a borrower’s current address is outside of the United States, DU will not issue a recommendation. The loan must be traditionally underwritten.

Freddie Mac LP

If “Accept/Eligible,” follow LP Feedback Certificate.

Continued on next page
Ineligible Borrowers

A list of ineligible borrowers for a VA loan includes, but is not limited to, those shown below.

- corporation, partnership, or fictitious name entity,
- non veteran applicant and/or insufficient time served in the military,
- veterans with CAIVR issues that cannot be satisfied,
- veterans with insufficient entitlement (this includes joint loans/joint ownership with a non-veteran/non-spouse),
- veterans whose intent is for other than a primary residence, and

Reference: See the topic "Unmarried Surviving Spouse" in this product description for allowable exceptions.
Entitlement

General

- Entitlement is the amount of guaranty or insurance benefit, based on the Federal Housing Finance Agency (FHFA) one-unit, single-family residence limit, available to the veteran from the VA.
- A veteran who does not have remaining entitlement, and does not meet the requirements for restoration, may not obtain a VA loan based only on down payment or equity.
- Full entitlement, on the whole transaction, is not available to veterans who hold title jointly with a non-veteran/non-spouse, regardless of whether the non-veteran/non-spouse is an applicant on the loan. Generally, this does not provide enough coverage for the lender on the loan and is not eligible for financing.

Reference: See “Veteran and Non-Veteran/Non-Spouse” in the “Eligible Borrowers” topic for additional information.

- A veteran’s eligibility is his or her entitlement to VA home loan benefits under the law, based on military service. An eligible veteran must still meet credit and income standards to qualify for a VA-guaranteed loan.
- At the end of this section, we provide information on the VA Eligibility Center.

Maximum Loan Amount & Loan Types Based on VA Entitlement

The table below shows the maximum loan amount and the available loan types with the available VA Entitlement. For veterans with only partial entitlement, refer to VA Entitlement Worksheet (COR 0341) for calculating the loan amount.

<table>
<thead>
<tr>
<th>Total Loan Amount</th>
<th>Loan Type</th>
<th>Available Entitlement if no Prior usage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$144,000 or less</td>
<td>Purchases, Cash-out/Regular Refinances or Rate/Term Refinances.</td>
<td>$36,000</td>
</tr>
<tr>
<td>$144,001 to $417,000</td>
<td>Purchases, Cash-out/Regular Refinances or Rate/Term Refinances.</td>
<td>25% of the VA County Loan Limit for a 1-unit, Single-Family Residence.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> the original loan amount at time of purchase for a Rate/Term Refinance must have been greater than $144,000.</td>
<td></td>
</tr>
<tr>
<td>$417,0001 to $1,033,000</td>
<td>Purchases or Cash-out/Regular refinances.</td>
<td>25% of the VA County Loan Limit for a 1-unit, Single-Family Residence.</td>
</tr>
</tbody>
</table>

Continued on next page
**Maximum Entitlement**

- The VA maximum entitlement may not exceed 25% of the FHFA maximum county loan limit for a one-unit, single-family residence when purchasing a 1-4 unit residence.
- Evidence showing the VA County Loan Limit must be in the loan file.

**Note:** “VA Entitlement Worksheet” (COR 0341) MUST be included in the loan file submission.

- Loan amounts can exceed the FHFA maximum county loan limits, but require the veteran to make a down payment to provide the lender with full 25% guaranty.

**Note:** County loan limits may increase or decrease; therefore, it is important for Branches/Lenders to carefully check loan limits to ensure the correct loan limit is being applied AND the guaranty is being calculated correctly.

**Minimum Guaranty Requirement**

- The amount of the veteran’s available entitlement plus the veteran’s equity or down payment in the property must equal at least 25% of the lesser of the sales price or appraised value.
- The cash down payment to meet the 25% requirement may not be derived from a second mortgage on the property.

**Reinstatement of Entitlement**

- When a veteran has used his/her entitlement for a previous VA mortgage loan, the VA will reinstate the amount of entitlement if:
  - the real property insuring the previous mortgage loan has been destroyed by fire or other natural hazard and the loan has been paid-in-full,
  - the veteran sells the real property and pays the loan in full or transfers the property to a new veteran who is using his/her own entitlement (refinancing does not restore entitlement except when refinancing a VA loan on the same owner-occupied property), or
  - the prior loan will be paid off at closing from a VA refinance loan on the same property.
- A veteran’s entitlement may be restored **ONE TIME** if the prior VA loan has been paid in full, but the veteran has not disposed of the property securing the loan. The veteran’s entitlement may then be used to purchase a different property. The veteran’s *Certificate of Eligibility (COE)* will indicate the one time restoration. After such restoration, any future restorations would require disposal of all property obtained with a VA loan.
- VA does not automatically restore a veteran’s eligibility. The veteran must make a special request for the restoration of his entitlement. The burden of proof is on the veteran to obtain the necessary documentation and to furnish it to the VA.

*Continued on next page*
Entitlement, Continued

Reinstatement of Entitlement, (continued)

- Request for restoration of entitlement must be submitted to the VA Eligibility Center prior to closing if either one of the following situations apply:
  - the transaction is not a back-to-back closing, or
  - the guarantee package will not be received in the VA Regional office within 10 days of closing.
- The documentation required to apply for restoration includes, but is not limited to, those shown on the table below under the different scenarios.

<table>
<thead>
<tr>
<th>Purpose of Restoration</th>
<th>Documentation Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior home sold &amp; VA loan paid in full.</td>
<td>• Completed Request for Certificate of Eligibility (VA Form 1880),</td>
</tr>
<tr>
<td></td>
<td>• Settlement Statement showing payment in full of any prior loans, and</td>
</tr>
<tr>
<td></td>
<td>• Any previously issued Certificates of Eligibility (COEs).</td>
</tr>
<tr>
<td>To obtain another VA loan on the same property.</td>
<td>• Completed Request for Certificate of Eligibility (VA Form 1880),</td>
</tr>
<tr>
<td></td>
<td>• Copy of loan application submitted to the lender, and</td>
</tr>
<tr>
<td></td>
<td>• Any previously issued COEs.</td>
</tr>
<tr>
<td>Prior home retained, VA loan paid in full, one</td>
<td>• Completed Request for Certificate of Eligibility (VA Form 1880),</td>
</tr>
<tr>
<td>time restoration.</td>
<td>• Evidence of payment in full of the prior VA loan,</td>
</tr>
<tr>
<td></td>
<td>• Any previously issued COEs, and</td>
</tr>
<tr>
<td></td>
<td>• Copy of contract on new home and/or copy of loan application, along with a letter</td>
</tr>
<tr>
<td></td>
<td>explaining intention.</td>
</tr>
<tr>
<td>Unmarried surviving spouse applying for</td>
<td>• Completed Request for Certificate of Eligibility (VA Form 1880),</td>
</tr>
<tr>
<td>restoration.</td>
<td>• The deceased veteran’s military service data and VA claims file number, and,</td>
</tr>
<tr>
<td></td>
<td>• Any previously issued COEs.</td>
</tr>
</tbody>
</table>

Substitution of Entitlement

If a veteran-seller has allowed his/her loan to be assumed by another veteran with available entitlement, the veteran-seller may be able to obtain restoration of entitlement if the following requirements are met:
- the veteran-purchaser must be able to qualify for the loan based on income and credit,
- the veteran-purchaser must have sufficient available entitlement to replace the amount of entitlement used by the seller in originally obtaining the loan, and
- the veteran-purchaser must certify that he intends to occupy or currently occupies the home.

Continued on next page
Proof of Military Service

Acceptable documentation for proof of military service may be either an original or a legible copy, and one (1) of the following items shown in the table below.

The following table shows VA forms required to document a veteran's eligibility.

<table>
<thead>
<tr>
<th>Veterans separated from active duty before January 1, 1950</th>
<th>Veterans discharged after January 1, 1950</th>
<th>Veterans discharged after October 1, 1979</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discharge Certificates</td>
<td>DD Form 214</td>
<td>DD Form 214</td>
</tr>
<tr>
<td>• an honorable discharge certificate indicating the character of service and the active duty dates on the back of the certificate,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Notice of Separation from U.S. Naval Service (NAV Pers Form # 553) indicating the length of service and character of service,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Note: If a DD-215 is issued to correct any information on a DD-214, both the DD-215 and DD-214 are included.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Military Record and Report of Separation-Honorable Discharge (WDAGO form #53-98), indicating the length of service and character of service.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Certificate of Release or Discharge (DD Form 214), and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Request for a Certificate of Eligibility for VA Home Loan Benefits (VA Form 26-1880).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Copy of page 4 of the Certificate of Release or Discharge (DD Form 214), which includes character of service and separation reason, and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Request for a Certificate of Eligibility for VA Home Loan Benefits (VA Form 26-1880).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Entitlement, Continued

Proof of Military Service

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The following table shows VA forms required to document a veteran's eligibility.

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<tr>
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<th>Veterans discharged after January 1, 1950</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Discharge Certificates</td>
<td>DD Form 214</td>
<td>DD Form 214</td>
</tr>
<tr>
<td>• Certificate of Honorable and Satisfactory Service (NAVMC form 112PD) indicating the length of service and character of service, and/or Notice of Separation from U.S. Coast Guard (NAVCG form 553) indicating the length of service and character of service.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Information for a Veteran or Reservist Who Needs to Obtain Copies

Veterans who need to obtain copies of discharge papers to apply for home loan benefits will need to complete SF Form 180, which can be found at [http://www.archives.gov](http://www.archives.gov) and mail the form to the correct address indicated on SF Form 180.

Continued on next page
Entitlement, Continued

VA Forms Required

The following table shows VA forms required to request determination of eligibility for unmarried spouses.

<table>
<thead>
<tr>
<th>Unmarried Surviving Spouses</th>
<th>Spouses of Service Personnel Missing in Action and Prisoners of War</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Request for Determination of Loan Guaranty Eligibility-Unmarried Widows and Widowers (VA 26-1817) must be signed and submitted in triplicate.</td>
<td>All of the following are required:</td>
</tr>
<tr>
<td></td>
<td>• a letter requesting determination of eligibility from the spouse,</td>
</tr>
<tr>
<td></td>
<td>• a copy of the most recent Report of Casualty (DD Form 1300),</td>
</tr>
<tr>
<td></td>
<td>• a copy of a marriage certificate or other proof of marriage customarily issued in the jurisdiction where marriage occurred, and</td>
</tr>
<tr>
<td></td>
<td>• complete information on all marriages previously entered into by spouse and serviceman (including details as to the date, place and manner of termination).</td>
</tr>
</tbody>
</table>

Certificate in Lieu of Lost or Destroyed Discharge Certificate

A veteran who has lost his/her evidence of military service may provide one (1) of the following forms as shown in the table below.

<table>
<thead>
<tr>
<th>Veterans Discharged From Regular Active Duty</th>
<th>Veterans on Current Active Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Request for a Certificate of Eligibility for VA Home Loan Benefits (VA Form 26-1880) from which VA may be able to make a determination from their internal records, or</td>
<td>• The following is required.</td>
</tr>
<tr>
<td>• discharged reservists and other discharged veterans, for whom VA has no internal records, should submit a Request Pertaining to Military Records (SF 180) which can be used by the veteran to request a copy of his/her Certificate of Release or Discharge (VA DD Form 214) or its equivalent, or</td>
<td>• Statement of Service (DD Form 13).</td>
</tr>
<tr>
<td>• A Certificate in Lieu of Lost or Destroyed Discharge Certificate, or Certification of Military Service (GSA Form 6954).</td>
<td>• The Statement of Service must clearly show all of the following information:</td>
</tr>
<tr>
<td></td>
<td>• Veteran’s full name,</td>
</tr>
<tr>
<td></td>
<td>• Social Security Number,</td>
</tr>
<tr>
<td></td>
<td>• date of birth,</td>
</tr>
<tr>
<td></td>
<td>• entry date of active duty,</td>
</tr>
<tr>
<td></td>
<td>• the duration of lost time, if any, and</td>
</tr>
<tr>
<td></td>
<td>• the name of the commander providing the information.</td>
</tr>
</tbody>
</table>

Continued on next page
Lenders unable to obtain a COE online using WebLGY have the option of submitting an electronic application. This allows for the uploading of any supporting documentation and eliminates the need to complete and mail a paper form and documents to VA.

All mailed applications for Certificates of Eligibility for VA home loan benefits will be processed by the VA Eligibility Center located in Winston-Salem, N.C.

The contact information for the VA Eligibility Center is shown below.

**Mailing Address**
Atlanta Regional Loan Center
Attention: COE (262)
P.O. Box 100034
Decatur, Georgia 30031

**Toll-Free Phone Number**
1-888-768-2132
Entitlement, Continued

Certificates of Eligibility (COE)

- The original Certificate of Eligibility (COE) must be obtained.
- There are four (4) different types in use as follows:
  - VA 26-8320 issued on a Request for Certificate of Eligibility For VA Home Loan Benefits (VA 26-1880) on or after September 11, 2011,
    - The COE will display one of the following Funding Fee exemption status:
      - exempt
      - non-exempt
      - contact RLC
    - When a COE verifies a veteran is exempt from the Funding Fee and shows a service-connected disability income in the “CONDITIONS.” The service-connected disability income is considered verified income for the loan transaction.
      - This will reduce the need for using VA Form 26-8937.
    - For VA COEs that cannot determine the exempt status of the veteran, the COE will state “CONTACT RLC,” with a condition stating, "Funding Fee – Please fax a copy of the 26-8937 to the RLC of jurisdiction."
    - If a veteran indicates they filed a claim for VA compensation while on active duty, based on a pre-discharge examination and rating. Send VA Letter of Indebtedness/Verification of Benefits VA Form 26-8937 to the Certificate of Eligibility Center. VA will request a memorandum rating to determine if the Veteran will receive compensation upon discharge. Once VA makes the determination, VA will return VA Form 26-8937 noting the Veteran is exempt from the funding fee.

Note: Veterans can also apply for a COE online at [http://www.ebenefits.va.gov](http://www.ebenefits.va.gov) to take advantage of the same features.

- VA 26-8320 issued on a Request for Certificate of Eligibility For VA Home Loan Benefits (VA 26-1880) prior to September 11, 2011,
- VA 26-8320 issued to newly discharged veterans with qualifying service, and/or
- VA 26-1870 issued to veterans in the Korean Conflict or World War II.
- There is no need to update a (COE) that has never been used unless one of the following items applies:
  - it is a conditional certificate issued to an active duty service member who was subsequently discharged, or
  - to restore eligibility.
- To restore eligibility or eliminate a condition, the COE must be submitted to the VA under the following procedures:
  - Veteran completes and signs the Request for Certificate of Eligibility for VA Home Loan Benefits (VA Form 26-1880),
  - the outdated original COE is attached to the form, and
  - the VA 26-1880 with the COE is mailed to the VA Regional Office with proof of military service.

Note: Verify the Veteran’s Social Security number (SSN) matches that shown on the COE. If the COE reflects an incorrect SSN, even if an obvious transposition of numbers, the COE must be returned to VA for correction prior to closing.

Continued on next page
Automated Certificate of Eligibility (ACE)

- Automated *Certificate of Eligibility (ACE)* is an alternative to mailing VA form 26-1880, which generates a response within seconds.
- The computer generated ACE replaces the need for a traditional COE; however, it is not acceptable in all instances.
- ACE is valid only for the lender who obtains it. ACE cannot be accepted if it is transferred from another lender.
- Types of cases that are INELIGIBLE for ACE processing and require a traditional COE are as follows:
  - persons whose service was or is in the Reserves or National Guard,
  - persons who may have had prior VA loan(s) that went into foreclosure,
  - persons who did not serve the minimum required length of service and were not discharged for an authorized exception, other than honorable,
  - persons who were discharged under conditions other than honorable,
  - persons for which VA has insufficient data to make a determination,
  - persons seeking restoration of previously used entitlement, or
  - unmarried surviving spouses of veterans who died in service or as a result of service.
  - unmarried surviving spouses of totally disabled veterans.

**Note:** A surviving spouse who also would be eligible for home loan guaranty benefits under his/her own entitlement (which may require a funding fee to be collected), is not limited to only one of the entitlements available. These loans will require prior approval from VA if more than one COE is used in the loan transaction.

**Note:** Verify the Veteran’s Social Security number (SSN) matches that shown on the COE. If the COE reflects an incorrect SSN, even if an obvious transposition of numbers, the COE must be returned to VA for correction prior to closing.
Income

General

- VA generally requires all income to continue through, at a minimum, the first three (3) years of the mortgage loan. Only verified income can be considered in total effective income.
- The income must be evaluated as stable and reliable, anticipated to continue during the foreseeable future, and sufficient in amount. Also analyze the applicant’s past employment record, training, education and qualifications for his/her position.
- A minimum of two years employment, income history must be verified.
- Employment of less than 12 months is generally not considered stable and reliable; however, it may be considered stable and reliable if the individual facts warrant such a conclusion. Careful evaluation is required along with an explanation of why this income was used.
  - Related training or experiences may be substituted to satisfy the 12 months requirement.
- If employment is used in qualifying where the borrower has less than 12 months on the current job, the underwriter must address it in the remarks section of the VA Loan Analysis (VA 26-6393).
- The IRS Form 4506-T form must be:
  - executed by the borrower(s) for all loans at application and at closing,
  - processed by the IRS for all borrower(s).


- If the borrower(s) is financing a property located in a designated disaster area, VA has specific requirements for the re-verification of employment and income procedures prior to closing the loan.

Reference: See Section 1.31: Disaster Area Procedures of the Correspondent Seller Guide for additional information if the borrower is employed in a disaster area.

Application Requirement

- The lender must inquire about the veteran’s past or present receipt of VA disability compensation, retirement in lieu of such compensation, or eligibility as an unmarried surviving spouse. If the veteran replies yes, the Certificate of Eligibility (COE) may be used to verify this information or a Verification of VA Benefit Related Indebtedness, (VA Form 26-8937) must be submitted to VA.

Reference: See “Debt Related to VA Benefits” in the topic “Liabilities and Qualifying Ratios” for additional information on questions to ask the veteran at application.

Continued on next page
Income, Continued

Alimony and/or Child Support  
VA Non-AUS  
Child support or alimony may be included as income for qualifying purposes if the support will continue for a period of at least three (3) years. The borrower must provide the following documentation:  
- a copy of the court decree, (i.e., divorce decree or separation agreement, child support order, etc.) to verify income continuance for at least 3 years after loan application, and  
- documentation of income receipt for the last 12 months (i.e., canceled checks, bank statements, etc.).

Fannie Mae DU  
If "Approve/Eligible," the following is required:  
- a copy of the front page of the divorce decree,  
- copies of applicable pages from the divorce decree that provide details of support payments, including verification that the income will continue for at least three years after loan closing, and  
- verification of receipt of income for the last 3 months.

Freddie Mac LP  
If "Accept/Eligible," follow LP Feedback Certificate.

Auto Allowance or Expense Accounts  
- If an auto allowance is paid to cover specific expenses related to employment, it is first applied to offset a corresponding car payment. However, if the allowance exceeds the car payment and other specific expenses, with proper documentation, the excess may be used as qualifying income.  
- If any other allowance is provided to the borrower and the allowance exceeds actual expenses, with proper documentation, (i.e., tax returns) the excess may be used as qualifying income.  

Note: Automobile lease or loans payments are not subtracted from the borrower’s income; they are considered part of the borrower’s recurring monthly debt obligations in Section D on the VA Form 26-6393 (VA Loan Analysis).

Continued on next page
Income, Continued

<table>
<thead>
<tr>
<th>Bonus and Overtime Income</th>
<th>VA Non-AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Generally, such income cannot be considered stable and reliable unless it has continued (and is verified) for two years.</td>
</tr>
<tr>
<td></td>
<td>• If the bonus income is 25% or more of the borrower’s income, it is treated as commission income.</td>
</tr>
</tbody>
</table>

Reference: See “Self-Employment or Commissioned Borrower Income” in this topic for information.

• To include income from these sources in effective income, the following conditions apply:
  • the income must be regular and predictable, and
  • there must be a reasonable likelihood that it will continue in the foreseeable future based on the following items:
    • its compatibility with the hours of duty and other work conditions of the applicant’s primary job, and
    • how long the applicant has been employed under such an arrangement.
• Income is averaged over two (2) years. Earnings must be level or increasing to be considered stable and reliable.


Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
If “Accept/Eligible,” follow LP Feedback Certificate.

Continued on next page
Income, Continued

Foreign Income Documentation

- Borrower must be a US citizen receiving foreign employment income generated from a non-U.S. employment source.
- Borrower(s) must provide a two (2) year history of receipt, as well as a three (3) year continuance after loan application must be established for the income to be used to qualify.
- These guidelines apply to all occupancy types.
- Then must be able to meet occupancy requirements if it is for their primary residence.
- Non-US source of income may not include sanctioned countries administered by OFAC.
- Foreign income must be supported by:
  - The most recent two (2) years signed U.S. federal tax returns, and
  - Standard income documentation and requirements, based on source and type of income (i.e., year-to-date paystub and W-2s or other comparable documents).
- The income must be translated into US dollars.
- Foreign tax returns translated into U.S. dollars are NOT acceptable.
- Underwriter must use due diligence in determining continuance of income and focus on borrower’s occupation, tenure, past employment history, probability of continued employment.

Note: Foreign Nationals are not eligible borrowers.

Automated Underwriting Systems (AUS) Information

The following table shows information specific for AUS

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-AUS guidelines apply.</td>
<td>Non-AUS guidelines apply.</td>
</tr>
<tr>
<td><strong>Note:</strong> DU is not able to recognize foreign income; therefore, these guidelines will need to be applied outside of DU.</td>
<td><strong>Note:</strong> LP is not able to recognize foreign income; therefore, these guidelines will need to be applied outside of LP.</td>
</tr>
</tbody>
</table>

Gaps in Employment

VA Non-AUS

If a borrower has a gap of employment, an explanation from the borrower is required if the gaps are greater than 30 days.

Fannie Mae DU

If “Approve/Eligible,” explanations are not required if gaps are less than 60 days.

Freddie Mac LP

If “Accept/Eligible,” follow LP Feedback Certificate.

Government Subsidies

Government subsidies are NOT ELIGIBLE for use with any VA loan program or transaction type. This includes, but is not limited to, Section 8 Housing Vouchers.

Continued on next page
Military Income Other Than Base Pay

The guidelines in this subtopic show information for other types of military income received by active-duty veterans, in addition to base pay.

Military Quarters Allowance

VA Non-AUS

- Quarters allowance may be included in effective income if properly verified. (variable housing allowance may also be included where offered). This is NON-TAXABLE income.

Reference: See "Military Personnel Within 12 Months of Active Duty Release" in the topic "Eligible Borrowers" in this product for information applicable to veterans with this status.

- For quarters allowance to be considered as income, obtain a Status of Housing Availability (DD Form 1747), indicating that item b (permanent) or item d of that form applies. This form serves as notice that quarters will not be made available to the applicant, and the applicant is authorized to make permanent arrangements for nonmilitary housing.

- DD Form 1747 is NOT required in any of the following circumstances, (however, documentation including an explanation justifying the circumstances for the omission of this form is required with loan submissions):
  - when the applicant’s duty assignment clearly qualifies the applicant for quarters allowance (i.e., personnel stationed overseas whose families remain stateside, recruiters on detached duty, and military personnel stationed in areas where no base housing exists),
  - when VA has established that the waiting lists for on-base housing in a particular geographic area are so long that it is improbable that individuals desiring to purchase off-base housing would be precluded from doing so in the foreseeable future, or
  - VA issues a release to all lenders in the jurisdiction to inform them of its determination.

Fannie Mae DU

Non-AUS guidelines apply.

Freddie Mac LP

If “Accept/Eligible,” follow LP Feedback Certificate.

Continued on next page
Income, Continued

Subsistence and Clothing Allowance

VA Non-AUS

- Subsistence (rations) may be included in effective income.
- This is NON-TAXABLE income.

Note: The clothing allowance appears on the LES as an annual amount. If using as income, it must be converted to a monthly figure.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
If “Accept/Eligible” follow LP Feedback Certificate.

Other Military Allowances

VA Non-AUS

- Pro-Pay, flight, sea, or hazard pay, overseas pay and combat pay are subject to periodic review and/or testing of the recipient to determine continued eligibility.
- Military allowances may be included in effective income only if such income can be expected to continue due to the nature of the recipient’s assigned duties.
- These types of allowances are considered TAXABLE income.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
If “Accept/Eligible” follow LP Feedback Certificate.

Part-Time Income / Second Jobs

- Part-time income may be considered for qualifying purposes if a two (2) year history is verified.
- The income must be regular and predictable.
- There must be a reasonable likelihood that it will continue in the foreseeable future based on the following items:
  - its compatibility with the hours of duty and other work conditions of the applicant’s primary job, and
  - how long the applicant has been employed under such arrangement.
- Income is averaged over two (2) years. Earnings must be level or increasing to be considered stable and reliable.

Continued on next page
Recently Discharged Veterans

- If a recently discharged veteran has no prior employment history and he/she has not been on the job a sufficient time in which to become established, consideration should be given to the duties the veteran performed in the military service.
- If the applicant's current job requires skills for which the applicant has had no training or experience, greater time in the current job may be needed to establish stability.
- If it can be determined that the duties a veteran performed in the service are similar to or are in direct relation to the duties of his/her present position, the income from the present position may be used in qualifying, notwithstanding the fact that the veteran has been on the job a short period of time.
- If a recently retired veteran, using retirement income to qualify, requires only minimal income from employment, the fact that the veteran may have been in his/her current position for only a short period of time should not negatively affect the veteran.
- There are two (2) types of Voluntary Separation Payments used to facilitate military downsizing. Information is reflected below.
  - Special Separation Benefit (SSB)
    - A one-time lump sum
    - Taxable in the year received
    - Treat as any substantial cash reserve
  - Voluntary Separation Incentive (VSI)
    - Annual payments
    - Taxable in year received.
    - Include in effective income
    - Calculated by multiplying the veteran’s years of service times two (2).
    - Requires a minimum of 6 years service (equates to a minimum of 12 years annual payments)
    - VSI is reduced by the amount of any base pay or compensation a member receives for active or reserve service, including inactive duty training.
    - If the veteran receives both VSI and VA disability compensation payments, the VSI is reduced by the amount of disability compensation. However, if the disability compensation is related to an earlier period of service and the VSI a later period of service, the VSI is not reduced by the amount of disability compensation.
- The guidelines under self-employment income must be applied to a recently discharged veteran who is self-employed.

Continued on next page
Income, Continued

Rental Income - 2-4 Family Unit Subject Property

- If the subject property is a two- to four-family dwelling, the prospective rental income will NOT be considered unless the following guidelines are met:
  - the veteran can demonstrate a reasonable likelihood of success as a landlord (i.e., veteran currently owns other rental property and tax returns show profit or that veteran breaks even), and
  - the veteran has at least six (6) months PITI cash reserves.
- Rental income is calculated as 75% of projected rental income as determined by one of the following:
  - verification of prior rent collected on the units (if existing), or
  - the appraiser’s opinion of the property’s fair monthly rental (if new construction).

Rental Income from Conversion of Existing Primary Residence

- Proposed rental of a veteran’s existing property may be used to offset the mortgage payment on that property, provided there is no indication that the property will be difficult to rent. This rental income may not be included in effective income.
  - A copy of the rental agreement and evidence of the security deposit and/or the first month’s rent must be in the loan file.
  - Three months of PITI required for new rental property.

Rental Income - Other Rental Property

- If income from other rental property is used to qualify the veteran for the loan, two (2) year’s Federal tax returns (including all schedules) are required.
- VA requires three months of PITI for each rental property, other than the subject property, and any property that the borrower occupied prior to the newly financed property.
- If the veteran little or no rental history on the property, a determination must be made the rental income will be stable and reliable based on a review of all of the following items:
  - documentation of the applicant’s prior experience managing rental units or other background involving both property maintenance and rental,
  - any leases on the property, and
  - the strength of the local rental market.

Continued on next page
Income, Continued

Income From Service in the Reserves or National Guard

- Income derived from service in the Reserves or National Guard may be included in effective income if the length of the applicant’s total active and Reserve/Guard service indicates a strong probability that the income will continue.
- Except in cases where the veteran is currently serving on active duty and qualifying income is derived from such service, the lender must determine if a veteran has been notified of a mobilization of his or her unit.
- Every applicant, whose income is being used to qualify for a loan, must be asked if their income is subject to change due to participation in a reserves/national guard unit due to activation.
- If the veteran is in a unit with orders for mobilization, the loan must be underwritten on the basis of the projected active duty income.
- The VA Certification of Military Reservist Status must be completed by the veteran prior to submission to the Underwriting Department.

Income for Reserves or National Guard Called to Active Duty

- When activated with Reserves or Guard, veterans whose loans are in process or ready to close may be subject to a sharp reduction in income.
- It is important to recognize that activated reservists whose incomes are reduced may be unable to qualify for the loan they are seeking.
- If the veteran’s income is reduced, the impact that the reduction may have on the veteran’s ability to repay the loan must be carefully evaluated.
- If the veteran’s income is increased, the likelihood the income will continue beyond a 12-month period must be considered.
- If the orders indicate a tour of duty is not to exceed 12 months, both present income (current employment) and expected income (reservist income) must be evaluated in terms of income and stability. All aspects of each individual case must be carefully evaluated including credit history, accumulation of assets, overall employment history, etc. to ensure the veteran will not be placed in a position of financial hardship.
- All files must be documented, including any reasons for using or not using reservist income.

Continued on next page
Salaried or Hourly Wage Income (Non-Active Duty Veterans)

VA Non-AUS

- SunTrust will accept an original, faxed or emailed copy of a written Verification of Employment (VOE)
- SunTrust will accept the following items in lieu of a written verification:
  - original or true and certified copy of a paystub which reflects year-to-date income of at least 30 days or paystubs for time period worked if less than 30 days year-to-date income reports, and
  - W-2 forms for the previous 2 year period, and
  - telephone verification from the present employer confirming the following items:
    - current employment and date of employment,
    - date of verification along with signature of lender’s employee, and
    - the name, title and telephone number of the person with whom employment was verified.
- Computer generated paystubs retrieved from the myPay website are acceptable for federal government employees, including civilians.
- VOE supplied by an employment verification service that provides the same information as the “full” verification generated through the Work Number are acceptable. The following information must be included:
  - the current date,
  - employer name and address,
  - veteran’s full legal name, social security number, (complete or truncated) and job title,
  - employment status (active or inactive),
  - length of employment and start date,
  - salary rate and pay frequency,
  - average hours per pay period,
  - summary of year to date information including base pay, overtime, commissions and bonuses, and
  - reference number for the verification

Note: A current paystub is not required with a full verification through an automated employment verification service.

References:
- See “Verification of Employment Documentation Requirements” for additional information.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
If “Accept/Eligible,” follow LP Feedback Certificate.

Continued on next page
Income, Continued

Self-Employment or Commissioned Borrower Income

VA Non-AUS

- A self-employed individual is considered such if he/she owns at least 25% of a business from which income is received. Contract labor individuals (those receiving 1099 wages) are also considered self-employed.
- Individuals who derive 25% or more of their income from commission or bonus income must have two (2) years’ federal tax returns (including W2s and/or 1099s).
- The employer must verify year-to-date commissions, the basis for computing commissions and how frequently commissions are paid to the applicant.
- Generally, a self-employed borrower must have a two (2) year history of self-employment.
- The following documentation must be obtained:
  - the most recent two (2) years Federal tax returns (including all schedules, W2s or 1099s) signed and dated,
  - additional periods may be requested if needed to demonstrate a satisfactory earnings record,
  - a profit and loss (P&L) statement and current balance sheet,
  - financial statements are not required to be prepared by an accountant; however, the lender and/or the underwriter may require accountant-prepared financial statements (or audited statements by a Certified Public Accountant) if needed.
- In addition, if the borrower’s business is a corporation or partnership the following documentation is required:
  - the most recent two (2) years Federal corporate or partnership tax returns (including all schedules),
  - a list of all stockholders or partners showing the interest each holds in the business, and
  - obtain a written credit report on the business.

Notes:

- Income for commissions, bonuses and/or self-employment is averaged over the two (2) year period.
- For borrowers earning commission income that is 25% or more of annual employment income, unreimbursed business expenses (IRS 2106) must be deducted from gross commission income regardless of the length of time the borrower has filed the expenses with the IRS.

- Less than two (2) years usually cannot be considered stable unless the applicant has had previous related employment and/or extensive specialized training.
- Less than one (1) year can rarely qualify. In-depth development is required for a conclusion of stable income on less than 1-year cases.


Continued on next page
Income, Continued

Self-Employment or Commissioned Borrower Income, (continued)

Fannie Mae DU
- Generally, non-AUS guidelines apply with some exceptions on documentation requirements.
- If “Approve/Eligible,” the borrower must provide 2 years of individual federal tax returns and corporate or partnership federal tax returns, (if applicable to business).
- If “Approve/Eligible,” business tax returns are not required if all of the following applies:
  - the borrower has provided verification of business ownership for the past 5 years,
  - individual tax returns reflect consistent income in the last 2 years, and funds for closing are not coming from the business.
  - If “Approve/Eligible,” a YTD profit and loss is not required.

Freddie Mac LP
If “Accept/Eligible” follow LP Feedback Certificate.

Tip Income

- Must have been received for at least the most recent two (2) years.
- Documentation that the current employer expects the tip income to continue is required in the loan file.
- Tip income should be averaged over the past two (2) years to determine the amount of income that may be considered in qualifying the borrower.

Notes:
- Tip income must be entered in DU as “Other Types of Income.”
- This guideline must be applied OUTSIDE OF DU AND LP.

Continued on next page
The use of trailing co-borrower income is not permitted.

**Temporary Leave and Short-term Disability Income (non-service related)**

- Temporary leave from employment is generally short in duration and may encompass various circumstances such as maternity, medical, short-term disability, or other temporary leaves with or without pay.
- The period of time that a borrower is on temporary leave is determined by various factors such as applicable law, employer policies, and short term insurance and/or benefit terms.
- Leave from work ceases being considered temporary when the borrower does not intend to return to the current employer or does not have a commitment from the current employer to return to work.
- Underwriters must determine the allowable qualifying income as follows:
  - If the borrower will return to work prior to the first mortgage payment, then the borrower’s regular employment income that will be received upon their return to work may be used for qualifying.
  - If the borrower will return to work after the first mortgage payment, then the borrower’s temporary leave income is used for qualifying.

**Notes:**

- Documentation evidencing amount, duration, and consistency for all temporary leave income sources must be obtained when used for qualifying.
- Verify the borrower’s pre-leave income and employment, regardless of leave status.
- Obtain documentation from current employer confirming the borrower’s statutory right to return to work (or employer’s commitment to permit the borrower to return to work), the confirmed date of return, and the borrower’s post-leave employment and income.
- Obtain written statement signed by the borrower confirming that they will return to their current employer and stating the confirmed date of return.
- When a borrower is currently receiving short-term disability payments that will decrease to a lesser amount within the next three (3) years because they are being converted to long-term benefits, the amount of the long-term payments must be used in determining the borrower’s stable income.

*Continued on next page*
In addition to the above guidelines, the following applies for worker’s compensation:

- Benefits that have a defined expiration date must have a remaining term of at least three (3) years from the date of the mortgage application in order to be used for qualifying the borrower.
- A copy of the borrower’s disability policy or benefits statement must be obtained to verify the amount of the disability payments and to determine whether there is a contractually established termination or modification date.
- A statement from the benefits’ payer (insurance company, employer, or other qualified and disinterested party) must be obtained to confirm the borrower’s current eligibility for the disability benefits.

Automated Underwriting System (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-AUS guidelines apply, except as follows:</td>
<td>Non-AUS guidelines apply, except as follows:</td>
</tr>
<tr>
<td>• If using borrower’s regular employment income, the amount is entered into DU using the applicable income type.</td>
<td>• If using borrower’s regular employment income, the amount is entered into DU using the applicable income type.</td>
</tr>
<tr>
<td>• If using borrower’s temporary leave income, the amount is entered into DU as “Other Monthly Income” under “Other Types of Income”</td>
<td>• If using borrower’s temporary leave income, the amount is entered into DU as “Other Monthly Income” under “Other Types of Income”</td>
</tr>
</tbody>
</table>

Continued on next page
### Income, Continued

#### Other Types of Income

The guidelines in this subtopic provide some other acceptable types of income (but is not limited to those shown) that may be used for qualifying purposes and the requirements for each type.

#### Public Assistance Programs

**VA Non-AUS**

Documentation must be provided to confirm that the income will most likely continue for at least three (3) years after closing.

**Fannie Mae DU**

Non-AUS guidelines apply.

**Freddie Mac LP**

If “Accept/Eligible,” follow LP Feedback Certificate.

#### Workers Compensation

**VA Non-AUS**

- Documentation must be provided to confirm that the income will continue in the foreseeable future and the borrower chooses to use such income to qualify.

  Reference: See the “Temporary Leave and Short-term Disability Income (non-service related)” for additional information on Worker’s Compensation.

**Fannie Mae DU**

Non-AUS guidelines apply.

**Freddie Mac LP**

Non-AUS guidelines apply.

#### Foster Care

**VA Non-AUS**

Foster care income may only be used to balance the expenses of caring for foster children against any increased residual income requirements.

**Fannie Mae DU**

Non-AUS guidelines apply.

**Freddie Mac LP**

If “Accept/Eligible,” follow LP Feedback Certificate.

*Continued on next page*
### Income, Continued

<table>
<thead>
<tr>
<th>Social Security Retirement Income</th>
<th>VA Non-AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Verified from the third-party source [i.e., Social Security Administration (i.e., Awards Letter)]).</td>
<td></td>
</tr>
</tbody>
</table>

**Fannie Mae DU**  
Non-AUS guidelines apply.

**Freddie Mac LP**  
If “Accept/Eligible,” follow LP Feedback Certificate.

<table>
<thead>
<tr>
<th>Non-Military Retirement</th>
<th>VA Non-AUS</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Documentation must be provided to establish that the income is stable, reliable and anticipated to continue. The amount of income used to qualify must be anticipated to continue for three or more years from the date of closing).</td>
<td></td>
</tr>
</tbody>
</table>

**Fannie Mae DU**  
Non-AUS guidelines apply.

**Freddie Mac LP**  
If “Accept/Eligible,” follow LP Feedback Certificate.

<table>
<thead>
<tr>
<th>Social Security Disability Income</th>
<th>VA Non-AUS</th>
</tr>
</thead>
</table>
| • Social Security Disability income is awarded to individuals who cannot work because they have a medical condition that is expected to last at least one year.  
• Documentation must be provided to establish that the income is stable, reliable and anticipated to continue. The amount of income used to qualify must be anticipated to continue for three or more years from the date of closing.  
• Under no circumstance, should a statement be required from a physician confirming how long the medical condition will last. |

**Fannie Mae DU**  
Non-AUS guidelines apply

**Freddie Mac LP**  
If “Accept/Eligible,” follow LP Feedback Certificate.

*Continued on next page*
Income, Continued

Interest and Dividends

VA Non-AUS
The following requirements must be met in order to be used as effective income:

- evidence required to show borrower still owns the assets generating the qualifying income,
- document as received for the past two (2) years,
- income must be averaged over a two (2) year period, and
- two (2) years signed and dated Federal income tax returns must be provided.

Note: Funds used for down payment and/or closing costs must be subtracted before the interest is calculated.

Fannie Mae DU
Non-AUS guidelines apply

Freddie Mac LP
If “Accept/Eligible,” follow LP Feedback Certificate.

Trust Income

VA Non-AUS
A copy of the Trust Agreement or the Trustee’s statement confirming the amount, frequency and duration of payments must be provided.

- The income must continue for at least three (3) years after closing.
- Lump sum distributions made before loan closing may be used for down payment or closing costs if they are verified by a copy of the checks or the Trustee’s letter that shows the distribution amount.

Note: If a distribution was made that reduces the Trust income, the reduction must be taken into consideration in computing the income.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
Non-AUS guidelines apply.

Unemployment Income

VA Non-AUS
- If unemployment compensation is a regular part of the applicant’s income due to the nature of his or her employment (for example seasonal work), it may be included in qualifying.
- Income must be averaged over a two (2) period as evidenced by 1099 forms.

Note: Do not include unemployment income if it is temporary income.

Fannie Mae DU
Non-AUS Guidelines apply.

Freddie Mac LP
If “Accept/Eligible,” follow LP Feedback Certificate.

Continued on next page
Income as a Union Member

VA Non-AUS
Borrowers in a trade related job belonging to a union must provide two (2) years signed and dated federal tax returns to verify their income.
- Provide evidence of the union’s history with the borrower.
- Document evidence of current employment and year-to-date income.
- Income must be averaged over a two (2) year period.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
Non-AUS guidelines apply.

VA Benefits

VA Non-AUS
- Income received in the form of VA benefits must be documented by a letter or distribution form from the Veterans Administration.
- The income must continue for at least three (3) years after closing.

Note: Education benefits are not acceptable income, as it offsets education expenses and is considered by VA as temporary income.

Fannie Mae DU
Non-AUS guidelines apply.

Freddie Mac LP
Non-AUS guidelines apply.

Continued on next page
Income, Continued

Tax Exempt Income

- Tax-exempt income may be “grossed up” to make it comparable to taxable income, using current income tax withholding tables to determine an amount that can be prudently employed to adjust the borrower's actual income. The borrower’s tax returns may also be used as documentation.
- There is no actual “gross up” percentage. However, a 15% gross up is generally acceptable without documentation as stated above, except in the cases of high (combined) income borrowers.
- The income may only be “grossed up” to calculate the debt ratio. “Grossing up” does not apply to the residual income calculation.
- When “grossed up” income is used, the information is to be indicated in the remarks section of the VA Loan Analysis (VA Form 26-6393).

Automated Underwriting Systems (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-AUS guidelines apply.</td>
<td>Non-AUS guidelines apply.</td>
</tr>
<tr>
<td><strong>Note</strong>: There is a data input workaround that must be followed or the DU recommendation is invalid. Refer to the data input matrices for instructions.</td>
<td><strong>Note</strong>: LP renders a recommendation based only on the ratio. Residual income is determined outside of LP. Therefore, there is no required workaround for this type of income other than showing the “grossed up” amount in the income section.</td>
</tr>
</tbody>
</table>

Documentation Requirements

VA requires a full two (2) years employment history be verified. The following information describes documentation requirements and the types of documentation that is acceptable to VA.

Age of Income Documentation

**VA Non-AUS**

Income documents, including Leave & Earnings Statements (LES) for active duty borrowers, cannot be older than either one of the applicable timeframes below:

- For traditionally and AUS underwrite loans, if the property is existing, income documents cannot be older than one hundred and twenty (120) days from the Note date.
- For traditionally and AUS underwritten loans, if the property is new construction, income documents cannot be older than one hundred and eighty (180) days from the Note date.

**Fannie Mae DU**

This guideline must be applied OUTSIDE OF DU.

**Freddie Mac LP**

If “Accept/Eligible,” follow LP Feedback Certificate.
The table below shows differences of employment documentation for a non-active duty borrower and an active duty borrower.

<table>
<thead>
<tr>
<th>Non-Active Duty Borrowers</th>
<th>Active Duty Borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- SunTrust will accept an original, faxed or emailed copy of a written Verification of Employment (VOE).</td>
<td>- If the borrower is active duty personnel, an original or true and certified copy of military LES (leave and earning statement) may be used in place of a written VOE.</td>
</tr>
<tr>
<td>- SunTrust will accept the following items in lieu of a written verification:</td>
<td>- The LES must be no more than 120 days old (180 days for new construction).</td>
</tr>
<tr>
<td>- original or true and certified copy of a paystub which reflects year-to-date income of at least 30 days or paystubs for time period worked if less than 30 days year-to-date income reports, and</td>
<td>- The Department of Defense provides service members access to a computer generated LES through the myPay website. This type of LES is acceptable.</td>
</tr>
<tr>
<td>- W-2 forms for the previous 2 year period, and</td>
<td>- If the LES shows all zeros in the field that normally reflects the ending date of obligated service, obtain a copy of the officer’s orders. If the orders are unclear or unobtainable, then, as an alternative, obtain a signed statement from the officer indicating that he/she has no intention of leaving active duty within the next 12 months. This statement must also state that he/she has no knowledge of any impending action that may result in his/her departure from active duty.</td>
</tr>
<tr>
<td>- telephone verification from the present employer confirming the following items:</td>
<td><strong>Note</strong>: The expiration date for a member of the National Guard or Reserves appears on the applicant’s current contract.</td>
</tr>
<tr>
<td>- current employment and date of employment,</td>
<td>- A telephone employment verification is not required.</td>
</tr>
<tr>
<td>- date of verification along with signature of lender’s employee, and</td>
<td>- If borrower’s remaining term of service is 12 months or less, refer to “Military Personnel Within 12 Months of Active Duty Release” in the topic “Eligible Borrowers.”</td>
</tr>
<tr>
<td>- the name, title and telephone number of the person with whom employment was verified.</td>
<td></td>
</tr>
<tr>
<td>- Computer generated paystubs retrieved from the myPay website are acceptable for federal government employees, including civilians.</td>
<td></td>
</tr>
<tr>
<td>- VOE supplied by an employment verification service that provides the same information as the “full” verification generated through the Work Number are acceptable. The following information must be included:</td>
<td></td>
</tr>
<tr>
<td>- the current date,</td>
<td></td>
</tr>
<tr>
<td>- employer name and address,</td>
<td></td>
</tr>
<tr>
<td>- veteran’s full legal name, social security number, (complete or truncated) and job title,</td>
<td></td>
</tr>
<tr>
<td>- employment status (active or inactive),</td>
<td></td>
</tr>
<tr>
<td>- length of employment and start date,</td>
<td></td>
</tr>
<tr>
<td>- salary rate and pay frequency,</td>
<td></td>
</tr>
<tr>
<td>- average hours per pay period,</td>
<td></td>
</tr>
<tr>
<td>- summary of year to date information including base pay, overtime, commissions and bonuses, and</td>
<td></td>
</tr>
<tr>
<td>- reference number for the verification</td>
<td></td>
</tr>
</tbody>
</table>

**Note**: a current paystub is not required with a full verification through an automated employment verification service.

Continued on next page
Income, Continued

Previous Employment

If the borrower(s) have been at their current employment for less than a full two (2) years, the following verification requirements apply.

- A verification of employment (VOE),
- W2 Forms, or
- Income information obtained from the IRS.

References:

- See General Section 1.37 Income Validation Guidelines and of the Correspondent On-Line Seller Guide for additional information.

Automated Underwriting Systems (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>A VOE is not required if the borrower has been with the same employer for at least one year and W-2's for one previous year have been collected.</td>
<td>Same guidelines as DO/DU.</td>
</tr>
<tr>
<td>W-2's are not required for a borrower on active duty.</td>
<td></td>
</tr>
<tr>
<td>W-2's are not required if all of the following are met:</td>
<td></td>
</tr>
<tr>
<td>• borrower with same employer for greater than or equal to 2 years,</td>
<td></td>
</tr>
<tr>
<td>• employer phone contact verifies the length of employment and current status (still employed),</td>
<td></td>
</tr>
<tr>
<td>• borrower not self-employed or commissioned,</td>
<td></td>
</tr>
<tr>
<td>• bonus, overtime or secondary income not needed to qualify,</td>
<td></td>
</tr>
<tr>
<td>• stable monthly income to be determined by using current base pay only (rather than total earnings), and</td>
<td></td>
</tr>
<tr>
<td>• borrower signs Form 4506-T for the previous two tax years.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
Income, Continued

VA permits the use of faxed and internet downloaded documents for income, employment or asset verification. The table below shows the documentation requirements of each.

<table>
<thead>
<tr>
<th>Faxed Documents</th>
<th>Internet Downloads</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Faxed documents must provide the same information as the standard VOE or VOD.</td>
<td>• Internet downloaded documents must show the employer or depository name and source of information.</td>
</tr>
<tr>
<td>• Faxed documents must clearly identify the employer or depository's name and source of information.</td>
<td>• Lenders are responsible for ensuring the document is valid.</td>
</tr>
<tr>
<td>• The documents must be identifiable as belonging to the borrower</td>
<td>• The documents must be identifiable as belonging to the borrower.</td>
</tr>
<tr>
<td>• Lenders are responsible to ensure the authenticity of the document.</td>
<td>• The validity can generally be verified by reviewing the information contained on any headers, footers, and the banner portion of the downloaded web page(s) as well as uniform resource locator (URL), which must appear on the document.</td>
</tr>
<tr>
<td>• The documents should also be reviewed for errors such as incorrect area codes, unreadable names, income, assets or debts not adequately completed on the form, etc.</td>
<td>• The downloaded pages should show the date and time printed.</td>
</tr>
<tr>
<td>• The name and telephone number of the person who can verify the faxed information must be on the form.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
Income, Continued

Verification of Employment Documentation Requirements

The following table shows the requirements for the traditional VOE, alternative documentation, and the verifications provided by employment verification service companies.

<table>
<thead>
<tr>
<th>Traditional VOE</th>
<th>Alternative VOE</th>
<th>Employment Verification Service Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• SunTrust will accept an original, faxed or emailed copy of a written Verification of Employment (VOE)</td>
<td>• Alternative documentation may be used in lieu of employer written verifications EXCEPT in the following situations:</td>
<td>• SunTrust allows the use of any employment verification service that provides the same information as the “full” verification generated through the Work Number. The following information must be included:</td>
</tr>
<tr>
<td>• The true and certified copy must have the original signature of the Branch employee in both the space for lender’s signature and in the true and certified copy certification section.</td>
<td>• employer is not willing to give telephone verification of the applicant’s current employment, and/or</td>
<td>• the current date,</td>
</tr>
<tr>
<td>• The paystub may be an original or a true and certified copy of the original.</td>
<td>• paystubs or W2 forms are questionable.</td>
<td>• employer name and address,</td>
</tr>
<tr>
<td>• If the employer does not provide paystubs, the following documentation will be required:</td>
<td>• Alternative documentation consists of the following:</td>
<td>• veteran’s full legal name, social security number, (complete or truncated) and job title,</td>
</tr>
<tr>
<td>• written VOE,</td>
<td>• original or true and certified copy of a paystub which reflects year-to-date income of at least 30 days or paystubs for time period worked if less than 30 days year-to-date income reports, <strong>and</strong></td>
<td>• employment status (active or inactive),</td>
</tr>
<tr>
<td>• confirmation from employer that pay stubs are not provided, and</td>
<td>• W-2 forms for the previous 2 year period, <strong>and</strong></td>
<td>• length of employment and start date,</td>
</tr>
<tr>
<td>• payroll ledger sheet covering not less than one (1) full month’s earnings, signed by a payroll clerk.</td>
<td>• telephone verification from the present employer confirming the following items:</td>
<td>• salary rate and pay frequency,</td>
</tr>
<tr>
<td></td>
<td>• current employment and date of employment,</td>
<td>• average hours per pay period,</td>
</tr>
<tr>
<td></td>
<td>• date of verification along with signature of lender’s employee, and</td>
<td>• summary of year to date information including base pay, overtime, commissions and bonuses, and</td>
</tr>
<tr>
<td></td>
<td>• the name, title and telephone number of the person with whom employment was verified.</td>
<td>• reference number for the verification</td>
</tr>
</tbody>
</table>

**Note:** a current paystub is not required with a full verification through an automated employment verification service.

Deductions From Income

The appropriate deductions for Social Security, Federal income taxes, and any state or local taxes must be taken into consideration in the preparation of the VA Loan Analysis (VA Form 26-6393).

*Continued on next page*
Income, Continued

FICA Withholdings
- FICA tax is a combination of Social Security and Medicare tax.
- The total tax rate for a W-2 paid borrower is 7.65% of that, 6.2% is allocated to Social Security (or FICA) and 1.45% is allocated to Medicare.
- The total tax rate for a self-employed borrower, or a borrower who is paid with IRS 1099 forms, is 15.3%, of that, 12.4% is allocated to Social Security (or FICA) and 2.9% is allocated to Medicare.

Social Security
- Social Security withholdings are calculated by multiplying the LESSER OF the taxpayer's actual wages OR Social Security maximum wages by a rate of 6.20% or 12.4% if self-employed.
- The maximum taxable wages may adjust each year and are identified in Circular E of the "Employer’s Tax Guide". Once the taxpayer’s income exceeds the maximum amount, the Social Security tax is no longer required.

Medicare
- Medicare withholdings are calculated by multiplying the taxpayer’s actual wages by 1.45% (or 2.9% if self-employed). Unlike Social Security withholdings, all of the taxpayer’s wages are subject to the Medicare tax.

Income Tax Withholdings
- Federal Income taxes must be determined using the “Employer’s Tax Guide,” Circular E, issued by the Internal Revenue Service.
  - The web site address for this Circular is http://www.irs.gov/publications.
  - The income tax withholding from gross wages charts for MONTHLY payroll period may be found starting on page 47 of this circular.
  - If the applicant has a Mortgage Credit Certificate (MCC), which is a tax credit not a mortgage subsidy, reduce the Federal income tax by the estimated credit issued by state or local governments.
  - The Federal tax credit is based on a certain percentage of the borrower’s mortgage interest payment. For instructions on calculating the tax credit refer to chapter 4 in the VA Lender’s Handbook.
  - Lenders must provide a copy of the MCC to VA with the loan package.
- State and local taxes must be determined using similar materials to those provided by the state and local authority.
  - The website below provides a listing by state of state taxes, Departments of Revenue: http://www.aicpa.org/yellow/yptsgus.htm
  - click on the state of your choice to arrive at the state web page.
  - at this point, each state appears to have information under different titles and in different locations within their website,
  - all branches that have state or local income taxes need to obtain charts to calculate the residual income.
Liabilities and Qualifying Ratios

General

- The VA qualifies the veteran borrower on a single ratio (no housing ratio), as well as residual income. Residual income is the balance available for family living expenses after deducting income and social security taxes, debts, job related expenses, obligations, and monthly shelter expenses from the borrower's income.

Reference: See “Residual Income” subsequently presented in this topic for additional information.

- Debts and other obligations of the applicant(s) must be verified and rated. It must be determined if an installment debt with a remaining term of less than 10 months (or any other debt or obligation) could have a severe impact on the family's resources during the first most critical months of the home loan.

- If a married veteran wants to obtain the loan in his or her name only, the veteran may do so without regard to the spouse's debts and obligations in a non-community property state. However, in a community property state, the spouse's debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Alimony, Child Support and/or Maintenance Payments

- The payment amount of any alimony and/or child support obligation of the applicant must be verified.

- Documentation of an applicant’s divorce should not be requested unless it is necessary to verify the amount of any alimony or child support liability indicated by the applicant.

- If in the routine course of processing the loan, the lender encounters direct evidence that a child support or alimony obligation exists, any inquiries necessary to resolve the discrepancies must be made and the appropriate verification obtained.

Allotments on Pay Stubs and/or Leave & Earnings Statements (LES)

- Whenever a pay stub or LES indicates an allotment (deduction), the lender must investigate the nature of the allotment to determine whether it is related to a debt.

- Appropriate documentation must be included in the loan file verifying the purpose of the allotment.

Continued on next page
Liabilities and Qualifying Ratios, Continued

Child Care Expenses and Other Job Related Expenses

- Include any costs for dependent care, significant commuting costs, union dues and any other direct or incidental costs associated with the veteran’s (or spouse’s) employment.
- The following list addresses specific VA child care requirements.
  - If there is a child, 10 YEARS OLD OR YOUNGER, in the family and both parents work, the application must include information regarding the job-related expenses such as child care.
  - A statement from the borrowers stating the child care provider’s name, address and cost of care is acceptable documentation, or explanation of why no expense is incurred.
  - Situations that require verification of child care include the following:
    - when both husband and wife work and child/children are under school age, or
    - child/children are school age (10 years old or younger) requiring after school and/or summer care.
  - A statement is not necessary when one child is old enough to care for younger school age sibling(s).

Co-Signed Debt

- The lender may exclude the loan payments from the monthly obligations in the loan analysis under the following circumstances:
  - there is evidence that the loan payments are being made by someone else, (i.e., copies canceled checks reflecting that another party has made all the payments on the obligation), and
  - there is no reason to believe that the applicant will have to participate in the repayment of the loan (.evidence can be provided that the loan has been paid on time).

Continued on next page
Liabilities and Qualifying Ratios, Continued

Debts of an Ex-Spouse
- Debts assigned to an ex-spouse by a divorce decree will generally not be counted against the veteran-borrower in the debt ratio calculation, even if the debt is reflected on the borrower’s credit report and/or is currently delinquent.
- Documentation of such assignment must be provided (i.e., divorce decree).

Debts of a Non-Applicant Spouse
- A married veteran obtaining a loan in his or her name only may do so without regard to the spouse’s debts and obligations in a non-community property state.
- In a community property state, the spouse’s debts and obligations must be considered even if the veteran wishes to obtain the loan in his or her name only.

Debt Related to VA Benefit
- The lender must perform a CAIVRS screening, for all VA loans, on each applicant and any co-obligor immediately upon receipt of a loan application. The following information applies to CAIVRS:
  - CAIVRS is a HUD-maintained computer information system which enables lenders to learn when an applicant has previously defaulted on a federally-assisted loan, and
  - CAIVRS may be accessed via the FHA Connection.

Reference: See “CAIVRS” in the topic “Credit Requirements” for additional information.

- The VA form 26-8937 Verification of VA Benefit-Related Indebtedness is required on any VA loan file when the COE does not verify the veteran is exempt from the funding fee or does not identify the income for the service provided disability.
- At time of application, items 1 through 10 of the Verification of VA Benefit-Related Indebtedness (VA form 26-8937) must be completed on every VA loan file, regardless if the form will be sent to the VA or not. Additionally, the lender must at the time of application, ask the borrower and any veteran co-borrower, including spouse if a veteran, (even if only one entitlement is being used on the loan), if any of the situations listed below are applicable.
  - Does he/she receive VA disability benefits?
  - Is the veteran claiming the funding fee exemption?
  - Would he/she be entitled to receive VA disability benefits if they were not receiving retirement pay? (Would be receiving VA Compensation but elected to receive military retirement instead?)
  - Does he/she receive non-service connected VA pension?
  - Is any VA Compensation used in determining income qualification?
  - Has he/she received VA disability benefits in the past?
  - Is he/she a surviving spouse of a veteran who died on active duty or as a result of a service connected disability?

Continued on next page
Liabilities and Qualifying Ratios, Continued

Debt Related to VA Benefits, (continued)

- Does he/she have outstanding debt from any of the sources listed below:
  - overpaid education, compensation, or pension benefits,
  - education or direct home loan in default,
  - outstanding indebtedness resulting from payment of a claim on a prior
    guaranteed home loan, or
  - a repayment plan for any of these debts if not current.

- If any one (1) of the above categories apply, a COE or a Verification of VA
  Benefit-Related Indebtedness (VA form 26-8937) must be submitted to the VA
  office in the jurisdiction. The lender cannot submit the loan for “final” approval
  until the completed form is obtained from VA. This applies to any veteran who
  is an applicant on a VA loan.

- If any of the above mentioned debts apply, one of the following must be obtained
  before the loan may be fully approved and closed:
  - evidence of payment in full of the debt, or
  - evidence of a current repayment plan acceptable to VA, and
  - evidence that the veteran executed a promissory note for the entire debt
    balance.

  Note: A promissory note is not required in cases referred to the Department
  of Justice, General Accounting Office, or VA Regional Counsel for judicial
  enforcement. In such cases VA will obtain information on the applicant’s
  debt status and relay pertinent information to the lender.

Installment Debt

- Installment debts with less than 10 remaining payments may be excluded from
  the total debt ratio; however, if the payment is large enough to cause a severe
  impact on family resources, the debt payment must be included in the debt ratio
  (i.e., a payment of $300 on an auto loan with a $1500 balance, even though it
  should be paid out in 5 months is considered significant).

- Determine whether debts and obligations, which do NOT fit the description of
  “significant,” would have an impact on the applicant’s ability to provide for family
  living expenses; and if should be given any weight in the analysis.

- Justification for the exclusion must be noted in the comments section of the VA
  Loan Analysis sheet (VA Form 26-6393).

  Note: If excluding the debt, the borrower must have sufficient cash reserves, or
  residual income exceeding 120%, that would compensate for the exclusion. If the
  assets or the residual income are insufficient, the debt must be considered in
  calculating ratios and residual income.
Automated Underwriting System (AUS) Information
The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• If an installment debt has less than 10 remaining payments and the payment is less than $100, it is not counted in the borrower’s ratio.</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>• If a liability is the result of a loan on a 401k plan, it is not counted in the borrower’s ratio, regardless of the remaining payments.</td>
<td></td>
</tr>
<tr>
<td>• All other liabilities listed on the 1003 will be considered in the borrower’s ratio.</td>
<td></td>
</tr>
</tbody>
</table>

Loans Secured by Deposited Funds
Certain types of loans secured against deposited funds, (such as signature loans, cash value life insurance policies, 401K loans, etc), in which repayment may be obtained through extinguishing the asset, are excluded from the total debt ratio and residual income calculation.

**Note:** Assets securing these loans may not be included as an asset in the loan analysis.

Property Taxes, Insurance and HOA Assessments
- The taxes, insurance and HOA Assessments, if applicable, due on a property owned or being purchased by a borrower **must always** be considered in the borrower’s debt to income ratios, including properties that are currently owned free and clear.
  - If the transaction is new construction, the lender must use a reasonable estimate of the real estate taxes based on the value of the land and completed improvements.
  - The lender must qualify the borrower based on real estate taxes for improved property as provided by the title company and/or the specific county assessor’s office.
  - In certain states, taxes may have been capped for the current seller, however when calculating the monthly payment, lender must use new tax projection which can often come from the title company.
  - The amount of taxes will be reduced based on federal, state, or local jurisdictional requirements. However, the taxes may not be reduced if an appeal to reduce them is only pending and has not been approved.
  - If there is a tax abatement on the subject property that will last for five years or less from the note date, qualify the borrower at the full tax rate.
  - For tax abatements that last for more than five years, the borrower must be qualified based on the highest tax amount due during the first five years.

*Continued on next page*
## Liabilities and Qualifying Ratios, Continued

### Property Taxes, Insurance and HOA Assessments, (continued)
- Generally, it is assumed that, if the mortgage has been reported to the credit repositories, the payment includes taxes and insurance. This assumption also includes mortgages that are not on the credit report and other verification has been provided.
- If the mortgage is with a private individual, it is assumed that the payment does NOT include taxes and insurance.
- If the borrower discloses that the mortgage payment does not include taxes and/or insurance or the mortgage is with a private individual, you must obtain documentation of the actual taxes, insurance, and if applicable, HOA fees.
- Other properties owned by the borrower identified on the loan application as a condominium, PUD, or townhouse must document HOA fees, even if the mortgage payment reflects on the credit report.

### Revolving Debt
- All revolving accounts reflecting a balance must be considered in the monthly debt. The 10 months (or less) rule does not apply to revolving charges.
- In the absence of a stated payment for those accounts with balances, the payment is determined as 5% of the current outstanding balance.

### Student Loans
- If the repayment on a student loan is scheduled to begin within 12 months of the mortgage closing date, the anticipated monthly payment must be included as a reoccurring obligation.
- If the borrower can provide evidence that the debt may be deferred for a period outside this time frame (i.e., 12 or more months from the date the loan closes), the debt does not need to be included in the analysis.

*Continued on next page*
Liabilities and Qualifying Ratios, Continued

<table>
<thead>
<tr>
<th>Qualifying Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A ratio greater than 41.00% requires close scrutiny, unless:</td>
</tr>
<tr>
<td>• the ratio is greater than 41.00% due to the existence of tax-free income, or</td>
</tr>
<tr>
<td>• the residual income exceeds the guideline by at least 20 percent (20.00%).</td>
</tr>
<tr>
<td>• There is no separate housing ratio.</td>
</tr>
<tr>
<td>• The debt ratio includes the following:</td>
</tr>
<tr>
<td>• PITI of the new loan including HOA dues and special assessments, installment payments with more than 10 remaining payments, or significant payment amount,</td>
</tr>
<tr>
<td>• revolving debt payments with an outstanding balance,</td>
</tr>
<tr>
<td>• negative rental income,</td>
</tr>
<tr>
<td>• alimony/child support and job related expenses (including child care expenses).</td>
</tr>
</tbody>
</table>

Reference: See “Installment Debts” previously presented in this topic for additional information prior to excluding any installment debt.

Automated Underwriting System (AUS) Information

• If DU Approve/Eligible or LP Accept/Eligible and AUS findings indicate no explanation is required for qualifying the borrower at ratios above VA guidelines, compensating factors are not required on the Loan Analysis.

• The maximum DTI for SunTrust on any VA transaction is 50% regardless of AUS findings.

<table>
<thead>
<tr>
<th>Undisclosed Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Information disclosed on the loan application must be accurate and current through loan closing. This information includes (but is not limited to) any additional credit applied for or incurred during the application process and through loan closing.</td>
</tr>
<tr>
<td>• If the borrower indicates new debt has been incurred which is not present on the initial application or on the credit report, documentation must be obtained from the borrower which indicates the balance and payment of the debt. This information must be included as a liability on the 1003 and the borrower must be requalified and/or the loan re-priced based on this new information.</td>
</tr>
</tbody>
</table>

**Note:** At this time, SunTrust will NOT be pulling a new credit report prior to purchase to validate if the borrower has incurred any additional liabilities.

Reference: See the “Inquiries” subtopic subsequently presented in the “Credit Requirements” topic for additional information.

*Continued on next page*
Liabilities and Qualifying Ratios, Continued

Compensating Factors

- If compensating factors are used in the underwriting decision, a statement from the underwriter, signed by the underwriting supervisor, must be provided justifying the reason for approval.
- The underwriting supervisor’s signature is not required if the ratio is greater than 41.00% but residual income exceeds the guidelines by at least 20%.
- Factors to be considered may include the following:
  - excellent long-term credit,
  - conservative use of consumer credit,
  - minimal consumer debt,
  - long-term employment,
  - significant liquid assets or down payment,
  - the existence of equity in refinancing loans,
  - little or no increase in shelter expense,
  - military benefits,
  - satisfactory homeownership experience,
  - high residual income, and/or
  - low debt-to-income ratio.

Maintenance and Utility Expenses

- The maintenance and utility expense is included in the estimated monthly shelter expenses (Section C) on the VA Loan Analysis form (VA 26-6393).
- VA has established a nationwide figure for maintenance and utility costs. All states should use a calculation of 14 cents ($0.14) per square foot of the gross living area (GLA) for maintenance and utilities combined (i.e., 2000 GLA x .14 = $280).
- The maintenance and utility expense is used to calculate the residual income figure only and is not calculated in the debt ratio.
Liabilities and Qualifying Ratios, Continued

Residual Income

- In addition to the debt ratio, the veteran borrower must meet residual income requirements based on family size.
- All members of the veteran's household, regardless of the nature of the relationship, are included in determining family size, including a spouse who will not be on the title or obligated on the note and children of a spouse's previous marriage who reside with the veteran.

**Note:** The Branch/Lender may omit any individuals from “family size” who are fully supported from a source of verified income which, for whatever reason, is NOT included in effective income on the Loan Analysis. For example:
- A spouse not obligated on the Note who has stable and reliable income sufficient to support his or her living expenses, or
- A child for whom sufficient foster care payments or child support is received regularly.

- Residual income equals gross income less the following items listed below:
  - PITI,
  - HOA,
  - maintenance and utilities,
  - federal, state and social security taxes,
  - revolving and installment debts,
  - alimony/child support,
  - job related expenses (child care expenses, travel, meals, etc.), and
  - negative rental income.
- VA has established a nationwide figure for maintenance and utility costs. All states should use a calculation of 14 cents ($0.14) per square foot of the gross living area (GLA) for maintenance and utilities combined.
- If the borrower or the spouse is an active-duty service person, the required residual income figure will be reduced by five (5%) if there is a clear indication that the borrower or spouse will continue to receive the benefits resulting from the use of facilities on a nearby military base. This reduction may also be applied to retired military personnel who are located reasonably near a military base.
- Residual income should not be less than the established amount according to loan amount and family size.

Continued on next page
The following table shows residual income information.

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Northeast</th>
<th>Midwest</th>
<th>South</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amounts of $79,999 and below</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$390</td>
<td>$382</td>
<td>$382</td>
<td>$ 425</td>
</tr>
<tr>
<td>2</td>
<td>$654</td>
<td>$641</td>
<td>$641</td>
<td>$ 713</td>
</tr>
<tr>
<td>3</td>
<td>$788</td>
<td>$772</td>
<td>$772</td>
<td>$ 859</td>
</tr>
<tr>
<td>4</td>
<td>$888</td>
<td>$868</td>
<td>$868</td>
<td>$ 967</td>
</tr>
<tr>
<td>5</td>
<td>$921</td>
<td>$902</td>
<td>$902</td>
<td>$1,004</td>
</tr>
</tbody>
</table>

**Note:** For families of more than five (5) members, add $75 for each additional member up to a family of seven (7).

<table>
<thead>
<tr>
<th>Family Size</th>
<th>Northeast</th>
<th>Midwest</th>
<th>South</th>
<th>West</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amounts of $80,000 and above</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$450</td>
<td>$441</td>
<td>$441</td>
<td>$ 491</td>
</tr>
<tr>
<td>2</td>
<td>$755</td>
<td>$738</td>
<td>$738</td>
<td>$ 823</td>
</tr>
<tr>
<td>3</td>
<td>$909</td>
<td>$889</td>
<td>$889</td>
<td>$ 990</td>
</tr>
<tr>
<td>4</td>
<td>$1,025</td>
<td>$1,003</td>
<td>$1,003</td>
<td>$1,117</td>
</tr>
<tr>
<td>5</td>
<td>$1,062</td>
<td>$1,039</td>
<td>$1,039</td>
<td>$1,158</td>
</tr>
</tbody>
</table>

**Note:** For families of more than five (5) members, add $80 for each additional member up to a family of seven (7).

- The following table shows the geographic regions and the states within each region.

**Note:** SunTrust Mortgage does NOT lend in all of the states listed in the table below. See Section 1.02: Eligible Mortgage Loans of the Correspondent Seller Guide for SunTrust specific geographic restrictions that may apply.

<table>
<thead>
<tr>
<th>Regions</th>
<th>States</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.</td>
</tr>
<tr>
<td>South</td>
<td>Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, Puerto Rico, South Carolina, Tennessee, Texas, Virginia and West Virginia</td>
</tr>
</tbody>
</table>

*Continued on the next page*
Liabilities and Qualifying Ratios, Continued

Age of Credit Documents

- For all traditionally underwritten and AUS (DU and LP) processed VA loan programs, the age of the credit documents cannot exceed one of the following:
  - If the property is existing, credit documents (credit reports, employment, income, and asset documentation) cannot be older than one hundred and twenty (120) days from the Note date.
  - If the property is new construction, credit documents (credit reports, employment, income, and asset documentation) cannot be older than one hundred and eighty (180) days from the Note date.

Notes:
- This guideline must be applied OUTSIDE OF DU AND LP.
- Information disclosed on the loan application must be accurate and current through loan closing. This information includes (but is not limited to) any additional credit applied for or incurred during the application process and through loan closing.
Credit Requirements

General

Reference: See the Minimum Floor Credit Score Requirements subtopic for additional information on credit scores subsequently presented in this section.

- The past repayment history on obligations are the best indicator of the borrower(s) willingness to repay future obligations. Emphasis should be on the applicant’s overall payment pattern rather than isolated occurrences of unsatisfactory repayment.
- In circumstances not involving bankruptcy or foreclosure, satisfactory credit is generally considered to be reestablished after the borrower(s) have made satisfactory payments for 12 months after the date of the last derogatory credit item.
- Payoff of unpaid debts (or debts that have not been paid timely), after the acceptability of the applicant’s credit is questioned, does not alter the unsatisfactory record of payment.
- A borrower’s claim of bona fide or legal defenses regarding unpaid debts, (except when the debt has been reduced to a judgment), may be considered in the overall evaluation.

Absence of Credit History

- If a borrower does not have traditional credit references with which to generate a credit score, the borrower is considered to be “unscoreable,” and is not eligible for financing with SunTrust.

Bankruptcy

- A bankruptcy does not automatically disqualify a loan for total loan amounts to $417,000; however, does disqualify the borrower for total loan amounts of $417,001 to $1,033,000 if it occurred in the last seven (7) years.
- Complete information on the facts and circumstances of the bankruptcy must be provided along with the reason for the bankruptcy and the type of bankruptcy filing for total loan amounts less than or equal to $417,000.

Note: A bankruptcy discharged more than two (2) years ago may be disregarded for total loan amounts less than or equal to $417,000.

Bankruptcy Documentation Requirements

The following documentation is required for bankruptcies discharged within the last 12 to 24 months or at discretion of underwriter for total loan amounts less than or equal to $417,000:

- a letter of explanation from the borrower,
- supporting documentation, and
- a copy of the petition for bankruptcy, schedule of debts and discharge of bankruptcy.

Note: VA will accept PACER Bankruptcy Service documentation in lieu of the court bankruptcy documents.

Continued on next page
Credit Requirements, Continued

Bankruptcy, (continued)

Chapter 7 (Straight Liquidation)
- If the bankruptcy was discharged more than two (2) years ago, it may be disregarded.
- If the bankruptcy was discharged within the last one (1) to two (2) years, it is not possible to determine that the borrower is a satisfactory credit risk unless both of the following requirements are met:
  - the borrower has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period of time, and
  - the bankruptcy was caused by circumstances beyond the control of the borrower or spouse (i.e., unemployment, prolonged strikes, medical bills not covered by insurance, etc.) and the circumstances are verified and documented.
- Divorce is generally NOT considered to be beyond the control of the borrower.
- If the bankruptcy was caused by failure of the business of a self-employed borrower, it may be possible to determine that the borrower is an acceptable credit risk if all of the following applies:
  - the borrower obtained a permanent position after the business failed,
  - there is no derogatory credit information prior to self-employment,
  - there is no derogatory credit information after the bankruptcy, and
  - failure of the business was not due to the borrower’s misconduct.
- If the bankruptcy was discharged within the last 12 months, it will generally not be possible to determine that the borrower or spouse is a satisfactory credit risk.

Chapter 13 of Bankruptcy Law (Wage Earner’s Petition)
- Regular payments are made to a court-appointed trustee over a 2-3 year period (or up to 5 years in some cases) to pay off scaled down or entire debts.
- If all payments have been made satisfactorily, the borrower may be considered to have re-established satisfactory credit.
- If the borrower has satisfactorily made at least 12 months’ worth of payments and the Trustee or Bankruptcy Judge approves of the new credit, the lender may give favorable consideration.

Automated Underwriting System (AUS) Information
The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-AUS guidelines apply.</td>
<td>Non-AUS guidelines apply.</td>
</tr>
<tr>
<td>A “Refer” will be received if there is a bankruptcy reporting on the credit report within the last 2 years.</td>
<td></td>
</tr>
<tr>
<td>If DU determines the date associated with the bankruptcy reporting in the public records is blank or invalid a “Refer” will be received.</td>
<td></td>
</tr>
<tr>
<td>If the lender is aware that a bankruptcy occurred within the last 2 years, but it is not reflected on the credit report, the loan must be manually downgraded to a “Refer”.</td>
<td></td>
</tr>
</tbody>
</table>
Credit Requirements, Continued

Foreclosures, Deeds in Lieu of Foreclosure, and Short Sales

- The fact that a home loan foreclosure (including deeds-in-lieu of foreclosure, and short sales) exists in a veteran’s (or spouse’s) credit history does not in itself disqualify the loan for loan amounts less than or equal to $417,000; however, will disqualify the loan for total loan amounts greater than $417,000 if the foreclosure occurred within the last seven (7) years. The following guidelines apply:
  - develop complete information as to the facts and circumstances of the foreclosure,
  - apply the guidelines provided for bankruptcies filed under the straight liquidation and discharge provisions of the bankruptcy law.

Reference: See “Bankruptcy” previously presented in this topic.

- If the foreclosure was on a VA loan, the veteran may not have full entitlement available for the new loan. Ensure that the veteran’s Certificate of Eligibility reflects sufficient entitlement to meet any secondary marketing requirements of the lender.


Automated Underwriting System (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Non-AUS guidelines apply.</td>
<td>Non-AUS guidelines apply.</td>
</tr>
<tr>
<td>- A “Refer” will be received if there is a foreclosure reporting on the credit report within the last 2 years.</td>
<td></td>
</tr>
<tr>
<td>- If the lender is aware that a foreclosure occurred within the last 2 years, but it is not reflected on the credit report, the loan must be manually downgraded to a “Refer”.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
Credit Requirements, Continued

Collections

- Collection accounts must be considered part of the borrower’s overall credit history and unpaid collection accounts should be considered open, recent credit. They must be evaluated to determine if they will affect the borrower’s ability and willingness to repay the mortgage.
- VA would prefer but does not require pay-off of one or two isolated collection accounts when the borrower’s credit report reflects numerous accounts with a satisfactory payment history.
- VA requires a twelve-month re-established satisfactory credit history from the date the last derogatory credit item was satisfied for borrowers with a history of collection accounts.
- SunTrust requires that individual or multiple collection accounts that have a singular or cumulative balance greater than $2000 must meet one of the following requirements:
  - be paid in full using an acceptable source of funds,
  - have documented payment arrangements with the creditor(s) and include the payment in the borrower’s debt to income ratio
  - a satisfactory letter of explanation and appropriate supporting documentation if account(s) are disputed.
- Account balances reduced to a judgment by a court must be paid in full or subject to a repayment plan with a history of timely payments.
- A letter of explanation and supporting documentation is required from the borrower(s).
- If the applicant and spouse are determined satisfactory, the underwriter must explain the assessment of creditworthiness on VA Form 26-6393, VA Loan Analysis form.

Note: Payment after acceptability of credit is questioned does not improve credit worthiness.

Consumer Credit Counseling

- If a borrower has prior adverse credit and is participating in a Consumer Credit Counseling plan, he/she may be determined to be a satisfactory credit risk if there have been at least 12 months’ satisfactory payments and the counseling agency approves the new credit.
- If a borrower has good prior credit and is participating in a Consumer Credit Counseling plan, such participation is not considered as a factor in determining creditworthiness (participating prior to credit problems should not be considered negative).

Continued on next page
Credit Requirements, Continued

- The Credit Alert Interactive Voice Response System (known as CAIVRS) is a HUD maintained computer information system which enables participating lenders to learn when an applicant has previously defaulted on a federally assisted loan. The system provides instant credit information.
  - The database includes default information from the Department of Agriculture, the Small Business Administration, the Department of Education, HUD, and VA.
  - The VA default information included in the database relates to overpayments on education cases, overpayments on disability benefits income, and claims paid due to home loan foreclosures.
  - CAIVRS codes are required for all VA borrowers (veteran and non-veteran), regardless of the transaction.
  - The CAIVRS system may be accessed through the “FHA Connection” at http://entp.hud.gov/clas/index.cfm.

Note: Non-FHA participating Agency lender staff may request access to FHA Connection from HUD’s Internet site at https://entp.hud.gov/caivrs/public/home.html, and select Registering Lender User ID from the main menu. Each non-FHA lender must request at least one Application Coordinator User ID, as well as, a Standard User ID for each individual user.

- The “credit alert access code” is the lender’s FHA Lender Identification Number.
- An authorization code must be obtained for each borrower on the VA loan application. The authorization code and message for each borrower must be written on the VA Loan Analysis (item #47 to the right of the “NO” block).
- The CAIVRS code will begin with an “A” if there are no problems with the borrower. If it begins with any other letter, processing should be suspended and the borrower asked to explain the default. Most cases will require VA prior approval.
- If the CAIVRS message pertains to a previous VA loan, the applicant may call toll free 1-800-827-0648 to make arrangements to repay the debt. Should the borrower dispute the accuracy of the CAIVRS information or require additional information, the lender must contact the agency involved. The point of contact referral message will provide pertinent information, the confirmation code to be used for identification purposes, and the phone number.

Continued on next page
Credit Requirements, Continued

Credit Score Requirements
- The minimum floor credit score of 640 is required for all VA loan programs, including traditionally underwritten and AUS loans.
- All borrowers are required to meet the minimum floor credit score.
- If a borrower does not have traditional credit references with which to generate a credit score, the borrower is considered “unscoreable,” and is not eligible for financing with SunTrust.

Note: VA does not require credit scores.

Duplicate Public Records
If it is unclear from the credit report that an item is duplicated, each item should be treated individually and appropriate documentation must be obtained.

Federal Debts
- If the borrower is presently delinquent or in default on any debt to the Federal Government (i.e., Small Business Administration loan, U.S. Guaranteed Student loan, Public Health Service) or has a judgment lien against his/her property from a debt owed to the Government, he/she is not eligible for a VA loan. This applies to any veteran who is an applicant on the loan.
- The delinquent account must be brought current, satisfactory arrangements must have been made between the borrower and the Federal agency owed, a satisfactory payment history on this agreement, or the judgment must be paid or otherwise satisfied.

Continued on next page
Credit Requirements, Continued

Credit Inquiries
- If the credit report reflects credit inquiries from lenders (including SunTrust Bank, Inc.) within 90 days of the credit report date, explanation for all inquiries referenced, EXCEPT for the inquiry made by the originating lender that is directly related to the subject mortgage loan application, is required.

Note: An explanation for the credit inquiry made by the originating lender that is directly related to the subject mortgage loan application is not required.

- If the explanation reveals that new debt has been incurred which is not present on the initial application or on the credit report, documentation must be obtained from the borrower which indicates the balance and payment of the debt. This information must be included as a liability on the 1003 and the borrower must be requalified and/or the loan re-priced based on this new information.

Note: At this time, SunTrust will NOT be pulling a new credit report prior to purchase to validate if the borrower has incurred any additional liabilities.

Fannie Mae DU
Non-AUS guidelines and the following additional requirement apply:
- If any new debt is confirmed or disclosed by the borrower, the debt must be included as a liability on the 1003 and the loan must be resubmitted to DU to confirm the AUS findings are still valid.

Freddie Mac LP
Non-AUS guidelines and the following additional requirement apply:
- If any new debt is confirmed or disclosed by the borrower, the debt must be included as a liability on the 1003 and the loan must be resubmitted to LP to confirm the AUS findings are still valid.

Judgments, Garnishments, Liens
- A letter of explanation from the borrower and all necessary documentation is required for judgments, garnishments and/or liens.
- Payment in full of such debts should occur prior to loan application, unless the account is a judgment that is subject to a repayment plan with a history of timely payments.

Continued on next page
Credit Requirements, Continued

Late Payments

- The applicant’s past repayment practices on obligations are the best indicator of his/her willingness to repay future obligations. Emphasis should be on the applicant’s overall payment patterns rather than isolated occurrences of unsatisfactory.
- Explanations for a derogatory credit history on a “traditionally” underwritten loan, to include AUS loans with a recommendation other than “Approve/Accept,” must be obtained to determine if the derogatory credit was isolated, due to unforeseen circumstances, and/or likely to reoccur. Additionally, late payments of 30 days or more must be explained in writing by the borrower.
- Determine if the applicant(s) is a satisfactory credit risk based on a careful analysis of the credit report and any other credit data. The underwriter’s assessment of creditworthiness must be completed on the VA form 26-6393, Loan Analysis.
- Satisfactory credit may be considered re-established after 12 months from the date of the most recent derogatory credit item, with the exception of outstanding judgments and unresolved Federal debt.

Automated Underwriting Systems (AUS) Information

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-AUS guidelines and the following additional requirement apply:</td>
<td>Non-AUS guidelines and the following additional requirement apply:</td>
</tr>
<tr>
<td>• If any new debt is confirmed or disclosed by the borrower, the debt must be included as a liability on the 1003 and the loan must be resubmitted to DU to confirm the AUS findings are still valid.</td>
<td>• If any new debt is confirmed or disclosed by the borrower, the debt must be included as a liability on the 1003 and the loan must be resubmitted to LP to confirm the AUS findings are still valid.</td>
</tr>
</tbody>
</table>

Continued on next page
Credit Requirements, Continued

**Documentation**

**Age of Credit Documents**
- For traditionally and AUS underwritten loans, if the property is existing, credit reports cannot be older than one hundred and twenty (120) days from the Note date.
- For traditionally and AUS underwritten loans, if the property is new construction, credit reports cannot be older than one hundred and eighty (180) days from the Note date.

**Notes:**
- This guideline must be applied OUTSIDE OF DU AND LP.
- Information disclosed on the loan application must be accurate and current through loan closing. This information includes (but is not limited to) any additional credit applied for or incurred during the application process and through loan closing.
- If a mortgage or other significant debt is listed on the credit report as past due and was last updated more than 90 days prior to the date of the credit report, the current status of the past due debt must be verified.
- If the loan is currently past due, it must be considered in the overall analysis of the file.

**Automated Underwriting Systems (AUS) Information**
The table below shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>If “Approve/Eligible” and the debt is currently more than 90 days past due, the loan must be manually downgraded to a “Refer.” In this case, the loan must be traditionally underwritten under non-AUS underwriting and documentation guidelines.</td>
<td>Same guidelines as DU.</td>
</tr>
</tbody>
</table>

*Continued on next page*
**Credit Requirements, Continued**

**Documentation, (continued)**

**Credit Report**
- A Merged In-File Credit Report (MCR) from three repositories is acceptable in lieu of a full Residential Mortgage Credit Report (RMCR).
- The table below includes, (but is not limited to), the information standards applicable to a full Residential Mortgage Credit Report (RMCR) or a Merged In-File Credit Report (MCR).

<table>
<thead>
<tr>
<th>Category</th>
<th>RMCR &amp; MCR Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower information</td>
<td>RMCR and MCR</td>
</tr>
<tr>
<td></td>
<td>Identify each borrower’s name and social security number.</td>
</tr>
<tr>
<td>Employment, income, &amp; residency Information</td>
<td>RMCR only</td>
</tr>
<tr>
<td></td>
<td>Contain a full 24 month history of employment, income and residency.</td>
</tr>
<tr>
<td>Credit and legal information</td>
<td>RMCR and MCR</td>
</tr>
<tr>
<td></td>
<td>- Include all credit and legal information not considered obsolete under the Fair Credit Reporting Act (i.e., bankruptcies, law suits, judgments, foreclosures &amp; tax liens) that has occurred within the last seven years.</td>
</tr>
<tr>
<td></td>
<td>- Include all inquires made within the last 90 days.</td>
</tr>
<tr>
<td>Specific account information</td>
<td>RMCR and MCR</td>
</tr>
<tr>
<td></td>
<td>- Identify the following credit account information</td>
</tr>
<tr>
<td></td>
<td>- creditor’s name,</td>
</tr>
<tr>
<td></td>
<td>- date accounts were opened,</td>
</tr>
<tr>
<td></td>
<td>- high credit, current status, required payments, unpaid balance, payment history of each account in the “number of times past due” format.</td>
</tr>
<tr>
<td></td>
<td>- Each account with a balance must have been checked with the creditor within 90 days of the credit report.</td>
</tr>
<tr>
<td>Social Security Validation</td>
<td>RMCR and MCR</td>
</tr>
<tr>
<td></td>
<td>- Provide an indication that the borrower’s social security number has been validated by a social security validation vendor from the following three (3) vendors:</td>
</tr>
<tr>
<td></td>
<td>- FACS+ (service provided through Experia),</td>
</tr>
<tr>
<td></td>
<td>- HAWK-Alert (service provided through Trans Union),</td>
</tr>
<tr>
<td></td>
<td>- SAFESCAN (service provided through Equifax).</td>
</tr>
<tr>
<td>Required Repositories</td>
<td>RMCR</td>
</tr>
<tr>
<td></td>
<td>- Contact at least two (2) national repositories for each location where the borrower has resided for the last two (2) years.</td>
</tr>
<tr>
<td></td>
<td>MCR</td>
</tr>
<tr>
<td></td>
<td>A three (3) file-Merged Credit Report is required.</td>
</tr>
</tbody>
</table>

*Continued on next page*
Credit Requirements, Continued

Automated Underwriting Systems (AUS) Information
The table below shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>A merged in-file credit report from three repositories is obtained through DU.</td>
<td>• A merged credit report must be ordered from LP.</td>
</tr>
<tr>
<td></td>
<td>• A single in-file credit report is not acceptable.</td>
</tr>
</tbody>
</table>

Verification of Mortgage
- VA will accept 12 months canceled checks (front and back), year-end statement (prepared by the lender) with year-to-date canceled checks (front and back) or an RMCR credit history in lieu of a written verification.
- A full 24-month residency must be documented, however, only a 12-month payment history is required.
- Obtain a direct verification when ratings are not available on mortgages that are outstanding, assumed, or recently retired.
- A written explanation of mortgage payment history is required for borrowers with more late payments for all mortgages for the past 12 months for total loan amounts less than or equal to $417,000.

Note: For total loan amounts of $417,001 to $1,033,000, no housing payment can be more than 0 x 30 days late in the past 12 months.

Continued on next page
Credit Requirements, Continued

Verification of Rental/Landlord

- Provide a 12 month rental history directly from the landlord, through information shown on credit report, or by cancelled checks.
- A full 24-month residency must be documented, however, only a 12-month payment history is required.

Note: In the instances of an applicant purchasing his or her present residence, (when the rental is through the landlord/seller and not a leasing agent), 12 months cancelled checks (front and back), generally is required with a copy of the lease for verification.

Automated Underwriting System (AUS) Information

The table below shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A mortgage payment history must be provided for a period that is the lesser of 12 months or the time in which the mortgage has been opened.</td>
<td>Same Guidelines as DU.</td>
</tr>
<tr>
<td>• An “Approve/Ineligible” will be received if there are any 30/60/90 day late payments in the last 12 months on the credit report.</td>
<td></td>
</tr>
<tr>
<td>• If “Approve/Eligible” any mortgage debt with more than a 1X30 day late payment in the past 12 months must be down-graded to a Refer.</td>
<td></td>
</tr>
<tr>
<td>• If the mortgage must be verified outside of DU (i.e., loan is not on credit report) and the payment history reflects more than 1X30 day late in the last 12 months, the loan must be treated as a “Refer” and traditionally underwritten for total loan amounts less than or equal to $417,000.</td>
<td></td>
</tr>
<tr>
<td>• If “Approve/Eligible,” verification of rental payment history is not required.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
Credit Requirements, Continued

Obligations Not on the Credit Report
- Obtain direct verification for significant debts not reported on the credit report.
- If the property is located in a community property state, verification of the spouse’s debts and obligations must be obtained.

**Note:** *Significant* means that the debt has a monthly payment exceeding 2% of the stable monthly income for all borrowers.

Automated Underwriting System (AUS) Information
The table below shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• If “Approve/Eligible” and liabilities disclosed by the borrower are not on the credit report, independent verification is required if the payments exceed 2% of the stable monthly income for all borrowers.</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>• If the liability must be verified outside of DU (i.e., loan is not on credit report) and there is more than 1X30 day late in the last 12 months for any of the omitted debts, the loan must be treated as a “Refer” and traditionally underwritten.</td>
<td></td>
</tr>
</tbody>
</table>
Cash Requirements

General

- In all cases the source of funds for closing must be verified with acceptable documentation.
- The applicant or spouse must have sufficient cash to cover any of the following items:
  - closing costs or points which are the applicant’s responsibility and are not financed in the loan,
  - down payment, if applicable, or
  - the difference between the sales price and the loan amount, if the sales price exceeds the reasonable value established by VA.

Automated Underwriting System (AUS) information

The table below shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>• All assets entered in DU must be verified.</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>• If “Approve/Eligible,” verification of the source of</td>
<td></td>
</tr>
<tr>
<td>closing funds is not required if closing costs plus</td>
<td></td>
</tr>
<tr>
<td>difference between sales price and base loan does not</td>
<td></td>
</tr>
<tr>
<td>exceed 4% of the lesser of sales.</td>
<td></td>
</tr>
</tbody>
</table>

Down Payment Requirements

- If the transaction is a purchase, no down payment is required from the veteran, unless the purchase price exceeds the reasonable value of property, or if necessary to meet secondary market requirements.


- If the veteran has a down payment, the importance of qualifying for the loan based on debt ratios and credit history is not diminished.

Continued on next page
Cash Requirements, Continued

Cash Reserve Requirements
- VA does not require the applicant to have additional cash to cover a certain number of mortgage payments, unplanned expenses, or other contingencies in most circumstances.
- However, VA does state that the applicant’s ability to accumulate liquid assets and the current availability of liquid assets for unplanned expenses should be considered in the overall credit analysis.

Checking and Savings Accounts, Certificates of Deposit
- The borrower must provide one of the following:
  - 2 months of the most current, consecutive bank statements, if received monthly,
  - most recent quarterly bank statement, if received quarterly, or
  - a fully completed Verification of Deposit (VOD).
- Explanations are required for large deposits on bank statements with supporting documentation.

Automated Underwriting System (AUS) Information
The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>- If “Approve/Eligible,” the borrower must provide one of the following:</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>- one (1) month of bank statements, if received monthly,</td>
<td></td>
</tr>
<tr>
<td>- most recent quarterly bank statement, if received quarterly, or</td>
<td></td>
</tr>
<tr>
<td>- a fully completed Verification of Deposit (VOD).</td>
<td></td>
</tr>
<tr>
<td>- Explanations are required for large deposits on bank statements that may require additional documentation.</td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
Cash Requirements, Continued

Large Deposits

- A large deposit could be a single deposit or multiple deposits over a period of time, which in aggregate, results in a large deposit. “Period of time” equals the period covered by the bank statements reviewed by the underwriter which, in aggregate, results in a large deposit.
- We consider the following a large deposit:
  - Single deposits that represent 10% of the borrower’s gross monthly income.
    - If the bank account is joint with another borrower then review single deposits of 10% or more of the joint borrower’s gross monthly income.
    - If joint borrowers have separate account(s) then review single deposits of 10% or more of the individual borrower’s gross monthly income.
    - Self-employed borrower gross income is the monthly qualifying income used for the self-employed borrower.
  - Multiple aggregated deposits which represent 20% of the borrower’s gross monthly income for the period covered on the bank statement.
    - If the bank account is joint with another borrower then review multiple deposits of 20% or more of the joint borrower’s gross monthly income.
    - If joint borrowers have separate account(s) then review multiple deposits of 20% or more of the individual borrower’s gross monthly income.
    - Self-employed borrower gross income is the monthly qualifying income used for the self-employed borrower.
  - Account balance greater than the average balance over the previous two months.
- The following large deposit documentation requirements apply:
  - Require a satisfactory signed letter of explanation from the borrower in all circumstances regardless if funds are needed for closing.
  - A letter of explanation is not required if funds are transferring from one account to another (i.e., checking to savings, money market to savings or checking, etc.) and both sides of the transfer(s) are tracked on the bank statement(s) in the file.
  - The appropriate level of due diligence must be used to ensure large deposits are not the result of undisclosed debt or because of incentives from a seller, realtor, builder, or developer.
  - Using the funds in question for down payment, closing cost, earnest money deposit, or reserves, requires additional supporting documentation to verify the source of funds.
  - If funds in question are not being used for down payment, closing costs, earnest money deposit, or reserves, and due diligence has been performed to ensure the funds are not from an unacceptable source, the underwriter may deduct the large deposit from the balance of the account and allow remaining funds to be used to qualify.
  - When reducing the asset balance by the amount of the large deposit, the reason for the change in the asset amount requires documentation, and update to AUS (if applicable) with the adjusted asset balance, and rerun of AUS to update the AUS decision.

Continued on next page
Cash Requirements, Continued

Large Deposits, (continued)

- When identifying the source of deposits take into consideration:
  - Do the deposits reflect a normal deposit pattern from an identifiable source?
  - Are the total monthly deposits consistent with the borrower’s income and earnings profile?
  - Does the borrower have direct deposits over a period of time which, in total, result in a large deposit?
  - Is the deposit possibly a loan?
  - Are there credit inquiries which may be a red flag?
  - Was the account recently opened?

Deposit on Sales Contract

If the earnest money deposit on the sales contract is 2% or more of the sales price, or appears excessive based on the borrower’s previous savings pattern, it must be verified (copy of canceled check). In addition, the source of the funds must be verified.

Continued on next page
Cash Requirements, Continued

**Gifts**

- Veterans may use gift funds for 100% of the closing costs and/or down payment and/or to meet reserve requirements. Transfer and receipt of the gift funds must be verified at the time of underwriting.
- The following documentation is required:
  - a gift letter that specifically states the following:
  - no repayment is necessary,
  - the donor’s name, address, telephone number and relationship to borrower, and
  - the address of the property being purchased or refinanced,
  - a copy of the donor’s withdrawal slip or canceled check, and
  - a copy of a veteran’s bank statement reflecting the deposit or deposit receipt.

**Automated Underwriting System (AUS) Information**

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>If “Approve/Eligible” and the loan application lists the donor’s name, address, phone number and relationship to the borrower, as well as the dollar amount of the gift, a gift letter is not required.</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>Verification of the receipt of gift funds is not required if the gift funds have been verified on deposit in the borrower’s account.</td>
<td></td>
</tr>
</tbody>
</table>

**Mutual Funds**

- The borrower must provide one of the following:
  - two (2) months of most recent, consecutive account statements, if received monthly, or
  - most recent quarterly account statement, if received quarterly.
- Proof of liquidation is required.
- Explanations (with additional documentation) are required for large deposits.

**Automated Underwriting System (AUS) Information**

The following table shows information specific to AUS.

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>If “Approve/Eligible,” the borrower must provide one of the following:</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>1 month of account statements, if received monthly, or</td>
<td></td>
</tr>
<tr>
<td>most recent quarterly account statement, if received quarterly.</td>
<td></td>
</tr>
<tr>
<td>If “Approve/Eligible,” proof of liquidation is not required.</td>
<td></td>
</tr>
<tr>
<td>Explanations (with additional documentation) are required for large deposits.</td>
<td></td>
</tr>
</tbody>
</table>
**Cash Requirements**, Continued

### Retirement Funds
- The borrower must provide all of the following:
  - copy of the most current retirement account statement,
  - copy of the check representing account funds, and
  - copy of the deposit receipt where funds were deposited into the borrower’s account (or copy of the bank statement reflecting the deposit).
- Funds from retirement accounts may be used as cash reserves.
- If using funds for closing, applicable withdrawal or income tax penalties must be deducted from the account balance to determine value.
- If the fund is a 401K and there is an outstanding loan, the account value must be reduced by the principal balance on the loan before using as an asset.
- Proof of liquidation is required.

### Automated Underwriting System (AUS) Information
The following table shows information specific to AUS:

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Non-AUS guidelines apply with the following exception:</strong></td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>proof of liquidation is not required if “Approve/Eligible.”</td>
<td></td>
</tr>
</tbody>
</table>

### Stocks and Bonds
- The borrower must provide one of the following:
  - 2 months of most current, consecutive account statements, if received monthly, or
  - most recent quarterly account statement, if received quarterly.
- Proof of liquidation is required.

### Automated Underwriting System (AUS) Information
The following table shows information specific to AUS:

<table>
<thead>
<tr>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>If “Approve/Eligible,” the borrower must provide one of the following:</td>
<td>Same guidelines as DU.</td>
</tr>
<tr>
<td>- one (1) month of account statements, if received monthly, or</td>
<td></td>
</tr>
<tr>
<td>- most recent quarterly account statement, if received quarterly.</td>
<td></td>
</tr>
<tr>
<td>If “Approve/Eligible,” proof of liquidation is not required.</td>
<td></td>
</tr>
</tbody>
</table>
**Documentation**
The assets can be verified by one of the following methods:
- two (2) months of the most recent, consecutive statements,
- the most recent quarterly statement, or
- a fully completed written Verification of Deposit (VOD) from the depository institution.

**Age of Documents**

- For traditionally and AUS underwritten loans, if the property is **existing**, asset documentation cannot be older than one hundred and twenty (120) days from the Note date.
- For traditionally and AUS underwritten loans, if the property is **new construction**, asset documentation cannot be older than one hundred and eighty (180) days from the Note date.

**Note:** This guideline must be applied OUTSIDE OF DU AND LP.

**Documentation - Faxed and Internet-Downloaded Information**
VA permits the use of faxed and internet downloaded documents for income, employment or asset verification. The table below shows the documentation requirements of each.

<table>
<thead>
<tr>
<th>Faxed Documentation</th>
<th>Internet Downloaded Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Faxed documents must provide the same information as the standard VOD.</td>
<td>• Internet downloaded documents must show the employer or depository name and source of information.</td>
</tr>
<tr>
<td>• Faxed documents must clearly identify the depository's name and source of information.</td>
<td>• Lenders are responsible for ensuring the document is valid.</td>
</tr>
<tr>
<td>• Lenders are responsible to ensure the authenticity of the document.</td>
<td>• The validity can generally be verified by reviewing the information contained on any headers, footers, and the banner portion of the downloaded web page(s) as well as uniform resource locator (URL), and</td>
</tr>
<tr>
<td>• The documents should also be reviewed for errors such as incorrect area codes, unreadable names, income, assets or debts not adequately completed on the form, etc.</td>
<td>• the downloaded pages should show the date and time printed.</td>
</tr>
<tr>
<td>• The name and telephone number of the person who can verify the faxed information must be on the form.</td>
<td></td>
</tr>
</tbody>
</table>
Contributions by Interested Parties

- Sellers (or other interested third parties such as real estate agents, builders, or developers) may contribute up to 4% of the established reasonable value of the property.
- Any seller concession or combination of concessions which exceeds 4% of the established reasonable value of the property is considered excessive, and is unacceptable for VA-guaranteed loans.

**Note:** Normal discount points and payment of the buyer’s closing cost are not considered in the total concessions when determining the 4% limit.

- A seller concession is anything of value added to the transaction by the builder or seller for which the buyer pays nothing additional and which the seller is not customarily expected or required to pay or provide.
- All DU loans submitted to SunTrust Mortgage must reflect zero in the new interested party contribution field and underwriters will manually calculate the limits.
- Seller concessions include, but are not limited to, the following items:
  - payment of Ease-In funds to reduce the borrowers monthly payment,
  - payment of funding fee,
  - payment of prepaid items (i.e., tax and insurance escrow, prepaid interest, etc.),
  - payment of extra discount points to provide a permanent interest rate buydown,
  - non-monetary gifts (such as a television set or microwave oven),
  - personal property items (i.e., lawn tractor, oriental rug), and
  - payment of debt(s) to assist borrower in qualifying for the loan.
- If a seller is leaving personal property items (i.e., a lawn tractor), the appraiser must comment on how that affects the value of the real estate property and should provide an estimate of value for the personal property item (to determine if the seller contribution limit has been exceeded, as this is considered an “excessive” seller contribution)
- Seller concessions do NOT include the items shown below.
- Payment of the borrower’s closing costs, or

**Note:** VA does not object to seller-paid advanced payments of recurring HOA dues or taxes that come due *during the first year* of the mortgage. In any event, the borrower’s cash investment must not be reduced as the result of advanced payments paid by the seller. Additionally, the borrower must qualify with the HOA or tax payment.

- Payment of points as appropriate to the market.

**Example:** If the market dictates an interest rate of 7.5% with 2 discount points, the seller payment of the 2 points would not be a seller concession. If the seller paid 5 points, 3 of these points would be considered a seller concession.

Contributions by Interested Parties, Continued

Lender Credit
- Lender credit may be applied towards prepaid items and closing costs.
- Lender credit is not considered a seller concession and, therefore, is not subject to the seller contribution limitation.
VA Allowable Fees

General

- VA regulations provide the list of fees and charges that the veteran is allowed to pay.
- The veteran may pay reasonable and customary amounts for permissible charges as designated by VA, plus a 1% flat charge by the lender and reasonable discount points.
- The seller, lender, or any other party may pay fees and charges, including discount points, on behalf of the borrower. VA regulations limit charges paid by the borrower; they do not limit the payment of fees and charges by other parties.

**Exception:** Excessive seller contributions/concessions are prohibited.

Reference: See “Seller Contributions/Concessions” in the topic “Contributions by Interested Parties” for additional information.

Itemized Acceptable Fees and Charges

The table below shows fees and charges that the veteran may pay in addition to the one percent (1%) flat charge.

Reference: See “Lender’s 1% Origination Fee” presented in this topic for additional information.

<table>
<thead>
<tr>
<th>Charges</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraisal</td>
<td>• The VA appraiser’s fee.</td>
</tr>
<tr>
<td></td>
<td>Note: The VA appraiser’s fee may be increased up to an additional fifty dollars ($50) for VA appraisal assignments on or after August 1, 2009 in order to complete the Fannie Mae Market Conditions Addendum Form 1004MC required on all VA Appraisals.</td>
</tr>
<tr>
<td></td>
<td>• A second (2nd) appraisal fee if the lender or the veteran is requesting reconsideration of value.</td>
</tr>
<tr>
<td></td>
<td>• The appraiser determines a second (2nd) appraisal is warranted based on an amended sales contract subsequent to the effective date of the original appraisal.</td>
</tr>
<tr>
<td></td>
<td>• The following applies to other requests for second appraisals:</td>
</tr>
<tr>
<td></td>
<td>• the veteran cannot pay for an appraisal when it is the seller who is requesting the reconsideration of value, and</td>
</tr>
<tr>
<td></td>
<td>• the veteran cannot pay for appraisals requested by parties other than the veteran or lender.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> The actual cost of the appraisal may be charged on a credit card when this cost is paid outside of closing as long as a payment for the amount charged is included in the total debt ratio.</td>
</tr>
<tr>
<td></td>
<td>• This guideline must be applied OUTSIDE OF DU AND LP.</td>
</tr>
</tbody>
</table>

Continued on next page
Itemized Acceptable Fees and Charges, (continued)

<table>
<thead>
<tr>
<th>Charges</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording Fees</td>
<td>The recording fees, recording taxes or other charges incident to recordation.</td>
</tr>
<tr>
<td>Credit report</td>
<td>The credit report obtained by the lender.</td>
</tr>
<tr>
<td></td>
<td>Notes:</td>
</tr>
<tr>
<td></td>
<td>• For Automated Underwriting cases, the veteran may pay the evaluation fee of $50 in lieu of the charge for a credit report.</td>
</tr>
<tr>
<td></td>
<td>• The only time where both a credit report and an AUS fee can be charged to the Veteran, is on AUS “Refer” cases.</td>
</tr>
<tr>
<td></td>
<td>• The combined total for all credit reports cannot exceed $100.</td>
</tr>
<tr>
<td></td>
<td>• The combined total for AUS submissions cannot exceed $100.</td>
</tr>
<tr>
<td></td>
<td>• The actual cost of the credit report may be charged on a credit card when this cost is paid outside of closing under the following conditions:</td>
</tr>
<tr>
<td></td>
<td>• a payment for the amount charged is included in the total debt ratio, AND</td>
</tr>
<tr>
<td></td>
<td>• the borrower has sufficient assets (documentation in file) to pay for the credit report, in addition to funds needed for other closing costs and the down payment (if applicable).</td>
</tr>
<tr>
<td></td>
<td>Note: This guideline must be applied OUTSIDE OF DU AND LP.</td>
</tr>
<tr>
<td>Discount points</td>
<td>Reasonable discount points</td>
</tr>
<tr>
<td>Prepaid Items</td>
<td>The portion of taxes, assessments and similar items for the current year and the initial deposit for the tax and insurance account.</td>
</tr>
<tr>
<td>Hazard Insurance</td>
<td>• The required hazard insurance premium.</td>
</tr>
<tr>
<td></td>
<td>• A flood insurance premium, if applicable.</td>
</tr>
<tr>
<td>Flood Zone Determination</td>
<td>• The actual amount charged for a flood certification:</td>
</tr>
<tr>
<td></td>
<td>• Only if made by a third (3rd) party who guarantees the accuracy of the determination.</td>
</tr>
<tr>
<td></td>
<td>• The life of the loan flood determination service purchased at the time of loan origination.</td>
</tr>
<tr>
<td></td>
<td>Note: A fee may not be charged for a flood zone determination made by a lender or an appraiser.</td>
</tr>
<tr>
<td>MERS Registration Fee</td>
<td>• A one-time fee, actual basic charge is considered reasonable and customary.</td>
</tr>
<tr>
<td></td>
<td>• Must be disclosed on the Loan Estimate and Settlement Statement.</td>
</tr>
<tr>
<td>Survey</td>
<td>• A survey, if required by the lender or veteran.</td>
</tr>
<tr>
<td></td>
<td>• Any charge for a survey on a condominium must have the prior approval of VA.</td>
</tr>
<tr>
<td>Title Examination and Title Insurance</td>
<td>• The title examination and title insurance.</td>
</tr>
<tr>
<td></td>
<td>• Attorney Fees CANNOT be charged in the Title Examination Fee.</td>
</tr>
<tr>
<td></td>
<td>• An environmental protection lien endorsement to a title policy, if needed.</td>
</tr>
<tr>
<td>Special Mailing Fees for Refinancing Loans</td>
<td>For Refinance transactions only: Charges for Federal Express, Express Mail or similar services if the saved per diem interest cost to the veteran will exceed the cost of special handling.</td>
</tr>
<tr>
<td>VA funding fee</td>
<td>Unless exempt from the fee as evidenced by a COE or a Verification of VA Benefit Related Indebtedness (VA Form 26-8937).</td>
</tr>
<tr>
<td>Other fees authorized by VA</td>
<td>• Additional fees attributable to local variances may be charged to the veteran only if specifically authorized by VA.</td>
</tr>
<tr>
<td></td>
<td>• Approval of such fee may be requested if it meets the following:</td>
</tr>
<tr>
<td></td>
<td>• normally paid by the borrower in a particular jurisdiction, and</td>
</tr>
<tr>
<td></td>
<td>• considered reasonable and customary in the jurisdiction.</td>
</tr>
</tbody>
</table>

Continued on next page
Lender's 1% Origination Fee

- The lender may charge the veteran a flat charge not to exceed 1% (origination fee) of the loan amount. This 1% is calculated on the principal amount after adding the funding fee to the loan, if the funding fee is paid from loan proceeds.
- The lender's flat charge is intended to cover all of the lender's costs and services that are not reimbursable as "itemized fees and charges."
- The items listed below provide examples of items that cannot be charged to the veteran and must be covered from the 1% origination fee:
  - loan closing or settlement fees,
  - document preparation fees,
  - Preparation of loan papers or conveyance fees
  - Attorney's services other than for title work
  - Photographs
  - Interest Rate Lock-in fees
  - Postage and other mailing charges, stationery, telephone calls and other overhead
  - Amortization schedules, pass books, and membership or entrance fees
  - Escrow fees or charges (for postponement of improvements including the inspection fees resulting from same)

Unacceptable Fees

The list below provides examples of items that CANNOT be charged to the veteran as "itemized fees and charges."

- lender's inspections, except in construction loan cases,
- loan closing or settlement fees,
- document preparation fees,
- preparation of loan papers or conveyance fees,
- attorney's services other than for title work charged by the lender,
- photographs,
- interest rate lock-in fees,
- postage and other mailing charges, telephone calls, and other overhead,
- amortization schedules, pass books, & membership or entrance fees,
- escrow fees or charges,
- notary fees,
- commitment fees or marketing fees of any secondary purchaser of the mortgage,
- preparation and recoding of assignment of mortgage to any secondary purchaser of the mortgage,
- trustee's fees or charges,
- loan application or processing fees,
- fees for preparation of an initial/final disclosure statement,
- fees charged by loan brokers, finders or other third (3rd) parties whether affiliated with the lender or not,
- tax service fees, and
- termite inspections, (except cash-out/regular refinance transactions).

Continued on next page
The table below shows other fees and charges that the veteran-borrower CANNOT pay.

<table>
<thead>
<tr>
<th>Charges</th>
<th>Description</th>
</tr>
</thead>
</table>
| Attorney’s Fees               | • The veteran can independently retain an attorney and pay a fee for legal services in connection with the purchase of a home.  
    • Attorney Fees CANNOT be charged in the Title Examination Fee.  
    • Closing documents must clearly indicate that the attorney’s fee is not being charged by the lender, but is being paid by the veteran as part of an independent arrangement with an attorney. |
| Prepayment Penalties          | • A veteran obtaining a VA refinance loan cannot use loan proceeds to pay penalty costs for prepayment of an existing loan.  
    • A veteran purchasing a property with a VA loan cannot pay penalty costs required to discharge any existing liens on the seller’s property. |
| Brokerage Fees                | Fees or commissions charged by a real estate agent or broker (including a “buyer” broker) in connection with a VA-guaranteed loan may not be charged to or paid by the veteran-purchaser. |
| HUD/FHA Inspection Fees For Builders | • In proposed construction cases in which the dwelling was constructed under HUD supervision, the cost of any inspections or re-inspections must be borne by the builder and are not chargeable to the veteran-purchaser.  
    • These unallowable fees to the veteran are as follows:  
      • re-inspections by VA or HUD of onsite or offsite work for which an escrow agreement was established, and  
      • any additional re-inspections deemed necessary by VA to assure conformity with VA regulations. |
| Pest Inspections              | It is not acceptable for the veteran(s) to be charge for a wood destroying insect inspection report on existing construction. |
VA Funding Fee

General

- The veteran must pay a funding fee on all VA loans.
- The funding fee may be financed in whole or in part in the mortgage (loan amounts may be rounded to the nearest $1 or $50) or paid in cash, unless VA has exempted the veteran.

Reference: See "Funding Fee Waivers" subsequently presented in this topic for additional information.

- The funding fee is not refundable.
- The loan amount may exceed the applicable LTV by the amount of the funding fee; however, it cannot exceed the VA County Loan Limits.
  - If the purchase price and base loan amount exceeds the VA County Loan Limits and the borrower is making a cash down payment, the VA Funding Fee can be financed in.
- The Certificate of Eligibility must be reviewed closely to verify if the borrower has previously used his/her eligibility as noted by one of the following:
  - a number "5" in the block titled “Entitlement Code” indicating that the eligibility has been restored (it may be posted as the original entry or be entered with the original entitlement code and crossed out), and/or
  - a loan number posted on the certificate under the “Loan Number” block.
- In the absence of these indicators or any other evidence that the veteran has had a prior VA loan, the Certificate of Eligibility may be accepted as presented and the funding fee calculated as if the veteran is a first time user.

Funding Fee Waivers

- The following persons are exempt from paying the funding fee:
  - veterans receiving VA compensation for service-connected disabilities,
  - veterans who will be entitled to receive compensation for service-connected disabilities based on a pre-discharge examination and rating.
  - veterans who would be entitled to receive compensation for service-connected disabilities if they did not receive retirement pay, and
  - surviving spouses of veterans who died in service or from service connected disabilities, and
  - surviving spouses of veterans who:
    - were in receipt of (or would have received if not for retirement pay) compensation at the time of death for a service-connected disability rated totally disabling,
    - were continuously rated totally disabled for a period of 10 or more years immediately preceding death,
    - were continuously rated totally disabled for a period of not less than five years from the date of discharge or release from active duty or
    - were former prisoners of war who died after September 30, 1999, and were continuously rated totally disabled for a period of not less than one year immediately preceding death.
- Exemption is verified by the COE or the Verification of VA Benefit-Related Indebtedness Letter (VA Form 26-8937). The funding fee cannot be waived under any circumstances without VA’s executed statement of the veteran’s exempt status on the Verification of VA Benefit Related Indebtedness Letter.

Continued on next page
VA Funding Fee, Continued

No Monthly Premiums

The funding fee is a one-time fee that is charged at closing. There are no monthly premiums on the funding fee.

Required Funding Fee Percentages - Purchase and Construction Loans

The following table shows the required funding fee percentages for purchase and construction loans.

Notes:
- Reduction of funding fee based on a percentage of down payment applies only to purchase/acquisition loans.
- A National Guard/Reservist member who has been on active duty under Title 10 for 90 days or more will be considered “Regular Military” for funding fee purposes.

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Type of Usage</th>
<th>Down Payment</th>
<th>Active Duty or Veteran</th>
<th>Reservist/National Guard</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/01/04 – 09/30/17</td>
<td>First-time use</td>
<td>0 – 4.99% down payment</td>
<td>2.15%</td>
<td>2.4%</td>
</tr>
<tr>
<td>01/01/04 – 09/30/17</td>
<td>Subsequent use</td>
<td>0 – 4.99% down payment</td>
<td>3.30%</td>
<td>3.30%</td>
</tr>
<tr>
<td>01/01/04 – 09/30/17</td>
<td>First-time use</td>
<td>5% or more - 9.99%</td>
<td>1.5%</td>
<td>1.75%</td>
</tr>
<tr>
<td>01/01/04 – 09/30/17</td>
<td>First-time use</td>
<td>10% or more</td>
<td>1.25%</td>
<td>1.50%</td>
</tr>
<tr>
<td></td>
<td>and subsequent use</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Required Funding Fee Percentages - Cash-Out / Regular Refinance Loans

The following table shows the required funding fee percentages for cash-out/regular refinance loans.

Note: There is NO reduction of funding fee based on equity percentage.

<table>
<thead>
<tr>
<th>Effective Date</th>
<th>Type of Usage</th>
<th>Down Payment / Equity</th>
<th>Active Duty or Veteran</th>
<th>Reservist/National Guard</th>
</tr>
</thead>
<tbody>
<tr>
<td>10/01/04 – 09/30/17</td>
<td>First-time use</td>
<td>N/A</td>
<td>2.15%</td>
<td>2.4%</td>
</tr>
<tr>
<td>01/01/04 – 09/30/17</td>
<td>Subsequent use</td>
<td>N/A</td>
<td>3.30%</td>
<td>3.30%</td>
</tr>
</tbody>
</table>

Continued on next page
**VA Funding Fee, Continued**

The following table shows the required funding fee percentages for other types of VA loans.

**Note:** Make note that a VA Funding Fee is not charged on assumption of loans when the commitment was made prior to March 1, 1988.

<table>
<thead>
<tr>
<th>Type Of Loan</th>
<th>Funding Fee Percentage For All Veterans Whether First Time Or Subsequent Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Assumptions</td>
<td>.50%</td>
</tr>
</tbody>
</table>

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Appraisal Requirements

General

- Appraisals are not intended to be property inspections; however, appraisers are required by VA to determine the overall condition of the subject property and recommend any readily observable repairs necessary to meet the Minimum Property Requirements as provided by VA.
- The Appraisal Report will show the lender/client name as “The Department of Veteran Affairs.” Fee appraisers will identify the type of intended user as “Intended User – Any VA approved lender or servicer” on the lender/client line following “Address.

Notes:

- Lender/client name changes are now eliminated when the case is reassigned between lenders, as well as avoiding conflicts with the prohibition of using “readdressed appraisals” as stated in USPAP and the Appraisal Standards Board.
- The procedure for ordering an appraisal/case number in TAS remains unchanged.

- The appraisal report forms listed below are acceptable for immediate use. Use of these forms is mandatory effective on November 1, 2005.
  - Uniform Residential Appraisal Report (URAR), Freddie Mac Form 70/Fannie Mae Form 1004. (Required for all VA single family home and manufactured home appraisals),
  - Individual Condominium Unit Appraisal Report, Freddie Mac Form 465/Fannie Mae Form 1073 (Required for all Condominium unit appraisals); and
  - Small Residential Income Property Appraisal Report, Freddie Mac Form 72/Fannie Mae Form 1025 (Required for all two to four unit property appraisals).


- Facsimile (faxed) appraisal reports are not acceptable.
- The VA fee appraiser should check the “subject to” box in the reconciliation area of the appraisal. Appraisers are expected to require repair or correction of any observed conditions adversely affecting the property’s soundness or livability to ensure the property meets VA Minimum Property Requirements (MPRs).

Continued on next page
The appraiser must select the three (3) best comparable sales available and properly adjust the sales price of each one for differences between it and the subject property. The goal is for the VA value estimate to not exceed the price at which similar properties can be purchased in the current market.

The appraised value, for a property that will become the security for a VA guaranteed loan, must reflect the current fair market value. During periods of rapidly declining real estate values, it may become more difficult to establish an estimate of the current fair market value.

Analysis of real estate market conditions, using market trend indicators, lends support to an appraiser’s estimate of fair market value, particularly during periods of rapidly decreasing market values. VA requires appraisers to specifically address certain market conditions in their report.

Certain areas around the country are experiencing what is frequently referred to as a “declining market.” VA recognizes that some lenders may object to receiving appraisal reports that contain comments or analysis of negative market condition, and consequently, may request that such items be removed. However, VA expects appraisal reports to contain negative comments when they accurately reflect market conditions. VA also indicates that it has no objection to guaranteeing a VA loan in a declining market area as long as the appraiser has properly documented the facts of the case.

Comparable sales should be recent, not generally more than 12 months old. The appraiser must adequately explain any reliance on outdated sales.

Sales data provided by a party to the sale or financing of the subject property must be re-verified by a party without such interest.

VA has three (3) definitions of existing construction for property appraisals. Properties that do not fit into one of these definitions are considered as proposed construction.

The three (3) definitions of existing property are as follows:

- a property previously owner occupied, regardless of age or date of construction that meets VA minimum property requirements (MPRs) for existing construction,
- a property not previously occupied where all onsite and offsite improvements have been fully completed at least one (1) year prior to the date of the appraisal request and that meets VA’s MPRs for existing construction, or
- a property not previously occupied where construction was completed less than one (1) year from the date of the appraisal, that is fully complete with the exception of customer preference items (i.e., interior finishes, appliances, equipment) and/or exterior improvements for which the VA regional office allows onsite escrows, and is enrolled in a 10 year warranty plan or will have a one year VA Builder Warranty of Completion of Construction (VA Form 26-1859).
Appraisal Requirements, Continued

General, (continued)

- In order to have VA valuation policy in alignment with current practices in the appraisal industry, appraisers must include interior photographs of the subject property, which at a minimum, show:
  - The kitchen.
  - All bathrooms.
  - Main living area.
  - Examples of physical deterioration, if present.
  - Examples of recent updates, such as restoration, remodeling, and renovation, if present.
- In addition to the interiors photographs, appraisal reports must include clear, illustrative, original photographs showing the front, rear view (preferably including a different side view in each photograph), and a street scene of the subject property and the front of each comparable sale. The subject and all comparables must be appropriately identified.
- Photographs of comparable listings are not required, but are encouraged.
- Include photographs of any improvement, site feature, or view affecting value.
- Acceptable photographs include clear, illustrative images. Copies of photographs from a multiple listing service are acceptable only with an explanation why original photos are not available (i.e. gated communities where access may require trespass to photograph, etc.).

Market Conditions Addendum to the Appraisal Report (Freddie Mac 71/Fannie Mae 1004MD)

References:
- See the Market Conditions Addendum to the Appraisal Report (Freddie Mac 71/Fannie Mae 1004MC) subtopic in the Appraisal Reports and Exhibits topic within Section 1.07: Appraisal Guidelines of the Correspondent Seller Guide for additional information.
- See the “Itemized Acceptable Fees and Charges” subtopic in the “VA Allowable Fees” topic within this product description for additional information.

VA Case Number

- Every VA loan in process must have a VA case number assigned to the subject property prior to requesting an appraisal. The Appraisal System (TAS) allows lenders to request and receive case numbers and appraisal assignments on line within seconds. Lenders may access this system via the internet at VA TAS. A User ID and password are required to access the system.
- The case number must be prefaced with the letters “LAP” for all LAPP processing cases.

Continued on next page
Appraisal Requirements, Continued

Documentation Requirements
The following documents must be supplied to the appraiser:

- A copy of the agreement of sale and all addenda immediately upon assignment, but not later than one (1) business day after the date of assignment.

Notes:
- If the agreement of sale is amended during the process, (prior to the effective date of the appraisal), the lender must provide the updated contract to the appraiser.
- If the agreement of sale is amended (subsequent to the effective date of the appraisal, but prior to loan closing), the lender must use due diligence in determining whether the amendment(s) could reasonably be thought to affect the estimated value of the property being used as security for the loan. If so, the lender must provide the updated contract to the appraiser.
- Depending on the amount of time and/or the extent of any change to the originally considered agreement of sale, the circumstances may warrant the appraiser considering such a change, to constitute a new assignment under USPAP.
- An additional fee may be warranted up to the full amount of a new appraisal fee, which may be paid by the veteran. Disputes in regard to any such additional fees should be referred to the Regional Loan Center of the jurisdiction.
- Copy of VA Request for Determination of Reasonable Value (VA 26-1805), and
- Approved plans and specifications meeting the following requirements, if applicable:
  - Plans traditionally drawn to 1/4” scale or larger may be reduced to 8 1/2” x 11”, and
  - Specifications must be on the Description of Materials (VA Form 26-1852). The form must be completed and signed by the builder and the veteran.

Appraisal Request – Notification of Point of Contact
- If the appraisal request form shows a specific Point of Contact (POC), VA fee appraisers are required to notify the listed POC when it appears that the appraised value will come in below the sales price of the subject property. The requestor may designate whomever they feel is most appropriate as the POC including the Realtor, Loan Officer, etc. If a POC is not provided, the appraiser will be required to notify the requestor as shown on the VA 26-1805.
- The appraisers will not be at liberty to discuss the contents of the appraisals with the POCs beyond explaining they are calling for whatever additional information the POC may be able to provide.
- The lender or POC will have two (2) working days to provide the additional information to the fee appraiser in a format similar to the comparable sales grid on the URAR. Verification that the sale actually closed is required. If pending sales contracts are submitted to support a time adjustment, they must be complete with all contract addendums attached. In addition there must be a brief narrative attached that describes the similarities/differences between the pending sale and the subject property.

Continued on next page
Appraisal Requirements, Continued

Appraisal Request and Documentation Requirements, (continued)

- Upon receipt of the additional information, the appraiser will complete the appraisal report indicating that this process was utilized. If the information provided to the appraiser does not result in an increase in value that meets or exceeds the sales price, the appraiser will report the following information on an addendum:
  - who provided the information,
  - what information was provided, and
  - why it did not change the opinion of value.
- In either situation, the appraiser will include a comment regarding the amount of time this process added to the overall appraisal delivery. VA the SAR will monitor this factor and determine if reasonable timeliness was adhered to by the appraiser.

Reference: See “Reconsideration of Value” subsequently presented in this topic for additional information.

E-Appraisal Process

- VA fee appraisers and LAPP underwriters must access: VA Portal Website and use E-Appraisals under “Applications.”
- If any problems are encountered with the E-Appraisals Application, Correspondent lenders should contact the Construction and Valuation Unit TAS Help-Desk of the local Regional Loan Center.
- The LAPP underwriter must download, save and print the appraisals from the E-Appraisal system for their files.
- If a new or updated appraisal is received, the previous appraisal of record is automatically superseded and is no longer accessible.
- Correspondent lenders are responsible retention of their own appraisal documents.
- The Correspondent lender or the assigned appraiser must send an email to SunTrust at correspondentappraisals@suntrust.com notifying SunTrust when the appraisal was electronically transmitted to the VA TAS E-Appraisal site (VA Portal).
- The email must contain the SunTrust loan number and the VA case number to help identify the loan file or borrower.
- The underwriter will complete the Notice of Value (NOV) and the first two pages of the appraisal report, along with the NOV, will be faxed to the Correspondent lender.


Note: Additional information about the E-Appraisal process can be obtained through VA’s website at: VA Portal Website.
Appraisal Requirements, Continued

LAPP

General Information
- The purpose of the LAPP is to speed the time to loan closing by allowing VA-authorized lenders to receive appraisal reports directly from appraisers and process them without VA involvement.
- Every property eligible for the LAPP must be processed under the LAPP. If a LAPP lender fails to process an eligible property under LAPP, the request for VA guaranty must include a detailed explanation.

LAPP Requirements
- LAPP authority is a privilege delegated to lenders at VA’s discretion. Lenders maintain this privilege by complying with all applicable LAPP-related requirements. Failure to comply with these requirements may result in the lender’s LAPP authority being suspended or withdrawn altogether.
- Correspondent lenders must exercise due diligence in processing LAPP cases and are responsible for complying with applicable VA policies and procedures.
- When the appraiser electronically submits the appraisal to the centralized website on the Veterans Information Portal, the 5-day clock begins.
- The underwriter has five (5) working days to issue the Notice of Value (NOV) to the veteran from the date the appraiser electronically submits the appraisal. The NOVs are prepared on the VA appraisal system (TAS) and a copy is automatically transmitted to VA at the time of underwriter completion.

Reference: See subtopic “E-Appraisal Process” subsequently presented within this section

- LAPP underwriters must be familiar with state and local requirements for VA Notices of Value where the property is located. VA posts a listing of these requirements on their Construction and Valuation website located at http://www.homeloans.va.gov/cav_approved_local_conditions.htm.
- The veteran must receive a copy of the appraisal and NOV. The NOV must include a list of any conditions and/or repairs to be made to the property and information about the veteran’s responsibility regarding the condition of the property.
- The Notice of Value (NOV) must include the statement shown below:
  - “The VA appraisal was made to determine the reasonable value of the property for loan purposes. It must not be considered a building inspection. Neither VA nor the lender can guarantee that the home will be satisfactory to you in all respects or that all equipment will operate properly. A thorough inspection of the property by you or a reputable inspection firm may help minimize any problems that could arise after loan closing. In an existing home, particular attention should be given to plumbing, heating, electrical and roofing components.

  Remember: “VA GUARANTEES THE LOAN, NOT THE CONDITION OF THE PROPERTY.”

- The NOV mailed to the veteran requires the signature of the SAR (LAPP underwriter). However, no SAR signature is required on TAS issued NOVs that are e-mailed to the veteran.

Continued on next page
**Appraisal Requirements, Continued**

### LAPP, (continued)

**Disagreements with Fee Appraiser Repair Recommendations**

- If the repairs do not appear necessary for the property to meet the MPRS, the SAR must provide in writing any changes made by the appraiser, or
- VA contact with SAR or fee appraiser (if initial lender/appraiser contact does not resolve the issue), or
- SAR and purchaser request VA to waive the repair item(s) in question, if necessary and appropriate.

Reference: See “MPR Variations and Exemptions for Existing Construction” subsequently presented in this topic for additional information.

**LAPP Transfers**

- VA requires that the transfer be completed upon receipt of the borrower’s request.
- Upon receipt of a request for transfer of the appraisal to another lender, a VA issued *Notice of Value* (NOV) or the LAPP appraisal (if applicable) may be transferred.
- The LAPP NOV prepared by the automatic underwriter for LAPP cases CANNOT be transferred.

### Foreclosed Properties

- All properties must be in a condition that meets VA Minimum Property Requirements (MPRs), or that there is reasonable likelihood the property can be repaired to meet the MPRs prior to loan closing.
- The VA appraiser must list on the appraisal report any repairs necessary to meet MPRs and report the fair market value of the property as if the repairs have been completed.
- The seller is expected to pay for these required repairs since they are included in the estimate of value.
- If a property is a SunTrust REO, or the originating lenders REO, the appraisal must be ordered as “IND.”

**Note:** DU will provide a message clarifying that regardless of the level of property fieldwork required by DU, if the purpose of the loan transaction is a purchase of a foreclosed property, or the last transaction on the subject property was a foreclosure, a full (Form 1004 or 1073) appraisal is required.

*Continued on next page*
**Miscellaneous Property Requirements**

**Heating**
- Heating must be adequate for healthful and comfortable living conditions.
- Homes with a wood burning stove as a primary heating source must also have a permanently installed conventional heating system that maintains a temperature of at least 50 degrees Fahrenheit in areas with plumbing.

**Note:** VA field stations may determine that climatic conditions are such that mechanical heating is not required.

**Reference:** See the [VA Lender’s Handbook](#) (Sections 12.03 and 11.12) for additional information regarding heating sources.

**Public Water/Sewer**
- For properties served by individual water and/or sewer systems, connection to public water and/or public sewer will only be mandatory when such connection is required by the local building, planning, or health authorities.

**Note:** Underwriters must have the appraiser address local requirements for connection and availability for properties served by individual water and/or sewer systems.

- For properties on individual water and/or sewer (septic) systems where well water or septic tests or certifications were required, the validity of those tests or certifications is 90 days unless the local health authority indicates otherwise. Documentation of an allowable extended period is required.
- Notices of Value (NOV) issued on properties served by individual water and/or sewer systems will require NOV Item #6 to be checked for connection to public water or public sewer only if the local building, planning, or health authority requires such connection.

**Springs and Cisterns**
- Springs and cisterns are permitted under the following conditions:
  - such facilities are customary and the only feasible means of water supply,
  - installed in accordance with the recommendations of the local health authority, (if the local health authority has no requirements, U.S. Public Health Service requirements apply), and
  - the veteran purchaser acknowledges in writing his/her awareness of the situation.
Public Road Access
- The property should be located on a dedicated public road.
- If the property is on a private road, a legally enforceable road maintenance agreement and a deeded right-of-way must be provided.
- Regardless of the ownership of the road, it must be covered with an all-weather surface.

Non-Residential Use of the Property
- If any portion of a property is designed or used for nonresidential purposes, that property is eligible only if the nonresidential use does not meet one of the following items:
  - impair the residential character of the property, or
  - exceed 25 percent (25%) of the total floor area.

  Note: In making this calculation, the total nonresidential area must include storage areas or similar spaces that are integral parts of the nonresidential portion.

Potential Environmental Problem
- When there is an indication of a potential environment problem (i.e., abandoned underground fuel storage tank), the appraisal report must be conditioned for correction of the problem according to any local, state, or federal requirements.

MPR Variations and Exemptions for Existing Construction
- Minimum Property Requirements (MPRs) may be waived or modified by the VA field office where justified by certain conditions common to a particular geographic area or occurring on the site, or where such conditions make compliance impractical or impossible.
- The following conditions must be met for the VA field office consideration of a waiver:
  - a veteran is under contract to purchase the property, and
  - the veteran and lender request the exemption in writing, and
  - the property is habitable from the standpoint of safety, structural soundness and sanitation, and
  - VA is satisfied that the non-conformity has been fully taken into account by way of depreciation in the VA valuation.

Continued on next page
The table below shows the validity periods for VA appraisals.

<table>
<thead>
<tr>
<th>Type of Appraisal</th>
<th>Validity Periods</th>
<th>Extension of Validity Period</th>
</tr>
</thead>
</table>
| LAPP issued Notices of Value and VA issued Notices of Value | • Existing or New Properties: Six (6) months  
• Proposed Construction: Six (6) months | Conditions for Extensions are listed below.  
• If a veteran signs a purchase agreement during a Notice of Value’s (NOV) validity period, that NOV will remain valid until that transaction is either completed or terminated.  
• VA will extend the validity period ONLY when it is determined that current market conditions make it likely that the original value estimate will remain valid through the extended period.  
• Extension requests will be sent to the VA office of jurisdiction, which will contact the fee appraiser involved, if appropriate, and issue an endorsement to the NOV, if justified. |

Note: Rapidly fluctuating real estate market conditions may temporarily dictate the use of a shorter validity period. This is a determination that may be made by the Veterans Administration when they feel it is justified.
Appraisal Requirements, Continued

Converting FHA Appraisals to VA Appraisals

HUD value determinations (FHA appraisals) are not eligible for conversion to VA issued NOVs unless the following applies:

- the appraiser is a VA fee panel member,
- the appraiser is not a staff employee of the lender,
- the property was appraised as an individual case (not listed on a valid HUD “master” value determination),
- the property did not already have a valid VA value determination on the date of the purchase agreement, and
- the property was appraised for HUD purposes and the lender documents a legitimate need to change to VA financing after the appraisal was made, i.e.,
  - the buyer changed from HUD to VA financing while under contract, or
  - the property is being purchased with VA financing after a contract with a previous buyer requiring HUD financing fell through.

Properties Located Within a Designated Disaster Area

Reference: See Section 1.31: Disaster Area Procedures of the Correspondent Seller Guide for additional information.

Continued on next page
Remaining Economic Life

- Remaining economic life is the estimated period of time until the improvements lose their ability to serve their intended purpose as a home.
- The remaining economic life estimate must be at least as long as the loan repayment term.
- If the estimate of remaining economic life is less than 30 years, the appraiser must provide a supporting explanation based on either known economic factors or observed physical conditions and not arbitrarily established.
- If the estimate of remaining economic life is 30 years or more, the appraiser must state the estimate at its maximum.

Example: 40 years

- For condominium units, the estimate of remaining economic life must be reported in the “Comments” section of Fannie Mae Form 1073, Individual Condominium Unit Appraisal Report.

Repair Inspections Existing Procedures

- When repairs identified on a Notice of Value (NOV) have been completed, either the VA fee appraiser or lender must certify as to satisfactory completion.
- The VA fee appraiser may use Freddie Mac form 442, Fannie Mae form 1004D, Part B, Certification of Completion, or their own letterhead and include photos. The Certification of Completion must be completed to include the following:
  - Re-list the items on the NOV to be repaired or installed, in the case of customer preference, which were inspected by the appraiser.
  - Certify that quality materials were used and all items were completed in an acceptable manner.
  - Identify any required repairs not addressed or not completed properly.
  - Upload the completed, signed inspection report or certification to WebLGY.
- Fannie Mae form 1004D, Part A, Summary Appraisal Update Report is not acceptable to VA.
- The Lender must use their own letterhead referencing the VA Case #, Veteran’s name, property address, and specify the repair item(s) and finding(s).

Note: If the VA-assigned fee appraiser is unavailable, contact the VA Regional Loan Center of jurisdiction to request another fee appraiser be assigned.
### Appraisal Requirements, Continued

**Requesting Notice of Value (NOV) Changes and Reconsideration of Value (ROV)**

- SARs must issue the NOV at the appraised value reflected in the appraisal report. SARs are no longer allowed to change fee appraiser’s estimate of value.
- Any party of interest may request a change to the Notice of Value (NOV). Every such request must be in writing and submitted to the LAPP underwriter (SAR), along with supporting documentation to assist in reviewing the request.
- Upon receipt of the request to change a NOV, the SAR will do one (1) of the following:
  - forward the request to the VA assigned appraiser if it involves a request for increase in the value estimate of less than 10% or otherwise needs fee appraiser involvement (i.e., repairs/condition waivers), OR
  - forward the request to the VA office of jurisdiction if it involves a request for increase in the value estimate of 10% or more, a decrease in the value estimate, or if it involves matters regarding appraiser’s performance.
- Any request sent to the VA assigned appraiser or to the VA office of jurisdiction must be imaged with the appraisal documents.
- Documentation concerning the change is to be retained by the lender for future VA reference. The amended NOV will replace the original NOV, which will not be retained.
- A new VA appraisal must not be requested for any property which already has a valid NOV.
- For LAPP cases, an amended NOV will be issued in TAS and provided to the veteran purchaser upon reconsideration, recommendation, or authorization from the appropriate party as shown above.
- If contact results in the appraiser uploading an amended appraisal report with a changed value in webLGY, the SAR must issue the NOV at that changed (current) value.
- If the data was not available at the time of the fee appraisers report, the appraiser will be allowed to charge a reasonable fee for this service.
- Whenever possible, ROVs and other correspondence is submitted via e-mail with supporting documentation as PDF attachments to allow VA and the fee appraisers to receive and process the information in a timely and efficient manner.
- The new report may be an analysis of the new data submitted to or obtained by the appraiser. A new URAR is not necessarily required if the original URAR is included by reference.
- If the analysis of the additional data does not support an increase in value, an explanation on the appraiser’s company letterhead supporting the decision must be included in the report.

**Note:** If the lender provides the additional information directly to the VA fee appraiser in a format similar to the comparable grid on the URAR, the appraiser is required to provide a response within five (5) working days.
Validation of Parties to the Transaction/Program Participants

**General**
- Any person or entity conducting business related to the VA loan guaranty program is considered a program participant/party to the transaction. This includes but is not limited to the following:
  - lenders,
  - employees of lenders,
  - loan holders,
  - loan servicers,
  - builders,
  - real estate brokers or agents (selling/listing),
  - management brokers/property management company,
  - repair contractors,
  - fee appraisers,
  - salespersons,
  - manufactured home manufacturers,
  - seller, and
  - loan officer

**Notes:**
- A borrower is not considered a program participant just because he/she obtains a VA loan.
- Transactions may not include all program participants/parties to the transaction listed above.

- For all VA transactions, it must be confirmed that certain parties to the mortgage transaction are not found on the GSA System for Award Management (SAM) Excluded Party List by accessing the link below:
  - [GSA System for Award Management (SAM) Excluded Party List](#)

**Notes:**
- Only program participants that are identified in the loan file documents are required to be checked.
- Whether or not the party to the transaction/program participant was requested through the VA portal, they must be checked against the above exclusionary list.
- Exclusionary list results must reflect the date checked and validate that all program participants/parties to the transaction are not reflected on the list.

**Reference:** See the VA Lender’s Handbook (Chapter 17) for information on VA sanctions against program participants and checking the SAM Excluded Party List.
New Construction

Definition
- VA defines property in the following three (3) categories:
  - proposed/under construction,
  - new construction, and
  - existing construction (not previously OWNER occupied or less than one (1) year old).
- Properties built one (1) year or more prior to the date of the appraisal, regardless of whether or not they were previously owner occupied, are considered as “existing” for VA documentation purposes.

Eligible Builders
- For any property appraised as either “proposed, under, or new construction,” the builder must have a valid builder identification number prior to a Notice of Value being issued.
- Builders must be checked on the government wide General Services Administration’s GSA list to be sure that there is no sanction against them. GSA lists can be accessed via FHA Connection or at the following web address: http://epls.arnet.gov/servlet/EPLSSearchMain/2.
- Builders who are not approved by VA will need to complete the Builder Information and Certification form on their own letterhead. The VA required wording for this form is shown in Figure 1 at the end of the VA Lender’s Handbook (Section 10). This form must be submitted to VA with the required attachments and a builder identification number assigned.
- In addition to the above, to obtain and maintain a valid VA-assigned builder ID, the following must be fully executed, up-to-date, and on file at the VA office of jurisdiction over the location of the property:
  - VA Form 26-421, Equal Employment Opportunity Certification,
  - VA Form 26-8791, VA Affirmative Marketing Certification.

References:
- See VA Lender’s Handbook Pamphlet 26-7 for information on obtaining and maintaining a valid VA-assigned builder ID number.
- See “Special Exception for Unapproved Builder” subsequently presented in this topic for additional information.

Special Exception for Unapproved Builder
- Special exception processing may be eligible for a veteran who wishes to purchase a new home from a builder who is not more than occasionally involved with VA financing, and will not provide either a one year VA builder’s warranty or a ten year insured protection plan.
- The VA Regional Loan Center governing the state where the property is located must review and approve the special exception. In that situation, the builder and veteran must sign the form entitled VA Builder’s Certification & Veteran’s Acknowledgement for New Construction Without Either a One-Year Warranty or a Ten-Year Insured Protection Plan (COR 0346c).

Continued on next page
New Construction, Continued

Special Exception for Unapproved Builder, (continued)

- This form includes the certifications listed below:
  - The veteran purchaser’s written acknowledgement stating the following: “I am aware that this property does not qualify for VA assistance with construction complaints, since it was not inspected by VA during construction. I am also aware that this new property will not be covered by either a one year VA builder’s warranty or a ten year insured protection plan, as is normally required in this situation.”
  - The builder’s written certification stating the following: “This company is not more than occasionally involved with VA financing and is aware that this property is being accepted without any VA-required warranty on an exception basis only upon the request of the veteran purchaser. The dwelling was constructed according to standard building practices and is in conformity with all applicable building codes and complies with the energy conservation standards of the 1992 Council of American Building Officials Model Energy Code.”
  - The builder must also sign a VA Affirmative Marketing Certification and the Equal Employment Opportunity Certification and submit to VA with the request for approval.

Reference: See VA Lender’s Handbook for additional information. Go to Figure 1 on page 10.30 to see a sample of what must be on the builder’s letterhead.

- The lender obtains a copy of documentation issued by the local building authority to verify that construction was acceptably completed, such as a final inspection or occupancy permit. Where local authorities do not perform building inspections, the builder must certify to the following in writing: “The dwelling was not inspected during construction by any state, county, or local jurisdiction.”

Continued on next page
New Construction, Continued

Sale of New Construction Properties by Lenders

- VA will allow the purchase of “new construction” properties from lenders without either a VA one (1) year warranty or a ten (10) year insurance backed protection plan.
- These properties will be processed as “existing construction,” as long as the property is fully completed.
- Properties that are not fully completed are ineligible unless the selling lender agrees to complete the construction in accordance with VA Minimum Property Requirements (MPRs) for existing construction.
- The following procedures must be followed when there is a sale of a new construction property by a lender:
  - order the appraisal as “IND” and “existing construction,”
  - provide evidence of the selling lender’s ownership of the property,
  - selling lender must agree to complete any repairs required to meet VA MPRs for existing construction,
  - obtain final inspection approval or a certificate of occupancy in jurisdictions where the local building department requires construction inspection, and
  - obtain written acknowledgement from the purchaser that states, “This property is being purchased as existing construction from a lender that acquired this new construction property from the builder. There is no warranty and VA will provide no assistance with any construction defects.”

Proposed & Under Construction Properties

- VA requires either construction exhibits or the use of an existing Model Home Comparable for properties appraised as “proposed or under construction.”
- An existing Model Home Comparable may be used in lieu of construction exhibits if the model home is:
  - fully completed
  - the same plan type as the subject home
  - located in the same market area
  - readily accessible to the assigned fee appraiser
- If a Model Home Comparable meeting the above requirements is not available, Construction Exhibits are required.
- Construction Exhibits for properties appraised as “proposed or under construction” must include the following:
  - specifications of Description of Materials (VA Form 26-1852), signed and dated by the builder and by the veteran,
  - plot plan which includes the location of the well/septic systems, if applicable,
  - all exterior building elevations,
  - foundation or basement plan,
  - plan of all floors,
  - sectional wall details, and
  - a certification signed and dated by the technically qualified and properly identified individual (such as builder, architect, engineer, etc.) which states the following:

  Continued on next page
New Construction, Continued

Proposed & Under Construction Properties, (continued)

“I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) met all local code requirements and are in substantial conformity with VA Minimum Property Requirements, including the energy conservation standards of the 1992 Council of American Building Officials’ Model Energy Code and the requirement for lead-free water piping.”

Note: VA will accept Builder’s Certification of Plans, Specifications and Site (HUD Form 92541) in lieu of this certification if the form has the identifying information at the top completed, as well as Items 2 and 4 OR Items 5, 6, 9, 10, 12, and 13.

- If inspections during construction are to be made by HUD, only one set of construction exhibits is required. The appraisal requester will include that set with the assignment notice to the appraiser.
- In addition to the one-year builder’s warranty, one of the following requirements must be met for properties that are proposed or under construction:
  - three inspections must be completed on the property at three stages, or
  - the builder must be enrolled in a 10 year warranty plan.
- The lender must retain all inspection related material in their loan origination file.
- A change to construction exhibits after the appraisal is completed must be on VA’s Request for Acceptance of Changes in Approved Drawings and Specifications (VA Form 26-1844), UNLESS there is no veteran/purchaser involved and the change is limited to substitution of mechanical equipment of equal value.
- VA staff must approve any Request for Acceptance of Changes in Approved Drawings and Specifications (VA Form 26-1844), including deletions or a change in value, by issuing an amended NOV.
- These requirements do not apply to “new construction” or “existing construction” properties.

Continued on next page
New Construction

To be eligible for appraisal as “new construction,” the property must be fully completed or completed except for customer preference items (such as, interior wall finishes, floor covering, appliances, fixtures and equipment, etc.) and those improvements for which escrows are permitted. This eliminates the need for construction exhibits.

Properties appraised as “new construction” must be covered by either:
- a one (1) year VA builder’s warranty, or
- a ten (10) year insurance backed protection plan.

Notice of Value for properties with a one (1) year VA builder’s warranty will be conditioned to require the following:
- the veteran purchaser’s written acknowledgment that “I am aware that VA did not inspect this property during construction and that VA assistance with construction complaints will be limited to defects in equipment, material and workmanship reported in writing during the one-year VA builder’s warranty period (item 12a on the Notice of Value) on the VA Not Inspected Acknowledgement for New Construction With One-Year Builder’s Warranty (COR 0346a), and
- a one (1) year VA builder’s warranty on, Warranty of Completion of Construction (VA Form 26-1859).

Notice of Value for properties with a ten (10) year insurance protection plan will be conditioned to require the following:
- evidence of enrollment of the property in a ten (10) year insurance protection plan acceptable to HUD, and
- the veteran purchaser’s written acknowledgment that “I am aware that VA did not inspect this property during construction and that it does not qualify for VA assistance with construction complaints.” (Item 12b on the Notice of Value) on the VA Not Inspected Acknowledgement for New Construction with Ten-Year Insured Protection Plan (COR 0346b).

VA acceptance of a builder’s one (1) year warranty or ten (10) year insurance backed protection plan in lieu of construction inspections is available only to builders who routinely provide good quality construction as determined by VA.

Continued on next page
New Construction, Continued

Revised Wood Destroying Insect Information Requirements for New (Improvements Less Than One Year) and Proposed Construction Properties

- For proposed and new construction properties (improvements less than one year), a Soil Treatment Certificate is required.
- FHA and VA loans require evidence of treatment on the Subterranean Termite Protection Builder’s Guaranty form (HUD NPMA-99-A), which is completed by the builder. If Box 1 is checked, it describes the treatment applied by the pest control company and HUD NPMA-99-B is required. If Box 2 is checked, the builder is certifying they used pressure treated lumber for termite prevention and provides a one year warranty.
- New Construction Subterranean Termite Service Record form (HUD NPMA-99-B) is to be used with Form HUD-NPMA-99-A. The licensed pest control company is responsible for completing this form, as appropriate, and providing it to the builder, who is responsible for attaching it to the HUD NPMA-99-A Form for distribution.
- Acceptable treatment methods for protection are:
  - chemical soil treatment (termicide);
  - pressure preservatively treated wood, as shown below:
    - Must be used in all framing members up to and including the top plate of the first floor level wall (this includes the subfloor and floor joists of the first floor),
    - The use of pressure treated wood in only the sill plate is not acceptable, and
    - naturally termite resistant wood,
  - physical barriers (such as metal or plastic termite shields);
  - bait systems; or
  - any combination of these methods.

Note: The use of post-construction soil treatment where a chemical termicide is applied only around the perimeter of the foundation is NOT acceptable.

Existing Construction (Not Previously Owner-Occupied or Less Than One (1) Year Old)

If the property is existing construction, less than one (1) year old and has not previously been owner-occupied, it must meet the following requirements:

- be covered by a one (1) year VA builder’s warranty, or
- be enrolled in a HUD accepted ten (10) year insured protection plan, and
- veteran must sign a not inspected acknowledgement.

Note: Item 12a on the Notice of Value (NOV) applies if the property is covered by a one (1) year builder’s warranty. Item 12b on the NOV applies if the property is covered by a ten (10) year insured protection plan.

Continued on next page
### New Construction, Continued

**Inspection and Warranty Requirements**

Use the following table to determine the type of inspection required.

<table>
<thead>
<tr>
<th>WHEN The Property Is Appraised As…</th>
<th>THEN…</th>
</tr>
</thead>
</table>
| Proposed or under construction *without* an insured ten year protection plan and a one-year builder’s warranty | Either:  
- The local authority performs the required foundation, framing, and final inspections, and issues a Certificate of Occupancy (CO) or equivalent. VA accepts the CO as evidence of local authority inspections and satisfactory completion of construction.  
- The local authority performs the required foundation, framing, and final inspection, but does not issue a CO or equivalent. VA will accept copies of the inspection reports, which verify full compliance with local building codes, or a written statement from the local authority stating the required three inspections were performed satisfactorily as evidence of satisfactory completion of construction. |

| Proposed or under construction *with* an insured ten year protection plan and a one-year builder’s warranty | When the local authority does not perform construction inspections, the lender is to certify the property is 100% complete (both on-site and off-site improvements), and it meets VA’s Minimum Property Requirements for existing construction. |

| Existing construction with major:  
- alterations,  
- improvements, or  
- repairs | VA or the LAPP underwriter will determine on a case-by-case basis, based on the nature of the work:  
- which regular or special inspections are required, if appropriate, and  
- either the lender or appraiser will certify as to satisfactory completion. |

**Note:** The VA Appraiser (or lender) must use own letterhead referencing the VA Case #, Veteran’s name, property address and specify the repair item and finding.
### Stages of Inspection

If full inspections are required as described in the table above, three (3) inspections are performed, one at the completion of each stage. The following table identifies the three (3) stages of inspection.

<table>
<thead>
<tr>
<th>Stage of Inspection...</th>
<th>Stage Consists of…</th>
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</thead>
<tbody>
<tr>
<td>First inspection stage</td>
<td>completion of excavation and foundation.</td>
</tr>
</tbody>
</table>
| Second inspection stage | • completion of construction below the superstructure (i.e., footings, foundations, piers, etc.), and  
                           • completion of construction of the superstructure (i.e., framing, plan of arrangement of partitions and sizes and placements of all openings, and roughing-in of mechanical work). |
| Third inspection stage | completion of all onsite and offsite improvements. |

**Note:** No second stage inspection of the dwelling is required for modular construction since the unit is fabricated in a factory and must be inspected to state standards.

Reference: For a complete listing of these items refer to the [VA Lender's Handbook](#) (Section 14.02, titled Third (3rd) Inspection Stage).

*Continued on next page*
10-Year Warranty Plans

Ten-year warranty plans that are acceptable to HUD are also acceptable to VA.

Required Exhibits

- Construction exhibits are required for properties appraised as “proposed or under construction.” They are not required for properties appraised as either “new construction” or “existing construction.”
- Three (3) sets of plans (for the compliance inspector, appraiser and LAPP underwriter/case file) photographically reduced or computer-drawn on 8.5” by 14” sheets are required. The plans must also include the following:
  - a plot plan(s) reflecting the location of the well and septic system, if applicable,
  - foundation or basement plans (if applicable),
  - plan of all floors,
  - all exterior building elevations (front, rear, sides), and
  - sectional wall details,
- Three (3) sets of specifications on Description of Materials (VA Form 26-1852), or a form which substantially conforms, signed and dated by the builder in all cases and by the veteran when one is under contract.
- The following certification signed and dated by a technically qualified and properly identified individual (such as builder, architect, engineer, etc) is required: “I certify that the construction exhibits for (identification of the property by house type, lot, block, subdivision name, etc.) meet all local code requirements and are in substantial conformity with VA minimum property requirements (including the energy conservation standards of the 1992 Council of American Building Officials (CABO) Model Energy Code (MEC) and the requirement for lead-free water piping.”

Note: VA will accept Builder’s Certification of Plans, Specifications and Site (HUD form 92541), in lieu of this certification if the form has the identifying information at the top completed, as well as Items 2 and 4, and Items 5, 6, 9, 10, 12, and 13.

- A copy of the proposed or actual sales contract is required, if the veteran is purchasing the property.
- VA does NOT require plans and specs on new construction if the appraisal defines the property as “existing.”

Continued on next page
New Construction, Continued

Geological or Soil Instability

In areas that have a history of geological or soil instability, the builder must submit one (1) of the following:

- a certification that to the best of the builder’s knowledge and belief, any geological or soil-related hazard has been compensated for in the engineering design of the improvements and no portion of the construction will rest on fill, or
- evidence from a qualified geologist or engineer that the subject site either does not present unusual geological soils-related hazards or such hazards have been compensated for in the engineering design of the improvements.

Note: Qualified geologists are State licensed or are a member of a national or State organization that requires responsibility, experience, education, and demonstrated ability in the field of engineering geology.

Existing Construction

*Existing construction* is defined by VA as a property which has been previously owner-occupied OR had all onsite and offsite improvements fully completed for one (1) year or more.

New/Existing Construction

*New/Existing construction* is defined by VA as a property that is complete with the exception of customer preference items. Although this typically occurs when the property is 90-95% complete, VA does not specify percentage in the definition of "new" property.

Customer Preference Items

The appraiser must itemize which of the customer preference items remain to be completed. “Customer preference” items include the following:

- ranges,
- dishwasher,
- disposals,
- interior paint and wall paper,
- wall paneling and paneling trim,
- floor coverings,
- counter tops, sinks and lavatories that cannot be installed until the countertop is installed,
- tile,
- floor-mounted toilets,
- light fixtures,
- air conditioner compressors,
- fences,
- insulation, and
- final grading.

Note: Driveways and walk paths to the property should be completed at the customer preference stage.
Non-customer Preference Items

“Non-customer preference” items include, but is not limited to, the following items:
- central heating and air conditioning systems (except compressors),
- bath tubs and showers,
- water heaters,
- kitchen cabinets and cabinet finish,
- interior woodwork except wall paneling,
- exterior siding,
- garage doors,
- roofing, or
- any earlier stage construction such as framing, windows, rough electrical and rough plumbing.

Appraisal Ordered Incorrectly as “New/Existing”

If an appraisal is ordered as a new/existing construction property (which means that plans and specs were not included in the information provided to the appraiser), and the appraisal does NOT reflect the property as complete with VA allowable customer preference items, the guidelines listed below apply.

- Obtain a full set of plans and specs from the borrower or builder for the appraiser and LAPP underwriter.
- The appraiser should have requested plans and specs prior to issuing an appraisal. However, if not, the appraiser should issue a corrected appraisal. The corrected appraisal is to be furnished to the LAPP underwriter as well as to VA with copies of the plans and specs.
- If unable to obtain plans and specs or a corrected appraisal, the LAPP underwriter should contact the VA Regional Loan Center governing the state where the property is located.

Modular Construction

- In addition to the other requirements in this section, an appraisal request involving modular construction must include either one (1) of the following:
  - evidence of coverage by a HUD structural engineering bulletin, or
  - a certification of approval by the state in which the unit is fabricated.
- This requirement will be made a condition of the VA value notice if not submitted with the appraisal request.
Energy Efficient Mortgage (EEM) Program

General

*Only Correspondent lenders with VA Automatic underwriting authority may sell Energy Efficient Mortgage loans to SunTrust when all upgrades are complete.*

- The Energy Efficient Mortgage (EEM) program allows borrowers to upgrade the energy efficiency of the subject property and to finance the cost of the upgrades.
- The borrower may do this at the time of purchase or as a refinance if the borrower already owns the subject property.
- All upgrades must be complete prior to purchase by SunTrust.

Eligible Property

The property must be an existing dwelling that is either being purchased or refinanced by the veteran.

Eligible Improvements

Acceptable energy efficient improvements include, but are not limited to, the following items:

- solar heating systems, including solar systems for heating water for domestic use,
- solar heating and cooling systems,
- caulking and weather-stripping,
- furnace efficiency modifications limited to replacement burners, boilers or furnaces designed to reduce the firing rate or to achieve a reduction in the amount of fuel consumed as a result of increased combustion efficiency, devices for modifying flue openings which will increase the efficiency of the heating system, and electrical or mechanical furnace ignition systems which replace standing gas pilot lights,
- clock thermostats,
- new or additional ceiling, attic, wall and floor insulation,
- water heater insulation,
- storm windows and/or doors, including thermal windows and/or doors,
- heat pumps, and
- vapor barriers.

Maximum Allowable Cost of Improvements

The mortgage loan amount may be increased as follows:

- up to $3,000 based solely on documented costs for energy efficiency improvements,
- up to $6,000 provided the increase in the monthly mortgage payment does not exceed the likely reduction in monthly utility costs,
- more than $6,000 subject to a value determination by VA, or
- up to the amount necessary to pay for materials, if labor is performed by the veteran.

Continued on next page
Energy Efficient Mortgage (EEM) Program, Continued

**Maximum Mortgage**

**Adding Cost of Improvements**
- The cost of the improvements may be added to the loan amount, up to $6,000.
- The appraised value may be exceeded by the amount of the energy efficient improvements on purchases.
- For a cash-out/regular refinance loan, the loan cannot exceed 100% of the reasonable value shown on the appraisal (NOV) plus the cost of the energy efficient improvements.

**Funding Fee Calculation**
The funding fee is calculated on the full loan amount, including the cost of the energy efficient improvements.

**Underwriting Issues**

**General**
In addition to the underwriting issues listed below, the lender must determine the following:
- if the proposed weatherization and/or energy conservation improvements are reasonable for the particular property, and
- if the veteran’s ability to pay the increased loan payments caused by the addition of the improvements is satisfactory.

**Increased payments for costs up to $3,000**
The lender must determine that the proposed energy efficient improvements up to $3,000 meet the following requirements:
- normally offset by a reduction in utility costs, and
- based solely on the documented costs.

**Increased payments for costs between $3,000 and $6,000**
- For energy efficient improvements that are more than $3,000 but no more than $6,000, the lender must determine if the increase in the monthly mortgage payment does not exceed the likely reduction in monthly utility costs.
- The lender is expected to rely on locally available information provided by utility companies, municipalities, State agencies, or other reliable sources to make the determination.
- VA will accept the lender’s determination that the requirement is met.

**Increased payments for costs above $6,000**
The lender should carefully exercise discretion and consider the following points whenever the energy efficient improvements exceed $6,000:
- whether the increase in monthly mortgage payments exceed the likely reduction in monthly utility costs,
- whether the veteran’s income is sufficient to cover the higher mortgage payment, and
- documentation of VA’s valuation of the energy efficient improvements.
- A VA Certificate of Commitment, on a prior approval loan, issued prior to the decision to make energy efficient improvements over $6,000 must be returned to VA for a determination that the applicant still qualifies.

*Continued on next page*
Energy Efficient Mortgage (EEM) Program, Continued

**Underwriting Issues, (continued)**

**Cash-Out/Regular Refinance Transactions**
VA guidelines allow the cost of any energy efficient items to be included in the maximum loan calculation. However, DU does not capture the cost of energy efficient items; therefore you may need to perform the maximum loan calculation outside of DU.

**Veteran’s Entitlement**
VA will guarantee an energy efficient mortgage in the same proportion as a loan not including energy efficient improvements. However, the charge to the veteran’s entitlement will be based on the loan amount before adding the cost of energy efficient improvements.

Reference: See the VA Lender’s Handbook (Section 7.03) for specific instructions on calculating the guarantee and entitlement for EEM loans.

**Closing and Post Closing - Escrow for Improvements**

**General**
- Energy efficient improvements should be completed when the loan is reported to VA. However, if the improvements cannot be completed prior to submitting the loan report to VA, the loan may be closed by establishing an escrow to assure completion.
- A formal escrow is not required for loans processed on a prior approval or automatic basis. Only the amount necessary to complete the improvements needs to be withheld and no additional documentation pertaining to the escrow funds needs to be submitted to VA.
- Generally, the improvements must be completed within 6 months from the date of loan closing. At that time, VA will expect the lender’s notification of completion or notification that funds were applied to reduce the loan balance.
- When the improvements have been completed, the lender must provide VA with a written notification of completion and that all escrow funds have been disbursed. The lender is responsible for verifying that all costs have been paid.
- If, after a reasonable period, the lender determines that the improvements will not be completed, the balance of the escrow funds should be applied as principal to reduce the loan balance and the Regional VA office must be notified.
EASE-In Payment Reduction

General

- The “Ease-In” payment reduction feature where the seller/builder contributes interest payments up to the first six (6) months allowing the borrower to “ease-in” into a new home and to “ease-in” to the monthly payments for total loan amounts less than or equal to $417,000.
- The maximum interest subsidy may not exceed the four percent (4%) seller concession.
- The builder or seller may pay the interest portion beginning with the first payment up to the 6th month payment.

Requirements

- This feature is only available for a 30-year fixed rate VA purchase transaction.
- Borrower must qualify at the note rate.
- The maximum contribution of 4% of the sales price may be used towards the borrower’s interest, closing costs and/or prepaids.
- Any dollar amount over the 4% seller contribution limit must be subtracted dollar-for-dollar from the sales price.
- The seller/builder contribution, which is disbursed monthly must be a fixed amount (i.e., payments applied to the monthly interest cannot fluctuate from month to month).
- No portion of the funds may be applied to the principal balance.

Ineligible Transactions

- The following transactions are not eligible for use with the Ease-In Payment Reduction:
  - Adjustable Rate Mortgages
  - Temporary buydowns

Amortization Schedule

- An amortization schedule may be obtained on the SunTrust website located at, [Http://www.suntrustmortgage.com/amortcalc.asp](http://www.suntrustmortgage.com/amortcalc.asp) or similar loan amortization programs can be used.
- The following items are determined by running an amortization schedule:
  - Total Seller Paid Contribution: the dollar amount of the seller paid interest,
  - Reduced Payment Period: the number of months during which interest payments are made, and
  - Interest Payment: a fixed dollar amount being paid monthly toward borrower interest from the seller/builder contribution.

Continued on next page
EASE-In Buydown, Continued

Interest Payment Reduction Calculation

- An example of a 5-month interest payment reduction on a loan amount of $97,000 at 6% interest is shown in the table below.
- The seller’s interest contribution for the payment reduction is a fixed amount that cannot exceed the last month of the subsidy period.
- The maximum monthly interest contribution amount in the example below is $483.00.

<table>
<thead>
<tr>
<th>Monthly Payment</th>
<th>Principal</th>
<th>Interest</th>
<th>Total P &amp; I</th>
<th>Buydown Contribution</th>
<th>Borrower Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td># 1</td>
<td>$96.56</td>
<td>$485.00</td>
<td>$581.56</td>
<td>$483.00</td>
<td>$98.56</td>
</tr>
<tr>
<td># 2</td>
<td>$97.04</td>
<td>$484.52</td>
<td>$581.56</td>
<td>$483.00</td>
<td>$98.56</td>
</tr>
<tr>
<td># 3</td>
<td>$97.53</td>
<td>$484.03</td>
<td>$581.56</td>
<td>$483.00</td>
<td>$98.56</td>
</tr>
<tr>
<td># 4</td>
<td>$98.02</td>
<td>$483.54</td>
<td>$581.56</td>
<td>$483.00</td>
<td>$98.56</td>
</tr>
<tr>
<td># 5</td>
<td>$98.51</td>
<td>$483.05</td>
<td>581.56</td>
<td>$483.00</td>
<td>$98.56</td>
</tr>
</tbody>
</table>

DU Direct

The table below shows the data input instructions for DU submission of the “Ease-In Payment Reduction” Feature in DU Direct.

Fannie Mae’s Desktop Underwriter (DU)

Types, Terms & Property
- Type of Mortgage and Terms of Loan
- Interest Rate (%) – enter the Note Rate

Details of Transaction
- Line f. Estimated closing costs – Add Ease-In amount to closing costs.
- Line k. Closing Costs Paid By Seller – if an “Ease-In Payment Reduction” feature is involved, add the “Ease-In Payment Reduction” feature amount to other seller paid closing costs

Other Credits
- Description of Other Credits – enter “Other”
- Amount – if an “Ease-In Payment Reduction” feature is involved, enter the dollar amount of the “Ease-In Payment Reduction” feature.

Additional Data
- Loan Information
- First Year Buydown Rate – enter the Note Rate

Continued on next page
EASE-In Buydown, Continued

Loan Set-Up
- The following program and investor codes are applicable for the origination system. Additionally, they apply to Non-AUS or Fannie Mae DU.
- Program Code = V30SPI
- Investor Code = 000

The tables below show the origination system procedures.

<table>
<thead>
<tr>
<th>The Origination System</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td>Program Code</td>
</tr>
<tr>
<td>Target Investor</td>
</tr>
<tr>
<td>Buydown Code</td>
</tr>
<tr>
<td>Type</td>
</tr>
<tr>
<td>Who Pays Buydown</td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>MOS</td>
</tr>
</tbody>
</table>

Closing
- The Seller-Paid Interest Buydown Agreement must be completed by the Loan Closer and signed by the borrower and sellers.
- The Ease-In seller paid interest contribution must be show on the settlement statement as a seller credit and be labeled “Seller-Paid Interest Contribution, 5 months @ $483.” with $2415 (per example above) under the seller’s column.
- Additional funds paid by the seller over and above the cumulative interest calculation must be shown as a closing cost credit to the borrower on the settlement statement.
- The servicing department will disburse the Ease-In seller-paid interest contribution shown on the settlement statement on a monthly basis and bill the borrower for the difference. As far as IRS reporting is concerned, servicing will back out the seller-paid interest buydown funds for year-end reporting purposes on Form 1098.
Automated Underwriting Systems (AUS)

Introduction

The AUS information is intended to provide specific documentation and underwriting requirements whenever an “Approve/Eligible” or an “Accept” is received from an automated underwriting system. Any issue not addressed, reverts to traditional underwriting guidelines and requirements.

Specific AUS information regarding underwriting guidelines is found under the related topics in this VA product description.

AUS Recommendations and Resubmissions

Reference: See the following sub-topics regarding DU and LP recommendations and AUS resubmissions and forms.

DU Recommendations

The following table provides descriptions of DU recommendations.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approve/Eligible</td>
<td>• If there is erroneous data in the credit report or contradictory or derogatory information in the loan file that would justify additional investigation or provide grounds for a decision different from the DU recommendation, the underwriter is required to take appropriate action.</td>
</tr>
<tr>
<td></td>
<td>• The loan is eligible for VA guaranty with reduced documentation and credit requirements.</td>
</tr>
</tbody>
</table>

Continued on next page
The following table provides descriptions of DU recommendations.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approve/Ineligible</td>
<td>• An ineligible message will be received on VA loans with one or more of the following issues:</td>
</tr>
<tr>
<td></td>
<td>• the borrower has late mortgage payments in the last 12 months,</td>
</tr>
<tr>
<td></td>
<td>• the borrower has a recent bankruptcy and/or foreclosure,</td>
</tr>
<tr>
<td></td>
<td>• the borrower and co-borrower are not married to each other,</td>
</tr>
<tr>
<td></td>
<td>• the property is a 3-4 unit property and there are insufficient reserves,</td>
</tr>
<tr>
<td></td>
<td>• the financed funding fee exceeds the total funding fee, and/or</td>
</tr>
<tr>
<td></td>
<td>• If the ineligibility can be “cured” within DU, the loan data must be corrected as appropriate and the loan must be resubmitted to DU.</td>
</tr>
<tr>
<td></td>
<td>• If the ineligibility can be “cured” outside of DU, the loan must be underwritten to non-AUS underwriting guidelines.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> Reduced documentation may be used if allowed by the findings report and approved by the Underwriter.</td>
</tr>
<tr>
<td></td>
<td>• If the ineligibility cannot be overcome (within DU or outside of DU), the loan is not eligible for VA guaranty.</td>
</tr>
<tr>
<td>Refer/Eligible</td>
<td><strong>Note:</strong> Reduced documentation may be used if allowed by the findings report and approved by the Underwriter.</td>
</tr>
<tr>
<td>Refer/Ineligible</td>
<td>• The reason for the ineligibility must be determined.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> A DU “Refer” recommendation is NOT eligible for total loan amounts $417,001 to $1,033,000 regardless if the ineligibility can be determined or cured.</td>
</tr>
<tr>
<td></td>
<td>• If the ineligibility can be “cured,” the loan data must be corrected as appropriate and the loan must be resubmitted to DU.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> Reduced documentation may be used if allowed by the findings report and approved by the Underwriter.</td>
</tr>
<tr>
<td></td>
<td>• If the ineligibility cannot be overcome, the loan is not eligible for VA guaranty.</td>
</tr>
</tbody>
</table>
LP Recommendations

The following table provides descriptions of LP recommendations.

<table>
<thead>
<tr>
<th>Recommendation</th>
<th>Description</th>
</tr>
</thead>
</table>
| **Accept**     | - If there is erroneous data in the credit report or contradictory or derogatory information in the loan file that would justify additional investigation or would provide grounds for a decision different from the LP recommendation, the underwriter is required to take appropriate action.  
- The loan is eligible for VA guaranty with reduced documentation and credit requirements. |
| **Refer**      | **Notes:**  
- Reduced documentation may be used if allowed by the findings report and approved by the Underwriter.  
- "Refer" is NOT an acceptable recommendation for total loan amounts $417,001 to $1,033,000. |

*Continued on next page*
The following table provides instructions on AUS resubmissions and forms.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUS Resubmission Process – General Requirements</td>
<td>• Lenders may use certain reduced documentation requirements on cases processed and approved by AUS.</td>
<td>• Lenders may use certain reduced documentation requirements on cases processed and approved by AUS.</td>
</tr>
<tr>
<td></td>
<td>• There are no tolerances for information in DU.</td>
<td>• There are no tolerances for information in LP.</td>
</tr>
<tr>
<td></td>
<td>• VA requires 100% AUS data integrity.</td>
<td>• VA requires 100% AUS data integrity.</td>
</tr>
<tr>
<td></td>
<td>• AUS makes the determination that the loan satisfies VA home loan credit and income requirements.</td>
<td>• AUS makes the determination that the loan satisfies VA home loan credit and income requirements.</td>
</tr>
<tr>
<td></td>
<td>• Lenders must exercise care to ensure that data entered into an AUS is accurate and supported by documentation obtained by the lender. Inaccuracies could affect the validity of the guaranty.</td>
<td>• Lenders must exercise care to ensure that data entered into an AUS is accurate and supported by documentation obtained by the lender. Inaccuracies could affect the validity of the guaranty.</td>
</tr>
<tr>
<td></td>
<td>• Terms and conditions of the closed loan and underwriting information in the loan file must match the data and other conditions specified in the governing section of the AUS verification messages on which the classification is based.</td>
<td>• Terms and conditions of the closed loan and underwriting information in the loan file must match the data and other conditions specified in the governing section of the AUS verification messages on which the classification is based.</td>
</tr>
</tbody>
</table>

**Note:** Once the loan is endorsed, the loan may not be resubmitted to AUS for any reason.
The following table provides instructions on AUS resubmissions and forms.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Closing AUS Resubmission Process</td>
<td>• Because AUS makes the determination that the loan satisfies VA credit and income requirements, it is imperative that the data entered into the automated underwriting system by accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the AUS risk classification or validity of the guaranty.</td>
<td>• Because AUS makes the determination that the loan satisfies VA credit and income requirements, it is imperative that the data entered into the automated underwriting system be accurately verified. The data utilized by the system must be supported by source documentation obtained by the lender. Inaccurate or unverified data will result in invalidation of the AUS risk classification or validity of the guaranty.</td>
</tr>
<tr>
<td></td>
<td>• The Correspondent lender must include a note in the loan package to explain the reason for the resubmission after closing.</td>
<td>• The Correspondent lender must include a note in the loan package to explain the reason for the resubmission after closing.</td>
</tr>
<tr>
<td></td>
<td>• The loan analysis worksheet must be updated to match the last AUS submission.</td>
<td>• The loan analysis worksheet must be updated to match the last AUS submission.</td>
</tr>
<tr>
<td></td>
<td>• If a loan is resubmitted after closing or purchase, the AUS recommendation should be the same as the AUS recommendation prior to closing.</td>
<td>• If a loan is resubmitted after closing or purchase, the AUS recommendation should be the same as the AUS recommendation prior to closing.</td>
</tr>
<tr>
<td></td>
<td>• The loan must be resubmitted to the Correspondent lender’s VA automatic underwriter for final sign-off.</td>
<td>• The loan must be resubmitted to the Correspondent lender’s VA automatic underwriter for final sign-off.</td>
</tr>
<tr>
<td></td>
<td>• If the AUS recommendation changes upon resubmission, the loan must be traditionally underwritten to be eligible for VA guaranty.</td>
<td>• If the AUS recommendation changes upon resubmission, the loan must be traditionally underwritten to be eligible for VA guaranty.</td>
</tr>
</tbody>
</table>

Continued on next page
Automated Underwriting Systems (AUS), Continued

The following table provides instructions on AUS resubmissions and forms.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Fannie Mae DU Loans</th>
<th>Freddie Mac LP Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUS Reports</td>
<td>• The DU decision is not valid without the DU Findings Report AND the DU Underwriting Analysis form.</td>
<td>• The LP decision is not valid without the LP Feedback Certificate.</td>
</tr>
<tr>
<td></td>
<td>• The most current DU Findings Report and DU Underwriting Analysis form must be in the lender’s origination binder and must reflect loan terms as approved and closed. This includes loan files where the recommendation was “Approve/Ineligible” or “Refer” and the loan had to be traditionally underwritten.</td>
<td>• The most current LP Feedback Certificate must be in the lender’s origination binder and must reflect loan terms as approved and closed. This includes loan files where the recommendation was “Refer” and the loan had to be traditionally underwritten.</td>
</tr>
<tr>
<td></td>
<td>• The DU Findings Reports are not required to be submitted with the guaranty submission package.</td>
<td>• The LP Feedback Certificate are not required to be submitted with the guaranty submission package.</td>
</tr>
<tr>
<td>Approval Authority</td>
<td>All VA loans must continue to be approved by a VA Automatic underwriter, regardless of the DU recommendation.</td>
<td>All VA loans must continue to be approved by a VA Automatic underwriter, regardless of the LP recommendation.</td>
</tr>
<tr>
<td>Loan Summary Sheet</td>
<td>Items 45A, 45B and 45C must be completed to identify the loan as an AUS loan in DU and identify the DU recommendation.</td>
<td>Items 45A, 45B and 45C must be completed to identify the loan as an AUS loan in LP and identify the LP recommendation.</td>
</tr>
<tr>
<td>(VA Form 26-0286)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Continued on next page
The following table provides screen input instructions for the submission to DU on the Web (Direct).

<table>
<thead>
<tr>
<th>Screens</th>
<th>Data Entry</th>
</tr>
</thead>
</table>
| **Types of Mortgage and Terms of Loan** | - Lender Loan Number is a required field.  
- Enter the base loan amount (without funding fee) in the “Loan Amount” field.  
- If “Purpose of Loan” is Refinance, identify “Purpose of Refinance” as “Limited Cash-out” or “Cash-Out/Other”  

**Note:**  
- DU will provide messaging under cash-out and limited cash-out transactions reminding users about homes currently listed for sale and seasoning requirements. |
| **Borrower Information** | - Enter a full 2-year residency history for each borrower (must be entered in the full 1003).  
- If 2 (or more) individuals on the loan are not married, enter each one as a “borrower” on a separate loan application (click on Insert More Borrowers button) so that individual credit reports can be ordered (even if they are living together and co-mingle accounts).  

**Notes:** DU messaging will reflect the Social Security Administration Death Master File (DMF) database was used by DU to check the borrower(s) social security number.  
- Identify the number of dependents for each borrower (if co-borrower has dependents not listed by borrower, these must be identified in co-borrower information – do not include borrower’s dependents in the number). |
| **Current Employment** | - Enter a full 2-year employment history for each borrower (must be entered in the full 1003). |
| **Monthly Income and Combined Housing Expense** | - If tax-exempt income is to be “grossed-up” the following steps apply:  
  - enter the “grossed-up” income and tag as applicable; and  
  - add the difference between the actual income and the “grossed-up” amount to the Total Taxes field on the Government Information screen. |

*Continued on next page*
Automated Underwriting Systems (AUS), Continued

Submission to DU Direct

The following table provides screen input instructions for the submission to DU Direct.

<table>
<thead>
<tr>
<th>Screens</th>
<th>Data Entry</th>
</tr>
</thead>
</table>
| Assets  | - Identify a gift as “Gift” in asset section, whether or not the gift has been received and deposited by the borrower.  
- If the gift has been deposited into the borrower’s account, subtract the amount of the gift from the asset balance prior to entering the asset balance.  
- Enter the following in “Institution” field (full 1003”) when a gift is involved:  
  - donor’s name, address, phone number and relationship to borrower.  
  - If the borrower will receive net equity from a property he/she is selling, DU will use the calculation from the REO section. If this must be overridden “Net Equity,” must be selected, the net equity manually calculated and the final figure entered as an asset (this will override the REO calculation). |
| Liabilities | - If an Installment liability has less than 10 remaining payments and the payment is less than $100, DU will not count it in the borrower’s ratios.  
- All Revolving liabilities will count in the borrower’s ratios, regardless of how many months are left.  
- If there is a contingent liability that will not be counted (must provide proper documentation meeting VA guidelines), it should be marked “Omit.”  
- If a liability is to be paid at closing, it must be marked “Paid by Close.” The “Details of Transaction” must reflect the following information for the applicable transactions:  
  - if a purchase, nothing should be on line D, or  
  - if a refinance, the amount to be paid at closing should be on line D.  
  - Enter childcare expenses as a debt and code as “Other.”  
  - If community property state and there is a non-purchasing spouse, individual credit reports must be ordered (order non-purchasing spouse’s outside of DU). If monthly debts must be added to the 1003, enter as a single lump sum and identify as debts of non-purchasing spouse in Creditor Information field. |

Continued on next page
**Automated Underwriting Systems (AUS), Continued**

**Submission to DU Direct, (continued)**

<table>
<thead>
<tr>
<th>Screens</th>
<th>Data Entry</th>
</tr>
</thead>
</table>
| Details of Transaction | • If **refinance**, enter total unpaid principal balances of all mortgages included in refinance on line D (**not** including late fees, interest on the loans, etc.).  
  • If **purchase** with debts paid at closing, do not enter any amount on line D.  
  • If a liability is paid at closing, the Details of Transaction must reflect the following information:  
    - if a purchase, nothing is entered in line D, or  
    - if a refinance, the amount to be paid should be included in line D.  
  • If **purchase**, enter total prepaids on line E, regardless of who pays.  
  • If **refinance**, enter the total prepaids plus late fees, interest on existing mortgages, etc., on line E.  
  • Enter the total closing costs on line F.,  
  • Enter the total Funding Fee on line G.  
  • Enter the amount of discount points to be paid by the borrower on line H.  
  • Enter secondary financing amount if funds are being used towards funds for closing on line J. if  
  • Enter seller-paid closing costs on line K (these fees should **not** appear in the “Other Credits” section on line L).  
  • If a seller-paid interest buydown is involved, add buydown amount to other seller-paid closing costs and enter on line K). Enter a negative figure in the amount of the buydown funds on line L).  
  Reference: See the Ease-In Payment Reduction topic for additional information.  |
| Declarations | • If “yes” to bankruptcy and foreclosure questions, **DU Findings Report** will issue specific messages referencing standard VA guidelines. If “yes” to borrowed down payment question, **DU Findings Report** will issue a message referencing standard VA guidelines.  |
| Additional Data | • Subject **Property Type** is a required field.  
  • If PUD, **DO/DU Findings Report** will NOT issue a specific PUD message (standard VA guidelines apply).  
  **Notes:**  
  • DU will no longer issue the same message for properties located in a condominium as a property located in a PUD. A new message will be provided to address PUD project review requirements.  
  • DU will provide a message reminder that the Market Conditions Addendum to the Appraisal Report (Form 1004MC) is required with all appraisals.  |

*Continued on next page*
**Automated Underwriting Systems (AUS), Continued**

**Submission to DU Direct, (continued)**

<table>
<thead>
<tr>
<th>Screens</th>
<th>Data Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Information</td>
<td>• Leave <strong>Agency Case Number</strong> field blank since VA case number is not obtained at application.</td>
</tr>
<tr>
<td></td>
<td>• Identify whether the co-borrower is married to borrower.</td>
</tr>
<tr>
<td></td>
<td>• Enter the amount of <strong>Entitlement Amount</strong> (refer to <strong>Certificate of Eligibility</strong> – enter $36,000 or the amount from the COE if less than $36,000).</td>
</tr>
<tr>
<td></td>
<td>• If refinance, select <strong>Full Documentation</strong> from the drop down box in <strong>Refinance Type</strong> field.</td>
</tr>
<tr>
<td></td>
<td><strong>Note:</strong> Even though DU uses the additional entitlement in its calculations, the additional entitlement should not be reflected in the Entitlement Amount field.</td>
</tr>
<tr>
<td></td>
<td>• Complete Seller Concessions for any seller contributions considered “excessive” – this amount cannot exceed 4% of the purchase price.</td>
</tr>
</tbody>
</table>

*Continued on next page*
The following table provides screen input instructions for the submission to www.LoanProspector.com.

<table>
<thead>
<tr>
<th>Screens</th>
<th>Data Entry</th>
</tr>
</thead>
</table>
| Mortgage Type and Loan Terms Section         | • Enter “VA” in the “Mortgage Type” field.  
• Enter the base loan amount (without funding fee) in the “Base Loan Amount” field.  
• Enter the funding fee in the “PMI, MIP, Funding Fee Financed” field. |
| Borrower Information Section                 | • Marital status information is required.  
• Enter a full 2-year residency history for each borrower. |
| Assets Section                               | • Identify a gift in the “Total Gift Fund” field, whether or not the gift has been received and deposited by the borrower.  
• If the gift has been deposited into the borrower’s account, subtract the amount of the gift from the asset balance prior to entering the asset balance. |
| Details of Transaction Section               | Identify any contributions the seller/builder contributes to the transaction in the “Sales Concessions” field, including:  
• buyer’s VA funding fee,  
• prepaid taxes and insurance,  
• extra discount points to provide permanent interest rate buydowns,  
• escrowed funds to provide temporary interest rate buydowns,  
• payoff of credit balances on behalf of the buyer, and  
• any concession or combination of seller concessions that exceed four percent of the established reasonable value of the property is considered excessive for VA loan purposes. |
| Declarations Section                         | If “yes” to bankruptcy and/or foreclosure questions, standard VA guidelines on these issues apply.                                           |
| Government Monitoring Section                | Complete all government monitoring information.                                                                                          |
| VA Screen                                    | • Enter the dollar amount of the VA Funding Fee that is financed as part of the loan amount in the “Financed Funding Fee” field. Enter “$0.00” if the VA Funding Fee is not financed.  
• Calculate and identify the “VA Residual Income.” |
Rate, Points and Lock-Ins

CRA Incentive and Verification

**Target Area**
- Loan eligibility for CRA Incentive is limited to SunTrust Bank’s Community Reinvestment Act (CRA) assessment areas. It is also based on the subject property being located in a low-or-moderate income census tract or the borrower’s income being equal to or lower than SunTrust’s maximum allowable income level for the property county.
- SunTrust’s assessment areas are NOT located in all areas of the states.
- If the subject property is located within a SunTrust targeted state and county, proceed with the steps listed below to determine SunTrust qualifying results of the subject property and/or the borrower’s income.

<table>
<thead>
<tr>
<th>Step</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Access the following website: <a href="http://www.suntrustgeocoder.com">www.suntrustgeocoder.com</a></td>
</tr>
<tr>
<td>2</td>
<td>Enter CORRES for password and click the Login button.</td>
</tr>
<tr>
<td>3</td>
<td>Input the property address and annual income and click the Submit button.</td>
</tr>
<tr>
<td>4</td>
<td>Print the Geocoding Results and place in loan file.</td>
</tr>
</tbody>
</table>

- The geocoding system must be used to determine the census tract locations of individual subject properties.
- Your loan must receive a “Qualified” message in order for it to be eligible for the CRA incentive.
- A listing of maximum income limits is provided as a supplemental tool which may be used to inform users of the varying income limits by county, census tract, and product. Click here for the listings of eligible states/counties and maximum income limits.
- If the loan is eligible, complete the **CRA Census Tract Verification form (COR 0560a)**.
  - Email completed form to [SunTrust.Corr.CRA@suntrust.com](mailto:SunTrust.Corr.CRA@suntrust.com) within **48 hours of locking the loan**.
  - Once the information is validated, the appropriate pricing adjustments will be made and the new lock confirmation will be available online.

Interest Rate and Price

- The initial interest rate and discount points are established by SunTrust. Refer to SunTrust’s Rate Sheet.

Registration and Lock-In

Reference: See Section 1.03: Loan Registration and Lock-in Procedures, of the Correspondent Seller Guide for additional requirements.
### Program Codes

The following table shows program codes:

<table>
<thead>
<tr>
<th>Product</th>
<th>Program Codes</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA 15 Yr. Fixed</td>
<td>V15FX</td>
</tr>
<tr>
<td>VA 30 Yr. Fixed</td>
<td>V30FX</td>
</tr>
<tr>
<td>VA Jumbo 30 Yr Fixed</td>
<td>V30JFX</td>
</tr>
<tr>
<td>VA 30 Yr (Fixed Rate Seller-Paid Interest Buydown (Ease-In Payment Reduction))</td>
<td>V30SPI</td>
</tr>
</tbody>
</table>
Application and Consumer Compliance

General

- Loan must be underwritten to and be in full compliance with all VA, local, state, and Federal laws and regulations affecting the Correspondent lender.
- All consumer disclosures or notices required by all federal, state, and local laws and regulations must be complied with. This includes, but is not limited to, the Real Estate Settlement Procedures Act, the Equal Credit Opportunity Act, the Flood Disaster Protection Act, the Truth-in-Lending Act, the Fair Credit Reporting Act, all as amended, and with all applicable usury limitations.
- Further, all consumer disclosures relating to the mortgage loan must be properly given on a timely basis in compliance with applicable laws, rules and regulations.

Reference: See the "Standard Origination / Processing Documents" subtopic under the "Loan Submission and Underwriting" topic for additional information concerning the initial and final loan application.
Loan Submission and Underwriting

- Correspondent clients with VA Automatic Underwriters are delegated to underwrite VA loans and cannot submit these loans to SunTrust for underwriting. Approved loans, underwritten by the Correspondent client’s VA Automatic underwriter, are closed and case file is submitted to VA for LGC.


VA Prior Approval Submission

Caution: ALTHOUGH VA MAY APPROVE A LOAN, VA IS NOT CONCERNED WITH GINNIE MAE OR SECONDARY MARKET GUIDELINES. THEREFORE, A LOAN WITH VA PRIOR APPROVAL MAY NOT BE ACCEPTABLE FOR SUNTRUST FINANCING.

- All lenders, whether or not they have VA Automatic underwriting authority, must submit certain loan types to VA for prior approval.
- Correspondent lenders without VA Automatic authority must first submit the loan to a SunTrust Underwriter with a cover memo on the front of a loan file stating that this is a required VA prior approval submission.
- Loans requiring a “VA Prior Approval” must be completely underwritten and the decision noted in item 51 of the “VA Loan Analysis for 26-6393 and signed by the underwriter with authority to determine the loan meets VA credit standards, prior to the loan being sent to VA for prior approval.
- Once the file is determined complete with all conditions met and forms completed, the underwriter then forwards the loan to VA with a cover memo. VA will completely re-underwrite the loan and render their own decision.

Note: VA will "pend" loans for incompleteness; therefore, it is important to submit a complete file to the underwriter.

Reference: See “Loan Types Requiring VA Prior Approval” subsequently presented below which lists types of loans that must be sent directly to VA for approval.

Continued on next page
Loan Submission and Underwriting, Continued

### Loan Types Requiring VA Prior Approval

The VA Lenders Handbook states that loans in the following categories must be sent to VA for prior approval:

- joint loans (other than veteran and spouse),
- loans to veterans who are in receipt of VA non-service connected pension,
- loans to veterans rated incompetent by the Veterans Administration,
- cooperative loans,
- unsecured loans or loans secured by less than a first lien, and
- supplemental loans.

**Notes:**

- VA Joint loans for veteran/non-veteran – non-spouse are not eligible for financing through SunTrust Mortgage.
- ALL CATEGORIES MAY NOT BE ELIGIBLE FOR SunTrust FINANCING AND/OR THE SECONDARY MARKET. THE LENDER IS RESPONSIBLE FOR CONFIRMING ACCEPTABILITY PRIOR TO PROCEEDING WITH THE APPLICATION.

Reference: See the sub-topic “Veteran and Non-Veteran/Non-Spouse” in the topic “Eligible Borrowers” for additional information.

### VA Notification of Decision

VA will review the documents submitted and will take the following action:

- suspend processing and request additional information from the lender,
- send a notice of denial to the lender and applicant, or
- issue a Certificate of Commitment (VA Form 26-1866) to the lender evidencing approval of the loan.

### VA Certificate of Commitment

- Generally, changes to the loan occurring between issuance of the Certificate of Commitment (VA Form 26-1866), and loan closing must be approved by the Veterans Administration.
- The validity period for Certificates of Commitment is six (6) months. If a loan closing extends beyond six (6) months, an extension of the commitment must be requested prior to the expiration of the validity period.
- VA issued Certificates of Commitments, on loans that are withdrawn or cancelled, must be promptly returned to VA with notification of the status.

Reference: Additional information and exceptions, relating to VA re-approval of changes after the VA Certificate of Commitment is issued, may be found in the VA Lenders Handbook (Chapter 5, Section 5.04).

Continued on next page
The listing of VA documentation includes, but is not limited to, those forms shown in the table below.

**Uniform Residential Loan Application (URLA) with revised VA form 26-1802a, HUD/VA Addendum to URLA**
- These forms may be signed and dated anytime from the date of initial application to the date of closing.
- These forms must be properly completed and legible, but do not have to be typed.

**Notes:**
- These forms must be executed and completed prior to submission of the closed loan file to SunTrust.
- SunTrust will accept photocopies, facsimile or imaged electronic documents to satisfy this requirement.
- Loan submissions which do not have a fully executed initial Uniform Residential Loan Application and applicable addendum will be PENDED subject to the borrower(s) and lender’s interviewer signing and dating the application and addendum.

### Additional Documentation

<table>
<thead>
<tr>
<th>Origination Documents</th>
<th>VA Form Number</th>
<th>SunTrust Form Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>VA Certification of Military Reservist Status</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Counseling Checklist for Active Duty Military Homebuyers</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FHA/VA Seller-Paid Interest Buydown Agreement</td>
<td>N/A</td>
<td>COR 0322</td>
</tr>
<tr>
<td>FHA/VA Buydown and Escrow Agreement.</td>
<td>N/A</td>
<td>COR 0344</td>
</tr>
<tr>
<td>Federal Collection Policy Notice</td>
<td>N/A</td>
<td>COR 0352</td>
</tr>
<tr>
<td><em>This notice is incorporated in the Department of Housing and Urban Development (HUD)/VA Addendum to the Uniform Residential Loan Application (URLA) and is only required if completed/executed (HUD)/VA addendum is not obtained.</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>VA Jumbo Eligibility Checklist</td>
<td>N/A</td>
<td>COR 0360</td>
</tr>
<tr>
<td>Nearest Living Relative Information</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Notice to Homeowner Regarding Assumption of VA-Guaranteed Mortgages</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Occupancy Certification</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Financial Privacy Act Notice</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Funding Fee Disclosure</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Verification of VA Benefit Related Indebtedness.</td>
<td>26-8937</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Continued on next page
**Loan Submission and Underwriting, Continued**

**Other Origination/Processing Documents**

In addition to the standard origination/processing/closing disclosures required, other forms include, but are not limited to those listed below.

<table>
<thead>
<tr>
<th>Processing Documents</th>
<th>VA Form Numbers</th>
<th>Form Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Request for a Certificate of Eligibility</td>
<td>26-1880</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Transmittal List</td>
<td>26-0285</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Loan Analysis</td>
<td>26-6393</td>
<td>N/A</td>
</tr>
<tr>
<td>VA Jumbo Eligibility Checklist</td>
<td>N/A</td>
<td>COR 0360</td>
</tr>
<tr>
<td>VA Worksheet—Purchase Transaction</td>
<td>N/A</td>
<td>COR 0339</td>
</tr>
<tr>
<td>VA Entitlement Worksheet</td>
<td>N/A</td>
<td>COR 0341</td>
</tr>
<tr>
<td>VA Lender’s Loan Quality Certification</td>
<td>N/A</td>
<td>COR 0345</td>
</tr>
<tr>
<td>VA Not Inspected Acknowledgement For New Construction With One-Year Builder’s Warranty</td>
<td>N/A</td>
<td>COR 0346a</td>
</tr>
<tr>
<td>VA Not Inspected Acknowledgement for New Construction With Ten-Year Insured Protection Plan</td>
<td>N/A</td>
<td>COR 0346b</td>
</tr>
<tr>
<td>VA Not Inspected Acknowledgment for New Construction WITHOUT EITHER a One-Year Warranty Or a Ten-Year Insured Protection Plan</td>
<td>N/A</td>
<td>COR 0346c</td>
</tr>
<tr>
<td>VA Underwriting File Submission Order</td>
<td>N/A</td>
<td>COR 0005</td>
</tr>
<tr>
<td>Coastal Barrier Improvement Act of 1990 Certification</td>
<td>N/A</td>
<td>COR 0350</td>
</tr>
<tr>
<td>VA Lender’s Certification Regarding Power of Attorney</td>
<td>N/A</td>
<td>COR 0351</td>
</tr>
<tr>
<td>VA Closing Checklist</td>
<td>N/A</td>
<td>COR 0013</td>
</tr>
<tr>
<td>VA Lender and Veteran Disaster Certification form</td>
<td>N/A</td>
<td>COR 0355</td>
</tr>
<tr>
<td>VA New Construction Certification form</td>
<td>N/A</td>
<td>COR 0356</td>
</tr>
<tr>
<td>VA Lead Standard Certification for Water Systems</td>
<td>N/A</td>
<td>COR 0357</td>
</tr>
<tr>
<td>FHA/VA Amendatory Clause (if not imbedded in contract)</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Closing and Loan Settlement Documentation

General
- Unless specified below, all closing forms and documentation should follow standard SunTrust guidelines.
  - All underwriting and appraisal conditions must be met prior to closing.
  - In all cases when the loan amount, loan terms, interest rate or discount points change subsequent to AUS and/or Underwriting approval, all documents must be corrected to reflect the accurate information.
  - There is NO AUS tolerance on VA loans. The AUS system and the origination system documentation must be corrected and re-approved by the STM VA Automatic Underwriter.

Closing Legal Documents
- The VA Note, Deed of Trust/Mortgage have state specific language as well as specific language required by VA.
- A VA Assumption Rider is required, whether it is a purchase or a refinance transaction.
- The following table shows the closing legal documents.

<table>
<thead>
<tr>
<th>Fixed Rate</th>
<th>Legal Documents</th>
<th>Investor Form</th>
<th>VMP Number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed Rate Note (Amended for Veterans Affairs)</td>
<td>Fannie Mae/Freddie Mac Multistate Form 3200</td>
<td>VMP-5G</td>
</tr>
<tr>
<td></td>
<td>Security Instrument</td>
<td>Fannie Mae/Freddie Mac state specific versions</td>
<td>VMP-6A (state specific)</td>
</tr>
<tr>
<td></td>
<td>VA Guaranteed Loan and Assumption Policy Rider</td>
<td>Multistate VA Guaranteed Loan And Assumption Policy Rider</td>
<td>VMP-538R</td>
</tr>
</tbody>
</table>

Document Review Fee
For all loans, there is a document review fee that will be charged and will be deducted from the proceeds at closing. Refer to the Correspondent Seller Guide Section 1.08: Purchase Review and Delivery for information on the fee charges.

Continued on next page
### Closing and Loan Settlement Documentation, Continued

#### Document Warranties
- Lenders must use the mortgage documents for VA mortgage loans that are correct for the jurisdiction, the mortgage type, the lien type and the property type.
- The lender must use the most current version and appropriate forms. In some cases, the mortgage forms may have to be adapted to meet the lender’s jurisdictional requirements. Any change made to multistate documents must comply with all applicable laws.
- SunTrust relies upon your representations and warranties that the loans are enforceable in accordance with the terms of the Correspondent Loan Purchase Agreement and comply with all applicable laws.
- Accordingly, it is advisable that forms and documents be reviewed by your legal counsel for compliance with the laws of the state in which each loan is made.

#### Settlement Statement
- The final Settlement Statement must be reviewed by the lender prior to closing.
- The allowable closing costs to both the borrower and the seller must be verified. Any “unallowable” costs charged to the veteran-borrower must be removed from the Settlement Statement.
- If the transaction is a purchase, the borrower may only receive the amount of their upfront deposit on the sales contract, real estate tax pro-ration, and any POCs as allowable cash back when the loan closes.
- If the transaction is a rate/term refinance, the mortgage amount must be recalculated if the estimated closing costs used to calculate the mortgage results in an amount exceeding a reasonable figure (but not to exceed $500), based on actual charges as reflected on the final Settlement Statement. VA does not set a specific dollar limitation on cash refunds; however, lenders must exercise common sense when assessing such situations to avoid equity withdrawal.

Reference: See the topic “Contributions By Interested Parties” for information on allowable and unallowable fees in this product description.

#### Miscellaneous Closing Issues
- The late fee percentage on all VA loans is 4%.
- The VA Funding Fee Transmittal and Receipt is handled exclusively by the Government Insuring Department and the Funding & Accounting Department. This is not a branch office function.
- SunTrust does not permit a waiver of the escrow account on any VA loan. An escrow account must be established for all insurance and property taxes.

Reference: See Section 1.08: Loan Delivery and Purchase Review and Section 1.14: Hazard and Flood Insurance in the Correspondent Seller Guide for additional information regarding escrow waivers.

Continued on next page
Power of Attorney

VA will allow a veteran to use an attorney-in-fact to execute any documents necessary to obtain a VA guaranteed loan. The veteran must execute a general or specific Power of Attorney that is valid and legally adequate. This enables active duty service persons stationed overseas and other veterans who cannot be present to execute loan documents.

The requirements to complete a transaction using a Power of Attorney (POA) are shown in the table below.

<table>
<thead>
<tr>
<th>Requirements</th>
<th>To satisfy the requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>POA must comply with state law.</td>
<td>• Mortgage must be legally enforceable in the jurisdiction.</td>
</tr>
<tr>
<td></td>
<td>• Clear title must be able to be conveyed in the event of a foreclosure.</td>
</tr>
<tr>
<td>Veteran’s written consent to the</td>
<td>• Veteran’s signature on BOTH the sales contract and the Uniform Residential Loan Application (URLA) expressing the veteran’s intent to obtain a VA loan on the particular property, OR</td>
</tr>
<tr>
<td>specifics of the transaction.</td>
<td>• A specific POA or OTHER DOCUMENTATION signed by the veteran that encompasses all of the following required elements.</td>
</tr>
<tr>
<td>POA required elements</td>
<td>• veteran’s signature,</td>
</tr>
<tr>
<td></td>
<td>• clear intention to use all or a specified amount of entitlement,</td>
</tr>
<tr>
<td></td>
<td>• clear intention to obtain a loan for purchase, construction, repair, alteration, improvement, or refinancing,</td>
</tr>
<tr>
<td></td>
<td>• identification of the specific property,</td>
</tr>
<tr>
<td></td>
<td>• the sales price, if applicable, and other relevant terms of the transaction, and</td>
</tr>
<tr>
<td></td>
<td>• veteran’s intention to use the property as a home to be occupied by the veteran (or other applicable VA occupancy requirement).</td>
</tr>
<tr>
<td></td>
<td>• <strong>Note</strong>: If an active duty veteran is deployed, an e-mail whereby the person affirms his or her understanding that he or she is using VA entitlement for a specific real estate transaction, along with a general POA will be acceptable. The e-mail must be identifiable as having come from a military installation, ship, etc.</td>
</tr>
</tbody>
</table>

Continued on next page
Power of Attorney, (continued)

<table>
<thead>
<tr>
<th>Requirements</th>
<th>To satisfy the requirement</th>
</tr>
</thead>
</table>
| Verification that the veteran is alive and not Missing in action (MIA). (AKA Alive and Well Statement) | At the time of closing, the lender must verify that the veteran is alive, and, if on active military duty, not missing in action, and make the following certification:  
  "The undersigned lender certifies that written evidence in the form of correspondence from the veteran or, if on active military duty, statement from his or her commanding officer (including person authorized to act for said officer), affirmatively indicating that the veteran was alive and, if the veteran is on active military duty, not in a missing in action status on (date), was examined by the undersigned and that the said date is subsequent to the date the note and security instruments were executed on the veteran's behalf by the attorney-in-fact."

  Reference: See the form titled VA Lender’s Certification Regarding Power of Attorney (COR 0351), and additional information provided below.

Alive & Well (Not Missing in Action) Certification
- The lender must always verify that the veteran is alive at the time of closing, whether or not the veteran is still in the military. If the veteran is in the military, the lender must also verify that the veteran is not missing in action (MIA).
- VA has no objection to E-MAIL VERIFICATION if the e-mail is identifiable as having come from a military installation, ship, etc and complies with all applicable provisions as stated.

Note: If you have trouble obtaining verification a veteran in a combat area is alive and not missing in action (MIA), you may request that VA obtain the necessary information on your behalf.

Principal Curtailments
Principal curtailments are not permitted.
Hazard Flood Insurance

- Hazard insurance is obtained prior to loan closing and must be maintained for the term of the loan. It must be of a type or types and in an amount sufficient to protect the property against risks or hazards.
- Condominiums and many townhouse homeowners associations (HOAs) maintain blanket or master policies on common areas, including common mechanical and structural elements. The limits of coverage should be described in the policy. Lenders must carefully review the terms of the blanket policy to ensure that it is not a “studs out” policy where only the shell of the structure is covered.

Flood Insurance

- Flood insurance must be obtained and maintained on any building or personal property that secures a VA loan if the property is located in a special flood hazard area (SFHA) as identified by the Federal Emergency Management Agency (FEMA).
- VA cannot guarantee a loan if the security is located in a SFHA and flood insurance is not available.


Properties Located Within a Designated Disaster Area

Reference: See Section 1.31: Disaster Area Procedures of the Correspondent Seller Guide for additional information.

Title Limitations

- Title conditions or limitations must be shown on the Notice to Value (NOV) and considered by the appraiser in determining the reasonable value of the property.
- If the lender discovers title conditions or limitation not shown on the NOV, the lender must have the LAPP underwriter and/or VA review the conditions and determine whether the value assigned to the property is materially affected.
- If the VA reasonable value is based on a HUD Conditional Commitment/Direct Endorsement Statement of Appraised Value (HUD Form 92800.5b), HUD must process the requests for review of title conditions or limitations.

References:

- Additional information on VA Title Limitations is located in chapter 9 of the VA Lender’s Handbook.
- See Section 1.16: Title Insurance of the Correspondent Seller Guide for additional information.
### Closing and Loan Settlement Documentation, Continued

<table>
<thead>
<tr>
<th>Work Completion</th>
<th>Escrow Holdback</th>
</tr>
</thead>
</table>

In some instances, it may not be possible to complete certain items before the veteran wishes to move into the property. The escrow of funds can permit the veteran-purchaser to gain occupancy of the dwelling prior to completion of certain items that must be postponed due to weather conditions or other circumstances.

An escrow holdback for weather-related postponed improvements must be prior approved by SunTrust Mortgage.

The requirements for an escrow holdback are itemized below.

- An executed Request for Postponement of Offsite or Onsite Improvements – Home Loan (VA Form 26-1847).
- The withholding of 1 ½ times the dollar amount necessary to complete the postponed items (as estimated by a third party) from the proceeds due the seller at closing.
- An executed Escrow Agreement for Postponed Exterior Onsite Improvements (VA Form 26-1849) or, if improvements are offsite.
- Holding the escrow funds in a proper, secure manner. Releasing the funds once the postponed items have been satisfactorily completed and one of the following methods of documentation have been obtained:
  - a completion report from the appraiser, or
  - if the postponed work is minor, uncomplicated, and not involving structural issues) then both a written certification from the branch (or the appraiser) indicating the work has been completed, AND a statement from the veteran that he or she is satisfied with the work.