

## **CHAPTER 3: The VA Loan and Guaranty**

### **Overview**

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## **Topic 1: Basic Elements of a VA-Guaranteed Loan**

**Change Date:** May 14, 2024

- This topic was updated to remove a hyperlink and make minor grammatical edits.
- The Funding Fee subject on Table 1 has been updated to include a note that for cash-out refinances, the loan amount, including the funding fee, may not exceed 100% of the reasonable value as determined by VA.

### **a. General Rules**

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

**Table 1: General Rules Regarding VA-Guaranteed Loans**

<b>Subject</b>	<b>Explanation</b>	<b>Section</b>
Maximum Loan Amount	VA has no specified dollar amount(s) for the “maximum loan.” The maximum loan amount depends upon: <ul style="list-style-type: none"><li>• the reasonable value of the property indicated on the Notice of Value (NOV), and</li><li>• the lender’s needs in terms of secondary market requirements.</li></ul>	3 of this chapter
Down payment	No down payment is required by VA: <ul style="list-style-type: none"><li>• unless the purchase price exceeds the reasonable value of the property,</li><li>• the loan is a Graduated Payment Mortgage (GPM), and</li><li>• is necessary to meet secondary market requirements.</li></ul>	3 of this chapter
Amount of Guaranty	Guaranty is the amount VA may pay a lender in the event of loss due to foreclosure.	4 of this chapter
Occupancy	The Veteran must certify that they intend to personally occupy the property as their home.	5 of this chapter
Interest Rate and Points	Interest rate and points are negotiated between the lender and Veteran. Points requirements: <ul style="list-style-type: none"><li>• the Veteran and seller may negotiate for the seller to pay all or some of the points,</li><li>• they must be reasonable, and</li><li>• they may not be financed in the loan except with Interest Rate Reduction Refinancing Loans (IRRRLs).</li></ul>	6 and 7 of this chapter
Purpose of Guaranty	To encourage lenders to make VA loans by protecting lenders/loan holders against loss, up to the amount of guaranty, in the event of foreclosure.	11 of this chapter

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*Topic 1: Basic Elements of a VA-Guaranteed Loan, continued*

**a. General Rules, continued**

**Table 1: General Rules Regarding VA-Guaranteed Loans, continued**

Subject	Explanation	Section
Underwriting	Flexible standards. The Veteran must have: <ul style="list-style-type: none"> <li>• satisfactory credit, and</li> <li>• satisfactory repayment ability <ul style="list-style-type: none"> <li>□ stable income,</li> <li>□ residual income (net effective income minus monthly shelter expense) in accordance with regional tables, and</li> <li>□ acceptable ratio of total monthly debt payments to gross monthly income (ratios exceeding 41% requires closer scrutiny and compensating factors).</li> </ul> </li> </ul>	Chapter 4
IRRRL (Streamline Refinancing Loans)	Used to refinance an existing VA loan at a lower interest rate. <ul style="list-style-type: none"> <li>• no appraisal or underwriting is required,</li> <li>• closing costs may be financed in the loan,</li> <li>• reasonable discount points can be charged, but only two discount points can be financed in the loan, and</li> <li>• no cash to the borrower.</li> </ul> <b>Note:</b> A fixed rate loan to refinance a VA Adjustable Rate Mortgage (ARM) may be at a higher interest rate.	Chapter 6
Funding Fee	The Veteran, unless exempt, must pay a funding fee to help defray costs of the VA Home Loan program. <ul style="list-style-type: none"> <li>• find the percentage appropriate to the Veteran's particular circumstances on the funding fee table, and</li> <li>• apply this percentage to the loan amount to arrive at the funding fee.</li> </ul> The funding fee may always be financed in the loan. <b>Note:</b> for cash-out refinance loans, the loan amount, including the funding fee, may not exceed 100% of the reasonable value as determined by VA.	Chapter 8
Closing Costs	Those payable by the Veteran are limited by regulation to a specific list of items plus a one percent flat charge by the lender. <ul style="list-style-type: none"> <li>• Any other party, including the seller, can pay any costs on behalf of the Veteran. (Subject to concession limits).</li> <li>• Closing costs cannot be financed in the loan except on certain refinancing loans. (See chapter 8.)</li> </ul>	Chapter 8
Security Instruments	The lender may use any note or mortgage forms they wish as long as they contain certain VA-required clauses.	Chapter 9

## **Topic 2: Eligible Loan Purposes**

**Change Date:** May 14, 2024

- This topic has been updated to make minor grammatical edits.
- Section a has been updated to include an eligible loan purpose: refinancing of contracts for deed.
- Section c has been updated to indicate that Veterans may receive cash back for amounts credited for prorated taxes paid in arrears.

### **a. List of Eligible Loan Purposes**

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

- Purchase or construct a residence, including a condominium unit to be owned and occupied by the Veteran as a home:
  - ☐ the loan may include simultaneous purchase of the land on which the residence is situated or will be situated,
  - ☐ loans may also be guaranteed for the construction of a residence on land already owned by the Veteran (a portion of the loan may be used to refinance a purchase money mortgage or sales contract for the purchase of the land, subject to reasonable value requirements), and
  - ☐ the residential property may not consist of more than four family units and one business unit except in the case of certain joint loans. (See Chapter 7 for this exception.)
- Refinance an existing VA-guaranteed or direct loan for the purpose of a lower interest rate.
- Refinance an existing mortgage loan or other indebtedness secured by a lien of record on a residence owned and occupied by the Veteran as a home. (VA Cash-Out Refinance)
- Refinance a contract for deed. If the Veteran is the titled owner of the property, VA Cash-Out Refinance guidelines apply. If the Veteran is not the titled owner of the property, maximum loan amount considerations apply – see Topic 3.
- Repair, alter, or improve a residence owned by the Veteran and occupied as a home.
- Simultaneously purchase and improve a home.
- Improve a residence owned and occupied by the Veteran as the Veteran's home through the installation of a solar heating system, a solar heating and cooling system, or a combined solar heating and cooling system, or through the application of a residential energy conservation measure. These energy efficiency improvement loans can be made in conjunction with any type of VA purchase or refinancing loan.
- Purchase a one-family residential unit in a condominium housing development approved by VA.
- Purchase a farm residence to be owned and occupied by the Veteran as a home. If the loan includes the purchase of farmland, the farmland is appraised at its residential value only. (See chapter 11).

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*Topic 2: Eligible Loan Purposes, continued*

**b. Ineligible Loan Purposes**

VA cannot guarantee loans made for ineligible loan purposes. Examples of ineligible loan purposes include:

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

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

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

- For IRRRLs, see Chapter 6.
- For cash-out refinancing loans, see Chapter 6.

For other types of refinancing loans and all purchase/acquisition loans, the Veteran generally cannot receive cash from loan proceeds. The only exceptions are:

- The refund of items for which the Veteran paid cash, which were subsequently included in the loan amount.
- Amounts credited for prorated taxes paid in arrears.

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

## **Topic 3: Maximum Loan Amount**

**Change Date:** May 14, 2024

- The *VA Maximum Loan Amount Exceptions* table has been renamed *VA Maximum Loan Amount Table*, and now provides more detail on determining the maximum loan amount by loan type.
- Section c has been updated to remove the “rule of thumb” lenders should employ when determining the down payment amount.
- This topic has been updated to remove hyperlinks and make minor grammatical edits.

### **a. Does VA have Maximum Loan Amounts?**

There are no maximum dollar amounts prescribed for VA-guaranteed loans.

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

1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximums prescribed by secondary market participants.
2. VA limits the amount of the loan as prescribed by the following table:

**Table 2: VA Maximum Loan Amount Table**

<b>Loan Type</b>	<b>Maximum Loan</b>
Loans to Purchase <sup>1</sup> (not including construction loans):	The lesser of: (1) VA reasonable value, or (2) purchase price plus the cost of any energy efficiency improvements up to \$6,000 <sup>2</sup> . (+) plus, the VA funding fee <sup>3</sup> (unless the borrower is exempt).
One-Time Closing Construction Loans (Construction loans that provide for both the interim construction and permanent financing.)	The lesser of: (1) VA reasonable value, or (2) acquisition cost (contract to build plus the balance owed on land, interest reserve, contingency reserve, and permits – if the amounts were not included in the contract to build). (+) plus, the VA funding fee (unless the borrower is exempt). <i>See Chapter 7 for additional information on Construction Loans.</i>

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<sup>1</sup> 38 CFR § 36.4339(a)(2)

<sup>2</sup> 38 USC § 3710(d)(2)

<sup>3</sup> 38 USC § 3729

*Topic 3: Maximum Loan Amount, continued*

**Table 2: VA Maximum Loan Amount Table, continued**

<b>Loan Type</b>	<b>Maximum Loan</b>
Two-Time Closing Construction Loans (Loans to refinance interim construction loans. Does not include refinancing of constructions loans that provide for permanent financing.)	The lesser of: (1) VA reasonable value, or (2) sum of the outstanding balance of the interim construction loan plus the balance on any lot liens. (+) plus, the VA funding fee (unless the borrower is exempt). <i>See Chapter 7 for additional information on Construction Loans.</i>
Regular refinancing loan (cash-out)	100 percent of the VA reasonable value <sup>4</sup> <b>Note:</b> the funding fee may be included in the new loan amount, except that any portion of the funding fee that would cause the new loan amount to exceed 100 percent of the reasonable value of the property must be paid at closing.
IRRRLs <sup>5</sup>	Existing VA loan balance (+) plus the cost of any energy efficiency improvements up to \$6,000, (+) plus allowable fees and charges, (+) plus up to two discount points, (+) plus the VA funding fee (unless the borrower is exempt). <i>(Lenders must use VA Form 26-8923, IRRRL Worksheet, for the actual calculation.)</i>
Loans to refinance a contract for deed when the Veteran is not the titled owner of the property.	The lesser of: (1) VA reasonable value, or (2) outstanding balance of the contract for deed, plus allowable closing costs, plus the cost of any energy efficiency improvements up to \$6,000 <sup>6</sup> . (+) Plus, the VA funding fee <sup>7</sup> (unless the borrower is exempt).

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<sup>4</sup> 38 USC § 3710(b)(8)

<sup>5</sup> 38 USC § 3710(e)(1)(C)

<sup>6</sup> 38 USC § 3710(d)(2)

<sup>7</sup> 38 USC § 3729

*Topic 3: Maximum Loan Amount, continued*

**Table 2: VA Maximum Loan Amount Table, continued**

<b>Exception</b>	<b>Maximum Loan</b>
Other loans to refinance: <ul style="list-style-type: none"> <li>• an installment land sales contract, or</li> <li>• a loan assumed by the Veteran at an interest rate higher than that for the proposed refinancing loan.</li> </ul>	The lesser of: <ul style="list-style-type: none"> <li>(1) VA reasonable value, or</li> <li>(2) the sum of the outstanding balance of the loan plus allowable closing costs and discounts plus the cost of any energy efficiency improvements up to \$6,000.</li> </ul> (+) plus the VA funding fee (unless the borrower is exempt).
Graduated Payment Mortgage (GPM) loan on existing property.	The VA reasonable value, (-) minus the highest amount of negative amortization, (+) plus the cost of any energy efficiency improvements up to \$6,000, (+) plus VA funding fee (unless the borrower is exempt). <i>See chapter 7 for additional information.</i>
GPM loan on new home	97.5 percent lesser of: <ul style="list-style-type: none"> <li>(1) the VA reasonable value, or</li> <li>(2) the purchase price plus the cost of any energy efficiency improvements up to \$6,000.</li> </ul> (+) plus the VA funding fee. <i>See chapter 7 for additional information.</i>

**b. Down payment**

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

- If the purchase price exceeds the reasonable value of the property, a down payment in the amount of the difference must be made in cash from the borrower's own resources<sup>8</sup>, and
- VA requires a downpayment on all GPMs<sup>9</sup>.

If a Veteran has less than full entitlement available, a lender may require a down payment in order to make the Veteran a loan that meets GNMA or other secondary market requirements. Lenders should consult with their investor to determine the amount of coverage required and down payment necessary to meet these requirements.

<sup>8</sup> 38 CFR 36.4339(a)(3), 36.4340(h)

<sup>9</sup> 38 CFR 36.4310(e)(2)(i)



## **Topic 4: Maximum Guaranty on VA Loans**

**Change Date:** May 14, 2024

- This topic has been updated to reflect the implementation of P.L. 116-23 Blue Water Navy Vietnam Veterans Act of 2019.
- Section b was added to provide additional information on calculating remaining entitlement for Veterans with partial, or encumbered, entitlement.

### **a. Maximum Guaranty Table**

Public Law 116-23, the Blue Water Navy Vietnam Veterans Act of 2019 increased the maximum guaranty available on loans closed after January 1, 2020, for Veterans with full entitlement.

For Veterans with full entitlement, the maximum amount of guaranty entitlement available to the Veteran, for a loan amount above \$144,000 is 25 percent of the loan amount<sup>10</sup>.

In general, maximum guaranty, assuming the Veteran has full entitlement, is as shown in the table below.

**Table 3: Maximum Potential Guaranty by Loan Amount**

<b>Loan Amount</b>	<b>Maximum Potential Guaranty</b>	<b>Special Provisions</b>
Up to \$45,000	50 percent of the loan amount.	Minimum guaranty of 25 percent on IRRRLs.
\$45,001 to \$56,250	\$22,500	Minimum guaranty of 25 percent on IRRRLs
\$56,251 to \$144,000	40 percent of the loan amount, with a maximum of \$36,000	Minimum guaranty of 25 percent on IRRRLs
\$144,001 to \$417,000	25 percent of the loan amount	Minimum guaranty of 25 percent on IRRRLs
Greater than \$417,000	The lesser of: <ul style="list-style-type: none"> <li>• 25 percent of the VA county loan limit, or</li> <li>• 25 percent of the loan amount</li> </ul>	Minimum guaranty of 25 percent on IRRRLs

**Note:** The percentage and amount of guaranty is based on the loan amount including the funding fee portion when the fee is paid from loan proceeds, subject to maximum loan limitations in Topic 3 of this chapter.

For the maximum guaranty on joint loans made to a Veteran and a non-Veteran to whom they are not married, refer to Chapter 7.

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

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<sup>10</sup> 38 USC § 3703(a)(1)(A)(i)(IV)

*Topic 4: Maximum Guaranty Amount, continued*

**b. Veterans with Partial Entitlement**

Maximum loan amount calculations in Topic 3 of this chapter notwithstanding, VA does not set specific maximum loan amount limits for Veterans with partial or unrestored entitlement. For Veterans with partial or unrestored entitlement, their maximum available guaranty entitlement is reduced by the amount of the Veteran's unrestored entitlement, which may impact the maximum potential guaranty a lender would receive on a concurrent loan made to the Veteran. The calculation is as follows:

For proposed loan amounts over \$144,000<sup>11</sup>: the maximum amount of guaranty entitlement available is 25% of the single-unit Freddie Mac Conforming Loan Limit (CLL) for the county where the proposed subject property is located reduced by the amount of unrestored entitlement.

Example: A Veteran with an existing VA-guaranteed loan using \$55,000 of their guaranty entitlement is moving to another state and wishes to purchase a new home. The Veteran has opted to retain their existing VA-guaranteed loan; therefore, the entitlement used on that loan cannot be restored. The total loan amount for the new home is above \$144,000. The single-unit CLL in the county where the new subject property is located, on the anticipated date of closing is \$650,000.

Maximum Entitlement Amount Calculation:  $\$650,000 \times 25\% = \$162,500 - \$55,000$  (unrestored entitlement) = \$107,500

The maximum guaranty available to the lender for this loan is \$107,500.

For proposed loan amounts less than or equal to \$144,000<sup>12</sup>: the maximum amount of guaranty entitlement is \$36,000 reduced by the amount of unrestored entitlement. VA refers to the first \$36,000 of a Veteran's entitlement as their "basic" entitlement.

Example: A Veteran with an existing VA-guaranteed loan using \$55,000 of their guaranty entitlement is moving to another state and wishes to purchase a new home. The Veteran has opted to retain their existing VA-guaranteed loan; therefore, the entitlement used on that loan cannot be restored. The total loan amount for the new home is less than \$144,000.

Maximum Entitlement Amount Calculation:  $\$36,000 - \$55,000 = \$0$  (rounded to the nearest positive number).

No guaranty entitlement is available for this loan.

As the amount of available remaining basic entitlement is \$0, the Veteran cannot use their VA home loan benefit to guaranty the new loan without obtaining restoration of entitlement for their current VA-guaranteed loan. See Chapter 2 for more information on restorations of entitlement.

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<sup>11</sup> 38 USC § 3703(a)(1)(C)(ii)

<sup>12</sup> 38 USC § 3703(a)(1)(B)

## **Topic 5: Occupancy**

**Change Date:** May 14, 2024

- This section has been updated to make minor grammatical edits and add footnotes.
- References to the Regional Loan Center (RLC) have been removed from this section.
- Section i has been updated to remove the reference to VA Form 26-1802a as the form was discontinued.

### **a. The Law on Occupancy**

The law requires a Veteran obtaining a VA-guaranteed loan to certify that they intend to personally occupy the property as their home. As of the date of certification, the Veteran must either:

- personally live in the property as their home, or
- intend, upon completion of the loan and acquisition of the dwelling, to personally move into the property and use it as his or her home within a reasonable time<sup>13</sup>.

The above requirement applies to all types of VA-guaranteed loans except IRRRLs. For IRRRLs, the Veteran need only certify that they previously occupied the property as their home<sup>14</sup>.

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

### **b. What is a “Reasonable Time?”**

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

- the Veteran certifies that they will personally occupy the property as their home at a specific date after loan closing, and
- there is a particular future event that will make it possible for the Veteran to personally occupy the property as their home on a specific future date.

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

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<sup>13</sup> 38 U.S. Code § 3704(c)(1)

<sup>14</sup> 38 U.S. Code § 3710(e)(1)(F)

*Topic 5: Occupancy, continued*

**c. Occupancy by Veteran's Spouse or Dependent Child**

Occupancy (or intent to occupy) by the spouse or dependent child satisfies the occupancy requirement for a Veteran who is on active duty and cannot personally occupy the dwelling within a reasonable time. In the case of a dependent child, the Veteran's attorney-in-fact or legal guardian of the dependent child must make the certification<sup>15</sup> and sign VA Form 26-1820, *Report and Certification of Loan Disbursement*.

Occupancy by the spouse may also satisfy the requirement if the Veteran cannot personally occupy the dwelling within a reasonable time due to distant employment other than military service. In these specific cases, contact VA to determine if this type of occupancy meets VA requirements. Contact information is available in Appendix A.

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

For an IRRRL, a certification that the spouse or dependent child (or children) previously occupied the dwelling as a home will satisfy the requirement.

**d. Occupancy Requirements for Deployed Active-Duty Service members**

Single or married Service members, while deployed from their permanent duty station, are in a temporary duty status and able to meet the occupancy requirement. This is true without regard to whether a spouse will be available to occupy the property prior to the Veteran's return from deployment.

**e. Occupancy After Retirement**

If the Veteran states that they will retire within 12 months and wants a loan to purchase a home in the retirement location:

- Verify the Veteran's eligibility for retirement on the specified date.
  - ☐ Include a copy of the Veteran's application for retirement submitted to their employer.
- Carefully consider the applicant's income after retirement.
  - ☐ If retirement income alone is insufficient, obtain firm commitments from an employer that meet the usual stability of income requirements.

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

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

Home improvements or refinancing loans for extensive changes to the property which will prevent the Veteran from occupying the property while the work is being completed, constitute exceptions to the "reasonable time" requirement.

The Veteran must certify that they intend to occupy or reoccupy the property as a home upon completion of the substantial improvements or repairs.

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<sup>15</sup> 38 U.S. Code § 3704(c)(2)

*Topic 5: Occupancy, continued*

**g. Intermittent Occupancy**

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

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

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

**h. Unusual Circumstances**

Discuss unusual circumstances of occupancy with VA. Contact information is available in Appendix A.

**i. The Certification**

The Veteran certifies that the occupancy requirement is met by properly executing VA Form 26-1820, *Report and Certification of Loan Disbursement*, at the time of loan closing (all loans).

This satisfies the lender’s obligation to obtain the Veteran’s occupancy certification.

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

Where doubt exists, the test is whether a reasonable basis exists for concluding that the Veteran can and will occupy the property as certified. Contact VA if the lender cannot resolve issues involving the veteran’s intent by applying this test. Contact information is available in Appendix A.

## **Topic 6: Interest Rates**

**Change Date:** May 14, 2024

- This section has been updated to make minor grammatical edits.
- Section b has been updated to ensure borrowers receive updated disclosures, as applicable, when the agreed upon interest rate changes.

### **a. Requirement**

VA does not prescribe interest rates for VA-guaranteed loans. The interest rate is negotiated between the Veteran-borrower and the lender to allow the Veteran to obtain the best available rate.

### **b. Changes to the Agreed Upon Interest Rate**

The lender and borrower are expected to honor any lock-in or other agreements they have entered into which impact the interest rate on the loan. VA does not object to changes in the agreed upon rate, if no lender/borrower agreements are violated, and the borrower receives any necessary updated disclosures (such as the Loan Estimate and VA Refinancing Disclosures) reflecting the change in interest rate. The following procedure applies in such cases.

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

- re-underwriting to ascertain the Veteran's continued ability to qualify for the loan,
- documentation of the change, and
- a new or corrected Uniform Residential Loan Application, (URLA) with any corrections initialed and dated by the borrower.

**Reference:** For prior approval loans, see chapter 5.

## **Topic 7: Discount Points**

**Change Date:** November 12, 2012

- This section has been updated to make minor grammatical edits.

### **a. Requirement**

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

### **b. When Can Points be Included in the Loan?**

Discount points may be rolled into the loan only in the case of refinancing loans, subject to the following limitations:

#### ***Interest Rate Reduction Refinancing Loans***

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

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

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

Loans to refinance are:

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

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

**Reference:** See the maximum loan limitations in section 3 of this chapter.

#### ***Cash-out Refinancing Loans***

While discount points cannot specifically be included in the loan amount, the borrower can receive cash from loan proceeds, subject to maximum loan limits (See section 3 of this chapter). The cash received by the borrower can be used for any purpose acceptable to the lender, including payment of reasonable discount points.

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*Topic 7: Discount Points, continued*

**c. Changes to the Agreed Upon Discount Points**

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

Any increase in discount points requires:

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

Reference: For prior approval loans, see chapter 5.



## **Topic 8: Maturity**

**Change Date:** April 10, 2009

- This section has been updated to correct hyperlinks and make minor grammatical edits.

### **a. Maximum Maturity**

- Amortized loans: 30 years and 32 days,
- Nonamortized loans: 5 years.

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

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

### **b. Maturity Extending Beyond the Maximum**

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

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

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

## **Topic 9: Amortization**

**Change Date:** November 8, 2012

- This section has been updated to correct hyperlinks and make minor grammatical edits.

### **a. Requirement**

All VA loans must be amortized if the maturity date is beyond 5 years from the date of the loan. Loans with terms less than 5 years are considered term loans and need not be amortized.

Generally, for amortized VA loans:

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

Exceptions to these requirements are made in the case of:

- GPMs – See chapter 7,
- Growing Equity Mortgages (GEMs) – See chapter 7,
- alternative amortization plans prior approved by VA,
- and construction loans.

### **b. Alternative Amortization Plans**

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

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

***Exception:*** GPMs and GEMs.

### **c. Special Provisions for Construction Loans**

See “Amortization” in chapter 7.

### **d. Standard and Springfield Plans**

The Standard and Springfield plans satisfy VA amortization requirements.

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

## **Topic 10: Eligible Geographic Locations for the Secured Property**

**Change Date:** April 10, 2009

- This section has been updated to correct hyperlinks and make minor grammatical edits.

### **a. Where Can the Property be Located?**

Real property securing a VA-guaranteed loan must be located in the United States, its territories, or possessions (Puerto Rico, Guam, Virgin Islands, American Samoa and the Northern Mariana Islands).

## **Topic 11: What Does a VA Guaranty Mean to the Lender?**

**Change Date:** November 8, 2012

- This section has been updated to make minor grammatical edits.

### **a. Protection Against Loss**

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

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

### **b. Lender Responsibility**

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

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

### **c. When is a Loan that was Closed Automatically Guaranteed?**

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

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

### **d. When is a Prior Approval Loan Guaranteed?**

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

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

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*Topic 11: What Does a VA Guaranty Mean to the Lender, continued*

**e. What is Evidence of Guaranty?**

Evidence of guaranty is VA Form 26-1899, Loan Guaranty Certificate, which is generated electronically via VA's webLGY application. The LGC represents tangible proof to the lender that VA's guaranty is given in good faith. It is contingent upon:

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

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

The LGC also has an audit indicator that, if noted Yes, lets the lender know the case has been identified for full review. In these instances, the lender then needs to submit a complete loan origination package to the appropriate VA office for review. Packages should be submitted within 15 days of the LGC being generated.

**f. Total Loss of Guaranty**

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

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

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

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*Topic 11: What Does a VA Guaranty Mean to the Lender, continued*

**g. Partial Loss of Guaranty**

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

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

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

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

## **Topic 12: Post-Guaranty Issues**

**Change Date:** November 8, 2012

- This section has been changed to include hyperlinks.

### **a. Corrections to LGCs**

LGCs are generated using data entered from several sources, including the VA Funding Fee Payment System (VA FFPS) <https://www.ffps.vba.va.gov/>. If a lender discovers an error in reported data, such as date of loan closing, before they have generated the LGC, they must access the VA FFPS system to make the correction. This will then result in the correct closing date being shown when the LGC is obtained.

If the error is discovered **after** the LGC has been generated, lenders will need to contact the appropriate VA RLC for assistance. An LGC with minor typographical errors that do not compromise accurate identification of the loan is valid.

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

A lender may obtain duplicate LGCs at any time simply by accessing the system and reprinting the LGC.

### **c. Transfer of Loans**

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

### **d. Loan Assumptions**

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

### **e. Paid-in-Full Loans**

Holders of VA-guaranteed loans are required to electronically report the date the loan was paid-in-full in the VA Loan Electronic Reporting Interface (VALERI) system. Lenders are required to report paid-in-full loans to VA upon full satisfaction of the loan by payment or otherwise.

Lenders/servicers are not required to mail LGCs to VA when a loan is terminated. Since this information will now be reported through VALERI, there is no need to have the actual LGC returned to VA upon termination of the loan.

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*Topic 12: Post-Guaranty Issues, continued*

**f. Maintenance of Loan Records**

Lenders must maintain copies of all loan origination records on VA-guaranteed home loans for at least 2 years from the date of loan closing. Even if the loan is sold, the original lender must maintain these records (or legible copies) for the required period.

Loan origination records include:

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

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