



Loan Guaranty Conference 2023

Credit Underwriting

Jennifer Tillery - Loan Policy Analyst

Jyssica Sule - Loan Policy Analyst

Heather Sborz - Chief, Loan Policy

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VA



U.S. Department
of Veterans Affairs

Introduction

Jennifer Tillery-Program Analyst

Jyssica Sule-Program Analyst

Heather Sborz- Chief, Loan Policy

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Objectives

- ▶ Underwriting Tenants
- ▶ Underwriting Flexibilities
- ▶ Debt-Related Issues
- ▶ Income-Related Issues
- ▶ Other Issues

Underwriting Tenants

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Automated Underwriting System (AUS)

The AUS is not the decisionmaker, it is a tool

- ▶ The underwriter is required to underwrite

VA 26-6393, VA Loan Analysis was revised reference VA Circular 26-23-04

Non-supervised lenders require an approved VA underwriter

- ▶ A Staff Appraisal Review (SAR) is not the same as a VA credit underwriter

Holistic underwriting

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Underwriting Flexibilities

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Credit Scores

No minimum credit score required

Lack of credit is not viewed as a negative

Non-traditional tradelines or scoring models may be used

- ▶ No minimum number of tradelines
- ▶ Scoring models do not need VA approval

Derogatory credit may require explanation

- ▶ VA Lenders Handbook 26-7, Chapter 4, Topics 7 & 8

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Compensating Factors Examples

A list of compensating factors is found in the VA Lenders Handbook 26-7 Ch. 4, Topic 10d

- ▶ High residual income
- ▶ Significant liquid assets
- ▶ Low debt-to-income ratio
- ▶ Long-term employment
- ▶ Minimum payment shock

Debt-Related Issues

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Chapter 13 Bankruptcy

Chapter 13

- ▶ One year of making payments as agreed
- ▶ Must have permission from trustee
- ▶ If payment plan is concluded, credit is deemed re-established

Foreclosures/Chapter 7 Bankruptcy

Foreclosure/Chapter 7

- ▶ Two year waiting period
- ▶ One year waiting period with documented re-establishment of acceptable credit and any foreclosure was outside of the borrower(s) control

Foreclosures and Bankruptcy Simultaneous

If a property is included in a Chapter 7 bankruptcy, the later of the discharge or foreclosure sale date establishes the waiting period.

- ▶ If there is a significant delay in foreclosure, your underwriter may contact a VA Regional Loan Center.

Short Sale/Deed-in-Lieu

No waiting period

Any late payments made on the mortgage should be included in the credit review

Student Loans

A payment must be included, unless it is deferred for at least 12 months and evidence to support is provided.

Income-based repayment and graduated payment plans may be used if:

- ▶ **Must have evidence that plan will continue for at least the next 12 months past loan closing**

Calculating Student Loan Payments

The greater of the two figures below must be used:

1. Credit report payment
2. $(\text{Student loan total balance} * 5\%) / 12 \text{ months}$

Exception: The payment on the student loan statement may only be used if dated with 60 days of loan closing and continues for at least 12 months of loan closing

Medical Collection Accounts

Identifiable Medical Collections or Charge-offs can be disregarded

- ▶ Not required to be paid off
- ▶ Explanations are not required

Note: this flexibility does not apply to items reduced to a lien or judgement

Income-Related Issues

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Active-Duty Income-Expiration Term of Service (ETS) Enlisted

ETS should be at least 12 months after closing (enlisted personal only) unless:

1. Documentation that the service member has re-enlisted beyond the 12 months
2. Statement from the service member intends to re-enlist and a statement from their commanding officer indicating that they are eligible to and that it should be granted

Active Duty Income-ETS Officer

ETS may reflect either 888888 or 000000

- ▶ Officers or other contracted service members serve at their “leisure“, unless evidence is provided that the service member intends to resign, additional documentation is not required.

Active-Duty Income: VA Form 26-1820

If the actively serving active duty or Reserve/National Guard condition is on the Certificate of Eligibility (COE), the Veteran must certify they are still active on the VA 26-1820 *Report of Certification of Loan Disbursement*.

- ▶ If the service member has been discharged prior to closing, the COE is no longer valid.

Active-Duty Income: COE Condition

Active Duty Condition:

“Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of date of note is required. If an active-duty Service member has a pre-discharge claim pending with VA, the lender should contact the RLC of jurisdiction to determine whether VA has rated the Service member as eligible to receive compensation as a result of a proposed or memorandum rating. If the Service member has received a proposed or memorandum rating, the Service member is exempt from the funding fee. If a pre-discharge claim is pending, please upload a copy of VA Form 26-8937 to this COE record. If the Service member does not obtain a proposed or memorandum rating and the loan closing takes place before discharge, the Service member is not exempt from the funding fee.”

Active-Duty Income: Reserve/ National Guard COE Condition

Reserve/National Guard:

“Reserve or National Guard Member - Valid unless discharged or released subsequent to date of this certificate. A certification of continuous service in the Selected Reserve or National Guard as of date of note is required.”

Rental Offset

Rental “offset” may only be used on the property occupied immediately prior the new home.

- ▶ Must be the departing residence
- ▶ Lease is not required
- ▶ The property must be marketable and there must not be any indication it cannot be rented

Rental Offset Example 1

Can the home in Michigan be offset?

- ▶ Veteran residence history:
 - 10/15/2019 – 05/15/2022: Home that Veteran still owns in Michigan
 - 05/15/2022 to Present: Rents a home in Montana
 - Purchasing home in Colorado

Rental Offset Example 2

Can the home in Nevada be offset?

- ▶ Veteran residence history:
 - 08/01/2002 – Present: Home that Veteran owns in Nevada (retaining property after purchase)
 - Purchasing home in West Virginia

Residual Income

Must deduct “grossed-up” income from the calculation

Household size includes ALL members of household

- ▶ Include non-purchasing spouses
- ▶ Include dependent parents

Residual Income, Continued

May exclude with documentation:

- ▶ Non-purchasing spouse – with evidence that they are self supporting
- ▶ Foster care child who which are in receipt of foster care income (may not use the income in qualification)

Other Issues

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Gifts of Equity

Gifts of Equity:

- ▶ Not considered a down-payment for the purpose of reducing the funding fee
- ▶ Buyer/Seller may opt to reduce the purchase price in lieu

Questions

