

Lender Guidance for Borrowers Affected by COVID-19

1. Purpose. On March 13, 2020, the President of the United States declared a National Emergency due to Coronavirus Disease 2019 (COVID-19). This Circular provides guidance for Department of Veterans Affairs (VA) home loan borrowers affected by COVID-19 and describes temporary measures regarding loan origination, closing, and guaranty.

2. Background. VA may only guarantee a loan when it is possible to determine that the Veteran is a satisfactory credit risk and has present or verified anticipated income that bears a proper relation to the anticipated terms of repayment as outlined in the [VA Pamphlet 26-7, Chapter 4 Credit Underwriting](#). In addition, VA-guaranteed loans must maintain first lien position, as stated in [38 U.S.C § 3703\(d\)\(3\)](#) and [38 C.F.R. § 36.4355](#).

3. Effective Dates. The policies outlined in this Circular are effective for all loans closed on, or after, the date of this Circular and until further notice or the rescission of this Circular.

4. Income Verification Guidelines. Lenders should continue to use good judgment and flexibility when verifying stable and reliable income. Lenders should make every effort to satisfy VA's longstanding requirements concerning Verification of Employment (VOE) as outlined in the [VA Pamphlet 26-7, Chapter 4 Credit Underwriting](#).

a. If their propriety method is impacted due to temporary business closures, the lender should use the guidelines listed below.

(1) The lender may utilize employment and income verification third-party services. Additional fees associated with these services cannot be charged to the Veteran, as stated in [VA Pamphlet 26-7, Chapter 8, Section 2 Fees and Charges the Veteran-Borrower Can Pay](#).

(2) If the lender is not able to utilize a third-party service to verify employment and income, a VOE can be met with evidence of direct deposit from a bank statement and paystubs covering a at least one full month of employment within 30 days of the closing date. Lenders should reconcile payment amounts between the paystubs and direct deposit listed on the bank statement.

(3) If the required VOE documentation cannot be obtained by evidence of bank statement and paystubs, and the borrowers have cash reserves totaling at least 2 months mortgage payments (PITI) post-closing, the loan is eligible for guaranty. The lender's effort to obtain the VOE must be documented in the Correspondence section of WebLGY.

b. In the event lenders utilize option (2) or (3) as verification, they must document in box 47 of the remarks section on [VA Form 26-6393, Loan Analysis](#), the option they selected and the supporting documentation.

5. Underwriting Loans. For income analysis purposes, as outlined in [VA Pamphlet 26-7, Chapter 4 Credit Underwriting](#), VA guidelines generally require income to be stable and reliable for 2 years.

a. If the applicant was impacted by COVID-19 (i.e. furlough, curtailment of income, etc.), that period should not be considered a break in employment or income provided they have returned, or are anticipated to return, to work in the same capacity and income levels. In addition to standard verification documentation, applicants should provide furlough letters where applicable.

b. VA continues to encourage lenders to take proactive measures in documenting and uploading evidence of their analysis and justifications for all borrowers, especially for “borderline” cases. This may proactively address questions that VA may otherwise ask and prevent a loan level audit of that loan.

6. Electronic Mortgages (eMortgages), Electronic Notes and the use of Allonges. VA anticipates an increase in eMortgages consistent with VA’s longstanding policy, established in [VA Pamphlet 26-7, Chapter 9, Legal Instruments, Liens, Escrows, and Related Issues](#). VA is actively working with other federal housing agencies and Government National Mortgage Association (GNMA) to increase the accessibility of eMortgages. Lenders are reminded to comply with investor and/or GNMA guidance. It is important to clarify that an eMortgage package may or may not include an electronic note (eNote). VA loans for which the promissory note is an eNote are eligible for guaranty.

a. Promissory Note Requirements. eClosing transactions, for all closings executed as of the date of this Circular may not include the use of an allonge. Any eClosing transaction including the use of an allonge is ineligible for guaranty and subject to the removal of the guaranty. While VA does not publish a standard Note or eNote as a template, VA encourages industry and technology partners alike, to review eNote templates to remove clauses referencing the possible inclusion of allonge.

(1) Closings transactions including allonge(s), that would otherwise modify the terms of an eNote, are required to be closed using traditional, paper-based closing procedures. eClosings transactions are permissible for both, mortgages where the resulting promissory is an eNote and mortgages where the resulting promissory note is a paper note bearing a wet signature.

b. Electronic Notarization. VA loans for which electronic notarization was used as a part of an eClosing, including in-person electronic notarization (IPEN) and remote online notarization (RON) are eligible for guaranty provided that the notarization is valid and effective under applicable law and regulations.

7. Lien Position. VA acknowledges the closure of some local Recording Offices may result in the inability to record liens in a timely manner. In certain jurisdictions, lien position is strictly determined by recordation date. Extended closures could result in the inability to appropriately record the first lien position of VA Home Loans, as stated in [38 U.S.C § 3703\(d\)\(3\)](#) and [38 C.F.R. § 36.4355](#).

a. In instances where the VA loan was not initially in first lien position, and the holder was subsequently able to secure first lien position, the loan may later be submitted for guaranty. VA

will exercise all discretion under existing authorities to provide every opportunity to the lender to secure guaranty.

b. As a reminder, VA can only issue evidence of guaranty for loans in first lien position. The inability to secure first lien position may result in the removal of the VA Guaranty or Indemnification for the life of loan.

8. Timeline to Request Evidence of Guaranty (Loan Guaranty Certificate). VA understands that lenders may experience operational delays as a result of COVID-19. Such issues may affect the lender's ability to request the Loan Guaranty Certificate, in WebLGY, within 60 days of closing per [38 C.F.R. § 36.4303](#).

a. Lenders are reminded that justification for the delay must be provided when requesting the Loan Guaranty Certificate. Justifications should be uploaded to the Correspondence section of WebLGY. For additional guidance when providing justification, please refer to [Pamphlet 26-7, Chapter 5, Section 4, Topic b](#).

b. If the delay was related to COVID-19, the justification should include this information, so the delay does not adversely impact the lender's good standing. As a reminder, per [38 C.F.R. § 36.4313](#), lenders are required to remit funding fees within 15 days of loan closing.

9. Questions. Contact a VA Regional loan Center (RLC) by calling 1-877-827-3702, with hours of operation between 8am to 6pm EST.

10. Rescission: This Circular is rescinded April 1, 2021.

By Direction of the Under Secretary for Benefits

Jeffrey F. London
Director
Loan Guaranty Service

Distribution: CO: RPC 2021
SS (26A1) FLD: VBAFS, 1 each (Reproduce and distribute based on RPC 2021)

