

LGYN^{ewsletter}

Welcome to the inaugural edition of the *LGY Origination Newsletter!*

This newsletter is to assist VA's industry partners in delivering the VA Home Loan benefit to our Nation's Veterans, Service-members, and surviving spouses as efficiently and effectively as possible. Through a combination of policy and industry discussions, case examples, "best practices," and miscellaneous topics, the goal is to provide you – our industry partners – clarity on policy, information on current and upcoming initiatives, and the resources to help us accomplish LGY's Mission.

Currently, publication is expected on a quarterly basis; however, circumstances may dictate otherwise. And while the format will certainly evolve over time, we're hopeful you'll find this publication a valuable resource.

To kick off the inaugural edition of the *LGY Origination Newsletter*, we'd like to introduce you to your Leadership Team.

Meet Your Team

JOHN BELL III: Assistant Director, Loan Policy & Valuation

Bringing with him a wealth of industry experience, John began his VA career in September 2010, and serves as the Assistant Director of Loan Policy and Valuation. He oversees all aspects of benefit delivery which includes origination, loan policy, valuation, Specially Adapted Housing (SAH), and Native American Direct Loans. John is a proud Navy Veteran who served in Operation Restore Hope and the Gulf War.



ZANETA JONES: Chief, Loan Policy

Zaneta Jones is Chief of Loan Policy, responsible for the formulation of loan origination and eligibility regulations, policies, and procedures necessary to administer the VA Home Loan Program, which includes eligibility, the making of direct loans, and the approval of private mortgage lenders to make guaranteed loans on the automatic basis. She is certified as a Contracting Officer Representative, and is an alumnus of Leadership VA 2012 and the Leadership Development Program 2013.



GERRY KIFER: Chief, Valuation

Gerry Kifer is the Chief of Valuation and is responsible for policies and procedures as they relate to the valuation and acceptability of properties, which may become the security for loans guaranteed by VA. He entered the Real Estate Appraisal Industry in Northern Ohio in



1972, and joined VA as a Staff Appraiser in the Cleveland Regional Office in 1984 with valuation duties throughout Ohio. In 1990, Gerry transferred to VA Central Office where he held a number of valuation-related positions with varied duties, ultimately being named Supervisory Appraiser in 2002. He became Director, Valuation Policy Division of the Federal Housing Administration (FHA) in July 2010. He returned to VA as the Supervisory Appraiser in August 2011. Gerry is a Veteran of the United States Marine Corps.

ERICA LEWIS,
Senior Loan Specialist

Erica Lewis, Esq. joined VA Central Office directly after law school, as a Loan Specialist with Loan Policy. In her current role as Senior Loan Specialist, she develops regulations implementing legislative actions and administrative policy changes, and is responsible for providing guidance to field personnel and program participants on the interpretation of regulatory and legislative provisions affecting the Home Loan Program. Erica has served as legislative and regulatory policy development coordinator for LGY and as National Coordinator of VA’s Native American Direct Loan Program. Erica is an alumnus of Leadership VA 2002.



BETTY RHOADES:
Chief,
Specially Adapted Housing

Betty Rhoades, Esq. began her career with VA in May of 2005, as a Presidential Management Fellow. She served as a Management Analyst and a Loan Specialist with LGY in Central Office. Subsequently, she transferred to the Atlanta Regional Loan Center (RLC) as an SAH Agent. Betty also served as the SAH Coordinator and then the Assistant Valuation Officer at the Atlanta RLC. She was selected as the Chief of SAH in January of 2013. In this position, she directs the SAH program in connection with LGY activities to ensure that the benefit is properly administered.



MARK CONNORS,
Lender Liaison

Prior to his tenure with VA, Mark Connors worked with the Small Business Administration, making Disaster Home and Business Loans in the wake of Tropical Storm Allison in Houston and following the 9/11 terrorist attacks in New York. He worked in the financial planning industry until a career change brought him to VA as a Loan Specialist at the Houston RLC in 2006. In 2010, Mark joined the Loan Policy staff in VA Central Office and currently serves as the Lender Liaison, the main point of contact for lenders and related industry partners seeking guidance from VA Central Office. Mark retired from the United States Air Force.



Policy Matters

Unlike other loan products, the VA Home Loan benefit is just that – a benefit. It’s a benefit not only well-earned, but sometimes earned with substantial sacrifice.

The VA Lender's Handbook is the primary guideline and policy source for underwriting VA loans. In establishing wide-ranging credit guidelines, our intent is to provide lenders the latitude to use their judgment and expertise when processing and approving VA loans. While we expect lenders to be prudent and judicious when making determinations that are within VA prescribed guidelines, we also encourage you to use the “Remarks” section (Block 47) of VA Form 26-6393, *Loan Analysis*, to document compensating factors, explain income calculations and provide underwriter justification for your decisions.

Our long-serving former Chief of Loan Policy, Bill White, frequently reminded lenders to “tell the story.” The “Remarks” section on VA Form 26-6393 is your opportunity to do so. By taking the additional time to provide the reasoning behind your decision-making, you inform VA staff, who otherwise may reach a different conclusion. Please note, Block 47 is entitled “Remarks (*Use reverse or attach a separate sheet, if necessary*).” In other words, we encourage you to “write outside of the box” when it comes to telling the story.



GROSSED-UP INCOME:

Several lenders recently asked for clarification regarding our policy on grossed-up income. We hope the following discussion clears up any confusion.

In part, Chapter 4, Section 9, of VA Pamphlet 26-7, VA Lender's Handbook, states *"Tax-free income may be 'grossed up' for purposes of calculating the debt-to-income ratio only (not residual income). This is a tool that may be used to lower the debt ratio for Veterans who clearly qualify for the loan."* It goes on to explain how to determine grossed up income: *"Use current income tax withholding tables to determine an amount which can be prudently employed to adjust the borrower's actual income."*

In an effort to clarify policy, let's focus on a couple specific points made in the Lender's Handbook. First, note that the guidance intends grossed-up income to be used to lower the debt ratio for Veterans who *"clearly qualify for the loan."* Some may argue this is subjective. Underwriting is not an exact science; if it were, an algorithm would determine the solution. Second, let's take a look at how the Lender's Handbook explains how to determine grossed up income. Specifically, it states: *"Use current income tax withholding tables..."*

Thus, from a policy perspective, using "current income tax withholding tables", means we expect lenders to apply our grossed-up income policy to lower the debt ratio for Veterans who *"clearly qualify for the loan."*

NON-REIMBURSED EMPLOYEE BUSINESS EXPENSES:

VA's policy on non-reimbursed employee business expenses is to treat these expenses, commonly referred to as 2106 expenses, from IRS Form 2106, as a monthly debt. Specifically, they should be listed in Section D, Debts and Obligations, of VA Form 26-6393, Loan Analysis.

Best Practices

CERTIFICATE OF ELIGIBILITY (COE):

We have many COE-related items to discuss, but we want to start by stressing the importance of obtaining the COE early in the process. While nearly 70 percent of COEs are obtained almost instantaneously by either the lender, via the Automated Certificate of Eligibility (ACE) system, or by the Veteran, via eBenefits; the remaining 30 percent are often more complex and take longer to process. By requesting the COE early in the loan application process, you greatly reduce the likelihood of a delayed closing. Please help the Veteran, yourself, and VA by establishing internal protocols that ensure the COE is requested as early as possible.

We want to remind you that it is crucial to heed the "CONDITIONS" section of the COE. Not doing so may result in an ineligible loan and one you cannot sell. For example, if a COE has an *Active Duty Service Member* condition, the COE is only valid if the individual is currently on Active Duty. So, if you close a loan for a Guard/Reserve member who does not otherwise qualify, and the COE was conditioned for *Active Duty Service Member*, VA will not guaranty the loan.

Also, when you're creating an electronic application on ACE, please be sure the information is entered correctly. To help with any questions you may have, VA developed a Lender COE Tutorial, which is located at: <http://www.benefits.va.gov/homeloans/lenders.asp>. While you don't want to make mistakes anywhere during the home loan process, this is one place where mistakes can have significant negative consequences – so please don't be in a rush to complete the COE application.

One final matter on COEs: If Veterans are unable to locate their DD 214/Separation Documents, please refer them to either eBenefits or the National Archives.

eBENEFITS:

The eBenefits portal is a central location for Veterans, Servicemembers and their families to research, find, access, and, in time, manage their benefits and personal information – *including the ability to download their DD 214 and COE.*

Why was eBenefits created?

The President’s Commission on Care for America’s Returning Wounded Warriors) was established by [Executive Order 13426](#) in March 2007. The Commission recommended the creation of a “My eBenefits” (aka eBenefits) web portal that would provide Servicemembers, Veterans, their families and authorized caregivers with a single sign-on, central access point to clinical and benefit data.

You have the ability to partner with VA and the Department of Defense in spreading the word about eBenefits by including a Web Badge and link to eBenefits on your website. Doing so may be a win-win for you, the Veteran and VA. If the Veteran links to eBenefits from your site and obtains their COE, they may be more inclined to obtain their VA loan through you. Find more information about obtaining an eBenefits Web Badge [here](#).

VA FORM 26-8937 (VERIFICATION OF VA BENEFITS):

[VA Form 26-8937, Verification of VA Benefits](#), is the primary tool we use to determine if a Veteran is exempt from paying the VA Funding Fee. We rely on you to help us make this determination. Prior to closing a VA loan, all lenders are required to follow the “INSTRUCTIONS TO LENDER” listed in the upper right-hand side of VA Form 26-8937. Specifically, lenders are required to complete VA Form 26-8937 if the Veteran/applicant:

- is receiving VA disability payments;
- has received VA disability payments;
- would receive VA disability payments, but for receipt of retired pay;
- is surviving spouse of a Veteran and in receipt of DIC payments; and
- has filed a claim for VA disability benefits prior to discharge from active-duty service.

The only way you’ll know if you’re required to complete this form is if you ask the Veteran/applicant the above questions. We can’t overemphasize the need for you to ask these

questions to EACH and EVERY applicant on ALL loans, including Interest Rate Reduction Refinance Loans (IRR-RLs), early in your process. Unless the COE specifically states the Veteran/applicant is EXEMPT from the funding fee, you need to ask these questions. If the Veteran/applicant responds affirmatively to any of the five questions, you must fax the completed document to the RLC of jurisdiction. You will find RLC contact information below, under the *Resources* section.

If your current internal protocols already ensure completion of [VA Form 26-8937](#), we commend you. If they don’t, please take immediate action to ensure they do.



HOW TO GET ANSWERS TO CASE-SPECIFIC QUESTIONS:

For answers to case-specific questions, we’ve developed a protocol for you to follow.

Step 1:

First, we strongly encourage you to familiarize yourself with and consult the [VA Lender’s Handbook](#) prior to contacting VA.

VA gives you the authority within VA prescribed guidelines, when it comes to making your underwriting decisions.

Step 2:

We encourage you to check with your colleagues – chances are, someone in your organization previously researched and obtained the answer to your question.

Step 3:

If you need an official response to your case-specific question, it’s time to contact VA. But who, exactly, do you con-

tact? You should contact the RLC with jurisdiction over the state in which the property is located. You can either call or email the RLC. The above link will direct you to the RLC of jurisdiction and below, under the *Resources* section, you'll find email addresses and phone numbers to each RLC.

Whether you contact an RLC via phone or email, you'll work with a Loan Specialist. If, after coordinating with the Loan Specialist, your issue remains unresolved, then we need you to elevate your question/concern to Loan Production management. That means addressing your issue with either the Assistant Loan Production Officer (ALPO) or Loan Production Officer (LPO). Please don't worry about elevating your scenario to management. While members of our RLC Loan Production staff are highly trained individuals, if your answer to your case-specific question(s) is not resolved, the RLC management is available for guidance. Simply explain to the Loan Specialist that you would like to elevate your scenario to management – they will gladly take your contact information and relay the scenario and background information for management to contact you.

WHAT NOT TO DO:

Here's what we *DON'T* prefer you to do: Call another RLC attempting to obtain consensus.

The steps outlined above are in place to assist RLC management and Loan Specialists with training, consistency, and to ensure that issues are resolved at the appropriate local level.

If your issue remains unresolved after consulting local RLC management, then, we prefer you to elevate your scenario to Central Office. While the need for this level of elevation is not common, when it does occur, we'd like your "VA Liaison," (one or two individuals per lender) to contact Mark Connors, Central Office Lender Liaison. You can reach Mark at mark.connors@va.gov.

HOW TO SEEK RESOLUTION ON DISPUTED AUDIT FINDINGS:

Don't worry, because the protocols are very similar. When you disagree with an audit finding from an RLC, also known as a deficiency letter, your first step is to address your concerns with the Loan Specialist who conducted the audit. You will find this individual's name at the bottom of the deficiency letter. If your issue remains unresolved after communicating with the Loan Specialist, then simply follow the steps outlined in the above section.

Again, the key is to attempt to resolve issues at the local RLC level rather than elevating to Central Office.

RESOURCES

VA Lenders' Resources:

The Lenders Resources page offers a great deal of useful information, including a COE Tutorial, the Lender's Handbook, State Fees and Charges Deviations, Circulars, and much more.

RLC Contact Information:

The RLC Contact Information page provides a consolidated site where you'll find the names, locations, phone numbers, and states falling under the jurisdiction of the various RLCs.

Additionally, each RLC's Loan Production section has an email mailbox. For obtaining answers to case-specific questions, here are the addresses and phone numbers you should use – but please be sure you are contacting the right RLC – the RLC with jurisdiction over the state in which the property is located:

| RLC | EMAIL | PHONE | FAX |
|----------------|--|----------------|--------------|
| Atlanta | atlloanprod@va.gov | 1-888-768-2132 | 404-929-5401 |
| Cleveland | vahomesite@va.gov | 1-800-729-5772 | 216-522-3101 |
| Denver | lgyemail@va.gov | 1-888-349-7541 | 303-914-5666 |
| Honolulu | lgy.vbahon@va.gov | 1-808-433-0481 | 808-433-0383 |
| Houston | houstonlgy@va.gov | 1-888-232-2571 | 713-383-1772 |
| Phoenix | lpqc.vbapho@va.gov | 1-888-869-0194 | 602-627-3221 |
| Roanoke | lpplender.vbaroa@va.gov | 1-800-933-5499 | 215-842-7217 |
| St. Paul | rlc335@va.gov | 1-800-827-0611 | 215-991-5043 |
| St. Petersburg | homeloan.vbaspt@va.gov | 1-888-611-5916 | 727-319-7763 |

John's Space –

A WORD FROM THE ASSISTANT DIRECTOR

I want to take this opportunity to thank each and every one of you, without you, we wouldn't be able to accomplish our mission. I'm excited about the positive change occurring in LGY – particularly in the space I oversee – loan origination, eligibility, valuation, the Native American Direct Loan program, and the Specially Adapted Housing program. From Full File Loan Review, to Appraisal Management Service, to Qualified Mortgage, increasing usage in the Native American Direct Loan program, and the Specially Adapted Housing division, we've been busy! This program has been affording Veterans the opportunity for homeownership for the last 70 years. We are making changes to ensure the VA Home Loan Program remains a viable and important part of a Veteran's ability to obtain housing for the next 70 years. My goal is for VA to become the voice of all housing-related matters for Veterans. In order to achieve this goal, we must be informative, consistent, transparent, accurate, and timely.

Through my time in mortgage banking, and then here at VA, I have always relied on information and data to make informed decisions, measure product differences, and create opportunities that provide value. Now more than ever, accessibility to credit is scarce, and feedback from Veterans, Lenders, Real Estate Agents, and Builders helps us provide that access through the improvements we have made in the last 4 years. I recognize that removing long held misconceptions of benefit delivery has been key to recent increases, but more work needs to be done. Below are key talking points to help you when discussing the VA Home Loan Program with Veterans, Real Estate Agents, and Builders:

1. Closing times for VA-originated purchase loans compared to other loan types is 39 days vs. 38 days for FHA (Ellie Mae, February 2015, *Origination Insight Report*). This means VA loans close just as fast as other loan products.
2. Interest Rates – VA loans average lower than other loan types at 3.769% for 30-year fixed compared to 3.945% FHA and 4.079% for conventional (*Ibid*).
3. Percentage of Closed Loans to Application – VA leads the way in closing 73% of applications taken vs. 68.8% conventional, and 62.8% FHA (*Ibid*).
4. Since 2008, VA-guaranteed home loan volume has increased over 250% - why? (1) Education – VA is doing



a better job in marketing the program and providing opportunity to voice opinions/concerns and sharing that information, and (2) The lending community offers this program to our Veterans for a number of reasons, including access to credit, loan performance, and increasing application penetration, (3) Communication between VA and the Lending Community is at an all-time high.

5. There were 1,752 VA loans closed each business day in Fiscal Year 2014.
6. VA added a new appraisal review tool that will modernize and automate the appraisal review process and allow for increased quality, and reduce timeliness.
7. LGY has increased the number of appraisers that are on the VA Fee Panel by over 2,000 appraisers since FY 2012 in order to improve timeliness in the delivery of the appraisal to the reviewer (LGY Data).
8. The Veteran home ownership rate is 80% (79.67%), compared to the overall Homeownership rate of 64% (U.S. Census Bureau and CPS Veteran Supplement).

Thank you for helping Veterans. If there is ever anything we can do to help you provide this benefit to Veterans, please let us know. Please remember, if you haven't asked if your borrower is a Veteran, then you are costing them money!