#### Chapter 2. Credit Underwriting

#### Overview

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| In this Chapter | This chapter contains the following topics:

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| Topic | Title | Page |
| 1 | Underwriting Prior Approval VA-Guaranteed Loans | 2-2 |
| 2 | How to Process a Prior Approval Loan (Pre-Closing) | 2-3 |
| 3 | IRRRL Made to Refinance Delinquent Loan  | 2-11 |
| 4 | Loan Reporting and Issuance of Evidence of Guaranty | 2-12 |
| 5 | Release of Liability | 2-13 |
| 6 | Substitution of Entitlement | 2-20 |
| 7 | Sample Request for Pension Management Center to Review VA Pension Recipient Information | 2-25 |
| 8 | Sample Fiduciary HUB Memorandum | 2-26 |
| 9 | Fiduciary Hub Jurisdiction | 2-27 |

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1. Underwriting Prior Approval VA-Guaranteed Loans

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| a. Where to Find Information | Chapter 4 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) provides detailed information on: Credit standards to be applied to VA loan applicants, How to make a credit determination on a VA loan applicant, How to complete [VA Form 26-6393](http://www.vba.va.gov/pubs/forms/VBA-26-6393-ARE.pdf), *Loan Analysis*, Other documentation required when underwriting a VA loan, and1. Debt-to-income ratios.

Chapter 4 of the [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp) is based on VA regulations at 38 CFR 36.4337 and 36.4340. |

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| b. Lender and Regional Loan Center (RLC) Responsibil-ities | The lender is responsible for ensuring that the treatment of income, debts, and credit is in compliance with VA credit standards.RLCs are responsible for underwriting prior approval loans.RLCs are also responsible for reviewing the underwriting:* On loans selected for full review,
* On loans that go into early default (see Chapter 4, Topic 2 of the M26-1), and
* Weighing the seriousness and frequency of any deficiencies found, then
* Taking action to ensure future compliance with the VA credit underwriting standards, as warranted.
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| c. Debt/Income Ratio Above 45 Percent on Prior Approval Loans | Ratios above 45 percent require supervisor, or designee, approval.1. The loan specialist must provide a statement in the electronic system of record documenting the reasons for approval of loans with ratios above 41 percent.
2. The statement should list the compensating factors justifying loan approval.
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**2. How to Process a Prior Approval Loan (Pre-Closing)**

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| a. Evaluate the Application | Determine whether a Certificate of Commitment should be issued as follows:

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| Step | Action |
| 1 | Verify receipt and proper completion of all documents specified in Chapter 5, Topic 6 (*Submit “Other Necessary Documents”*) of the [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp). Obtain any missing items from the lender. |
| 2 | Verify that a valid Certificate of Eligibility (COE) has been issued. Ensure supporting evidence of service has been submitted, and if necessary, issue the COE. If the Veteran is ineligible, do no further review of the application. If the Veteran's available entitlement appears insufficient to support the loan amount, discuss with the lender if they want to proceed.* If the Veteran submits a certification of intent to dispose of presently owned property that secures a VA loan and obtain restoration of entitlement, continue the review. **Note:** A conditional Certificate of Commitment must be issued in such cases if other qualifications are met.
 |
| 3 | Verify that the occupancy requirement specified in Chapter 3, Topic 5 of the [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp) has been satisfied. |
| 4 | Verify that the loan purpose, term, amortization, and other terms and conditions conform to VA guidelines as stated in the [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp). |
| 5 | Verify that the Veteran's interest in the property will not be less than that prescribed in [38 CFR 36.4354](http://www.ecfr.gov/cgi-bin/text-idx?SID=9aec799378462b5b9d95fd2ef0a6ef54&mc=true&node=se38.2.36_14354&rgn=div8).If VA has rated the Veteran “unable to manage VA benefits,”consult with the Fiduciary Unit to ensure VA has no objectionto the estate being encumbered (see Special Procedures forVeterans with this rating section c of this topic below). |
| 6 | Determine if a Notice of Value (NOV) has been issued and if not, cease review of the application and discuss with the lender. |

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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| a. Evaluate the Application, continued |

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| Step | Action |
| 7 | Underwrite the loan in accordance with Chapter 4 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).* If the applicant receives a VA pension, see the "Special Procedures for Veterans Receiving a VA Pension" heading below.
* If the applicant has been rated unable to manage VA benefits by VA, see the “Special Procedures for Veterans unable to manage VA benefits” heading below.
* For joint loans, see the "Joint Loans" heading in Chapter 7, Topic 1 of the [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).
* To refinance loans 30-calendar days or more past due see Chapter 6, Topic 2 of the [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).
 |
| 8 | If the Veteran's attorney-in-fact seeks to use the Veteran's entitlement, verify that the requirements listed in Chapter 9 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) have been complied with. |
| 9 | Enter loan information and actions taken into the electronic system of record. |
| 10 | Issue a Certificate of Commitment and notify the lender.*If applicable, annotate the system with conditions as detailed in Chapter 5 of the VA* [*Lender’s Handbook*](http://benefits.va.gov/warms/pam26_7.asp)*.* |

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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| b. Special Procedures for Veterans Receiving a VA Pension | If the Veteran receives a VA pension, verify income in Compensation Services’ electronic system of record.* If the electronic system of record substantiates income, proceed with underwriting.
* If it is clear that the Veteran does not qualify for the loan, notify the lender and Veteran of the rejection prior to submitting the request to the Pension Management Center (PMC).
* If income reported on the loan application is less than the income in the electronic system of record, continue processing and notify the PMC.
* If income reported on the loan application is greater than the income in the electronic system of record, suspend processing of the loan application and submit the following to the PMC:
	+ Verifications of employment and deposit,
	+ Pay stubs,
	+ Documentation of social security benefits, pensions, and/or retirement income, and
	+ Documentation of savings bonds, certificates of deposit, and/or stocks.

Send an electronic request (see example in Topic 7 of this chapter) to verify income disclosed by the Veteran from the following sources:* Verifications of employment and deposit,
* Pay stubs,
* Documentation of social security benefits, pensions, and/or retirement income, and
* Documentation of savings bonds, certificates of deposit, and/or stocks.

The PMC will return the electronic response to Loan Guaranty within 3-business days of its receipt, or advise Loan Guaranty of the reason for any delay. Review the determination by the PMC and continue underwriting. If the PMC requires further investigation to determine whether the Veteran's pension will continue, do not proceed. Provide written notification to the lender the same business day, which includes the statement, "This loan application has been suspended for an internal review of the Veteran's continued eligibility for VA pension income benefits." |

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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| c. Special Procedures for Veterans Rated “Unable to Manage VA Benefits” | Prior to an RLC approving a VA home loan application submitted by a lender for a beneficiary in the fiduciary program, an assessment must be conducted by the Fiduciary Hub to determine if the investment is prudent and in the best interest of the beneficiary. This assessment is required even when the spouse is the payee. To initiate the determination process, complete and email a copy of the Fiduciary Hub Memorandum (see Topic 8 of this chapter for a sample memorandum) to the Fiduciary Hub with jurisdiction (see Topic 9 of this chapter).The Fiduciary Hub will return the memorandum within 3-business days of receipt and the memorandum will be marked “Approved,” “Denied,” or “Field Examination Required.” Please note that the Fiduciary Hub is not making an underwriting decision (whether the loan should be approved or denied).If the memorandum is marked “Approved,” proceed with underwriting. If the memorandum is marked “Denied,” inform the lender VA cannot approve the loan.If the memorandum is marked “Field Examination Required,” inform the lender it may take as long as 120-calendar days for the Fiduciary Hub to make a determination.Real estate must be titled only in the beneficiary’s name. Listing the fiduciary’s name on the title with the beneficiary is strictly prohibited, unless the fiduciary is a spouse payee. There are circumstances where an individual besides a spouse may be listed on a real estate title with the beneficiary; however, these instances require review and approval by Central Office, Pension and Fiduciary Service. The Fiduciary Hub or Activity conducting the assessment must submit a request to Central Office, Pension and Fiduciary Service, for instances where another individual, besides a spouse, will be listed on the title with the beneficiary. |

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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| d. Special Procedures for Secondary Borrowing | If the VA-guaranteed first mortgage is submitted for prior approval:* Review the documentation on the second mortgage for acceptability of the terms of that mortgage (see Chapter 9, Topic 4 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp)).
* Include the second mortgage payment in the income and debt evaluation.
* Contact the lender, if the loan approval is marginal due to the second mortgage payment.
* Suggest modification of the terms of the second mortgage.

Require the lender to obtain first lien position when recording the VA mortgage.  |

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| e. Notification of Withdrawal or Rejection  | If the lender or Veteran wishes to withdraw the application, then advise the lender to cancel the request in the electronic system of record.If the loan specialist reviews the loan and recommends rejection:* The Loan Production Officer (LPO) or appropriate level individual will personally review the file and document the decision in the electronic system of record, then
* Notify the lender and borrower in writing and telephone, and then document it in the electronic system of record.
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| f. Verify Guaranty for Joint Loans | For joint loans involving one or more non-Veterans:* Limit the loan amount shown on the commitment to the Veteran's/Servicemember’s portion of the loan.
* Base the percentage of guaranty on the ratio of the amount of entitlement the Veteran has available to the Veteran's portion of the loan. (See chapter 7, Topic 2 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp)).
* Calculate the appropriate funding fee (FF) amount based on Veteran’s portion of the loan (see Chapter 7, Topic 2 of the [VA Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp)).
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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| g. Review Changes Occurring Between Time of Commitment and Closing | **Changes in the qualifications of the loan or borrower**If either VA or the lender has reason to question the continued validity of the commitment based on materially significant changes, instruct the lender to delay loan closing until all facts are determined. See Chapter 5, Topic 4(e) of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).**Changes to the intended loan obligation** See Chapter 5, Topic 4(f) of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp). |

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| h. Cancel Certain Commitments Outstanding 6 Months or Longer | Ensure timely cancellation of expired Certificates of Commitment, taking into consideration the 60-calendar days allowed for reporting loans.The electronic system of record tracks Certificates of Commitment outstanding for 6 months or longer.Review each commitment file over 6-months old and determine if the commitment should be canceled based on the following review: * The validity period of the commitment has expired.
* There is no request for extension of the validity period from the lender.
* The FF has been paid; contact the lender for status of the closing package.
* If FF has not been paid, contact the lender to verify the status before canceling the commitment.
* Notify the lender of actions taken and annotate actions in the electronic record.
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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| i. Issue the Guaranty for Prior Approval Loans | Required documents for guaranty are listed in Chapter 5 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).

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| **Step** | **Action** |
| 1 | Review submission for required documents. * If critical document(s) are missing, delay issuance of the Loan Guaranty Certificate (LGC) until documents are received.
* If critical areas of documents are incomplete, then delay issuance of the LGC.
 |
| 2 | Verify receipt of a correct funding fee (FF) amount.* If overpaid, issue an LGC and instruct the lender to request an FF refund.
* If underpaid, do not issue an LGC until the proper amount has been received.
* If Veteran was overcharged, but the correct amount paid to VA, then require evidence of principal balance reduction or refund directly to Veteran, as appropriate. Issue an LGC after evidence is received.
 |
| 3 | Verify all conditions of the NOV have been met.If all conditions are not met, instruct the lender to submit missing documents and do not issue an LGC. |
| 4 | Review the signed Closing Disclosure for acceptable charges.If charges are not acceptable, then instruct the lender as to the appropriate action and do not issue the LGC. |
| 5 | Verify the Certificate of Commitment terms have been met.If the terms are not met, then determine the level of discrepancy. See Chapter 5, Topic 4 of the [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) for further guidance. |
| 6 | Verify that all conditions of the Certificate of Commitment have been met.If conditions are not met, then instruct the lender to submit the appropriate documents and do not issue the LGC. |

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**2. How to Process a Prior Approval Loan (Pre-Closing),** Continued

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| **j. Issue the Guaranty for Prior Approval Loans,** continued |

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| **Step** | **Action** |
| 7 | Determine if late reporting requirements are applicable. If late reporting is applicable and there is no waiver request, then do not issue an LGC. Contact the lender for missing documents. If the lender cannot certify the loan is current, consult CO. |
| 8 | Verify data in the system matches data in the closing package. |
| 9 | Resolve all discrepancies. If discrepancies cannot be resolved, then do not issue an LGC. Contact the lender for appropriate action/documents. |
| 10 | Ensure all actions taken (i.e., contact with lender, request for information, etc.) are properly annotated in the notes function of WebLGY. |

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| k. Dispose of Withdrawn or Rejected Prior Approvals | Dispose of withdrawn or rejected application files in accordance with [Records Control Schedule, VB-1, Part I, Field](http://www.benefits.va.gov/WARMS/21guides.asp), revised January 31, 2014, item numbers 12-076.100 and 12-080-100. |

3. IRRRL Made to Refinance a Delinquent Loan

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| a. References | Refer to Chapter 6, Topic 2 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp), *IRRRL Made to Refinance a Delinquent Loan*, for required documentation and processing procedures. |

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| b. Approve or Reject Loan | Determine the Veteran's willingness and ability to make the loan payments. The default on the prior loan is not a basis for withholding approval of the new loan in the absence of a clear indication that the Veteran lacks the willingness or ability to make the loan payments. However, do not approve a loan that would be of no real benefit to the interests of the Veteran or the Government. All late payments and late charges can be rolled into the new loan. If the amount of late payments and late charges is significant, the proposed monthly payment will be adversely impacted. Carefully analyze whether the Interest Rate Reduction Refinance Loan (IRRRL) would benefit the Veteran and not create unacceptable risk to the Government in light of the new monthly payment.Communicate the decision to the lender and annotate the decision in the electronic system of record. |

**4. Loan Reporting and Issuance of Evidence of Guaranty**

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| a. Waiver of 60-Day Limit for Reporting the Loan | The LPO or appropriate level individual is authorized to waive a lender's failure to report a loan within 60-calendar days of closing.* The lender must request the waiver in writing.
* The request must give the reason for the late submission.
* For automatically closed loans, the lender must certify the loan is current when reported.
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| b. How to Issue Evidence of Guaranty |

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| **Step** | **Action** |
| 1 | Refer to Chapter 5, Topic 5 of the [VA Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp), for a list of all required documents. |
| 2 | Verify receipt of the required FF, or proof of the Veteran's exempt status.  |
| 3 | Verify a valid COE has been issued. |
| 4 | Verify that an NOV has been issued. |
| 5 | Enter the loan into the electronic system of record and issue the LGC using the information on [VA Form 26-0286](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Form%2026-0286.htm), *VA Loan Summary Sheet*. |

Upon receipt of a request for manual guaranty: |

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| **c. What to Do if the Required FF, Valid COE, or NOV is Missing?** | Check the electronic system of record and validate if the following required actions have been taken and documents are present: 1. If the correct FF has not been paid, contact the lender to resolve the issue.
2. If the COE and/or NOV have not been issued, consult the lender to resolve the issue(s). Consult with Construction and Valuation (C&V), as required.

If the problem is un-resolved after a reasonable time (no later than 60-calendar days), return the case to the lender and state the reason for declining to issue the guaranty. Document actions taken and specifics of the case in the electronic system of record.Refer all potential canceled loans to your supervisor for consideration. |

**5. Release of Liability**

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| **a. Release of Liability** | VA processes Release of Liabilities (ROLs) for three purposes:* For servicers without automatic authority when their holders lack automatic authority,
* Divorce cases where the Veteran is retaining the property, and
* Special approvals and appeals.

Reference Chapter 5, Topic 7 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) for additional information relating to ROLs and Substitutions of Entitlement (SOEs). |

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| **b. Servicers Without Automatic Authority** | Servicers without automatic authority, and whose holders lack automatic authority, will develop and submit a complete credit package to VA. VA will then act as the approving entity. The process is similar to underwriting and making a decision on a prior approval loan.* When a request is received, create a record in the RLC tracking system.
* In order to process a release, you must have the following information:
* [VA Form 26-6381](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/26-6381.pdf), *Application for Assumption Approval/Release from Personal Liability*.
* [VA Form 26-6382](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-6382-ARE.pdf), *Statement of Purchaser or Owner Assuming Seller’s Loan*.
* A three file merged credit report pulled by the loan servicer.
* [VA Form 26-6807](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-6807-ARE.pdf), *Financial Statement*, completed by the prospective assumer.
* [VA Form 26-8497](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-8497-ARE.pdf), *Request for Verification of Employment*, or telephonic VOE properly completed by the loan servicer.
* Original pay stubs, Leave & Earnings Statement, W-2s, or tax returns for the prior 2 years, if self-employed, or other documentation as stated by Chapter 4 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).
* Retirement statements, 1099Rs, or other verification of income, if appropriate.
* Leases, if appropriate.
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**5. Release of Liability,** Continued

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| **b. Servicers Without Automatic Authority,** continued | * [VA Form 26-8497a](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-8497a-ARE.pdf), *Request for Verification of Deposit*, or other acceptable alternative documentation, if assets are required at closing.
* [VA Form 26-0503](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-0503-ARE.pdf), *Federal Collection Policy Notice*
* CAIVRS Inquiry
* Sales Contract
* Evidence that the loan is current

Income, assets, and credit documents may be accepted from the loan servicer only. Documents submitted directly from the Veteran may not meet the requirements of independently verifying income, assets, etc. If an SOE will take place, the following additional documents are required:* Either a COE or fully completed [VA Form 26-1880](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/VBA-26-1880-ARE.pdf), *Request for a Certificate of Eligibility*, for the assumer. The assumer must have sufficient entitlement to substitute for that of the original Veteran.
* A signed [VA Form 26-8106](http://vbaw.vba.va.gov/bl/20/cio/20s5/forms/26-8106.pdf), *Statement of Veteran Assuming GI Loan*. The assumer must certify that the property securing the loan will be occupied as his/her home and this satisfies this requirement.

If documents are missing, or not properly completed, then suspend the loan and hold for 30-calendar days. Notify the lender, Veteran, and prospective assumer of the required items by using the appropriate RLC-generated letter. If the documents are not received within the prescribed period, withdraw the request for ROL (and SOE), and send RLC-generated letters to the servicer, Veteran, and prospective assumer. Notate the RLC tracking system of this action.Underwrite the loan according to the underwriting standards contained in Chapter 4 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp).  |

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**5. Release of Liability,** Continued

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| **b. Servicers Without Automatic Authority,** continued | If the assumption is not satisfactory**,** then follow guidance in Chapter 5, Topic 7 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) regarding supervisory concurrence of the disapproval and issue denial letters to the servicer, seller, and assumer. * If the denial is credit based, you must also include the name and address of the credit bureau that was supplied by the loan servicer in your letter to the purchaser. When the reason for denial is credit based, this particular piece of information should not be relayed to the seller/Veteran, but only to the servicer and the prospective assumer.
* The Veteran/seller can be advised of the denial, but not the specific reason for the denial.
* Make appropriate notations in your RLC’s electronic record and the nationwide electronic record.

If the assumption is satisfactory, but documents are missing or incomplete, then suspend the loan and hold for 30-calendar days. * Advise the servicer of the required documents via an RLC-generated letter.
* Send copies to both the seller and the assumer the same day.
* Make appropriate notations in the RLC’s electronic record.

If the assumption is satisfactory and all documents are received and complete, then issue a RLC-generated letter to the lender, seller, and assumer instructing them to close the loan, then submit the following:* Evidence that the FF is paid, or that an exempt record has been established in the Funding Fee Payment System (FFPS).
* A copy of the signed Closing Disclosure if used. If not used, then the servicer must submit evidence of all costs paid in association with the assumption (ROL fee, FF, recording fees, etc).
* Lender’s Loan Quality Certification.
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**5. Release of Liability,** Continued

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| **b. Servicers Without Automatic Authority,** continued | * Legal instrument, which transfers the title and includes the Assumption Clause. If the clause is not contained within the recorded document, then a formal Assumption Agreement would be acceptable (formal assumption agreements vary by servicer).
* Forwarding address for the seller.
* Address for the assumer if he/she is not going to occupy the property.

If all documents are not received or properly completed/recorded, then suspend the loan hold for 30-calendar days, and notify the lender in writing of the required documents using an RLC-generated letter, sending copies to both the Veteran and the assumer. If the hold date passes without a response from the servicer, send a follow-up request and hold for an additional 30-calendar days. If the second hold date passes without a response from the servicer, withdraw the request and annotate the electronic system of record and notify the servicer, Veteran, and assumer that the request has been withdrawn.When all documents are received, close out the record in the RLC’s electronic record. Send RLC-generated letters to the parties involved advising that the release has been completed, etc. If an SOE is appropriate, then send the RLC-generated letter for SOE advising both Veterans of the restoration and usage of entitlement. Notate changes in the nationwide electronic loan record.If the request has been withdrawn, then close out your RLC’s electronic record and notate such in the nationwide electronic loan record.When a judge awards property encumbered by a VA loan to a spouse, then the loan servicer will process the ROL for the Veteran. See earlier in this section for instructions regarding the normal review of servicer processed releases.  |

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**5. Release of Liability,** Continued

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| **b. Servicers Without Automatic Authority,** continued | When a judge awards property encumbered by a VA loan to the Veteran whose entitlement is associated with the loan, then VA will process the release of the non-retaining spouse or joint obligor. Procedures for joint loans, for both Veteran/Veteran or Veteran/non-Veteran, are described above. |

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| **c. Divorce Cases** | When sole ownership is involved (i.e. Veteran and spouse), then the Veteran is liable to VA under both subrogation and indemnity. The spouse is liable only if the spouse signed the Note. The Veteran is using his benefit creating the subrogation, plus the Veteran has signed the Note creating indemnity. Due to the strength of VA’s stance regarding the Veteran’s obligation, we will routinely release the spouse from liability providing the following documentation is provided: * A devise of law (i.e. divorce decree or other document accepted by the state in which the divorce occurs) duly executed that provides the impetus for the release request.
* A copy of the legal document that provides for the settlement of property.
* A copy of a recorded legal instrument, which transfers title from the former spouse to the Veteran. This does not need to include the assumption language because of the strength of VA’s position regarding the Veteran’s liability.
* Evidence that the subject loan is current at the time of the release or at the time the request was made.
* Written request for release from the former spouse. This information must be collected on [VA Form 26-6381](http://www.vba.va.gov/pubs/forms/26-6381.pdf).

No FF is assessed in divorce cases. Once the servicer is informed that VA has approved the ROL, they may charge a nominal fee up to $50.00 to amend their records to reflect the change in ownership.Review the documents received. * If all documents are received, complete and satisfy the requirements then notate your RLCs electronic system of record as to the completion of the release.
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**5. Release of Liability,** Continued

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| **c. Divorce Cases,** continued | * As spousal information is not initially captured in the nationwide system, simply notate in the *notes function* the spousal release has been completed.
* Send an RLC-generated letter to both the released spouse and the Veteran.

You do not know the circumstances of the divorce; therefore, when sending letters to each party do not reveal the address of the other party.If documents do not meet the required criteria, send an RLC-generated letter to each party. Hold the response for 30-calendar days. If the hold date passes without a response, withdraw the request, annotate the electronic system of record, and notify the Veteran and ex-spouse that the request has been withdrawn.  |
| **d. Servicer Processed Releases** | VA loan servicers process most requests for ROLs and all transfers of ownership. The servicer is required to report these events in the VA Loan Electronic Reporting Interface (VALERI) system, as well as, report the ROLs in the FFPS as either a payment or exemption of the fee.A monthly record of servicer processed releases is available through the VALERI system. Servicers must provide a copy of their ROL file, including all underwriting and closing documents as described in Chapters 4 and 5 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp), within 30-calendar days of closing the assumption. RLCs should request copies of these release packages if they have not received them within 90-calendar days of the event reported in VALERI.RLCs may also use the reports available in FFPS to request these files. In this case, RLCs may request the assumption event be first reported to VALERI, then follow normal RLC follow-up procedures. |

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**5. Release of Liability,** Continued

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| **d. Servicer Processed Releases,** continued | When a servicer-processed ROL is received, the file must be reviewed to determine if an SOE has been requested. * If an SOE is appropriate, check for the assumer’s available entitlement and ensure the occupancy requirement is met.
* If the assumer does not have sufficient entitlement, suspend the file and request the appropriate information/documentation from the assumer.

Complete a cursory review of the underwriting and ensure the following:* Appropriate charges (see Chapter 5, Topic 7 of the VA [Lender’s Handbook](http://benefits.va.gov/warms/pam26_7.asp) for allowable charges),
 |
|  | * Receipt of the FF or creation of an exempt record,
* Proper assumption language on legal instruments,
* The loan is current at the time of the assumption closing, and
* Mailing addresses for the Veteran and the assumer.

If the review reveals the need for additional information; suspend the file, hold for 30-calendar days, and send RLC-generated letters to the parties requesting the additional documentation. Otherwise, code appropriately in the system of record. Notate your RLC’s electronic tracking system with the status.  |

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| e. Graduated Payment Mortgages (GPM) | If an ROL or SOE case involves a GPM and the assumption will take place during the graduation period; obtain from the assumer the signed statement described in Chapter 7, Topic 7(h) of the VA [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp), modified to reflect the payment information as of the year of assumption. |

**6. Substitution of Entitlement**

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| a. Specifics on Substitution of Entitlement | The following chart explains ROE under SOE conditions, in further detail.

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| Issue | Explanation |
| Requirements | The buyer must have sufficient available entitlement to replace the amount of entitlement used by the seller in originally obtaining the loan, and must authorize a charge to his or her entitlement.If a manufactured home is purchased, the buyer must dispose of any manufactured homes previously bought with a VA loan. The buyer must qualify from a credit standpoint.The buyer must assume all liability for the loan and all liability of the seller under the terms of the loan instruments.The buyer must certify that he or she intends to personally occupy the property as his or her principal residence, or occupied the property at one time.The loan must be current at the time of request. |
| Steps | An ROL for the seller is processed by VA, the holder, or an authorized servicing agent. (Section 6 below)VA processes an SOE for the buyer. |

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6. Substitution of Entitlement, Continued

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| a. Specifics on Substitution of Entitlement, continued |

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| Issue | Explanation |
| Loan Commitment Date Before or After March 1, 1988 | For loans with commitments made on or after March 1, 1988, in most cases, requests for ROL on loan assumptions are processed by the holder or the authorized servicing agent. VA will process the SOE, generally after the holder has provided notice of an approved transfer.For loans with commitments made before March 1, 1988, VA will process any ROLs:* If title was previously transferred and an ROL was not obtained, the Veteran buyer's qualification from a credit standpoint will be determined as of the date of application for substitution, not when title transferred.
* If an ROL was previously granted, the Veteran buyer is presumed to qualify from a credit standpoint, as long as, the loan is current at the time of application.
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| Application Forms | The Veterans involved in the transaction must submit the following forms as an application for SOE.For all cases:* [VA Form 26-8106](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Forms%2026-8106.htm), *Statement of Veteran Assuming GI Loan (Substitution of Entitlement)*
* Buyer's and Seller's COEs, or if not previously issued, [VA Form 26-1880](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Forms%2026-1880.htm) with supporting documentation

For cases where an ROL has not previously been granted, direct the Veteran to their servicer’s assumption (or special loans) department for processing and verify the following documents were delivered to the servicer:* [VA Form 26-6381](http://www.vba.va.gov/pubs/forms/26-6381.pdf), *Application for Release From Personal Liability to the Government on a Home Loan*,
* [VA Form 26-6382](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Form%2026-6382.htm), *Statement of Purchaser or Owner Assuming Seller's Loan*,
* [VA Form 26-8497](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Form%2026-8497_files), *Request for Verification of Employment,*
* Or alternative documentation,
* [VA Form 26-8497a](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Form%2026-8497_files), *Request for Verification of Deposit*,
* [VA Form 26-6807](file:///C%3A%5CUsers%5Cvbacolilleb%5CDocuments%5CVA%20Form%2026-6807_files), *Financial Statement*,
* Certified check or money order for the amount of the credit report (amount designated for ROL cases).
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**a. Specifics on**

**Substitution**

**of Entitlement,**

continued

**6. Substitution of Entitlement,** Continued

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| **b. RLC Procedures** | The following steps explain RLC procedures for processing SOE conditions in further detail. |

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| **RLC Procedures** | Applications are processed by the RLC with jurisdiction over the property location.If all requirements for an SOE have been met except the seller's COE or [VA Form 26-1880](http://www.vba.va.gov/pubs/forms/VBA-26-1880-ARE.pdf) have not been received after reasonable attempts to obtain such, proceed with the substitution. |
| **1** | Use the original loan number. |
| **2** | Use the RLC tracking system to track status/follow-up. |
| **3** | Apply the underwriting procedures described in Chapter 4 of the [Lender's Handbook](http://benefits.va.gov/warms/pam26_7.asp). Determine whether all requirements for ROL/SOE are met, including whether the buyer(s) meet credit and income standards, if applicable. If standards are met, proceed to step 4. If not, skip to step 7. |
| **4** | Advise the seller by letter that the application has been approved (and the sale may be closed, if applicable). Include that substitution will not be effected until a copy of the assumption clause (or in some states, and when title has already been transferred, a properly signed "Agreement Creating Liability to Holder and to the United States") has been received by VA, and a determination is made that the loan is current. |
| **5** | Once the SOE is coded, send a new COE to the buyer (and seller, if a 26-1880 was received) showing the SOE as done. Include a copy of the assumption agreement, when applicable. |
| **6** | If not approved, notify the buyer and seller of the rejection of their application for SOE. Notate the electronic system of record (WebLGY). |

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**6. Substitution of Entitlement,** Continued

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| c. Examples of Substitution of Entitlement | **Example 1**: Joe purchased a property from Cheryl, and assumed the VA loan. Cheryl had originally used $36,000 of her entitlement to purchase the home. Joe wishes to substitute his entitlement for Cheryl's, but he only has $33,000 available entitlement. No substitution can be done, and Cheryl cannot have her entitlement restored until the loan is paid-in-full or another eligible Veteran assumes the loan and substitutes $36,000 entitlement. |
|  | **Example 2**: Joe purchased a property from Cheryl, and assumed the VA loan. Cheryl had originally used $36,000 of her entitlement to purchase the home. Joe wishes to substitute his entitlement for Cheryl's, and he has $36,000 available entitlement. The substitution can be done and Cheryl can have her entitlement restored.**Example 3**: Joe and Cheryl purchased a property *together* using joint entitlement. Each originally used $36,000 of entitlement. Joe wishes to substitute his entitlement for Cheryl's to release her from the loan. Joe has enough bonus entitlement to substitute for Cheryl’s, so she can have her entitlement restored. |

7. Sample Request for Pension Management Center to Review VA Pension Recipient Information

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 Below is a sample Routing and Transmittal Slip for requests for the Pension Management Center to review VA pension recipient information. This should only be used for instructional purposes.

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| ROUTING AND TRANSMITTAL SLIP |
| TO:Pension Management Center |
| Claim No. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Veteran's Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_1. The above Veteran has applied for Loan Guaranty benefits. SHARE shows that the Veteran receives pension benefits.2. Please review the attached documents from the Veteran's loan application and indicate whether this information is consistent with income/net worth information of record.3. Questions about these documents may be directed to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at \_\_\_\_\_\_\_-\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.🞎 Loan application information is consistent with income/net worth information of record. No further action necessary.🞎 Development required based on loan application information. Contact \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ at \_\_\_\_\_\_\_-\_\_\_\_\_\_\_\_\_\_\_ for status update.\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_PMC Officer Date\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_FROM: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

8. Sample Fiduciary HUB Memorandum

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Below is a sample Fiduciary Hub memorandum that is intended for instructional purposes only.

**Department of MEMORANDUM**

**Veterans Affairs**

Date: *Month xx, xxxx*

To: *xx Fiduciary Hub*

From: xx Regional Loan Center

Re: *Veteran Name, xxx xx xxxx*

Subject: Application for VA-Guaranteed Home Loan

An application for a VA-guaranteed home loan to purchase (or refinance) a home has been submitted to the *Location* Regional Loan Center on d*ate,* on behalf of *Mr./Mrs. Veteran*. *Mr./Mrs. Veteran Name (and individual)* will be listed on the title*.*

The proposed loan amount is $xxxx and the monthly Principal, Interest, Tax and Insurance payment is anticipated to be $xxxx.

Please conduct an assessment to determine if *Mr./Mrs. Veteran Name* has the estate to support the purchase of a home loan, and it is in *Mr./Mrs. Veteran’s Name* best interest.

xxxxxx xxxxxxxx

xxxxx Loan Specialist

FIDUCIARY HUB USE ONLY

 Approved Denied Field Examination Required

Reason:

xxxxxx xxxxxxxx

xxxxx Hub Manager, or designee

**9. Fiduciary Hub Jurisdiction**

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| Submitting Correspon-dence to the Fiduciary Hub | When submitting correspondence to the Fiduciary Hub or Activity, utilize the table below to determine jurisdiction. You may contact the Fiduciary Hub at 1-888-407-0144, with the appropriate extension listed in the table below.The Fiduciary Hub or Activity mailboxes are as follows:

|  |  |
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| Fiduciary Hub | Jurisdiction |
| **Columbia Fiduciary Hub**P.O. Box 9367Columbia, SC 29209-99981-888-407-0144, #1VA Email:VAVBACMS/RO/FIDHUB | FloridaGeorgiaNorth CarolinaSouth Carolina |
| **Indianapolis Fiduciary Hub**P.O. Box 441480Indianapolis, IN 462441-888-407-0144, #2VA Email:VAVBAIND/RO/FIDHUB | Connecticut New Hampshire Asia Delaware New Jersey Australia Indiana New York Canada Maine OhioEurope Maryland Pennsylvania Massachusetts Rhode Island Michigan Vermont |

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9. Fiduciary Hub Jurisdiction, Continued

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| Submitting Correspon-dence to the Fiduciary Hub, continued |

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| Fiduciary Hub | Jurisdiction |
| **Lincoln Fiduciary Hub**P.O. Box 5444Lincoln, NE 68505-54441-888-407-0144, #3VA Email:VAVBALIN/RO/FIDHUB | Kansas South Dakota Nebraska TexasNorth Dakota MexicoOklahoma Central and South America |
| **Louisville Fiduciary Hub**P.O. Box 3487Louisville, KY 402011-888-407-0144, #4VA Email:VAVBALOU/RO/FIDHUB | Alabama TennesseeKentucky Washington, District of ColumbiaMississippi West VirginiaVirginia Puerto Rico |
| **Milwaukee Fiduciary Hub**P.O. Box 14975Milwaukee, WI 53214-09751-888-407-0144, #5 VA Email:VAVBAMIW/RO/FIDHUB  | Arkansas MinnesotaIllinois MissouriIowa WisconsinLouisiana  |
| **Salt Lake City Fiduciary Hub**P.O. Box 58086Salt Lake City, UT 841581-888-407-0144, #6**VA Email:** VAVBASLC/RO/FIDHUB | Alaska Idaho OregonArizona Montana UtahCalifornia NevadaWashington Colorado New Mexico WyomingHawaii  |
| **Manila Fiduciary Activity**1501 Roxas BoulevardPasay City, PI 1302**VA Email:** VAVBALOU/RO/FIDHUB | Republic of the Philippines |

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