

## **Chapter 1. Regional Loan Center Procedures Regarding VA Lenders**

### **Overview**

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# 1. How to Set Up a New VA Lender in Your Regional Loan Center 's Jurisdiction

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**Change Date**

May 23, 2017, Change 5

- This section has been updated in its entirety.
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**a. Lender with Home Office in Your Regional Loan Center's (RLC) Jurisdiction**

The following chart lists steps to be taken when a first-time lender with its home office located in your RLC's jurisdiction or a lender re-entering the program after a lapse requests to begin making Department of Veterans Affairs (VA) loans.

| Step | Action   |
|------|--|
| 1    | Collect the information specified in <a href="#">Chapter 1</a> , Topic 16 of the <a href="#">Lender's Handbook</a> .   |
| 2    | Establish a temporary lender file on the shared network drive to hold the information until it is scanned into the lender's electronic record. Update the electronic record or create a new record, if none exists.  |
| 3    | Verify in System for Award Management (SAM) whether VA or the Department of Housing and Urban Development (HUD) ever debarred or took adverse action against any officers, principals, or personnel who are currently involved with the lender's VA lending. If so, consult the Central Office Lender Liaison. |
| 4    | Provide the lender's notification and decision letter signed by the Loan Production Officer (LPO) or designee.   |

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## 2. How to Process a Request for Recognition as a Supervised Lender

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**a. Procedures**      The RLC with jurisdiction over the lender's home office will process a request for recognition as a supervised lender. Follow these procedures:

| <b>Step</b> | <b>Action</b>  |
|-------------|--|
| 1           | Collect the information specified in <a href="#">Chapter 1, Topic 2(a)</a> of the <a href="#">Lender's Handbook</a> .  |
| 2           | Establish a temporary lender file to hold the information until it is scanned into the lender's electronic record. Update the electronic record or create a new record if none exists. |
| 3           | Inform the lender of the decision by letter signed by the LPO or designee.   |

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### 3. How to Process a Request for Automatic Authority

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|                      |   |  |
|----------------------|---|--|
| <b>a. Procedures</b> | <p>The RLC with jurisdiction over the lender's home office will perform the initial review of the application, within 14-business days of receipt of the application in Loan Production, for automatic authority. Follow these procedures:</p>      |  |
|                      | <b>Step</b>   | <b>Action</b>  |
|                      | 1   | <p>Ensure the lender has provided all forms and documentation specified in the checklist in Chapter 1, Topic 2(a), of the <a href="#">Lender's Handbook</a>.</p> <p>Obtain any missing information or fees from the lender. See Topic 10 of this chapter for instructions on how to process fees.</p>  |
|                      | 2   | <p>Review VA Form <a href="#">26-8736a</a>, <i>NonSupervised Lender's Nomination and Recommendation of Credit Underwriter</i>, and VA Form <a href="#">26-8736b</a>, <i>Checklist/Request for Authority to Close Loans on an Automatic Basis-Non-supervised Lenders</i>, including specific information concerning:</p> <ul style="list-style-type: none"> <li>• Completeness of loan submissions and/or irregularities in loan procedures,</li> <li>• Quality of loan submissions for prior approval,</li> <li>• Frequency of loan terminations, especially within the first 3 years of loan origination.</li> <li>• Ratio of rejected loan submissions to total applications,</li> <li>• Timeliness and cooperation in providing requested supplemental information, and</li> <li>• Any demonstrated inability to understand VA requirements.</li> </ul> |
| 3                    | <p>Determine if the lender meets all the criteria listed in Chapter 1, Topic 4, of the VA <a href="#">Lender's Handbook</a>.</p> <p><b>Note:</b> This is the most critical step. Reviewers should be thoroughly familiar with the requirements.</p> |  |

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### 3. How to Process a Request for Automatic Authority, Continued

**a. Procedures,**  
continued

| Step | Action   |
|------|--|
| 4    | <p>If the lender meets all the criteria, the application can be approved by the LPO. Generate the non-supervised automatic-approval letter from the lender's electronic record.</p> <p>If the lender does not meet the requirements, a letter of disapproval (Exhibit B) will be drafted and submitted to the LPO or designee for signature.</p> |
| 5    | Populate the lender information in the lender's electronic record.   |

**b. What if a  
Disapproved  
Lender  
Requests  
Reconsideration?**

RLCs will review any additional information submitted by lenders seeking reconsideration of the disapproval. If the RLC is still unable to approve the application, the lender will be notified by letter.

If the lender wants to appeal the decision, submit the lender's application and any supporting documentation to Central Office (CO), Loan Policy.

Loan Policy will review the material and make a final decision within 14-business days.

## 4. How to Process Other Types of Lender Requests

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**Change Date**

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- This section has been updated in its entirety.
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**a. Responsibility**

The RLC with jurisdiction over the lender's home office will perform the tasks described in this section, unless otherwise specified. Forward any request received from a lender's home office outside your jurisdiction to the appropriate RLC of jurisdiction.

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**b. Application for Underwriters for Non-supervised Automatic Lenders**

Process a non-supervised automatic lender's request for approval of an underwriter as follows:

- Ensure the lender has submitted [VA Form 26-8736a](#), *Non-Supervised Lender's Nomination and Recommendation of Credit Underwriter*, and the requirements of Chapter 1, Topics 4 – 6 and 16, of the [Lender's Handbook](#) are met.
  - Obtain any missing information or fees from the lender. A separate fee is required for each underwriter nominated.
  - Evaluate information and send the approval or rejection letter to the lender.
  - Input approved underwriter information into the electronic system of record along with approval or denial letters, as well as other documentation received.
- 

**c. Recognition of Agents**

A sponsoring lender must request VA recognition of:

- An ongoing relationship with an agent (more than 4 loans a year).
- An agent that will close loans for the lender in the agent's name.

Process a request for recognition of an agent as follows:

- Ensure the requesting agent does not already have a VA lender identification (ID) by searching for them by name and then tax ID,
- Do not assign a new lender ID number if the agent already has one assigned from another Regional Loan Center. When assigning an ID, send the agent the assign agent ID letter.
- Ensure the sponsoring lender has submitted a corporate resolution that meets the requirements of Chapter 1, Topic 7 of the [Lender's Handbook](#) and the appropriate fees.
- If inadequate, obtain a satisfactory corporate resolution and/or fees from the sponsoring lender.
- For multiple requests, a fee must be paid for each agent. Agents have nationwide recognition.

Send VA's written recognition of the agency arrangement to the lender. Scan all information received from the lender into the lender's electronic file.

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## 5. Regional Loan Center Responsibilities During Non-supervised Automatic Lender's 1-Year Probationary Period

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### Change Date

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### a. Assist and Train

As necessary, RLCs must assist and train lenders on VA loan processing. As travel funds permit, they may hold in-person training sessions on automatic processing. RLCs should encourage lender personnel involved in VA lending to attend. RLCs should use automation technology as much as possible to conduct lender training.

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### b. Review Loan Submissions

Each RLC receiving loan submissions from the lender will perform a complete review, including underwriting analysis, for:

- The first 15 loans closed automatically by the lender,
- 50 percent of the next 50 closed loans, and
- Random sample thereafter within the first year.

Review and document loan deficiencies that show a pattern and discuss deficiencies with the lender concerning probationary performance.

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### c. Probationary Period

Each RLC receiving loan submissions from the lender will, prior to the end of the probationary period, review the lender's electronic record file and determine if the probationary period should be terminated, extended, or if automatic authority should be withdrawn. If terminated or extended, a letter should be sent out with the LPO's signature. See below for instructions on withdrawing automatic authority.

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### d. Withdrawal of Automatic Authority During a Probationary Period

Withdrawal of automatic authority can be done any time during the probationary period based on numerous significant underwriting errors and/or recurring deficiencies.

Give the lender a reasonable opportunity to correct the problems. If the lender does not correct documented problems, provide a recommendation for withdrawal of automatic authority to CO with documentation of the deficiencies.

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## 6. Ongoing Regional Loan Center Monitoring of Automatic Lenders

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**Change Date**

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- This section has been updated in its entirety.
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**a. Review of Loans**

RLCs receiving loan submissions from an automatic lender must review a sample of such loans, generally after evidence of guaranty is issued. Information on full review and review of early payment default (EPD) loans is found in Chapter 5 of this manual.

Maintain a record of deficiencies in the lender's electronic record and, if appropriate based on the frequency and seriousness of the deficiencies, discuss the deficiencies with the lender.

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**b. Evaluate and Process Changes in Lender's Operations**

When an automatic lender informs the RLC with jurisdiction over its home office of a change in operation, the RLC should evaluate whether:

- it is undergoing a merger or acquisition, or
  - if there is any other change in its corporate structure, operations, supervision, or financial condition that may have a bearing on its continued qualifications for automatic authority.
- 

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## 6. Ongoing Regional Loan Center Monitoring of Automatic Lenders, Continued

**c. Processing Significant Changes** Chapter 1 Section 8 of the VA [Lender's Handbook](#) provides definitions of significant changes that may affect a lender's status. Follow these steps to process a significant change:

| Step | Action  |
|------|---|
| 1    | Ensure the lender has submitted sufficient information to make a determination on automatic authority, as well as the \$100 fee. <ul style="list-style-type: none"> <li>• Obtain any additional information needed or missing fee from the lender.</li> <li>• Topic 10 of this chapter explains how to process fees.</li> </ul>   |
| 2    | If the lender operates in the jurisdiction of two or more RLCs, forward all relevant documentation to the RLC with jurisdiction over the lender's home office for a determination.  |
| 3    | Determine whether the lender, after undergoing the merger/acquisition or other significant change, continues to have automatic authority.<br><br>If the answer is <b>yes</b> , write a letter to the lender which includes recognition of the merger/acquisition or other change and establishment of: <ul style="list-style-type: none"> <li>• The remaining entity's name,</li> <li>• The lender's authority (including Lender Appraisal Processing Program [LAPP]),</li> <li>• VA lender ID number,</li> <li>• Principal personnel of the lender, and</li> <li>• Authorized agents.</li> </ul> Input information into the electronic system of record.<br><br>If you are <b>unable to approve</b> , or you believe the answer is <b>no</b> , submit all relevant documentation and proof of payment of the fee to CO for a determination. Go to step 4.<br><br><b>Note:</b> <u>A change in ownership of a non-supervised automatic lender always extinguishes the automatic authority of the lender unless the new entity is clearly supervised.</u> (Automatic authority is not for sale.) Submit these types of cases to CO unless the new entity is clearly supervised. |

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## 6. Ongoing Regional Loan Center Monitoring of Automatic Lenders, Continued

**c. Processing Significant Changes, Continued**

| Step | Action   |
|------|--|
| 4    | <p>CO will notify the lender and RLC(s) of its decision.</p> <ul style="list-style-type: none"> <li>• During the interim, the lender's automatic authority continues, unless, in the case of a non-supervised lender, the lender no longer has an approved underwriter.</li> <li>• If the new entity is a non-supervised lender without automatic authority, it must submit a new application for automatic authority with the appropriate fee.</li> </ul> |
| 5    | Update the lender's electronic record to reflect the changes.  |

**d. Maintain Records**

Update the lender's electronic record to reflect all decisions on agents, underwriters, extensions, regional underwriting offices, etc., made by your RLC, other RLCs, or CO for lenders operating in your jurisdiction.

**e. Collect Annual Fees and Financial Statements**

**Non-supervised Lenders with Automatic Authority:** The RLC with jurisdiction over the lender's home office will ensure the following items are received within 120-calendar days of the end of the lender's fiscal year:

- Annual financial statements audited and certified by a Certified Public Accountant in a format meeting the criteria of Chapter 1, Topic 5 of the [Lender's Handbook](#). Copies to be retained in the electronic system of record.
- Annual lender recertification and lender renewal fees specified in Chapter 1, Topic 10 of the [Lender's Handbook](#).
- Agent renewal fees.

Retain copies of the above documentation in the electronic file. For lender and agent renewal fees, providing the Field Service Receipt (FSR) number is sufficient.

**Supervised Lenders:** The RLC with jurisdiction over the lender's home office will ensure the fees specified in Chapter 1, Topic 10 of the [Lender's Handbook](#) for agent renewals (when applicable) are remitted by January 31 of each year.

- No financial statements or other annual fees are required.
- Retain copies in the electronic file.

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## 6. Ongoing Regional Loan Center Monitoring of Automatic Lenders, Continued

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**e. Collect Annual Fees and Financial Statements, continued**

**Initial Fee Paid Recently**

- If a lender has automatic authority approved or an agent recognized, and
- VA's letter of recognition is dated within 120-calendar days of the next renewal due date for non-supervised automatic lenders, or within 120-calendar days of the next renewal due date for supervised lenders, then
- No annual fee is due for an agent if VA's letter of recognition is dated within the last quarter of the lender's most recent fiscal year.

However, the lender must still submit everything else that is due, including:

- Annual fees for all other agents, and
- Financial statements (for non-supervised automatic lenders).

See Topic 10 of this chapter for instructions on how to process fees.

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## 7. Withdrawal of Automatic Authority

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**a. RLC Authority**

RLCs have the authority to withdraw a lender's automatic authority for 60-calendar days after consultation with the CO Chief of Loan Policy and Lender Liaison. Longer periods of withdrawal must be imposed by CO.

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**b. Basis**

Automatic authority can be withdrawn from both supervised and non-supervised lenders for:

- Failure to continue meeting qualifying criteria for automatic authority,
  - Imprudent lending practices, and/or
  - Other practices prohibited by law or regulations.
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## 8. Lender ID Numbers

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**a. Responsibility**      The RLC with jurisdiction over a lender’s home office is responsible for assigning an initial ID number to that lender and any subsequent branch IDs. Any RLC may assign the agent’s initial ID number regardless of the sponsoring lender’s jurisdiction.

To avoid creating a duplicate ID, search under the company name and tax ID before assigning an initial ID number using the chart below.

| <b>Digits</b>     | <b>Explanation</b>   |
|-------------------|--|
| 1<br>through<br>6 | These 6 digits are assigned by the RLC with jurisdiction over the lender's home office and <b>always</b> stay the same for that lender. <ul style="list-style-type: none"> <li>• An entity which functions sometimes as a lender, and other times as an agent, uses the same 6-digit number for both.</li> <li>• A lender which operates out of home and branch offices uses the same 6-digit number for all locations.</li> </ul> |
| 7<br>and<br>8     | "00" represents the lender's home office.<br><br>For a branch office, the Federal Information Processing Standards (FIPS) Code represents the state in which the branch office is located.   |
| 9<br>and<br>10    | "00" represents the lender's home office.<br><br>For a branch office, a 2-digit branch number is assigned. Up to 99 branch numbers can be established in each state.   |

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**b. Agent Coding Issues**      If an agent or lender has been assigned more than one ID number, the LPO must contact the CO Program Management & Data Integration team to make appropriate corrections to the electronic records.

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## 9. Lender Training

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**Change Date**

May 23, 2017, Change 5

- This section has been updated in its entirety.
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**a. Conduct Training**

As travel funds and use of technology permit, RLCs should conduct training, with active supervised and non-supervised lenders. The purpose is to educate lender personnel on VA requirements, credit standards, regulations, procedures, etc. Jurisdictional responsibility is determined by the system of record. Central Office reserves the right to require additional training for lenders with persistent deficiencies.

- If greater need is identified by the RLC and/or Central Office additional training may be necessary.

**Example.** Coordinate with local Mortgage Banker Associations to reach a large audience and/or secure training sites.

Be responsive to reasonable lender requests for additional training outside of a large group setting.

**Example.** New lender, lender with changes in personnel, or frequent deficiencies found on full reviews and EPDs.

Train other groups involved in the VA Home Loan program such as real estate professionals.

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**b. Training**

Encourage lenders to access the [VA Home Loan Guaranty, Lender Page](#), which covers VA loan processing and appraisal issues.

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**c. Maintain Records**

Must maintain records of all training events in one central electronic log and input notes in each attending lender's electronic file.

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## 10. Lender Fees

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**Change Date**

May 23, 2017, Change 5

- This topic has been updated in its entirety.
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**a. When Required and Amount**

See Chapter 1, Topic 10 of the [Lender's Handbook](#) to determine when fees are required and in what amount.

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**b. How to Process**

When fees are remitted:

- Route to the Finance Department (for the agent cashier) within the Regional Office for deposit,
- The agent cashier enters on VA Form 1027, *Field Service Receipt – General*,
- Finance personnel complete VA Form 1027 and provide remitter's copy to Loan Guaranty with incoming correspondence, and
- Update the lender's electronic record reflecting receipt of fee, by inputting the information in the renewal section of the appropriate VA Lender ID number.

**Note:** State and local requirements may dictate differences in these procedures. The RLC must get VACO approval of any deviations from the process stated above.

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**c. Requests Received Without the Required Fee**

For any lender request which is not accompanied by the proper fee:

- Contact the lender by telephone and/or email to request the fee, and
  - Do not process the request until such fee is remitted.
- 

**d. Annual Fees**

See the "Collect Annual Fees and Financial Statements" subsection in Topic 6 of this chapter for more information on annual fees.

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## 11. Sample Letter Approving Automatic Authority

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Name  
Title  
Company  
Address

Dear Mr./Ms. last name:

We approved your application to close Department of Veterans Affairs (VA) loans on the automatic basis. The purpose of this letter is to provide an overview of your responsibilities as a VA automatic lender.

### What Should You Do First?

Contact us to discuss processing procedures.

### Who Can Underwrite Your VA Loans?

We approved Name(s) as VA underwriter(s) for your company.

*(Optional Paragraph)*

We did not approve your underwriter nominee, Name(s). His/Her resume does not show that he/she has the required experience.

### Which Loans Cannot Be Closed on the Automatic Basis?

The following loans cannot be closed on the automatic basis:

- Joint loans
- Interest Rate Reduction Refinance Loans (IRRRLs), which the mortgage is 30-calendar days or more past due
- Supplemental loans
- Loans to Veterans receiving non-service connected pension
- Loans to Veterans determined unable to manage their VA benefits or incapable of managing their VA benefits
- Loans for an affiliate (“affiliate” as used here includes a real estate brokerage firm and/or residential builder or developer that the lender has a financial interest in, owns, is owned by, or is affiliated with)

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## **11. Sample Letter Approving Automatic Authority, Continued**

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These loans must be submitted to VA for underwriting. To close loans for an affiliate, you must request approval from VA by following the instructions in Chapter 1, Topic 6 of the [VA Lender's Handbook](#).

### **You Are Subject to a 1-Year Probationary Period**

You are subject to a probationary period of 1 year, during which time VA will carefully review the quality of the underwriting, completeness of loan submissions, compliance with VA requirements and procedures, and delinquency and foreclosure rates.

- VA may withdraw your automatic authority at any time during the probationary period based on numerous significant underwriting errors and/or recurring deficiencies.
- At the expiration of the probationary period, VA will send you written notice of its decision to terminate the probationary period, extend it, or revoke automatic authority.

### **You Must Inform VA of Changes Impacting Your Automatic Authority**

You must immediately report changes that may impact your automatic authority to this office. This includes changes in your corporate structure, officers, or underwriting staff.

### **Lender Appraisal Processing Program (LAPP)**

(Optional Paragraph – if lender is not LAPP) We encourage you to apply for participation in VA's Lender Appraisal Processing Program (LAPP). As a participant in LAPP, you would review appraisal reports and issue Notices of Value. This reduces processing time and expedites the closing of loans. Chapter 15 of the [VA Lender's Handbook](#) has more details on the program and explains how to apply.

(Optional Paragraph – if lender is LAPP) Name(s), SAR #, is approved as a staff appraisal reviewer for your company. Therefore, you may participate in (LAPP).

### **Annual Requirements**

You are required to submit the following to this office within 120-calendar days from the end of your company's fiscal year:

- An audited financial statement showing either:
  - a minimum of \$50,000 working capital, or
  - a minimum of \$250,000 in adjusted net worth.
- A list of VA-recognized agents you want to renew, if any.
- The annual fees specified in Section 10.
- A list of principal officers.

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## **11. Sample Letter Approving Automatic Authority, Continued**

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For additional information on these requirements refer to Chapter 1, Topics 5 and 10 of the [VA Lender's Handbook](#).

### **Where Can You Find Additional Information?**

You can find additional information on the VA Home Loan program at [www.benefits.va.gov/homeloans](http://www.benefits.va.gov/homeloans). This site is the primary source for handbooks, program changes, and updates. We recommend you visit the site on a regular basis. You may also contact us at 1-xxx-xxx-xxxx or e-mail us at (insert appropriate address).

Sincerely,

Loan Guaranty Officer

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## 12. Sample Letter Denying Automatic Authority

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Name  
Title  
Company  
Address

Dear Mr./Ms. last name:

We cannot approve your company's request for authority to close Department of Veterans Affairs (VA) guaranteed loans on an automatic basis at this time. Our decision is based on the information you provided in your application. This letter explains our decision.

*(Optional Paragraph)*

### **Your Company Does Not Meet Our Experience Requirements**

Lenders must meet one of the following requirements:

#### **1. Company Experience**

- Your company must have been actively originating VA loans for the past 2 years **AND** must have originated and closed at least ten VA loans during that period, **OR**
- If your company does not have 2 years of VA underwriting experience, it must have originated and closed at least 25 VA loans.

**Note:** We do not include Interest Rate Reduction Refinancing Loans (IRRRLs) in the number of loans originated and closed, since no underwriting is involved.

Our records indicate your company has closed (*insert "only #"* or "no") loans during the past 2 years.

#### **2. Principal Officer Experience**

All principal officers (president or vice president) who manage loan origination functions must have **2 recent years of management experience in the origination of VA loans**. (For this purpose, "recent" means within the past 5 years.) Based on the resumes of your principal officers, we are unable to verify that they have the required management experience in the origination of VA loans.

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## 12. Sample Letter Denying Automatic Authority, Continued

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### 3. Experience as Agent

- Your company must have been acting as an agent for a VA automatic lender for the past 2 years **AND** must have originated at least ten VA loans (excluding IRRRLs) during that period, **OR**
- If your company does not have 2 years of VA underwriting experience as an agent, it must have originated at least 25 VA loans (excluding IRRRLs).

If your firm has been acting as an agent and meets one of the above criteria, please submit the documentation as required in Chapter 1, Topic 4, of the [VA Lender's Handbook](#).

*(Optional Paragraph)*

#### **Your Underwriter Does Not Meet Our Underwriter Experience Requirement**

We could not approve [Name] as your underwriter. The information submitted does not show that he/she has 3 years of experience in processing, pre-underwriting, or underwriting mortgage loans with at least 1 year of the most recent 3 years making underwriting decisions on VA loans, or in-lieu-of experience, a current Certified Residential Underwriter designation from the Mortgage Bankers Association.

*(Optional Paragraph)*

#### **Your Company Does Not Meet Our Financial Requirements**

We require lenders to have at least \$50,000 in working capital or an adjusted net worth of \$250,000. Your financial statements did not show that you met either of these requirements.

*(Optional Paragraph)*

#### **You Do Not Have Unrestricted Lines of Credit Totaling \$1 Million**

You must have one or more unrestricted lines of credit totaling at least \$1 million. (Unrestricted means funds are available upon demand to close loans and are not dependent on prior investor approval.) You did not provide documentation that shows that you have the required line(s) of credit.

*(Optional Paragraph)*

#### **You Do Not Have at Least Two Permanent Investors**

VA requires lenders to have at least two permanent investors if you customarily sell the loans you originate. Your application did not include the names, addresses, and telephone numbers of your investors.

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## 12. Sample Letter Denying Automatic Authority, Continued

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*(Optional paragraph):*

### **Your Quality Control Plan Does Not Meet VA's Requirements**

The Quality Control Plan that you submitted does not contain all of the requirements of Chapter 1, Topic 15, of the [VA Lender's Handbook](#).

### **If You Disagree With Our Decision**

If you disagree with our decision and have additional documentation showing that you qualify, you should:

- Thoroughly review Chapter 1 of the [VA Lender's Handbook](#) to determine what documentation we require, and
- Submit that documentation to this office.

### **You May Make VA Loans Now on a Prior-Approval Basis**

Although you may not close VA loans on an automatic basis, you may submit VA loan applications on a prior-approval basis (per [VA Lender's Handbook](#), Chapter 5, Topic 4), and/or continue to originate loans for your sponsoring lender(s).

### **If You Have Additional Questions**

If you have additional questions, contact \_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Guaranty Officer

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## 13. Sample Letter Requesting Additional Information to Process Automatic Application

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Name  
Title  
Company  
Address

Dear Mr./Mrs. last name:

We have received your application for VA automatic authority, but it was not complete. This letter will explain what additional information or documentation we need to continue processing your application.

(Optional Paragraph)

### **Unrestricted Lines of Credit Totaling \$1 Million**

You must have one or more unrestricted lines of credit totaling at least \$1 million. Provide us with evidence of these lines of credit.

(Optional Paragraph)

### **Permanent Investors**

We require lenders who customarily sell the loans they originate to have at least two permanent investors. Provide the names, addresses, and phone numbers of your investors.

(Optional Paragraph)

### **Quality Control Plan**

The Quality Control Plan that you submitted does not contain all of the requirements of Chapter 1, Section 15, of the [VA Lender's Handbook](#).

### **If You Have Additional Questions**

If you have additional questions, contact [enter contact name] at 1-xxx-xxx-xxxx, or by e-mail at [insert email address].

Sincerely,

Loan Production Officer

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## Chapter 2. Credit Underwriting

### Overview

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**In this  
Chapter**

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# 1. Underwriting Prior Approval VA-Guaranteed Loans

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- This is a new chapter added to M26-1.

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**a. Where to Find Information** Chapter 4 of the VA [Lender's Handbook](#) 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](#), *Loan Analysis*,
- Other documentation required when underwriting a VA loan, and
- Debt-to-income ratios.

Chapter 4 of the [Lender's Handbook](#) is based on VA regulations at 38 CFR 36.4337 and 36.4340.

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**b. Lender and Regional Loan Center (RLC) Responsibilities** 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.
- 

**c. Debt/Income Ratio Above 45 Percent on Prior Approval Loans** Ratios above 45 percent require supervisor, or designee, approval.

- 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.
- The statement should list the compensating factors justifying loan approval.

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## 2. How to Process a Prior Approval Loan (Pre-Closing)

**Change Date** May 23, 2017, Change 5

- This is a new chapter added to M26-1.

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

| Step | Action  |
|------|---|
| 1    | Verify receipt and proper completion of all documents specified in Chapter 5, Topic 6 ( <i>Submit "Other Necessary Documents"</i> ) of the <a href="#">Lender's Handbook</a> . Obtain any missing items from the lender.  |
| 2    | Verify that a valid Certificate of Eligibility (COE) has been issued. <ul style="list-style-type: none"> <li>Ensure supporting evidence of service has been submitted, and if necessary, issue the COE.</li> <li>If the Veteran is ineligible, do no further review of the application.</li> <li>If the Veteran's available entitlement appears insufficient to support the loan amount, discuss with the lender if they want to proceed.</li> <li>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. <b>Note:</b> A conditional Certificate of Commitment must be issued in such cases if other qualifications are met.</li> </ul> |
| 3    | Verify that the occupancy requirement specified in Chapter 3, Topic 5 of the <a href="#">Lender's Handbook</a> has been satisfied.  |
| 4    | Verify that the loan purpose, term, amortization, and other terms and conditions conform to VA guidelines as stated in the <a href="#">Lender's Handbook</a> .  |
| 5    | Verify that the Veteran's interest in the property will not be less than that prescribed in <a href="#">38 CFR 36.4354</a> .<br><br>If VA has rated the Veteran "unable to manage VA benefits," consult with the Fiduciary Unit to ensure VA has no objection to the estate being encumbered (see Special Procedures for Veterans 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.   |

*Continued on next page*

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

**a. Evaluate the Application,**  
 continued

| Step | Action   |
|------|--|
| 7    | Underwrite the loan in accordance with Chapter 4 of the VA <a href="#">Lender's Handbook</a> . <ul style="list-style-type: none"> <li>• If the applicant receives a VA pension, see the "Special Procedures for Veterans Receiving a VA Pension" heading below.</li> <li>• 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.</li> <li>• For joint loans, see the "Joint Loans" heading in Chapter 7, Topic 1 of the <a href="#">Lender's Handbook</a>.</li> <li>• To refinance loans 30-calendar days or more past due see Chapter 6, Topic 2 of the <a href="#">Lender's Handbook</a>.</li> </ul> |
| 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 <a href="#">Lender's Handbook</a> 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.<br><i>If applicable, annotate the system with conditions as detailed in Chapter 5 of the VA <a href="#">Lender's Handbook</a>.</i>  |

*Continued on next page*

## 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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*Continued on next page*

## 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](#)).
- 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.

---

### 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.
- 

### 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](#)).
  - 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](#)).
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*Continued on the next page*

## 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](#).

**Changes to the intended loan obligation**

See Chapter 5, Topic 4(f) of the VA [Lender's Handbook](#).

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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.
- 

*Continued on next page*

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

### i. Issue the Guaranty for Prior Approval Loans

Required documents for guaranty are listed in Chapter 5 of the VA [Lender's Handbook](#).

| Step | Action   |
|------|--|
| 1    | Review submission for required documents. <ul style="list-style-type: none"> <li>• If critical document(s) are missing, delay issuance of the Loan Guaranty Certificate (LGC) until documents are received.</li> <li>• If critical areas of documents are incomplete, then delay issuance of the LGC.</li> </ul>   |
| 2    | Verify receipt of a correct funding fee (FF) amount. <ul style="list-style-type: none"> <li>• If overpaid, issue an LGC and instruct the lender to request an FF refund.</li> <li>• If underpaid, do not issue an LGC until the proper amount has been received.</li> <li>• 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.</li> </ul> |
| 3    | Verify all conditions of the NOV have been met.<br><br>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.<br><br>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.<br><br>If the terms are not met, then determine the level of discrepancy. See Chapter 5, Topic 4 of the <a href="#">Lender's Handbook</a> for further guidance.  |
| 6    | Verify that all conditions of the Certificate of Commitment have been met.<br><br>If conditions are not met, then instruct the lender to submit the appropriate documents and do not issue the LGC.  |

*Continued on next page*

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

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

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| <b>Step</b> | <b>Action</b>   |
|-------------|---|
| 7           | Determine if late reporting requirements are applicable.<br><br>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](#), revised January 31, 2014, item numbers 12-076.100 and 12-080-100.

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### 3. IRRRL Made to Refinance a Delinquent Loan

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**Change Date** May 23, 2017, Change 5

- This is a new section added to M26-1.

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**a. References** Refer to Chapter 6, Topic 2 of the VA [Lender's Handbook](#), *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.

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

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- Change Date** May 23, 2017, Change 5
- This is a new section added to M26-1.
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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.
- 

- b. How to Issue Evidence of Guaranty**
- Upon receipt of a request for manual guaranty:

| Step | Action  |
|------|---|
| 1    | Refer to Chapter 5, Topic 5 of the <a href="#">VA Lender's Handbook</a> , 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 <a href="#">VA Form 26-0286</a> , <i>VA Loan Summary Sheet</i> . |

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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:
- If the correct FF has not been paid, contact the lender to resolve the issue.
  - 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.

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## 5. Release of Liability

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- Change Date** May 23, 2017, Change 5
- This is a new section added to M26-1.
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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](#) 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](#), *Application for Assumption Approval/Release from Personal Liability*.
    - [VA Form 26-6382](#), *Statement of Purchaser or Owner Assuming Seller's Loan*.
    - A three file merged credit report pulled by the loan servicer.
    - [VA Form 26-6807](#), *Financial Statement*, completed by the prospective assumer.
    - [VA Form 26-8497](#), *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](#).
    - 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](#), *Request for Verification of Deposit*, or other acceptable alternative documentation, if assets are required at closing.
- [VA Form 26-0503](#), *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](#), *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](#), *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](#).

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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](#) 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](#).

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](#), 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](#) 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](#), modified to reflect the payment information as of the year of assumption.

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## 6. Substitution of Entitlement

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**Change Date** May 23, 2017, Change 5

- This is a new section added to M26-1.

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

| Issue        | Explanation  |
|--------------|--|
| Requirements | <p>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.</p> <p>If a manufactured home is purchased, the buyer must dispose of any manufactured homes previously bought with a VA loan.</p> <p>The buyer must qualify from a credit standpoint.</p> <p>The buyer must assume all liability for the loan and all liability of the seller under the terms of the loan instruments.</p> <p>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.</p> <p>The loan must be current at the time of request.</p> |
| Steps        | <p>An ROL for the seller is processed by VA, the holder, or an authorized servicing agent. (Section 6 below)</p> <p>VA processes an SOE for the buyer.</p>   |

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## 6. Substitution of Entitlement, Continued

**a. Specifics on Substitution of Entitlement,**  
 continued

| Issue  | Explanation   |
|--|---|
| Loan Commitment Date Before or After March 1, 1988 | <p>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.</p> <p>For loans with commitments made before March 1, 1988, VA will process any ROLs:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> </ul> |

**a. Specifics on Substitution of Entitlement,**  
 continued

|                   |   |
|-------------------|---|
| Application Forms | <p>The Veterans involved in the transaction must submit the following forms as an application for SOE.</p> <p>For all cases:</p> <ul style="list-style-type: none"> <li>• <a href="#">VA Form 26-8106</a>, <i>Statement of Veteran Assuming GI Loan (Substitution of Entitlement)</i></li> <li>• Buyer's and Seller's COEs, or if not previously issued, <a href="#">VA Form 26-1880</a> with supporting documentation</li> </ul> <p>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:</p> <ul style="list-style-type: none"> <li>• <a href="#">VA Form 26-6381</a>, <i>Application for Release From Personal Liability to the Government on a Home Loan</i>,</li> <li>• <a href="#">VA Form 26-6382</a>, <i>Statement of Purchaser or Owner Assuming Seller's Loan</i>,</li> <li>• <a href="#">VA Form 26-8497</a>, <i>Request for Verification of Employment</i>,</li> <li>• Or alternative documentation,</li> <li>• <a href="#">VA Form 26-8497a</a>, <i>Request for Verification of Deposit</i>,</li> <li>• <a href="#">VA Form 26-6807</a>, <i>Financial Statement</i>,</li> <li>• Certified check or money order for the amount of the credit report (amount designated for ROL cases).</li> </ul> |
|-------------------|---|

## 6. Substitution of Entitlement, Continued

### b. RLC Procedures

The following steps explain RLC procedures for processing SOE conditions in further detail.

|                       |   |
|-----------------------|---|
| <b>RLC Procedures</b> | Applications are processed by the RLC with jurisdiction over the property location.<br><br>If all requirements for an SOE have been met except the seller's COE or <a href="#">VA Form 26-1880</a> have not been received after reasonable attempts to obtain such, proceed with the substitution.  |
| <b>1</b>              | Use the original loan number.   |
| <b>2</b>              | Use the RLC tracking system to track status/follow-up.  |
| <b>3</b>              | Apply the underwriting procedures described in Chapter 4 of the <a href="#">Lender's Handbook</a> . 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.  |
| <b>4</b>              | 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. |
| <b>5</b>              | 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.  |
| <b>6</b>              | If not approved, notify the buyer and seller of the rejection of their application for SOE. Notate the electronic system of record (WebLGY).  |

*Continued on next page*

## 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.

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

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**Change Date**      May 23, 2017, Change 5

- This is a new section added to M26-1.

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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.

| 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 _____ - _____.  |       |
| <input type="checkbox"/> Loan application information is consistent with income/net worth information of record. No further action necessary.                                |       |
| <input type="checkbox"/> Development required based on loan application information. Contact _____ at _____ - _____ for status update.                                       |       |
| _____  | _____ |
| PMC Officer  | Date  |
| FROM: _____  |       |



## 9. Fiduciary Hub Jurisdiction

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**Change Date** May 23, 2017, Change 5

- This is a new section added to M26-1.

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**Submitting Correspondence 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:

| Fiduciary Hub   | Jurisdiction  |
|---|---|
| <p><b>Columbia Fiduciary Hub</b><br/>P.O. Box 9367<br/>Columbia, SC 29209-9998<br/>1-888-407-0144, #1<br/>VA Email:<br/>VAVBACMS/RO/FIDHUB</p>      | <p>Florida<br/>Georgia<br/>North Carolina<br/>South Carolina</p>  |
| <p><b>Indianapolis Fiduciary Hub</b><br/>P.O. Box 441480<br/>Indianapolis, IN 46244<br/>1-888-407-0144, #2<br/>VA Email:<br/>VAVBAIND/RO/FIDHUB</p> | <p>Connecticut      New Hampshire<br/>Asia      Delaware      New Jersey<br/>Australia      Indiana      New York<br/>Canada      Maine      Ohio<br/>Europe      Maryland<br/>Pennsylvania      Massachusetts<br/>Rhode Island      Michigan<br/>Vermont</p> |

*Continued on next page*

## 9. Fiduciary Hub Jurisdiction, Continued

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

| <b>Fiduciary Hub</b>  | <b>Jurisdiction</b>  |
|---|--|
| <b>Lincoln Fiduciary Hub</b><br>P.O. Box 5444<br>Lincoln, NE 68505-5444<br>1-888-407-0144, #3<br>VA Email:<br>VAVBALIN/RO/FIDHUB                  | Kansas      South Dakota<br>Nebraska      Texas<br>North Dakota      Mexico<br>Oklahoma<br>Central and South America                                       |
| <b>Louisville Fiduciary Hub</b><br>P.O. Box 3487<br>Louisville, KY 40201<br>1-888-407-0144, #4<br>VA Email:<br>VAVBALOU/RO/FIDHUB                 | Alabama      Tennessee<br>Kentucky      Washington,<br>District of Columbia<br>Mississippi      West Virginia<br>Virginia      Puerto Rico                 |
| <b>Milwaukee Fiduciary Hub</b><br>P.O. Box 14975<br>Milwaukee, WI 53214-0975<br>1-888-407-0144, #5<br>VA Email:<br>VAVBAMIW/RO/FIDHUB             | Arkansas      Minnesota<br>Illinois      Missouri<br>Iowa      Wisconsin<br>Louisiana  |
| <b>Salt Lake City Fiduciary Hub</b><br>P.O. Box 58086<br>Salt Lake City, UT 84158<br>1-888-407-0144, #6<br><b>VA Email:</b><br>VAVBASLC/RO/FIDHUB | Alaska      Idaho      Oregon<br>Arizona      Montana      Utah<br>California      Nevada<br>Washington      Colorado<br>New Mexico      Wyoming<br>Hawaii |
| <b>Manila Fiduciary Activity</b><br>1501 Roxas Boulevard<br>Pasay City, PI 1302<br><b>VA Email:</b><br>VAVBALOU/RO/FIDHUB                         | Republic of the Philippines  |

## Chapter 3. Fees and Charges Paid by the Borrower

### Overview

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**In this  
Chapter**

This chapter contains the following topics:

| <b>Topic</b> | <b>Title</b>  | <b>See Page</b> |
|--------------|---|-----------------|
| 1            | Allowable Fees and Charges                            | 3-2             |
| 2            | VA Funding Fee  | 3-3             |
| 3            | Sample Letter to Veteran Approving Funding Fee Refund | 3-12            |
| 4            | Sample Letter to Lender Approving Funding Fee Refund  | 3-15            |
| 5            | Sample Letter to Veteran Denying Funding Fee Refund   | 3-18            |
| 6            | Sample Letter to Lender Denying Funding Fee Refund    | 3-20            |

## 1. Allowable Fees and Charges

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**Change Date** May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

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**a. Where to Find Information** A Veteran may only pay the fees and charges specified in VA regulations in Title [38 CFR 36.4313](#).

Chapter 8, in its entirety, of the VA [Lender's Handbook](#) provides further details.

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**b. Fees Requiring Central Office Approval** Fees, other than those specified in the regulations, may be paid by a Veteran, if the fees are proper local variances authorized by Central Office (CO). Please check the State Fees and Charges Deviation table posted on the [Lenders Page](#), to determine whether a local variance applies to a particular fee.

If a fee is not specified in the regulations, and is normally paid by the borrower in your Regional Loan Center's (RLC) jurisdiction; is considered reasonable and customary in your RLC's jurisdiction; and its approval would assist Veterans in completing loan transactions rather than serve as a detriment to Veteran/borrowers; then submit a request for authorization of the fee to CO. This request should include:

- An explanation of the fee
  - All pertinent facts, and
  - The impact on the Veteran.
-

## 2. VA Funding Fee

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**Change Date** May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

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**a. VA Funding Fee** In order to defray the cost of administering a VA home loan, each Veteran, except those with exemption status, must pay a funding fee to VA at loan closing.

Funding fee rates can be found in Title [38 U.S.C. §3729](#).

Lenders must pay the funding fee electronically, through the VA Funding Fee Payment System (FFPS), at the following website [www.ffps.vba.va.gov](http://www.ffps.vba.va.gov).

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**b. Determining Exemption Status** Certificates of Eligibility (COE) issued after September 11, 2011, reflect the Veteran's exemption status.

If the COE does not reflect the correct exemption status, advise the lender to submit [VA Form 26-8937](#), *Verification of VA Benefits*, for processing.

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**c. Funding Fee Refunds** When a Veteran or lender requests a refund of all, or a portion, of a funding fee, determine whether a refund is due, the amount to be refunded, and the party to whom it should be refunded.

All refund requests must be reviewed and a decision made within 10-business days of the initial request date. In the event the Veteran or lender has not provided all the necessary information for a determination, the system of record must be fully documented.

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*Continued on next page*

## 2. VA Funding Fee, Continued

**c. Funding Fee Refunds**  
 continued

Funding fee refund requests must be reviewed in detail to determine whether VA must perform a refund. Supporting documentation must be uploaded and detailed notes must be entered into the electronic system of record to document reasons for the refund decision. Also, letters must be drafted and sent (mailed/emailed) to the Veteran and the lender to notify them of the decision. Copies of the letters must be uploaded into the electronic system of record on the same day the letter is sent.

**Note:** Subsection f below provides the detailed steps to process a funding fee refund request.

**d. Reasons for Refunding the Funding Fee**

The following are the circumstances and necessary documents for VA to refund the funding fee:

| Reason for Refund Request   | Necessary Documents   |
|---|---|
| The Veteran was exempt, at the time of closing. Including: <ul style="list-style-type: none"> <li>• Awarded/Applied for disability compensation prior to loan closing date</li> <li>• Quick Start, Benefits Delivery at Discharge (BDD) or Integrated Disability Evaluation System (IDES) claim</li> <li>• Compensation suspended due to active-duty activation</li> <li>• Veteran receiving retirement pay in-lieu-of disability compensation</li> <li>• Reservist was in receipt of drill pay in-lieu-of disability compensation</li> </ul> | A copy of the disability award letter (if available) or verification within Compensation’s system of record; a copy of the signed closing disclosure; and a copy of the current mortgage statement. |

*Continued on next page*

## 2. VA Funding Fee, Continued

**d. Reasons for Refunding the Funding Fee, continued**

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| <b>Reason for Refund Request</b>  | <b>Necessary Documents</b>  |
|---|---|
| The loan did not close.   | A copy of the rescission document with the borrower's signature. If the rescission document is not available, then the RLC will check WebLGY to see if the loan was canceled. |
| The lender made double/over payment or paid with an incorrect loan identification number (LIN). | Verification within the funding fee payment system (FFPS) that a double/over payment or an incorrect payment exists.  |
| The loan is an ineligible loan and should have not been guaranteed.                             | Documentation within the system of record, including full file loan review results.   |

In the event a circumstance arises that is not listed in the table, please contact CO for guidance through the Loan Policy mailbox ([LoanPolicy.vbavaco@va.gov](mailto:LoanPolicy.vbavaco@va.gov)).

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## 2. VA Funding Fee, Continued

**e. Refunding the Fee to the Veteran or the Lender**

Once it has been determined that a refund of the funding fee is necessary, the following applies:

| If ...  | Then ...  |
|---|---|
| A Veteran who paid cash for the funding fee...                        | Receives a cash refund for the amount of the funding fee payment.   |
| In the case where a Veteran financed the funding fee into the loan... | <ul style="list-style-type: none"> <li>• The lender must apply the funding fee refund against the principal loan balance and submit evidence to VA that the refund was applied to the loan's principal balance.</li> <li>• If the loan is held by a servicer other than the original lender, provide the refund to the current servicer, and direct the servicer to apply the refund to the principal balance of the loan.</li> <li>• If the loan has been refinanced with another VA loan, provide the refund to the current servicer and direct the servicer to apply the refund to the principal balance of the loan.</li> <li>• If the loan is in default and the current holder objects to applying the refund to the loan balance, consult with Loan Administration to request intervention.</li> </ul> |

*Continued on next page*

## 2. VA Funding Fee, Continued

**e. Refunding the Fee to the Veteran or the Lender, continued**

| If ...  | Then ...   |
|---|--|
| The funding fee was paid by seller/lender credit... | <ul style="list-style-type: none"> <li>• Process the refund to the Veteran (cash payment) or lender (for principal reduction) depending on the amount of the credit.                             <ul style="list-style-type: none"> <li>– If the amount was split by the Veteran paying cash and the seller/lender credit, then the Veteran’s cash portion will be refunded to them and the seller/lender credit will be paid to the lender to be applied to the principal balance.</li> </ul> </li> </ul> |

The Loan Specialist must enter detailed notes into FFPS indicating that the loan was refunded to the lender, and the lender must apply the refund to the principal balance.

**Note:** A letter must be sent to the lender and the Veteran for all refund determinations.

**f. How to Process a Funding Fee Refund Request**

With all funding fee refunding requests, the Loan Specialist must input detailed notes in the comment section of FFPS, to ensure that anyone from a different office understands why the approval/denial decision was made. To approve the refund in the system, the Loan Specialist will click on the initial approval within FFPS and then management will perform the final approval.

The steps in the table have been established to process a funding fee refund request for Veterans that were determined to be exempt at the time of the loan closing ([38 U.S.C. 3729\(c\)](#)).

| <b>Steps for Refunding the Funding Fee for an Exempt Veteran</b> |  |
|--|--|
| Step   | Action   |
| 1  | Review the Veteran’s request or the lender’s request in FFPS, to determine if the documentation is adequate to perform the refund. |

*Continued on next page*

## 2. VA Funding Fee, Continued

**f. How to Process a Funding Fee Refund Request, continued**

| <b>Steps for Processing a Request for an Exempt Veteran, continued</b> |   |
|--|---|
| <b>Step</b>  | <b>Action</b>   |
| 2  | <p>Review VA Compensation systems of record to verify compensation is being received by the Veteran and the effective date of the award:</p> <ul style="list-style-type: none"> <li>• The effective date for payment of the compensation indicated in VA's award letter to the Veteran is not necessarily the "effective date of the award."</li> <li>• If the Veteran applied for disability compensation within 1 year from his or her date of discharge or release, the day following the discharge or release date will be the "effective date of the award."</li> <li>• If the Veteran applied more than 1 year after discharge or release, contact the Veteran Service Center to verify the "effective date of the award."</li> <li>• For a proposed rating, the Loan Specialist must check Compensation Service's system of record to determine whether the rating has already processed.</li> </ul> |
| 3  | <p>Determine whether the award date is prior to the closing date.</p> <ul style="list-style-type: none"> <li>• If the "effective date of the award" was a date prior to loan closing, refund the funding fee and send approval letters to the Veteran and lender (see topics 3 and 4).</li> <li>• If the "effective date of the award" was after loan closing, do not refund the fee. Send a denial letter to the Veteran and the lender (see topics 5 and 6).</li> </ul>   |

*Continued on next page*

## 2. VA Funding Fee, Continued

**f. How to Process a Funding Fee Refund Request, continued**

There are instances when the loan did not close and lender prematurely paid the funding fee. In those instances, the Loan Specialist will follow the steps below.

| <b>Steps for Processing a Request When a Loan Did Not Close</b> |  |
|---|--|
| <b>Step</b>   | <b>Action</b>  |
| 1   | Review WebLGY to verify that the lender uploaded the rescission document and review FFPS to verify that the lender provided specific notes within the remarks section of the refund request.   |
| 2   | Check WebLGY to see if the Loan Guaranty Certificate (LGC) has been issued. If the LGC has been issued, then it must be reversed and detailed notes provided in WebLGY (with the case number).   |
| 3   | In FFPS, click the Full Refund Reason tab to “Loan Did Not Close.” In the Refund Reason box, provide a detailed description of the reason for the refund request and include the lender contact name, phone number, and email address; and, either approve or deny the refund request. |

There are instances when the lender double/overpaid or paid with an incorrect LIN. In these instances, the Loan Specialist must determine if an over/incorrect payment exists and then perform the necessary steps to refund.

| <b>Steps for Processing a Request for Double/Overpayment</b> |   |
|--|---|
| <b>Step</b>  | <b>Action</b>   |
| 1  | Review FFPS and determine the amount of overpayment or if there was a double payment (same LIN or different LIN).   |
| 2  | If double payment is on different LINs, then the Loan Specialist will go into the incorrect LIN, change the first three numbers in the last series of seven numbers to 000. For example, 123-456-7-000891. Then complete the refund to the lender and include detailed notes within FFPS.   |
| 3  | If the double payment is on the same LIN, then the Loan Specialist will need proof from the lender (bank statement) and upload it into WebLGY. The Loan Specialist, with Loan Production Officer approval, will create a voucher for the refund. <b>DO NOT</b> perform this refund in FFPS. |

**Note:** If there are any questions regarding the processing of double/overpayment refunds with a voucher, please contact CO for guidance through the Loan Policy mailbox ([LoanPolicy.vbavaco@va.gov](mailto:LoanPolicy.vbavaco@va.gov)).

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## 2. VA Funding Fee, Continued

f. How to Process a Funding Fee Refund Request, continued

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| <b>Steps for Processing a Refund Request for Payment with the Incorrect LIN</b> |  |
|---|--|
| <b>Step</b>   | <b>Action</b>  |
| 1   | Review FFPS and determine whether the payment amount is correct for that Veteran and loan type. Be sure that no payment exists under the correct LIN.                      |
| 2   | The Loan Specialist will go into the incorrect LIN in FFPS and select the “correct” option.  |
| 3   | Change the incorrect LIN to the correct LIN, make other necessary corrections, and enter detailed comments in the note section.  |
| 4   | Once all corrections are made, the Loan Specialist can choose “submit the record.” The transaction will update WebLGY so that the payment is reflected on the correct LIN. |
| 5   | To correct the record of the incorrect LIN, RLC management must go into the incorrect LIN in WebLGY and perform the “funding fee edit” function.                           |

**Note:** If the payment on an incorrect LIN has an effective date of 10 years or more, then the RLC must complete a voucher and document the correct LIN in WebLGY with detailed comments.

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*Continued on next page*

## 2. VA Funding Fee, Continued

**f. How to Process a Funding Fee Refund Request, continued**

When VA determines that a guaranteed loan is ineligible for guaranty, VA has must perform the following steps to refund the funding fee. In this instance, the lender or Veteran do not need to request a refund because VA no longer has a legal right to the funds. Additionally, VA must inform the lender and the Veteran that the loan is not guaranteed by VA and no subsequent claim will be paid on the loan.

| <b>Steps to Processing a Refund for an Ineligible Loan</b> |  |
|--|--|
| <b>Step</b>  | <b>Action</b>  |
| 1  | Review the notes and documentation within the ineligible loan, including the full file loan review in WebLGY to verify the reason for ineligibility and removing the Loan Guaranty Certificate is in compliance with VA guidelines. See the "What to do with the Review Findings" heading in Chapter 4, Topic 1(c) of the M26-1, for a better understanding of circumstances under which this might occur. |
| 2  | If the loan is ineligible, process the refund in FFPS by changing the Full Refund Reason tab to "Loan Did Not Close." In the Refund Reason box, provide a detailed description of the reason for the refund and create, then approve the refund request.   |
| 3  | Send a letter to the lender and the Veteran, to explain the reason for rescinding the LGC. Upload a copy of the letter into WebLGY in the ineligible loan record.  |
| 4  | Ensure that the Veteran's entitlement is restored. See "Restoration of Entitlement" in Chapter 7, Topic 10 in the M26-1.   |

**g. Funding Fee Refund Status**

In the event a lender/servicer or Veteran contacts the RLC to determine the status of a refund and it has been more than 7-calendar days since the approval, then contact the Administrative and Loan Accounting Center (ALAC) for an update. Be sure to provide ALAC with the wire number, the date of the approval, and LIN. ALAC will respond with the status within their system.

In the event ALAC indicates that the refund was offset by another federal agency, the lender/servicer is responsible for providing the refund to the Veteran and providing verification (copy of the Veteran's account with the principal reduction), within 30-calendar days.

### 3. Sample Letter to Veteran Approving Funding Fee Refund

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**Change Date** May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

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Date In Reply Refer To: Mail Routing Code  
VA Loan #XX-XX-X-XXXXXXXX  
Lender Loan # XXXXXXXX

Name  
Address

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan.

#### **What We Found**

*(Optional Paragraph)*

A review of the information provided verified that your disability compensation award date was prior to the date of closing. Therefore, you are exempt from paying the funding fee.

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with your VA loan. You were charged a “reservist” funding fee in the amount of \$\_\_\_\_(2.4%); however, your eligibility was based on “active-duty” service, per your Certificate of Eligibility. Therefore, the funding fee assessed should have been \$\_\_\_\_(2.15%).

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with your VA loan. You were charged a subsequent-use funding fee percentage of 3.3%, in the amount of \$\_\_\_\_. However, your Certificate of Eligibility shows that this is your first-time use of the program. Therefore, the funding fee charged to you should have been \$\_\_\_\_ or 2.15% of the loan amount.

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*Continued on next page*

### **3. Sample Letter to Veteran Approving Funding Fee Refund,** Continued

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#### **What Action We Took**

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since you paid the funding fee in cash at closing, the refund will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since you financed the funding fee into your loan, the refund will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply \$amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since you paid cash for a portion of the funding at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of \$amount (the portion you paid in cash), will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

Additionally, a refund, in the amount of \$amount (the portion you financed into the loan), will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply \$amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

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*Continued on next page*

### **3. Sample Letter to Veteran Approving Funding Fee Refund,** Continued

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#### **If You Have Any Questions**

If you are looking for general information about benefits and eligibility, you should visit our web site at <http://www.va.gov>. To register for eBenefits, our one stop shop for online benefits-related tools and information, please visit <https://www.ebenefits.va.gov/>. This free enhancement provides links to numerous services and enables you to check the status of your claim.

If you have additional questions, contact \_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

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## 4. Sample Letter to Lender Approving Funding Fee Refund

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**Change Date**      May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

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|         |   |
|---------|---|
| Name    | In Reply Refer To: <u>Mail Routing Code</u> |
| Title   | Veteran Name: <u>Name</u>                   |
| Company | VA Loan # <u>XX-XX-X-XXXXXXXX</u>           |
| Address | Lender Loan # <u>XXXXXXXX</u>               |

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan.

### What We Found

*(Optional Paragraph)*

A review of the information provided verified that the Veteran's disability compensation award date was prior to the date of closing. Therefore, he/she is exempt from paying the funding fee.

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with the above-referenced loan. The Veteran was charged a "reservist" funding fee in the amount of \$\_\_\_\_(2.4%); however, the eligibility was based on "active-duty" service, per the Certificate of Eligibility. Therefore, the funding fee assessed should have been \$ (2.15%).

*(Optional Paragraph)*

We are in receipt of information which indicates that an overpayment of the VA funding fee occurred in connection with the above-referenced loan. The Veteran was charged a subsequent-use funding fee percentage of 3.3%, in the amount of \$\_\_\_\_. However, the Certificate of Eligibility shows that this is their first-time use of the program. Therefore, the funding fee charged to the Veteran should have been \$\_\_\_\_ or 2.15% of the loan amount.

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## 4. Sample Letter to Lender Approving Funding Fee Refund, Continued

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### What Action We Took

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since the Veteran paid the funding fee in cash at closing, the refund will be mailed to the Veteran by the U.S. Treasury Department within 60-calendar days from the date of this letter.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized and will be sent through a U.S. Treasury check or an electronic wire transfer. Since the Veteran financed the funding fee into their loan, the refund will be sent to you to apply \$amount to the unpaid principal balance of the current loan account.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since the Veteran paid cash for a portion of the funding at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of \$amount (the portion the Veteran paid in cash), will be mailed to directly to the Veteran by the U.S. Treasury Department within 60-calendar days from the date of this letter.

Additionally, a refund, in the amount of \$amount (the portion financed into the loan), will be sent to you through a U.S. Treasury check or an electronic wire transfer to apply \$amount to the unpaid principal balance of the current loan account.

### What You Need To Do

You will be receiving a U.S. Treasury check or an electronic wire transfer (within the next 30- to 45-calendar days) in the amount of \$ amount, which is to be applied to the Veteran's account to reduce the unpaid principal loan balance.

Please provide us with a copy of the loan ledger sheet showing application of the \$ amount refund. Please attach a copy of this letter when you submit the ledger sheet. This information must be submitted to our office at the address above within 30-calendar days of the receipt of the treasury check or electronic wire transfer.

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*Continued on next page*

## **4. Sample Letter to Lender Approving Funding Fee Refund,** Continued

---

### **If You Have Any Questions**

Thank you for your prompt attention to this matter. If you have additional questions, contact \_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

Cc: [Veteran Name]

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## 5. Sample Letter to Veteran Denying Funding Fee Refund

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**Change Date** May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

---

Date In Reply Refer To: Mail Routing Code  
VA Loan #XX-XX-X-XXXXXXXX  
Lender Loan # XXXXXXXX

Name  
Address

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan, which closed on insert date.

Any Veteran in receipt of service-connected disability compensation at the time of the loan closing is exempt from payment of the funding fee (38 U.S.C. 3729(c)). The effective date of the service-connected disability compensation award must be prior to the date of loan closing to be eligible for a refund of the funding fee.

Additionally, effective October 15, 2010, The Veterans Benefits Act of 2010, extends funding fee exemption to those individuals who were in receipt of compensation, but, either because they re-enlisted or were recalled to active-duty, are receiving active-duty pay in-lieu-of compensation.

### What We Found

After careful review, we are unable to authorize a refund of the funding fee. You filed your claim for VA service-connected disability benefits on insert date. The effective date of your award was insert date. The loan closed on insert date. Unfortunately, the effective date of your VA disability award was after your closing date of the above-referenced loan. Therefore, we are unable to approve the refund request.

---

*Continued on next page*

## **5. Sample Letter to Veteran Denying Funding Fee Refund,**

Continued

---

### **If You Have Questions**

If you have additional questions, contact \_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

Encl.: VA Form 4107

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## 6. Sample Letter to Lender Denying Funding Fee Refund

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**Change Date**      May 23, 2017, Change 5  
• The M26-1 was edited in its entirety.

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|         |   |
|---------|---|
| Name    | In Reply Refer To: <u>Mail Routing Code</u> |
| Title   | Veteran Name: <u>Name</u>                   |
| Company | VA Loan # <u>XX-XX-X-XXXXXXXX</u>           |
| Address | Lender Loan # <u>XXXXXXXX</u>               |

Dear Mr./Ms. last name:

We have received your request for a refund of the funding fee on the above-referenced loan, which closed on insert date.

Any Veteran in receipt of service-connected disability compensation at the time of the loan closing is exempt from payment of the funding fee (38 U.S.C. 3729(c)). The effective date of the service-connected disability compensation award must be prior to the date of loan closing to be eligible for a refund of the funding fee.

Additionally, effective October 15, 2010, The Veterans Benefits Act of 2010, extends funding fee exemption to those individuals who were in receipt of compensation, but, either because they re-enlisted or were recalled to active-duty, are receiving active duty pay in-lieu-of compensation.

### What We Found

Unfortunately, the effective date of the Veteran's service-connected disability compensation award of insert date is after the closing date on the above-referenced loan. Therefore, the refund has been disapproved.

### If You Have Questions

A separate letter has been forwarded to the Veteran explaining the decision. If you have additional questions, contact \_\_\_\_\_ at 1-xxx-xxx-xxxx, or by e-mail at (insert e-mail address).

Sincerely,

Loan Production Officer

## Chapter 4. Events After Guaranty

### Overview

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| <b>Topic</b> | <b>Topic Name</b>   | <b>Page</b> |
|--------------|---|-------------|
| 1            | Conduct a Review After Guaranty is Issued   | 4-2         |
| 2            | Review Findings   | 4-5         |
| 3            | RLC Procedures for Ordering Credit Reports  | 4-11        |
| 4            | Annotation of Loan Files Concerning Inspector General, Federal Bureau of Investigations, or Other Investigations of the Veteran | 4-13        |
| 5            | Sample Letter to Lender for Persistent Non-Compliance   | 4-14        |
| 6            | Sample Letter Canceling Loan Guaranty to Veteran  | 4-16        |
| 7            | Sample Letter Canceling Loan Guaranty to Lender   | 4-18        |
| 8            | Sample Egregious Loan Letter  | 4-20        |
| 9            | Sample Indemnification Agreement  | 4-21        |

## 1. Conduct a Review After Guaranty Is Issued

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

---

**a. Types of Reviews** There are different types of file reviews conducted after the loan is guaranteed, which include:

- Full File Loan Reviews (FFLR) including:
  - Standard Reviews,
  - Purchase or Regular (Cash Out) Refinances,
  - Interest Rate Reduction Refinance Loans (IRRRLS) and
  - Early Payment Default (EPD) Reviews.
- Special File Reviews, including:
  - Closing Disclosure (CD)

All file reviews are performed in the FFLR application within WebLGY (VA's system of record).

---

**b. File Review Timeliness Requirements** The timeliness criteria for acceptable performance for all file reviews is completion of the FFLR within 20-business days at least 95 percent of the time, on a monthly basis.

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*Continued on next page*

## 1. Conduct a Review After Guaranty Is Issued, Continued

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### c. Selection Criteria

Conduct a file review on cases selected by the electronic system at the volume determined by Central Office (CO).

#### Review Selection Criteria

In addition to the random system-selection, the system will automatically select closed loans for which:

- The Veteran's residual income is below the standard by more than 10 percent; or
- The Veteran's debt-to-income ratio is 45 percent or greater and the residual income does not exceed the VA standard by at least 20 percent; or
- Loans guaranteed more than 60-calendar days after closing.

In addition to the system selected cases, Regional Loan Centers (RLCs) may identify specific lenders whose loan submissions are frequently of such poor quality that a file review (standard or special) is necessary.

A standard file review must be performed on loans submitted during the 1-year probationary period of a non-supervised lender granted automatic authority by VA, selected as follows:

- The first 15 loans closed automatically by the lender, and
- 50 percent of the next 50 loans.

Thereafter, cases will be selected as with any other lender.

EPDs are performed to identify credit underwriting deficiencies by reviewing newly closed loans where six or fewer payments have been made and the loan has gone into default. All EPDs must be fully reviewed to verify whether the lender approved a possibly egregious loan.

The only exceptions for EPD reviews are cases in which:

- A standard file review was previously completed with a close-out date in WebLGY, or
- A VA Loan Electronic Reporting Interface (VALERI) system update error occurred.

RLCs must place detailed comments in the notes section of the loan number within WebLGY.

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*Continued on next page*

## 1. Conduct a Review After Guaranty Is Issued, Continued

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### c. Selection Criteria, continued

CD file reviews are performed in accordance with 38 CFR 36.4313(d)(1), to ensure that Veterans only pay, or are charged, certain specific fees. Many of these fees are third party fees, i.e., collected from the Veteran by the lender on behalf of other parties to the transaction. The complete list of these fees may be found in our regulations, at [38 CFR 36.4313](#).

Upon completion of a CD review, the RLC may determine that the review be escalated to a standard review. RLC management will follow the guidance in CD User Instructions to internally escalate the special CD review to a standard file review.

---

### d. How to Conduct a File Review

Follow these steps on each loan selected for a file review:

| Step | Action  |
|------|---|
| 1    | Verify all required documents have been submitted in the proper order to WebLGY. Chapter 5, Topic 3 of the VA <a href="#">Lender's Handbook</a> provides lists of documents required for different types of loan submissions.   |
| 2    | If the lender's submission is incomplete or not in the proper stacking order, process the file as an improper submission error in FFLR.   |
| 3    | Review the loan file following the file review process. For more detailed instructions of the review process, please refer to the <a href="#">FFLR User Instructions and/or CD User Instructions</a> .  |
| 4    | For prior-approval loans, determine whether the closed loan is identical to the proposed loan on which the Certificate of Commitment was based. If not, determine whether the variations are allowable per Chapter 5, Topic 4 of the VA <a href="#">Lender's Handbook</a> . |
| 5    | For prior-approval loans on which a conditional Certificate of Commitment was issued, determine whether all required conditions or certifications have been satisfied or provided. See Chapter 5, Topic 4 of the VA <a href="#">Lender's Handbook</a> .                     |

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## 2. Review Findings

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. What are Possible Review Findings?** Upon completion of the file review, the Loan Specialist will have one of the following determinations:

- No negative findings/deficiencies
- Ineligible Loan,
- Deficiencies, and/or
- Egregious Loan Referral.

CO tracks the determinations listed above and will make any necessary referrals to the Monitoring Unit for a possible audit of the lender.

---

**b. What to do with an Ineligible Loan** Pursuant to [38 CFR 36.4328\(a\)](#) and [38 U.S.C. 3721](#), any evidence of guaranty or insurance issued by the Secretary shall be conclusive evidence of the eligibility of the loan for guaranty or insurance. Once the funding fee is paid, the loan is considered a VA-guaranteed loan. The only exceptions are:

- An ineligible Veteran.
- An ineligible loan purpose.
- Fraud or material misrepresentation.

The loan guaranty shall never be canceled for the following reasons:

- The lender cannot sell the loan to an investor or the secondary market.
- The lender has failed to respond to non-compliant letters. If the loan is ineligible based upon the noted deficiencies, then the loan guaranty shall be canceled. However, if it is not an ineligible loan, then the loan must be sent through CO Front Office for an egregious loan review for possible indemnification.
- The lender does not want the loan insured.

**Examples of Ineligible Loans:** The Veteran is ineligible for the home loan benefit; the Veteran intends to use the loan to purchase a business property; an Interest Rate Reduction Refinancing Loan proceeds are used to pay another/subordinate lien; maximum loan amount is exceeded; Notice of Value (NOV) conditions affecting the basic livability of the property cannot be satisfied; the escape clause is not in the contract; the loan has a term which exceeds the remaining economic life of the property, or 30 years and 32 days.

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*Continued on next page*

## 2. Review Findings, Continued

---

**b. What to do with an Ineligible Loan,**  
continued

Consult CO Loan Policy if some doubt exists as to whether the loan is eligible for guaranty through an email to the Loan Policy mailbox ([LoanPolicy.VBAVACO@va.gov](mailto:LoanPolicy.VBAVACO@va.gov)). Contact the lender by mail and telephone to try to resolve the problem. Place detailed notes from the telephone contact in the loan records, within WebLGY, and the lender's record within the Stakeholder Information Management system (SIM). Include the name, title, and telephone number of the person contacted.

Follow these steps with ineligible loans when the lender cannot, or fails to, correct the problem within 30-calendar days:

| Step | Action  |
|------|---|
| 1    | Send the lender the letter in Topic 7 of this chapter, stating clearly that the loan is not guaranteed, VA will not pay any subsequent claim on the loan, and that the lender should not foreclose the loan because of denial of guaranty and that such action could subject the lender to VA sanctions, signed by the Loan Production Officer (LPO). |
| 2    | Refund the VA funding fee, if paid (see "Refunding Overpayments to the Veteran" in Chapter 8, Topic 8(j) of the VA <a href="#">Lender's Handbook</a> ).   |
| 3    | Restore the Veteran's entitlement for the loan following the steps in M26-1, Chapter 7, Topic 10.   |
| 4    | The LPO or Assistant Loan Production Officer (ALPO) must code the loan as a canceled loan in the VA system of record and provide a thorough explanation in the notes section of the loan, within WebLGY. Additionally, documentation from the lender must be uploaded into the correspondence section of the loan file.                               |
| 5    | Send the Veteran a letter explaining why he or she does not have a VA-guaranteed loan and upload a copy of the letter into the loan file. The RLC must use the letter in Topic 6 of this chapter and the letter must be signed by the LPO.  |

Once the guaranty is canceled, the ineligible loan is no longer a VA-guaranteed loan.

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*Continued on next page*

## 2. Review Findings, Continued

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### c. What to do with Fraud or Deficiencies

Consider sanctions against a lender who attempts to accelerate the loan, particularly if the ineligibility of the loan was due to the lender's error.

#### **Evidence exists that fraud or material misrepresentation may have occurred**

- Request additional information necessary to make a preliminary assessment of whether fraud or material misrepresentation may have occurred. Take care not to alert the parties responsible for the possible fraud or misrepresentation that they are under investigation.
- If, after receipt of any additional information requested, it appears that fraud or material misrepresentation may have occurred, forward a detailed request for investigation to IG.

#### **Deficiencies Found through the FFLR Process**

- Request any supplementary information or documentation that is essential to a proper determination as to:
  - Whether the loan meets statutory credit and /or income requirements,
  - Whether only allowable closing costs were charged to the Veteran, or
  - Whether other statutory or regulatory requirements were met.

If these efforts fail to resolve the problem(s) after 60-calendar days from the initial file review complete date, review for non-compliance.

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*Continued on next page*

## 2. Review Findings, Continued

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**c. What to do with Fraud or Deficiencies, continued**

Review the situation and actions already completed with the ALPO or higher authority if necessary. Ensure the following has been done prior to sending the letter for persistent non-compliance:

- Must make an effort to correct systemic problems.
- If problems appear to be local, contact lender management and discuss concerns about the lender's process or problems and determine if further intervention is necessary.
- As determined by RLC management, offer assistance by providing training at the RLC, the lender's office, or through other electronic media.

The Loan Specialist must fully document WebLGY with:

- Actions taken by the Loan Specialist,
  - Facts concerning the lender's willingness to correct deficiencies.
- 

**d. How to Handle Non-Compliant Lenders**

The Loan Specialist must send the system generated non-compliant letter that is created in WebLGY, for this purpose. The letter must be sent if the lender has not responded to the second deficiency letter. If no lender response to the non-compliant letter the LPO/ALPO must send the letter for persistent non-compliance, in Topic 5, to the lender's senior level management 30- to 60-calendar days after the non-compliant letter.

**Note:** Non-compliance for not receiving the loan file for review will be handled by CO.

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*Continued on next page*

## 2. Review Findings, Continued

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**e. What to do  
with  
Egregious  
Findings**

If, after all attempts have been made to obtain additional documentation as noted above or the documentation provided does not resolve the issue, the lender has still not resolved the significant deficiencies regarding income and/or credit, determine whether the deficiencies are serious enough to consider the loan egregious. To be egregious, you must determine that the lender flagrantly disregarded VA's credit underwriting standards. For example, the lender used income, but did not provide any documentation to support that income, or the lender considered the Veteran a good credit risk when the credit report clearly showed that the credit accounts were derogatory.

When deficiencies are not specific to egregious underwriting or an ineligible loan, and the lender fails to cure the deficiencies, the RLC will follow the steps listed in Topic 2(d) of this chapter. Examples of items that are not egregious, include, but are not limited to, NOV items that do not affect the eligibility of the loan.

After determining that the loan should be considered as an egregious loan, forward the case to the LPO, ALPO, or higher authority for a second review. If the LPO, ALPO, or higher authority is in agreement that the loan is egregious, follow the steps indicated below:

| Step | Action  |
|------|---|
| 1    | Ensure that all supporting documentation of the review and response(s) by the lender are uploaded into the correspondence section of the loan in WebLGY.      |
| 2    | Draft a memo to the Director of Loan Guaranty Service, signed by the RLC Loan Guaranty Officer that provides justification for the referred egregious loan.   |
| 3    | Email the signed memo to the main LGY mailbox ( <a href="mailto:LGY.VBACO@va.gov">LGY.VBACO@va.gov</a> ) with "Potential Egregious Loan" in the subject line. |

CO will make a determination whether indemnification is warranted, and provide a written response to be sent to the RLC within 60-calendar days. In the event the loan is determined to be egregious, CO will flag WebLGY and send a memo with the indemnification agreement to the RLC. The RLC must send a letter and the two indemnification agreements to the lender, for signature. Copies of a sample letter and an indemnification agreement are in Topics 8 and 9.

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*Continued on next page*

## **2. Review Findings, Continued**

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**e. What to do  
with  
Egregious  
Findings,  
continued**

The RLC's experience and proper documentation may be the basis for withdrawal of automatic processing authority. Refer to Chapter 5, Topic 7 of the M26-1, for complete details.

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### 3. RLC Procedures for Ordering Credit Reports

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. General Credit Report Requirements** RLCs may contract with a credit reporting agency, or with agencies, to obtain credit reports.

Generally, "in-file" credit report(s) obtained through this method will satisfy most RLC objectives. An "in-file" credit report is computer-generated and contains credit and legal information from one of the main credit bureaus.

In certain cases, a full credit report will be needed. The credit report must be ordered using procedures that the LPO has established based upon the contract that RLC has in place.

Costs of establishing and maintaining any such service must be paid for out of RLC funds.

---

**b. Uses for the Credit Reports Obtained** Uses for the credit reports may include:

- Review of questionable original credit report used by the lender (potentially egregious loan and/or EPD).
- Credit underwriting on release of liability and substitution of entitlement requests.
- Additional scrutiny of questionable prior-approval applications.
- Native American Direct loans.

Do not use the in-file credit report as a sole basis for rejection - clarify inconsistencies with the lender.

---

**c. Safeguard the Interests of Applicants** Obtain a written agreement with the credit-reporting agency that it will comply with the [Fair Credit Reporting Act](#). The Act contains provisions which ensure a consumer has access to their credit information and the right to dispute any such information.

Refer applicant complaints of Fair Credit Reporting Act violations by credit reporting agencies to the Federal Trade Commission.

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*Continued on next page*

### **3. RLC Procedures for Ordering Credit Reports, Continued**

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**c. Safeguard  
the Interests  
of Applicants,**  
continued

Protect the privacy of applicants and prevent improper use of this service by following these procedures:

- Investigate all credit inquiries that cannot be verified as having been requested for an authorized purpose.
- Ensure that billings for credit inquiries are checked against a master record to verify that the inquiries were for a legitimate purpose.

Ensure that a different employee, other than the one who initiated the inquiry, approves payment for the inquiry.

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## 4. Annotation of Loan Files Concerning Inspector General, Federal Bureau of Investigation, or Other Investigations of the Veteran

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

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**a. Annotated File** Annotate the electronic system of record, if the case has been referred for investigation or there is an Inspector General (IG), Federal Bureau of Investigation (FBI), or other investigative report, or a Monitoring Unit report, which indicates the Veteran may have participated in activities that could cause a claim under the guaranty or other loss to the Government. All documentation regarding the investigation must be safeguarded and detailed notes indicated in the electronic system of record.

Advise the CO Chief of Quality Assurance regarding a potential investigation. The notification sent to CO should include the Veteran name, VA loan number, property address, and which federal agency is investigating.

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## 5. Sample Letter to Lender for Persistent Non-Compliance

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**Change Date**     May 23, 2017, Change 5  
• This section has been updated in its entirety.

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|         |                                     |
|---------|-------------------------------------|
| Name    | In replies refer to: Mail Routing # |
| Title   | VA Loan Number                      |
| Company | Veteran's First and Last Name       |
| Address |                                     |

Dear Mr./Ms. Last name:

The insert RLC name Regional Loan Center completed a review on the VA loan file listed above on insert date and sent deficiency letters regarding our underwriting concerns. Unfortunately, the insert RLC name Regional Loan Center has not received a response to the initial deficiency letter or subsequent follow-up letters. As a result, this loan has been forward to VA Central Office for possible administrative sanctions against the lender.

### **Lender Responsibility**

Lender participation in the VA Home Loan program is conditioned upon lenders complying with the governing laws, regulations, and policy guidance regarding the processing of VA loans. Lenders are responsible for ensuring that loans meet VA requirements. When VA notifies the lender of loan deficiencies, this responsibility includes responding to the notice with information addressing the deficiencies to show that VA requirements were met.

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*Continued on next page*

## 5. Sample Letter to Lender for Persistent Non-Compliance, Continued

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### Potential Consequences of Noncompliance

VA may cite loan deficiencies that do not materially affect loan qualification and are provided primarily as a training notice for the lender to correct on future loans. However, some deficiencies are such that they compromise the guaranty of the loan and must be addressed. A lender's failure, either one-time or on a repetitive basis, to show that loans meet VA requirements could result in any of the following:

- VA may suspend random sampling reviews and require that all loans closed by a lender be submitted to VA for full review.
- VA may suspend a lender's automatic authority and require that all loans be submitted on a prior-approval basis.
- VA may require the lender to indemnify VA against loss on a loan.
- VA may determine that a loan is ineligible for guaranty.
- VA may impose other administrative sanctions, such as suspending the ability to perform functions within WebLGY

### What Should You Do?

We are requesting that you respond, by uploading in to WebLGY, the necessary information previously requested within **30-calendar days** from this notice. If the response is not received, VA may suspend your account within WebLGY and you will be unable to perform any functions within the WebLGY system. If you have any questions, please contact insert name, Loan Production Officer, at insert phone number or insert name, Assistant Loan Production Officer, at insert phone number.

Sincerely,

Insert Name  
Chief of Loan Policy  
VA Central Office  
Washington, DC

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## 6. Sample Letter Cancelling Loan Guaranty to Veteran

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**Change Date**      May 23, 2017, Change 5  
• This section has been updated in its entirety.

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Veteran's Name  
Address

In replies refer to:      Mail Routing #  
VA Loan Number

Dear Mr./Ms. Last name:

We are notifying you that the Department of Veterans Affairs (VA) has canceled the guaranty on this VA insert purchase/refinance loan.

After reviewing the loan file, we have determined that the loan is ineligible for VA guaranty because insert the specific reason for the canceled guaranty. Your lender has been notified of the action taken by VA.

### **What Action We Took** (Optional Paragraph)

As a result of the canceled guaranty, a refund of your funding fee in the amount of \$amount has been authorized. Since you paid the funding fee in cash at closing, the refund will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

(Optional Paragraph)

As a result of the canceled guaranty, a funding fee refund in the amount of \$amount has been authorized. Since you financed the funding fee into your loan, the refund will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply \$amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

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*Continued on next page*

## 6. Sample Letter Cancelling Loan Guaranty to Veteran, Continued

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*(Optional Paragraph)*

As a result of the canceled guaranty, a funding fee refund in the amount of \$amount has been authorized. Since you paid cash for a portion of the funding fee at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of \$amount (the portion you paid in cash), will be mailed to you by the U.S. Treasury Department within 60-calendar days from the date of this letter.

Additionally, a refund, in the amount of \$amount (the portion you financed into the loan), will be sent to your current mortgage holder. Your mortgage holder was given instructions to apply \$amount to the unpaid principal balance of your current loan account. A copy of our letter to your mortgage holder is attached.

You should allow approximately 45- to 60-calendar days from the date of this letter before confirming the receipt of the refund by your mortgage holder.

Additionally, VA has restored the entitlement that was used to guaranty the loan. Your current basic entitlement available for possible future use is \$amount.

If you have any questions, please contact insert name, Loan Production Officer, at insert phone number or insert name, Assistant Loan Production Officer, at insert phone number.

Sincerely,

Loan Production Officer

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## 7. Sample Letter Canceling Loan Guaranty to Lender

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**Change Date**      May 23, 2017, Change 5  
• This section has been updated in its entirety.

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|         |                                     |
|---------|-------------------------------------|
| Name    | In replies refer to: Mail Routing # |
| Title   | VA Loan Number                      |
| Company | Veteran's First and Last Name       |
| Address |                                     |

Dear Mr./Ms. Last name:

We are notifying you that the Department of Veterans Affairs (VA) has canceled the guaranty on this VA insert purchase/refinance loan. After reviewing the loan file, we have determined that the loan is ineligible for VA guaranty because insert the specific reason for the canceled guaranty.

### What Action We Took

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since the Veteran paid the funding fee in cash at closing, the refund will be mailed to the Veteran by the U.S. Department Treasury within 60-calendar days from the date of this letter.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized and will be sent through a U.S. Treasury check or an electronic wire transfer. Since the Veteran financed the funding fee into their loan, the refund will be sent to you to apply \$amount to the unpaid principal balance of the current loan account.

*(Optional Paragraph)*

As a result of the overpayment, a refund in the amount of \$amount has been authorized. Since the Veteran paid cash for a portion of the funding at closing and the rest was financed into the loan, the refund will be a split payment. A refund, in the amount of \$amount (the portion the Veteran paid in cash), will be mailed to directly to the Veteran by the U.S. Treasury Department within 60-calendar days from the date of this letter.

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*Continued on next page*

## 7. Sample Letter Canceling Loan Guaranty to Lender, Continued

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Additionally, a refund, in the amount of \$amount (the portion financed into the loan), will be sent be sent to you through a U.S. Treasury check or an electronic wire transfer to apply \$amount to the unpaid principal balance of the current loan account.

### **What You Need To Do**

*(Optional Paragraph)*

You will be receiving a U.S. Treasury check or an electronic wire transfer (within the next 30- to 45-calendar days) in the amount of \$amount, which is to be applied to the Veteran's account to reduce the unpaid principal loan balance.

Lender participation in the VA loan program is conditioned upon lenders complying with the governing laws, regulations, and policy guidance regarding the processing of VA loans. Lenders are responsible for ensuring that loans meet VA requirements. When VA notifies the lender of loan deficiencies, this responsibility includes responding to the notice with information addressing the deficiencies to show that VA requirements were met.

### **Potential Consequences of Ineligible Loans**

When deficiencies are such that they compromise the guaranty of the loan, they must be addressed. Failure, either one-time or on a repetitive basis, to show that loans meet VA requirements could result in any of the following:

- VA may suspend random sampling reviews and require that all loans closed by a lender be submitted to VA for full review.
- VA may suspend a lender's automatic authority and require that all loans be submitted on the prior-approval basis.
- VA may impose other administrative sanctions.

If you have any questions, please contact insert name, Loan Production Officer, at insert phone number or insert name, Assistant Loan Production Officer, at Insert phone number.

Sincerely,

Loan Guaranty Officer

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## 8. Sample Egregious Loan Letter

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**Change Date**      May 23, 2017, Change 5  
• This section has been updated in its entirety.

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|         |  |
|---------|--|
| Name    | In replies refer to: <u>Mail Routing #</u> |
| Title   | <u>VA Loan Number</u>                      |
| Company | <u>Veteran's First and Last Name</u>       |
| Address |  |

Dear Mr./Ms. Last name:

We reviewed the VA loan file listed above on insert date and sent deficiency letters regarding our underwriting concerns. On insert date, we indicated that the above loan file was forwarded to Loan Guaranty Central Office for possible egregious underwriting. As a result of Central Office's final review, the loan is deemed to have egregious underwriting.

### **What is Required of Your Firm as a Result of this Audit?**

You should sign and return the enclosed indemnification agreements on insert lender name and ID number, VA# insert loan number.

Please comply with the above requirement within 30-calendar days from the date of this letter. You should mail evidence of compliance to insert appropriate RLC address.

### **Who Should You Contact for Additional Information**

If you have any additional questions, please contact insert LPO name and phone number.

We appreciate your participation in the VA Home Loan Program and believe you will take the necessary steps to improve your firm's compliance with our loan guaranty requirements.

Sincerely,

Loan Guaranty Officer

Enclosure:  
Indemnification Agreements

---



## 9. Sample Indemnification Agreement, Continued

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2. Any material breach of the terms and conditions of the Agreement shall constitute independent grounds for imposing administrative sanctions by VA against Lender pursuant to regulations 38 C.F.R Parts 2 and 36.

WHEREFORE, the parties hereto have duly executed this Agreement, effective when signed and dated by the parties set forth below.

Lender name

UNITED STATES DEPARTMENT  
OF VETERANS AFFAIRS

BY: \_\_\_\_\_

BY: \_\_\_\_\_

Printed Name/Title: \_\_\_\_\_

Printed Name/Title: \_\_\_\_\_

DATED: \_\_\_\_\_

DATED: \_\_\_\_\_

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## Chapter 5. Sanctions Against Program Participants

### Overview

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# 1. Basic Rules Governing Debarment, Suspension, and Limited Denial Participation Actions

**Change Date** May 23, 2017, Change 5  
 • This section has been updated in its entirety.

**a. Basic Rules** The table below describes when a debarment, suspension, or Limited Denial of Participation (LDP) occurs and the justification for such sanctions.

|  | <b>Debarment and Suspension</b>  | <b>LDP</b>   |
|--|--|--|
| Against Whom May Sanctions Be Imposed? | Any program participant (individual or entity) and/or affiliate. All or part of an organization or only certain individuals of an organization.<br><br>Examples: lender, employee of lender, loan holder, builder, real estate broker or agent, management broker, repair contractor, compliance inspector, fee appraiser, salesperson, manufactured home manufacturer, dealer or park operator. | Any program participant (individual or entity) and/or affiliate except lenders, employees of lenders, and manufactured home manufacturers ( <a href="#">2 C.F.R. 801.1100</a> ). |
| Who May Impose Sanctions?              | Central Office (CO)<br><br><b>Note:</b> Regional Loan Center (RLC) may make recommendations.   | RLC Director (Obtain CO concurrence for multi-state participants)  |

*Continued on next page*

# 1. Basic Rules Governing Debarment, Suspension, and Limited Denial Participation Actions, Continued

## a. Basic Rules, continued

|                                    | <b>Debarment and Suspension</b>  | <b>LDP</b>  |
|------------------------------------|--|---|
| What are the Causes for Sanctions? | <p><u>Debarment</u> - Commission of offense evidencing serious lack of integrity, conviction for fraud, forgery, destruction of records, etc., or other causes outlined in <a href="#">2 C.F.R. 180.800</a>.</p> <p><u>Suspension</u> - Evidence of, or indictment for, offenses on which debarment can be based - see 2 <a href="#">C.F.R. 180.700</a>.</p> | <p>Sanction by the Department of Housing and Urban Development (HUD), LDP by another VA RLC,</p> <p><b>OR</b></p> <p>In connection with the VA Home Loan program; irregularities or deficiencies in performance, violations of law or regulations, or other causes outlined in <a href="#">2 C.F.R. 801.1105</a>.</p> |
| What is the Nature of Exclusion?   | <p>Generally, cannot participate in <b>any</b> Federal non-procurement programs (including the VA Home Loan program). However, sanction can be structured to exclude participants from only certain types of transactions.</p>   | <p>Cannot participate in the VA Home Loan program or certain activities thereunder. LDP can be structured to exclude participant from only certain types of transactions.</p> <p>Example: LDP prohibits participant from appraising, but not from acting as a management broker.</p>                                  |

*Continued on next page*

# 1. Basic Rules Governing Debarment, Suspension, and Limited Denial Participation Actions, Continued

**a. Basic Rules,**  
continued

|   | <b>Debarment and Suspension</b>  | <b>LDP</b>  |
|---|--|---|
| Geographic Limits of Exclusion                            | <b>No limits.</b> Participant excluded from targeted activities in all locations.  | Effective <b>only</b> within the jurisdiction of office or offices imposing it.   |
| What Are the Terms of Exclusion?                          | <p><b><u>Debarment.</u></b> For a period appropriate to the seriousness of the cause - generally 3 years.</p> <p><b><u>Suspension.</u></b> For a temporary period, pending completion of an investigation or legal or debarment proceedings - generally not to exceed 18 months.</p> | <p>For a period up to 12 months.</p> <p><b><u>Exception for Builders:</u></b> RLCs may impose an LDP against a builder for construction deficiencies for an indefinite period pending correction of the construction deficiencies <b>or</b> for a fixed period up to 12 months (<a href="#">2 C.F.R. 801.1110</a>).</p> |
| Do Sanctions Against a Veteran Impact Use of Entitlement? | A Veteran subject to a debarment or suspension as a program participant (i.e., lender, builder, etc.) can still use his or her entitlement to obtain a VA home loan.   | A Veteran subject to an LDP as a program participant (i.e., builder, broker, etc.) can still use his or her entitlement to obtain a VA home loan.   |

*Continued on next page*

## **1. Basic Rules Governing Debarment, Suspension, and Limited Denial of Participation Actions, Continued**

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**b. Recommend Debarment or Suspension, if Appropriate**

Submit a debarment recommendation to CO Front Office, if the seriousness of the conduct warrants such.

Submit a suspension recommendation only if needed as a temporary measure pending investigation or legal or debarment proceedings.

With either administrative action, ensure that adequate written documentation in support of the recommendation is provided, include the following:

- A description of the specific act(s) or violation(s) committed
- All relevant facts, documents, and evidence in the case
- Identification of the causes relied upon from 2 C.F.R. 180.800 (2 C.F.R. 180.700 for suspensions).

CO will request documentation from other affected RLCs, as needed, for multi-jurisdictional participants.

CO will make a final decision and notify affected participants of the suspension or debarment and their right to request a hearing.

A copy of the notice will be furnished to the RLC(s).

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## 2. Evidence Needed to Support Limited Denial of Participation Actions

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

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**a. Standards of Evidence** An LDP sanction must be supported by facts and adequate evidence. Adequate evidence means information sufficient to support the reasonable belief that a particular act or omission has occurred (2 C.F.R. 180.900).

- It must not be based on unsubstantiated rumors, suspicion, or allegations.
- Such evidence can be introduced into the record of the hearing and accorded such weight and consideration, as the circumstances warrant.
- In some cases, secondary or hearsay evidence, signed written statements, etc., may be the only evidence available on some points.

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**b. Inspector General (IG) and Federal Bureau of Investigation (FBI) Reports May Not be Used as Evidence** IG and FBI reports may not be introduced as evidence since they are confidential because:

- The source of information in such reports may not be revealed.
- Information in such reports may only be presented to the hearing board through an independent medium; i.e., by means of witnesses, documents, records, etc.
- Unverified memoranda of interviews contained in investigative reports may not be introduced as evidence.

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**Exception:** Allegations contained in such memoranda may be introduced into the record by direct examination of either the person interviewed or the investigator that conducted the interview when appearing as a witness at the hearing.

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### 3. Regional Loan Center Responsibilities and Procedures for Sanctions

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

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**a. Regulations** Be familiar with this chapter and VA regulations at 2 C.F.R. parts [180](#) and [801](#).

Where appropriate, apply the provisions of Chapter 6 of the [M26-2](#).

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**b. Disclose the Identities of Parties** Notify the local HUD office(s) of VA's imposition of any debarment, suspension, or LDP against a participant within its geographic jurisdiction.

**Subject to Sanctions** Release the names of participants against whom sanctions have been imposed to anyone requesting such information. [General Services Administration \(GSA\) System for Award Management \(SAM\)](#) can be used to determine whether they are on the list of excluded from Federal Procurement or Non-procurement Programs.

Ensure disclosure is not made of participants who are being considered or recommended for sanctions.

Send a copy of any LDP imposed, after expiration of conference rights, to CO.

CO is responsible for adding or deleting names from LDP List, and the GSA SAM.

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*Continued on next page*

### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**c. Provide Participants the Opportunity to Avoid Sanctions**

Notify the participant in writing that sanctions are being considered and provide the opportunity to correct problems where possible.

Does **not** apply to cases involving fraud or criminal activity.

**Example:** Builder Construction Deficiency. (See [M26-2](#)).

- A Veteran reports that after the RLC notified the builder of a construction deficiency complaint, the builder did not correct the problem or refuses to cooperate.
- If the facts warrant, based on a field review of the property, notify the builder in writing that sanctions are being considered. Include the builder's option to submit documentation or visit the RLC to dispute the complaint.
- If the builder fails to successfully dispute the complaint or correct the deficiencies determined by VA to be the builder's responsibility after reasonable opportunity, advise the builder by registered or certified mail that, unless satisfactory arrangements are made with the RLC by a specific date, sanctions will be imposed.
- If arrangements are not made by the builder by the specified date, impose or recommend sanctions.

**Example:** Excluded Individual Employed by Lender.

- An RLC learns that a debarred or suspended individual is employed by a lender.
- No party who employs a debarred individual may continue to conduct government business.
- Consult Loan Policy prior to contacting the lender.
- With CO concurrence, notify the lender that the individual has been debarred or suspended by VA and may not be employed until the sanction is lifted. Include a warning that continued employment of the individual in such capacity could result in sanctions against the lender. Provide the lender an opportunity to discuss the matter with the RLC.
- If the lender still employs the individual after a reasonable opportunity to terminate, advise the lender by registered or certified mail that, unless employment is terminated by a specific date, sanctions will be imposed.
- If the lender doesn't correct the problem by the specified date, report the facts to CO with a recommendation concerning suspension or debarment.

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*Continued on next page*

### **3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued**

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**d. Investigate and Assemble Facts and Evidence**

Sanctions can have severe economic consequences on program participants. Sound judgment is essential when choosing to use this option.

Develop sufficient facts and evidence as described in Topic 3(f) of this chapter.

Complete an investigation of the facts before recommending or imposing a sanction except when either:

- Evidence accumulated from ongoing RLC business is adequate and;
- The sanction will be a reciprocal action based on a like-sanction by another office within VA or another federal agency; or
- An investigation was already performed by VA IG or another agency, another office within VA, or a law enforcement agency, and there is adequate admissible evidence from that investigation.

RLCs are encouraged to consult with CO Loan Policy during any investigation regarding the development of facts and evidence. An RLC investigation may be performed either to provide full support for a sanction or supplement evidence from an investigative report by the IG or other source.

For each relevant finding, document:

- Source of information,
- Investigative activities performed, and
- Results.

Include:

- Dates of interviews, inspections, and other investigative activities,
- Observations made,
- Identity of alleged violators, victims, and possible witnesses,
- How to contact these parties in the future,
- Relevant conversations with or statements by these parties, and
- Photographic evidence or copies of records or correspondence pertaining to the alleged conduct, when relevant.

For sanctions based on allegations of fraud or other criminal activity, see the "Fraud and Other Criminal Activity" heading in Topic 3(f) of this chapter for standards of evidence.

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*Continued on next page*

### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**e. Refer Cases of Criminal Conduct to the IG**

Ensure allegations resulting from RLC investigations are not frivolous. RLC management should discuss allegations with the investigating employee and CO Loan Policy before referral to IG.

Refer all well-founded allegations of fraud or criminal conduct relating to the Loan Guaranty Program to the Regional Office of jurisdiction's IG. Include, when available:

- Description of alleged violation, including date and location;
- Identities of alleged violators, victims, and possible witnesses;
- Estimate of loss to the government or individual;
- Copy of any field examination or RLC investigation of the matter;
- Copy of records related to participant's fraudulent or criminal activity such as, electronic records, application(s) for loan guaranty benefits, verification(s) of employment and deposit, and contracts, etc.;
- Identity and location of custodian of above records;
- Letters, memoranda, notes, and reports of contact, etc., related to the fraudulent or criminal conduct; and
- A request that the IG provide the RLC with a report containing evidence admissible in an administrative hearing which may sustain imposition of sanctions.

Provide a copy of the referral to CO Loan Policy. Verbal referrals may be made in unusual situations requiring immediate action. Confirm in writing, as soon as possible, thereafter.

A sanction based on allegations of fraud or other criminal activity may be imposed either before or after referral to and investigation by the IG or appropriate law enforcement agency, as long as the evidence is adequate to support the action.

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### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**f. Recommend Debarment or Suspension, if Appropriate** Submit a debarment recommendation to CO Front Office, if the seriousness of the conduct warrants such.  
Submit a suspension recommendation only if needed as a temporary measure pending investigation or legal or debarment proceedings.

With either administrative action, ensure that adequate written documentation in support of the recommendation is provided, include the following:

- A description of the specific act(s) or violation(s) committed,
- All relevant facts, documents, and evidence in the case, and
- Identification of the causes relied upon from [2 C.F.R. 180.800](#) ([2 C.F.R. 180.700](#) for suspensions).

CO Loan Policy will request documentation from other affected RLCs, as needed, for multi-jurisdictional participants.

CO will make a final decision and notify affected participants of the suspension or debarment and their right to request a hearing.

A copy of the notice will be furnished to the RLC(s).

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**g. Impose LDP, If Appropriate** This determination is at the Regional Office Director's discretion. Consider the following:

- LDP is in the best interests of the government, and
- The conduct involved is based on causes outlined in [2 C.F.R. 801.1105](#) and of a level of seriousness commensurate with this type of sanction.

An LDP can be the sole sanction against a participant or a means to immediately end unacceptable conduct while more severe sanctions are considered. An RLC can recommend suspension or debarment in conjunction with imposing an LDP.

If the LDP is against a builder, consider including any exceptions to the LDP necessary to prevent substantial harm to Veterans who have already contracted for the purchase of homes from the builder.

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*Continued on next page*

### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**g. Impose LDP, If Appropriate,**  
continued

An affiliate or organizational element of the participant may be included in the LDP solely on the basis of its affiliation. The affiliate may be included for the following reason(s):

- No knowledge of, or participation in, the acts committed is necessary.
- The affiliate has the burden of proving it can meet VA requirements and is a responsible entity not controlled directly or indirectly by the participant receiving the LDP.
- The right to request in writing, within 30-business days of receipt of the notice, a conference.
- The right to have a conference held within 10-business days of receipt of the request ([2 C.F.R. 801.1111](#)).

If no conference is requested within 30-business days, the participant has no right to a formal hearing. Advise CO Loan Policy that an LDP has been imposed.

If a conference is requested within 30-business days, arrange the conference.

- The RLC Director may designate another official to conduct the conference.
- Formal rules of procedure do not apply.
- The participant may be represented by General Counsel.
- The participant may present all relevant information and materials.

The official sends the written decision to the participant within 20-business days, after the conference.

- The decision will be to withdraw, modify, or affirm the LDP.
- If the decision is to affirm all or part of the remaining period of the LDP, advise the participant of the right to request a formal hearing in writing to the Under Secretary for Benefits within 30-business days of receipt from the notice of the decision.

Send a copy of any notice of an affirmative decision to CO Loan Policy.

The RLC Director may terminate an LDP prior to the expiration of a fixed-period LDP where the cause for the LDP is resolved.

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*Continued on next page*

### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**g. Impose LDP, If Appropriate, continued**

Before imposing an LDP against an interstate participant operating in areas beyond your RLC's jurisdiction:

- Contact all RLCs serving jurisdictions in which the participant operates to find out whether:
  - They have experienced problems with the participant, and
  - They wish to impose sanctions against the participant in their jurisdictions and to what extent.
- Obtain concurrence of CO on chosen course of action.
- Coordinate the contents of the LDP notices between all affected RLCs.

An RLC may implement an LDP to a greater or lesser degree within its jurisdiction than another RLC, or choose not to take action when another RLC does.

Ensure that the reasons for the difference in treatment are supported by adequate documentation of all relevant facts, including any differences in the participant's activities in each jurisdiction.

---

**h. Arrange Formal Hearing**

If a participant against whom debarment, suspension, or an LDP is imposed requests a formal hearing, CO Loan Policy may first encourage the participant to have an informal meeting with the RLC to resolve the issues. Make every effort toward informal resolution to avoid the time and cost of a formal hearing.

If informal means of resolution become exhausted, arrange a hearing date, in consultation with CO Loan Policy.

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*Continued on next page*

### 3. Regional Loan Center Responsibilities and Procedures for Sanctions, Continued

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**h. Arrange Formal Hearing,**  
continued

The hearing is to begin within 30-business days of receipt from the request, unless postponed because:

- Participant requests postponement and presents a reasonable basis, or
- VA requires additional time to conclude its investigations, or
- The case has been, or is being, referred by the IG to a U.S. Attorney or the Department of Justice for consideration of criminal prosecution, or criminal prosecution has been initiated, but has not been concluded.

If there is a criminal case pending, a hearing date will not be determined until the criminal prosecution is concluded or the U.S. Attorney or Department of Justice has no objection to the hearing.

If the U.S. Attorney or Department of Justice objects to the hearing, General Counsel will report the facts through RLC management to CO Loan Policy, which will determine whether to grant the hearing.

Arrange a hearing date satisfactory to the participant.

- Generally to take place at the RLC and to begin on a Tuesday or Wednesday, not immediately preceding or following a holiday.
- Promptly advise CO Loan Policy of the hearing date.

The Under Secretary for Benefits, with the assistance of Loan Guaranty Service, will appoint members to the hearing board and arrange for their attendance at the hearing.

Prompt notice should be given to all parties concerned, including board members, whenever any change in the hearing date is made.

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## 4. Formal Hearing on Sanctions

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**Change Date**     May 23, 2017, Change 5  
• This section has been updated in its entirety.

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**a. Prepare for the Hearing**     Where an LDP is followed by debarment or suspension, the LDP is superseded and the appeal is heard solely as an appeal of the debarment or suspension.

The Under Secretary for Benefits appoints the hearing board composed of one or more officers or employees of VA. Each board member must become thoroughly familiar with appropriate sections of the law and regulations and this chapter of M26-1.

Board members should discuss the procedural aspects of the case prior to the hearing.

---

**b. Arrange for Stenographer**     Select hearing stenographers and advise them of their duties.  
• To transcribe their notes on standard-size paper, double-spacing, leaving sufficient room for binding at the top and numbering at the bottom.  
• To make an original and two copies for VA (original and one copy for CO).

If the transcript is prepared by VA stenographic personnel, a copy will be furnished to the adverse party at the conclusion of the hearing at no charge.

If the transcript is prepared by contract personnel engaged by the RLC, the RLC will advise adverse party's counsel of the stenographic arrangement and that if the adverse party desires a copy of the transcript, arrangements must be made with the contractor directly and at the expense of the adverse party.

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*Continued on next page*

## 4. Formal Hearing on Sanctions, Continued

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**c. Conduct the Hearing** The Under Secretary for Benefits issues an order convening the board and designates one member as chairperson.

The chairperson is responsible for:

- Officially conducting the hearing
- Administering oaths or affirmations to witnesses
- Properly identifying all exhibits by order of introduction
  - Numerically for VA exhibits
  - Alphabetically for adverse party's exhibits
- Ruling on all questions presented to the board
  - If another board member objects to the ruling, a majority vote of the board (either in open or closed session) will decide the issue.
  - Chairman's ruling is always entered into the record.

The hearing is conducted in an orderly manner and a serious businesslike atmosphere of dignity and decorum.

- The chairperson should not permit any person to argue while testifying.
- The hearing must be fair and impartial in all respects.

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*Continued on next page*

## 4. Formal Hearing on Sanctions, Continued

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### c. Conduct the Hearing, continued

Conduct of board members

- Must be characterized by fairness, impartiality, and cooperativeness.
- No member will engage in any argument with the adverse party, his or her counsel, or any witness.
- Members of the board may question witnesses to gain material testimony. The board is entitled to all information of a material nature that is properly available irrespective of who does the questioning.

The hearing is a fact-finding proceeding, not a trial or adjudicatory proceeding.

- Any oral or written matter, which the board deems to be of probative value in determining the issues involved, can be admitted in evidence.
- Irrelevant, immaterial, or unduly repetitious evidence will be excluded.
- Wide latitude is exercised as to relevancy, materiality, and competency.

Objections relating to the jurisdiction of the board or VA regulations are not before the board for decision.

- The time of the board will not be used to hear arguments on these matters.
- Such objections will be noted in the record of the hearing.

The hearing can be opened or closed to the public according to the adverse party's preference. If the adverse party prefers a closed hearing, a majority of the board can determine that the public interest warrants an open hearing.

Interested representatives of another Government Agency or Department may attend in any case.

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*Continued on next page*

## 4. Formal Hearing on Sanctions, Continued

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**c. Conduct the Hearing,**  
continued

The adverse party has the right to:

- Present his or her case by oral or documentary evidence,
  - Submit rebuttal evidence,
  - Cross-examine witnesses, and
  - Make statements on his or her own behalf, as may be appropriate, for a true and full disclosure of the facts.
- 

**d. Complete the Process After the Hearing**

The board will review the typed transcript for accuracy and completeness, as soon as it becomes available.

Ask the adverse party and his or her counsel to read the transcript and either indicate approval by initialing or make known any objections.

- Exceptions or changes requested, which would materially affect the meaning will receive careful consideration.
- Changes will be made only upon majority acceptance by the board.
- Exceptions and requested changes denied by the board shall be noted and appended to the transcript as a part of the record.

Finalize the transcript, as soon as possible, and forward it, with the original exhibits, to CO Loan Policy. Furnish a copy of the transcript, together with copies of all exhibits, to:

- The adverse party without cost if the transcript has been prepared by VA stenographic personnel. If completed by contract personnel, see the "Arrange for Stenographers" heading in this section.
- RLC management.

As soon as possible after the hearing, the board will prepare the written findings of fact.

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*Continued on next page*

## **4. Formal Hearing on Sanctions, Continued**

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**d. Complete the Process After the Hearing, continued**

No one other than board members can be present when the board reviews and considers the evidence and makes its findings of fact. Thereafter, the basis for such findings of fact cannot be discussed between board members and the adverse party, or between board members and VA RLC personnel.

The board will consider:

- Only the matter which came before it during the hearing.
- The entire record of hearing.
- The manner in which witnesses testified.
- Their demeanor on the witness stand.
- Their opportunity to have personal knowledge of the facts concerning which they have testified.
- The authenticity of documentary evidence.
- Lack of evidence upon any worthy point at issue.

Documents such as FBI reports will not be read or considered.

The board will state what facts and circumstances have been established by the evidence presented at the hearing and whether and in what respects the charges in the notice of suspension, debarment, or LDP have been substantiated.

---

**e. Prepare Report of Findings**

The report of findings of fact prepared by the board will generally follow this format:

I. FINDINGS OF FACT

II. DISCUSSION, COMMENT, OR EXPLANATION (If necessary)

III. SIGNATURES OF BOARD MEMBERS

Submit findings of fact to CO Loan Policy.

- Furnish a copy to the adverse party.
  - The adverse party has the right to file with CO, within 14-calendar days of receipt of the board's findings, a brief of facts and/or laws.
-

## 5. Reciprocal Actions Based on other Federal Agency Sanctions

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Policy** Government-wide suspensions and debarments by any Federal agency included in GSA's SAM are recognized by VA.

- No reciprocal action or notice from VA is needed.
- The participant is automatically excluded from the VA Home Loan program.

RLCs have discretionary authority to impose reciprocal LDPs by giving notice to the participant. VA policy is to impose LDPs based on LDPs by HUD/FHA (or the U.S. Department of Agriculture [USDA]) without looking into the facts of the case and terminate LDPs only when furnished satisfactory evidence of reinstatement by such agency.

The RLC may decline to impose an LDP if the participant's record of performance in the VA Home Loan program warrants, and the sanction would not be in the best interest of Veterans or VA.

CO takes any necessary reciprocal action against program participants based on HUD withdrawal of mortgagee approval, or other sanctions besides government-wide suspensions, debarments, and LDPs. Forward any notifications of such sanctions to CO.

---

**b. Procedure for Reciprocal Actions** VA learns of HUD/FHA or USDA sanctions by way of:

- A copy of the HUD/FHA or USDA letter to the participant, or
- HUD's or USDA's list of LDPs and supplements to the list.

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*Continued on next page*

## 5. Reciprocal Actions Based on other Federal Agency Sanctions, Continued

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**b. Procedure for Reciprocal Actions,**  
continued

Upon learning of a HUD/FHA (or USDA) sanction, send a notice to the excluded firm or individual explaining that VA is recognizing HUD/FHA's (or USDA's) LDP, with a copy to CO. Include in the notice:

- The impact of the sanction,
- Programs or activities the participant is excluded from,
- The geographic area affected, and
- A statement that the VA sanction will be in effect until the HUD/FHA (or USDA) sanction has been rescinded.

Generally, implement the VA LDP to the same degree as the HUD/FHA (or USDA) LDP, and no further. In such cases, VA will not afford the participant a hearing since any appeal rights are to be exercised with HUD/FHA (or USDA).

However, the RLC may use its discretion to implement the LDP to a greater or lesser degree than HUD/FHA (or USDA), or to not impose an LDP. For example:

- VA may exclude the participant from a smaller or larger geographic area than HUD/FHA.
- VA may allow the participant limited participation in the program.

If VA chooses to impose sanctions materially more restrictive than the HUD/FHA (or USDA) action:

- The grounds for the additional restrictions must be well documented.
- The participant must be afforded the opportunity for a hearing on the additional restrictions.

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*Continued on next page*

## 5. Reciprocal Actions Based on other Federal Agency Sanctions, Continued

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### c. Multi-Jurisdictional Participants

Before imposing a reciprocal LDP against an interstate participant operating in areas beyond your RLC's jurisdiction:

- Contact all RLCs serving jurisdictions in which the participant operates to find out whether:
  - They have experienced problems with the participant.
  - They wish to impose sanctions against the participant in their jurisdictions and to what extent.
- Obtain concurrence from CO only if the LDP will be materially more restrictive than the HUD/FHA (or USDA) LDP for any or all affected VA jurisdictions.
- Hearing rights are required for a more restrictive sanction than HUD/FHA (or USDA).
- Coordinate the contents of LDP notices between all affected RLCs.

The RLC may implement a reciprocal LDP to a greater or lesser degree within its jurisdiction than another RLC, or choose not to take action when another RLC does.

Ensure the reasons for the difference in treatment are supported by adequate documentation of all relevant facts, including any differences in the participant's activities in each jurisdiction.

---

### d. Do Not Accept Submissions from Excluded Parties

Return any submission received from a participant on the GSA SAM or HUD excluded list to the participant.

Advise the participant that VA is refusing to take action on the case because of sanctions imposed by another Federal agency.

If notification of a VA reciprocal action is required, as for an LDP, and has not previously been sent to the participant, send the notice in conjunction with return of the submitted material.

VA will honor commitments issued prior to imposition of the HUD/FHA or USDA sanction.

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## 6. Withdrawal of Lender's Automatic Processing Authority- Preliminary Actions

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Be Familiar with the Regulations** The regulations at [38 C.F.R. 36.4353](#) provide:

- Criteria for withdrawal of automatic authority for supervised or non-supervised lenders for various periods of time ranging from 60-calendar days to 3 years.
- That automatic authority can be withdrawn upon 30-calendar days' notice.
- That automatic authority may be withdrawn for imprudent lending practices or practices prejudicial to the interests of Veterans or the government.
- These practices are of a lesser degree than would warrant complete debarment or suspension.

---

**b. Work with the Lender** If information casts doubt on the conformity of the lender's credit practices to the purposes of the law, spot check or audit the lender's credit underwriting practices. Options include:

- Request submission of substantiating credit data in selected cases, or
- Obtain backup credit reports.

If the lender's underwriting shows a pattern of closing loans not meeting VA's credit requirements or standards, bring it to the attention of the lender's liaison employee (non-supervised lender) or other appropriate officials in an effort to improve future performance. Participation of the Loan Guaranty Officer is required in such cases to assure the tone of the discussion is helpful and provides guidance.

If after a reasonable period the lender fails to demonstrate satisfactory performance with numerous significant underwriting errors and/or recurring deficiencies, consider requiring prior approval for all future loans. Lenders with automatic authority withdrawn may still process VA-guaranteed loans on a prior-approval basis.

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## 7. Basis for Withdrawing Lender's Automatic Processing Authority

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

---

**a. Withdrawal for Indefinite Period** Automatic authority may be withdrawn for an indefinite period based on failure to continue meeting basic qualifying criteria.

Exceptions include:

- For supervised lenders, this includes loss of status as an entity subject to examination and supervision by a Federal or State regulatory agency,
- For non-supervised lenders, this includes no approved underwriter, failure to maintain \$50,000 working capital, and/or failure to file required financial statements, and
- Any of the causes for debarment set forth in 2 C.F.R. parts [180](#) and [801](#).

During the probationary period for newly-approved, non-supervised automatic lenders, automatic authority may be withdrawn:

- Based upon numerous significant underwriting errors and/or recurring deficiencies.
  - At any time during the probationary period if recommended by an RLC.
- 

**b. Withdrawal for 60 days** Automatic authority may be withdrawn for 60-calendar days based on: Loan submissions showing deficiencies in credit underwriting after repeatedly being called to the lender's attention. Examples:

- Use of unstable sources of income to qualify the borrower.
  - Ignoring significant adverse credit items affecting applicant's creditworthiness.
  - Employment or deposit verifications were hand carried by applicants or otherwise improperly permitted to pass through the hands of a third party.
  - Loan submissions were consistently incomplete after repeatedly being called to the lender's attention.
  - Continued instances of disregard of VA requirements after repeatedly being called to the lender's attention.
- 

*Continued on next page*

## 7. Basis for Withdrawing Lender's Automatic Processing Authority, Continued

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**c. Withdrawal for 180 Days** Automatic authority may be withdrawn for 180-calendar days based on any of the following:

- Loans conflicting with VA credit standards and would not have been made by a lender acting prudently.
- Failure to disclose to VA significant obligations or other information so material to the Veteran's ability to repay the loan that undue risk to the government results.
- Employment or deposit verifications were hand carried by the applicant or otherwise mishandled, resulting in submission of significant misinformation to VA.
- Substantiated complaints are received that the lender misrepresented VA requirements to Veterans to the detriment of their interests.

### Examples to Support Withdrawal for 180-Calendar Days

- Veteran was dissuaded from seeking a lower interest rate based on the lender's incorrect advice that such options were excluded by VA requirements.
  - Closing documents show instances of improper charges to the Veteran after the impropriety of such charges were called to the lender's attention by VA, or the lender refuses to refund such charges after notification by VA.
  - Other instances of lender actions prejudicial to the interests of Veterans such as deliberate delays in scheduling loan closings.
- 

**d. Withdrawal for 1 to 3 years** Automatic authority may be withdrawn for 1 to 3 years based on: Failure to properly disburse loans, such as loan disbursement checks returned due to insufficient funds or involvement by the lender in the improper use of a Veteran's entitlement. Examples include:

- Knowingly permitting the Veteran to violate occupancy requirements, or
  - Lender involvement in the sale of a Veteran's entitlement, etc.
-

## 8. Authority to Withdraw Lender's Automatic Processing Authority

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Authority of the RLC** An RLC may withdraw the automatic authority of non-supervised lenders without operations in other jurisdictions for 60-calendar days. The basis for withdrawal must be one of those listed in Topic 7 of this chapter as a basis for withdrawal for 60-calendar days, 180-calendar days, or 1 to 3 years.

Discuss the basis of the action with CO Loan Policy staff prior to providing the 30-calendar day notice of intent to withdraw automatic processing privileges to the lender.

---

**b. CO Jurisdiction** CO will process all cases involving withdrawal of automatic authority for:

- More than 60-calendar days,
- Supervised lenders,
- Multi-jurisdictional lenders, or
- Cases described under the "Withdrawal for Indefinite Period" heading in Topic 7(a) of this chapter.

RLCs will make their recommendations to CO in writing with all necessary documentation and evidence.

Include the following:

- Statement of deficiencies uncovered
  - Summary of attempts to get the lender to conform to applicable VA policies
  - The loan files involved. If numerous, submit representative loan files and a list of remaining cases, detailing deficiencies in each case
  - The lender's file
  - Available information on the RLC's guaranty claims experience with the lender
-

## **9. Notice and Hearing Rights for Withdrawal of Lender's Automatic Authority**

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**Change Date**     May 23, 2017, Change 5

- This section has been updated in its entirety.

---

**a. Procedures**     For cases within your RLC's authority, give 30-calendar day notice of intent to withdraw, this will allow the lender time to close or obtain prior approval for any loan(s) in which processing has begun.

The lender has 15-calendar days from receipt of the notice to submit information in opposition to the withdrawal to the RLC.

Although there is no right to a formal hearing, if the lender's submission raises a dispute over facts material to the withdrawal, the lender will be afforded the opportunity for a hearing.

- A hearing officer or panel will be appointed by the Under Secretary for Benefits.
  - Hearing procedures set forth in Topic 4 of this chapter may be generally followed, as appropriate.
  - If requested, make a transcribed record of the proceedings available at a cost to the lender. The requirement for a transcript is waived by mutual agreement.
  - A request to defer the effective date of withdrawal until after the hearing will be approved by the Under Secretary for Benefits, only if it is in the best interest of the government.
-

## 10. False Lender Certification on Loan Submissions

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

---

**a. What Is It?** The certification a lender must sign for each loan submission is described in Chapter 5 of the [Lender's Handbook](#). Any lender who knowingly and willfully makes a false certification may be subject to civil money penalties under the provisions of [38 C.F.R. 36.4340\(k\) and \(l\)](#).

---

**b. RLC Responsibilities** If it appears that a lender's certification is false, prepare a report that includes:

- The evidence supporting the finding of a false certification and of liability,
- A description of the claims or statements which form the basis for assessing liability, and
- Any mitigating circumstances that may relate to the certification.

Submit this report to CO Loan Policy and Oversight for endorsement of the findings and a determination of the amount of liability to be assessed against the lender.

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**c. CO Responsibilities** CO, along with the IG, will review the information provided.

If the Under Secretary for Benefits confirms that a false certification has been made, IG will take any necessary steps to move forward with the investigation and/or litigation.

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## 11. Withdrawal of Lender Appraisal Processing Program Authority

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

---

**a. Authority** The Loan Guaranty Officer (LGO) is authorized to withdraw the special privilege of Lender Appraisal Processing Program (LAPP) authority:

- When proper cause exists,
- For an indefinite or specified period of time, and
- After consultation with CO.

---

**b. Procedures** Be familiar with the regulations at [38 C.F.R. 36.4347](#) and the [VA Lender's Handbook](#).

Provide 30-calendar days written notice of intent to withdraw.

The lender has 15-calendar days from receipt of the notice to submit information to the LGO in opposition to the withdrawal.

Although there is no right to a formal hearing at this stage of processing, the LGO will review the lender's submission and make a recommendation to the RLC Director to sustain, modify, or rescind withdrawal.

Provide the lender a written decision with the right to appeal to the Under Secretary for Benefits.

If the lender's submission raises a dispute over facts material to the withdrawal, the lender will be afforded the opportunity for a hearing. A hearing officer or panel will be appointed by the Under Secretary for Benefits. Hearing procedures set forth in Topic 4 in this chapter may be generally followed, as appropriate.

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## 12. Sanctions Based on Unfair Contract Provisions or Marketing Practices

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Sanctions Available** VA may refuse to appraise property for VA-guaranteed financing (i.e., impose sanctions) if the parties in interest are identified with previous sales involving VA-guaranteed financing and the contract of sale or methods or practices pursued in the marketing of such properties were unfair, unethical, or prejudicial to the Veteran purchasers.

Whenever appropriate, provide a reasonable opportunity for the builder or other program participant to correct the problem(s) prior to imposing sanctions.

Impose or recommend debarment, suspension, or an LDP (subject to their specific rules and limitations) where there has been a general or continued employment of unfair contractual practices or sales methods accompanied by a disregard for the consequences to the purchasers.

These sanctions may also be appropriate where special factors such as an attempt to defraud VA, the Veteran, or the lender, or a substantial financial injury to the Veteran, which the seller has not remedied, accompany an unfair contractual feature or sales method.

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**b. Review of Sales Contracts** Lenders are required to review the provisions of each sales contract or purchase agreement on a proposed construction case and determine whether it is acceptable and does not contain unfair contractual provisions. The closing of the loan denotes the lender has determined the contract is acceptable.

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*Continued on next page*

## 12. Sanctions Based on Unfair Contract Provisions or Marketing Practices, Continued

**c. Examples of Unfair Contract Provisions or Features** Unfair contract provisions or features include, but are not limited to, the following:

| Example | Unfair Contract Provisions or Features  |
|---------|---|
| 1       | Provisions allowing the downpayment or earnest money of the purchaser to be forfeited or retained as liquidated damages if the purchaser cannot obtain VA financing.  |
| 2       | <p>Inclusion in a lump-sum contract of an "escalator clause" which obligates the purchaser to pay a higher price in the event of increased costs for labor, material, or other items prior to delivery of title.</p> <p>Unless accompanied by a provision which gives the purchaser the option of canceling the contract and obtaining a refund of the monies paid if the increased price is not acceptable to the Veteran.</p>   |
| 3       | <p>Provisions which infringe upon the usual or customary freedom or right of an owner to sell a property, except as allowed under <a href="#">38 C.F.R. 36.4309(e)</a> and <a href="#">36.4354(b)(5)</a>.</p> <p><b>Example.</b> A provision that the purchaser will give a stated real estate agency an exclusive listing if he or she resells the property within 2 years after acquisition, or will give the seller or another a first option to buy.</p>  |
| 4       | <p>A requirement that purchasers waive or release any claim or right for nonperformance by the builder under the contract.</p> <ul style="list-style-type: none"> <li>• This does not prevent a builder from obtaining a statement from the purchaser at closing that he or she has inspected the house and has not observed any unsatisfactory construction.</li> <li>• Nor does it prevent the builder from obtaining a release from the purchaser in settlement of a bona fide dispute.</li> </ul> |
| 5       | Omission of a description sufficient to identify accurately the property sold.  |

*Continued on next page*

## 12. Sanctions Based on Unfair Contract Provisions or Marketing Practices, Continued

**c. Examples of Unfair Contract Provisions or Features, continued**

| Example | Unfair Contract Provisions or Features  |
|---------|---|
| 6       | <p>Omission of a provision specifying whether the builder or the Veteran is to be charged with any special assessments or improvement bonds.</p> <p>Includes those payable in the future, for improvements included in the plans and specifications or commenced or completed at the time of closing, such as streets, sidewalks, curbs, gutters, and sewers.</p> |
| 7       | <p>Omission of a date for completion of proposed construction or failure to give the Veteran the option of canceling the contract and obtaining a refund of the deposit if the dwelling is not completed on a specified date or within a reasonable time afterwards.</p>  |
| 8       | <p>Failure of a contract covering proposed construction to obligate the seller to complete the dwelling in substantial accordance with identified and definite plans and specifications.</p>  |

**d. Examples of Unfair Marketing Practices**

Unfair marketing practices include, but are not limited to, the following:

| Example | Unfair Marketing Practices  |
|---------|---|
| 1       | <p>Enforcement of unfair contractual provisions.</p>  |
| 2       | <p>Requiring purchasers to execute so-called "contracts" which legally bind the purchasers, but do not bind the seller to deliver the property when completed to the purchasers i.e., limiting a seller's liability to the refund of the earnest money deposit.</p> |

*Continued on next page*

## 12. Sanctions Based on Unfair Contract Provisions or Marketing Practices, Continued

**d. Examples of Unfair Marketing Practices, continued**

| <b>Example</b> | <b>Unfair Marketing Practices</b>   |
|----------------|---|
| 3              | <p>Advertising that a property or project is "VA-guaranteed," or "VA-approved," or "VA-inspected" in such a way as to lead Veterans to believe that VA guarantees the construction and workmanship.</p> <p>"VA financing available," or "Eligible for VA financing," or similar advertising is acceptable.</p>  |
| 4              | <p>Delaying tactics on the part of the builder to postpone completion of the property or the closing of the sale after completion in an effort to induce the Veteran to agree to a modification of a firm contract such as:</p> <ul style="list-style-type: none"> <li>• The substitution of inferior materials,</li> <li>• The omission of appliances, or</li> <li>• An increase in price.</li> </ul>  |
| 5              | <p>Failure of the seller or agent of the seller of proposed or newly constructed properties to place in a special trust account deposits or downpayments received from Veteran purchasers, as required by <a href="#">38 U.S.C. 3706</a>. On existing properties, the failure to place downpayments or earnest money deposits in a trust fund or in escrow when required by law or by local practice. When it is not required or not customary for these deposits to be "isolated," the failure or inability of the seller to return the deposit when and if required under the contract.</p> |

*Continued on next page*

## 12. Sanctions Based on Unfair Contract Provisions or Marketing Practices, Continued

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**e. Questionable Contract Provisions or Marketing Practices** For questionable contract features or marketing practices not listed in this section, the relevant facts, including research on customary practices in the locality (if necessary), should be submitted to CO for a determination of whether the feature or practice is unfair or unduly prejudicial.

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**f. Application to Existing Dwellings** This section is not ordinarily applicable to the sale of individual existing (previously occupied) dwellings. However, there may be some cases in which it would be proper to apply the provisions to sales of existing property.

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## 13. Sanctions Based on Violations of Equal Housing Opportunity Laws

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Equal Housing Opportunity Laws and Regulations**

RLCs may recommend or impose sanctions (subject to the rules and limitations applicable to the particular sanction) against program participants for violations of statutory provisions and regulations governing equal opportunity in housing. These laws and regulations include the following:

Equal Credit Opportunity Act (ECOA). ECOA prohibits lenders from discriminating against credit applicants on the basis of:

- Race, color, religion, national origin, sex, or marital status,
- Age (provided that the applicant has the capacity to enter into a binding contract),
- All or part of the applicant's income derives from any public assistance program, and
- The applicant has in good faith exercised any full right under the Consumer Credit Protection Act.

It applies to applicants for nearly all types of credit, including home loans, and all aspects of the credit transaction, including:

- The solicitation and taking of applications
- Information gathering and dissemination
- Credit investigation
- Standards of creditworthiness
- Credit terms
- Credit denial
- Loan servicing and collections

ECOA applies to classes of applicants as well as individual applicants; e.g., a lender may not ask pregnant applicants about their prospects for continued employment over a certain period unless the same question is asked of male applicants. VA must comply with ECOA in its role as a processor of prior approval loans, and be watchful for violations by lenders when reviewing loan submissions. VA may impose sanctions against a lender for ECOA violations or refer the case to the Department of Justice for prosecution, if appropriate.

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*Continued on next page*

## 13. Sanctions Based on Violations of Equal Housing Opportunity Laws, Continued

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**a. Equal Housing Opportunity Laws and Regulations, continued**

The Fair Housing Act. The Act prohibits discrimination on the basis of race, color, religion, sex, handicap, familial status or national origin:

- In the sale, rental, or advertising of dwellings,
- In the provision of brokerage services, and
- In the availability of residential real estate-related transactions.

The Act mandates executive departments and agencies to affirmatively administer their programs and activities relating to housing to further the purposes of the law.

Section 527 of the National Housing Act. This section prohibits discrimination on account of sex in the making of federally-related mortgage loans. It also requires all persons making such loans to consider, without prejudice, the combined income of the borrower and spouse when determining sufficient income to support a loan to a married couple or either member thereof.

VA Regulations at 38 C.F.R. 36.4363. This regulation requires builders or other parties requesting VA appraisals of individual existing housing not previously occupied, newly constructed housing, or a proposed subdivision, to certify that they will not decline to sell the property appraised to a prospective purchaser because of his or her race, color, religion, sex or national origin. Any Veteran obtaining a VA-guaranteed loan is also required to certify that he or she will not decline to sell the home in the future based on these discriminatory factors (on VA Form 26-1820, *Report and Certification of Loan Disbursement*).

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## 14. Discrimination Complaints

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

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**a. What is a Discrimination Complaint?** It is a complaint made to VA regarding a discriminatory act or acts committed against the complainant, which arose from operations of VA's Home Loan program.

It can involve the guaranteed loan program, the direct loan program, VA's property management division, administration of VA's portfolio loans, or any other facet of VA's Home Loan program.

It can be directed against lenders, builders, brokers, or any other industry participant, as well as VA fee personnel or VA employees.

It can involve a wide range of VA Home Loan program activities; e.g., the selection of fee appraisers, the acceptance of purchase offers on acquired properties, etc.

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**b. How Must the Complaint be Submitted?** Complaints must be written, either by letter or on [VA Form 26-8827](#), *Housing Discrimination Complaint*.

If a discrimination complaint is initially received by telephone, inform the complainant to submit the complaint in writing. Complaints can be emailed to the VA Regional Office.

---

**c. Processing the Complaint** Upon receipt of a written complaint, follow these procedures:

| Step | Action   |
|------|--|
| 1    | Immediately forward a copy of the complaint to CO.   |
| 2    | Simultaneously forward a copy of the complaint to the respondent with a request for a detailed written response within 10-business days.<br><br>A reasonable request for extension of the 10-business day period may be granted. |

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*Continued on next page*

## 14. Discrimination Complaints, Continued

**c. Processing the Complaint, continued**

| Step | Action  |
|------|---|
| 3    | Advise the complainant that the complaint has been received and is under investigation, and that the complainant will be notified of VA findings. |

Bear in mind that an investigation and report of findings and a recommended resolution of the complaint must be completed within 20-business days of receipt of the written complaint.

**d. Conduct an Investigation**

The LGO is responsible for conducting all discrimination complaint investigations. Portions of the investigation may be delegated to staff under the close monitoring and guidance of the LGO.

All complaints and allegations will be considered valid until refuted by the subsequent development of facts.

While the investigative methods used in developing the facts of a specific complaint are left to the discretion of the LGO, the following basic steps must be taken in each investigation:

| Step | Action  |
|------|---|
| 1    | Search the respondent's individual file to determine whether the respondent has been the subject of previous complaints.                                    |
| 2    | Examine the respondent's general operating practices to provide a basis for determining whether the complainant was treated in a standard manner.           |
| 3    | Interview all parties involved in the complaint. Properly qualified personnel (i.e. Loan Guaranty Service, or field examiners) must conduct the interviews. |

*Continued on next page*

## 14. Discrimination Complaints, Continued

### d. Conduct an Investigation, continued

| Step | Action   |
|------|--|
| 4    | <p>Once a final report is submitted, CO will advise the RLC of the appropriate disposition of the case.</p> <p>Do not close a complaint, forward a final report to the complainant or respondent, or impose sanctions until the RLC receives instructions from CO.</p> <p>This is because sanctions may be imposed pursuant to 2 C.F.R. <a href="#">parts 180</a> and <a href="#">801</a> and a hearing required, with the burden of proof on VA. CO will ensure the facts are well-developed and sufficient to document discrimination.</p> |
| 5    | <p>Implement the course of action specified by CO within 5-business days following receipt of the CO notice and appropriately annotate the complaint.</p> <p>In some instances CO may determine that the complaint and supporting documentation should be referred to the Department of Justice for consideration of criminal or civil action, or to HUD, the Federal Trade Commission, or another Federal Agency. CO will provide appropriate instructions.</p>   |

### e. Discrimination Complaint Files

Maintain a file in the RLCs local shared drive that includes:

- A complainant's file will be established when the written complaint is received.
- Alphabetize all individual files by name.
- Each file will contain the written complaint, and all subsequent correspondence, documents, and materials related to the complaint, the investigation, and ultimate resolution.
- When the complaint has been closed, the originals of all material will be retained in the individual complainant's file in accordance with [RCS VB-1, part I, item No. 12-055.100](#).

Copies of the complaint and the correspondence with the complainant and respondent closing the case will be placed in the loan file, if any, and the appropriate program participant or fee personnel file ([RCS VB-1, part I, item No. 12-055.200](#)) maintained in the Loan Guaranty Division; i.e., the lender, builder, appraiser, compliance inspector, or management broker file.

*Continued on next page*

## 14. Discrimination Complaints, Continued

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**e. Discrimination Complaint Files,**  
continued

Maintain a discrimination complaint log for quick reference and easy retrieval in accordance with [RCS VB-1, part I, item No. 12-055.300](#).

The log will contain five columns, as follows:

| <b>Column</b> | <b>Item</b>  |
|---------------|--|
| 1             | <b>Complainant's name.</b> Enter the complainant's case number, if there is one, under the complainant's name.   |
| 2             | <b>Nature of complaint.</b> Enter an abbreviated description of the basis of the complaint (race, sex, age, etc.) and the type of discrimination (low appraisal, loan denied, offer rejected, etc.) in the nature of complaint column. |
| 3             | <b>Date received.</b>  |
| 4             | <b>Status of complaint.</b>  |
| 5             | <b>Date closed.</b> The date closed will be the date the RLC closes the complaint as directed by CO.   |

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## 15. Sample Letter Imposing Limited Denial of Participation

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

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The below sample letter is intended to be used for LDPs.

CERTIFIED MAIL  
RETURN RECEIPT  
REQUESTED

Name  
Title  
Company  
Address

Dear Mr./Ms. Last name:

Effective (date of this notice), and continuing ("through" date sanction expires"), you are prohibited from participating as a (specify roles participant is excluded from) in the VA (specify loan guaranty and/or other applicable programs) anywhere within the jurisdiction of VA's (name of responsible RLC) Office. This includes (describe territory by state, county, etc.).

The cause of this limited denial of participation, under 38 C.F.R. 44.705 (list specific letter and numerical references for the applicable sections), is (state exact regulatory language of applicable causes). The conduct leading to this determination includes:

- (1) (Describe specific conduct or transactions)
- (2)
- (3)

### *Optional Paragraph*

Your limited denial of participation will be lifted by VA once you have resolved the construction deficiencies which led to the sanction. Should you wish to participate in VA's (loan guaranty and/or other programs) program in the future, you will be required to (specify corrections of existing construction deficiencies required and controls that must be put in place to ensure these deficiencies are not repeated in the future). Once VA is satisfied that all necessary corrective action has been taken, we will inform you of your right to participate in the (loan guaranty and/or other programs) program again.

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*Continued on next page*

## 15. Sample Letter Imposing Limited Denial of Participation, Continued

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You have the right to request a conference regarding this limited denial of participation. If you choose to request a conference, you must submit a request in writing within 30-business days of receipt of this letter. You have the right to have such conference held within 10-business days of VA's receipt of your request. The conference is an informal proceeding at which you may present any relevant information and materials to the presiding VA official. You may be represented by counsel at the conference if you choose.

After consideration of the information and materials presented at such conference, the VA official shall advise you in writing of the decision to withdraw, modify or affirm the limited denial of participation.

If you choose to request a conference, please direct your request to:

Director  
VA Regional Office  
XXXXXXXXXXXXXXXXXXXX  
XXXXXXXXXXXXXXXXXXXX

Any questions you have regarding this matter should be directed to XXXXXXXXXXXX at XXX-XXX-XXXX.

Sincerely,

XXXXXXXXXX  
Loan Guaranty Officer

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## Chapter 6. Miscellaneous

### Overview

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**In this  
Chapter**

This chapter contains the following topics:

| <b>Topic</b> | <b>Title</b>   | <b>See Page</b> |
|--------------|--|-----------------|
| 1            | Local Communication Releases to External Stakeholders      | 6-2             |
| 2            | Regional Loan Center Training of Loan Production Employees | 6-4             |
| 3            | Records Control  | 6-7             |
| 4            | VA Loan Identification Number                              | 6-9             |

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# 1. Local Communication Releases to External Stakeholders

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**Change Date** May 23, 2017, Change 5

- This section has been updated in its entirety.

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**a. Policy** All non-routine, communication releases (training announcements and materials, outreach, directives, informational issues, bulletins, etc.), to industry partners must be reviewed, approved, and disseminated from Loan Guaranty Service Central Office (LGY CO). Regional Loan Centers (RLCs) are not permitted to issue the aforementioned external communication products to external stakeholders without prior approval from LGY CO, as outlined in this section. Many lenders underwrite from centralized locations, but make loans from more than one geographic area, which makes consistency extremely important.

---

**b. CO Approval** Submit RLC communication releases to the CO Lender Liaison for approval prior to publication to external stakeholders to include, but not limited to, lenders, servicers, staff appraisal reviewers, and appraisers.

CO will review the release and notify the RLC of approval, disapproval, or approval with modification.

---

**c. Requirements for CO Approval** The following lead times must be followed for each RLC release to ensure that the appropriate review is made.

| <b>When ...</b>   | <b>Then ...</b>  |
|---|--|
| Requests regarding policy clarifications or guidance, or a general announcement | CO requires notice of at least 7-business days prior to publishing.  |
| Requests regarding a webinar (informational session)                            | CO requires notice of at least 20-business days prior to publishing. |

Any supporting documentation (PowerPoint, talking points, handouts, etc.) that will be used or shared with attendees must be included with the request.

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*Continued on next page*

## 1. Local Communication Releases to External Stakeholders, Continued

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**c.**  
**Requirements**  
**for CO**  
**Approval,**  
continued

All communication requests must include the following, as appropriate:

- RLC Point of Contact (POC) - This is the individual that CO staff will coordinate with during CO's review process.
- Requested date of publication - This is the date the RLC would like the communication to be published.
- Requested target audience (eg. lenders).
- Draft of the communication to be published - For example, if the RLC intends to publicize an informational webinar, submit a fully-developed announcement including webinar subject, date(s), time(s), registration instructions, etc.
- Copy of graphic materials to be published/presented - For example, if the RLC intends to conduct a webinar using PowerPoint, include a copy of your PowerPoint slides.
- Copy of supporting script - For example, if the RLC intends to use a script while conducting a webinar, submit a copy of your script.

Within 2-business days of receiving an RLC's communications request, an LGY CO POC will confirm receipt with the RLC's POC. Additionally, CO staff will coordinate with the RLC's POC to resolve any issues that may arise during CO's review process. During this process, CO staff will review submitted materials for consistency with applicable laws, regulations, policy, and guidance. Once the RLC's communication request has been approved by CO, an LGY CO POC will contact the RLC's POC to confirm the publication date and publish the communication via GovDelivery.

GovDelivery is LGY's current communication platform. Adding new subscribers to GovDelivery is straightforward and the platform offers the opportunity to easily facilitate the dissemination of information to external stakeholders. Exhibit A provides detailed information about the usage of GovDelivery.

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## 2. Regional Loan Center Training of Loan Production Employees

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**Change Date** May 23, 2017, Change 5  
• This section has been updated in its entirety.

---

**a. Why is Training Required?** Training is required to ensure appropriate decisions are made in administering the VA Home Loan program, and to help reduce program losses by providing employees with the tools to make informed and proper decisions. All employees involved in credit underwriting must undergo training at least once annually.

---

**b. Who is Required to Receive Training?** Personnel who:  
• Underwrite loan applications,  
• Process loan guaranty requests,  
• Complete full file loan reviews,  
• Process release of liability/substitution of entitlement requests,  
• Conduct lender training,  
• Process certificate of eligibility applications, or  
• Provide direct benefits to Veterans.

---

**c. What Abilities Must a Loan Specialist/Underwriter Possess?** Newly assigned personnel must receive training by senior staff on all aspects of credit underwriting prior to making credit underwriting decisions.  
To be qualified as a fully-trained Loan Specialist, a VA employee must have the following:  
• Working knowledge and understanding of VA's credit standards including [Title 38, Part 36 of the Code of Federal Regulations](#) and [Title 38, Chapter 37 of the U.S. Code](#),  
• Ability to read and interpret credit reports and formats,  
• Ability to determine who is a satisfactory credit risk,  
• Ability to determine whether applicants meet income requirements,  
• Working knowledge of [VA approved state fees and charges variances](#), and  
• Working knowledge of the VA electronic systems.

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*Continued on next page*

## 2. Regional Loan Center Training of Loan Production Employees, Continued

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**c. What Abilities Must a Loan Specialist/Underwriter Possess?, continued**

A qualified Loan Specialist should also have a general familiarity with:

- Federal, state, and local tax laws on income from:
    - Employment,
    - Sole proprietorships,
    - Partnerships, and
    - Corporations.
  - Local and regional economic conditions.
  - Accounting principles to evaluate financial statements.
  - Federal, state, and local laws on compensation, pension, and public assistance.
  - [Equal Credit Opportunity Act \(ECOA\)](#).
  - Fair Housing Act ([42 U.S.C. 3601, et seq.](#)).
  - Truth in Lending Act (TILA) Regulation Z ([12 C.F.R. 226 et seq.](#)).
  - Real Estate Settlement Procedures Act of 1974 (RESPA) Regulation X ([12 C.F.R. 1024 et seq.](#)).
  - [TILA-RESPA Integrated Disclosure Rule \(TRID\)](#).
- 

**d. On-site Training**

Training is an ongoing process, and the training discussed in this section, subtopic c, counts toward the 40- hours of VBA annual training requirements in the Talent Management System (TMS). The Loan Production Officer, or appropriate level individual, should ensure that all employees involved in credit underwriting receive ongoing training on new issues or procedures, and any problem areas. Any outside training must be funded by the RLC.

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*Continued on next page*

## 2. Regional Loan Center Training of Loan Production Employees, Continued

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**e. Off-site Training** To improve the development of Loan Specialists, employees are encouraged to pursue job-related courses at colleges and universities and industry partners, such as the Mortgage Bankers Association. Some job-related course subjects include:

- Real estate finance,
- Residential appraisal,
- Economics,
- Principles of accounting,
- Real estate law,
- Principles of finance,
- Federal taxation,
- Property management,
- Real estate mathematics,
- Real estate investment strategies, and
- Financial statement analysis.

---

**f. Reimbursement of Tuition and Other Training Costs** Check with the RLC's training officer for information pertaining to reimbursement of tuition and other training costs.

---

**g. Employee Training File** All training should be tracked in the electronic training system of record (currently the Talent Management System).

---

### 3. Records Control

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**Change Date**      May 23, 2017, Change 5  
 • This section has been updated in its entirety.

---

**a. Establish Records**      Records should be established at the time of each processing transaction, including, but not limited to the:

- Receipt of loan application,
- Suspension of processing
- Disapproval, and
- Issuance of the Loan Guaranty Certificate.

---

**b. Records Disposal**      Dispose of loan records in accordance with the [Records Control Schedule](#) (RCS) VB-1, Part I, Field, revised January 31, 2014, as provided in the following chart.

| <b>If ...</b>  | <b>Then ...</b>  |
|--|--|
| The file is relating to withdrawn or rejected applications for guaranty  | Dispose of withdrawn or rejected application files in accordance with RCS VB-1, part I, item No. 12-076.100 (retain for 25 months after coding the electronic system)  |
| The document is a COE application (eg. mailed/in-person/faxed VA Forms <a href="#">26-1880</a> and <a href="#">26-1817</a> ) | Upload into WebLGY and dispose of the application in accordance with RCS VB-1 Part I item no. 12-060.000 Field revised January 31, 2014, which states, “Destroy hardcopy file 30 days after COE issued. If COE is denied, retain for 13 months unless application and supporting documents are scanned to be stored electronically.” |
| The file is relating to withdrawn or denied applications for direct loans  | Dispose of withdrawn or denied applications in accordance with RCS VB-1 Part I item no.12-080.100 (Destroy hard copy or electronic version after 2 years)  |

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*Continued on next page*

### 3. Records Control, Continued

**b. Records  
Disposal,**  
continued

---

| <b>If ...</b>   | <b>Then ...</b>  |
|---|--|
| For all Loan Guaranty files of other than paid in full, which are not in default and on which no claim has been paid and no action is pending by VA | Dispose of the files in accordance with RCS VB-1, part I, item No. 12-076.300 which states to “Destroy hard copy or electronic version after 2 years.” |

Be sure to adhere to the RCS VB-1, Part I, Field, revised January 31, 2014, regarding the disposal of documents/files that are not listed above.

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## 4. VA Loan Identification Number

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**Change Date** May 23, 2017, Change 5  
 • This section has been updated in its entirety.

---

**a. System Assignment of a VA LIN** WebLGY assigns a VA Loan Identification Number (LIN) when an appraisal is requested for an individual property, or an Interest Rate Refinance Reduction Loan is requested through the Veterans Internet Portal (VIP).

The VA LIN is assigned at the time of the appraisal request or other action. This may occur with:

- Direct loan applications, including Native American Direct Loans (NADLs).
- Prior approval cases in which an application is simultaneously received with a request for determination of reasonable value.
- Regular refinance loans and cash-out refinance loans.
- Purchase loans.

The VA LIN is comprised of the following 12 digits with three hyphens to separate the four categories of the 12 digits. For example:

XX-XX-X-XXXXXXXX

---

**b. Definition of Digits**

| Digit            | What it Identifies  | Can it Change Over the Life of the Loan?           |
|------------------|---|--|
| First and Second | <b>Office of Jurisdiction.</b> The Regional Office that currently has responsibility for the loan based on the location of the property.                        | Yes;<br>Due to changes in areas of responsibility. |
| Third and Fourth | <b>Office of Origin.</b> At the time the loan closed, the Regional Office that had jurisdiction over the area where the property securing the loan was located. | No   |

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*Continued on next page*

#### 4. VA Loan Identification Number (LIN), Continued

**b. Definition of Digits,**  
 continued

| Digit             | What it Identifies  | Can it Change over the Life of the Loan? |
|-------------------|---|--|
| Fifth             | Loan Type to differentiate loans based on legal authorities contained in 38 U.S.C. chapter 37 <ul style="list-style-type: none"> <li>• 1 for Direct or NADL loans.</li> <li>• 2 for Loans made before January 1, 1990, and manufactured home loans.</li> <li>• 3 for type 1 loans that have been terminated and resold with vendee financing.</li> <li>• 4 for type 2 loans that have been terminated and resold with vendee financing.</li> <li>• 5 for type 2 loans that were refunded and now serviced by VA.</li> <li>• 6 for loans closed on or after January 1, 1990, and not a manufactured home.</li> <li>• 7 for type 6 loans that have been terminated and resold with vendee financing.</li> <li>• 8 for type 6 loans that have been refunded and now serviced by VA.</li> </ul> | No                                       |
| Last seven digits | Serial number   | No                                       |

## **Chapter 7. Certificate of Eligibility and Entitlement**

### **Overview**

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**Change Date**    May 23, 2017, Change 2  
• This chapter has been updated to amend Topic numbers.

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

| <b>Topic</b> | <b>Title</b>   | <b>See Page</b> |
|--------------|--|-----------------|
| 1            | General Procedures   | 7-2             |
| 2            | Determining Eligibility – Active Duty Service-members        | 7-10            |
| 3            | Determining Eligibility – Reservists & National Guard        | 7-26            |
| 4            | Activated Reservists & National Guard Members                | 7-32            |
| 5            | Rules for Calculating Length of Active Duty Service          | 7-37            |
| 6            | Surviving Spouse   | 7-41            |
| 7            | Length of Service Exceptions for Active Duty Servicemembers  | 7-45            |
| 8            | Length of Service Exceptions for Reservists & National Guard | 7-56            |
| 9            | Rules for Determining Character of Service                   | 7-57            |
| 10           | Entitlement Background Information                           | 7-60            |
| 11           | Restoration of Entitlement                                   | 7-62            |
| 12           | How to Process a Certificate of Eligibility                  | 7-71            |
| Appendix A   | Certificate of Eligibility Case Types that are Escalated     | 7-74            |
| Appendix B   | Quick Reference Table for VA Eligibility                     | 7-75            |

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## 1. General Procedures

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### Change Date

May 23, 2017, Change 2

- This section has been updated to correct the definition of DIC acronym and add COGNOS for systems access requirements.
- 

### a. Terminology

Certain acronyms and abbreviations commonly used within the context of the VA Home Loan program are used in this chapter. A table of acronyms and abbreviations appears below for easy reference, so that acronyms and abbreviations do not have to be defined each time they appear.

| Acronyms or Abbreviations | Definition  |
|---------------------------|---|
| ADSM                      | An <b>Active Duty Servicemember</b> is considered a Veteran eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard for at least the minimum required LOS, and was discharged with an acceptable Character of Service (COS). |
| ACDUTRA, ADT, IDT & IADT  | Designates <b>Active Duty Training, Inactive Duty for Training</b> and <b>Initial Active Duty Training</b> on DD-214's for Reserve/National Guard (R/NG) cases.   |
| AGR                       | Some Selected Reserve members may also be designated as <b>Active Guard Reserve</b> . Such members have been ordered to active duty at some point in their R/NG career. It is necessary to determine which type of orders an AGR served under (e.g. Title 10 U.S.C. or Title 32 U.S.C.).              |
| CIWD                      | <b>Condition Interfered with Duty exception</b> is a LOS discharge that is the result of a physical <u>or</u> medical condition that was not characterized as a disability, but did interfere with the performance of duty.   |
| COE                       | A <b>Certificate of Eligibility</b> is a document that evidences a particular Veteran is eligible to participate in the VA Home Loan program.   |
| COG                       | <b>Convenience of the Government</b> is an exception that applies to Army Veterans who served at least 20 months of a 2-year enlistment.  |
| Compromise Claim          | Functions like a foreclosure for VA entitlement purposes (but not for underwriting purposes). Also known as a <b>short-sale</b> .   |

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*Continued on next page*

## 1. General Procedures, Continued

**a.**  
**Terminology,**  
(continued)

|                   |  |
|-------------------|--|
| COS               | <b>Character of Service</b> – Types of COS are Honorable, Other Than Honorable (OTH), General, etc.  |
| DD-214            | The <i>Armed Forces of the United States Report of Transfer or Discharge DD-214</i> will list service dates, COS, and other needed information for ADSMs and activated R/NGs.  |
| DIC               | A surviving spouse in receipt of <b>Dependency and Indemnity Compensation</b> may be eligible for the VA home loan benefit. The DIC must be primary, secondary, ancillary or Chapter 38. If the surviving spouse is in receipt of 1151 or pension, they do not qualify for the VA home loan benefit. |
| EPTS              | <b>Existing Prior to Service</b> indicates a medical condition that existed prior to entry into active duty service, and as such is not service-connected.   |
| IRR               | <b>Individual Ready Reserve</b> members do not drill or perform other types of training, but does have a commitment to remain eligible and available for service if called.  |
| Gray Area Retiree | R/NG who have received a 20-year letter, but who are not yet receiving any retirement benefits. Found in Veteran Information Solution (VIS).   |
| LOS               | <b>Length of Service</b> – The time spent in the military on a particular tour.  |
| Lost Time         | As defined in <b>10 U.S.C. 972</b> , ADSM time lost results from active duty without the approval of the military.   |
| MOS               | <b>Military Occupational Specialty</b> is a code used to identify the type of work performed (personnel classification).   |
| Membership Points | Point credit given to R/NG members just for being on the rolls. Such points are not counted toward creditable service since they are automatically given even if the member does not participate.  |
| NGB 22            | <b>National Guard Bureau Form 22</b> - Discharge certificate for National Guard members. The NGB 22 will list service dates and COS.   |

*Continued on the next page*

## 1. General Procedures, Continued

### a. Terminology, (continued)

| Acronyms or Abbreviations | Definition  |
|---------------------------|---|
| Paper                     | COE applications (VA Form 26-1880) that are received by mail, email, or delivered in-person by a requestor, and is processed in WebLGY. The determination is mailed or emailed when an email address is provided by the requestor.                                    |
| Point Statement           | The <b>itemization of credits</b> that a Reservist receives as evidence of satisfactory attendance at drills.   |
| R/NG                      | <p><b>Reserve/National Guard</b> identifies all Veterans designated and as members of the Selected Reserve, which includes both Reservists National Guard members.</p> <p><b>Note:</b> All Veterans/Servicemembers fall into one of two categories: ADSM or R/NG.</p> |
| Restoration               | The <b>act of reinstating eligibility</b> used on a particular loan.  |
| ROTC                      | The <b>Reserve Officers' Training Corps</b> is a college-based program for training commissioned officers of the United States Armed Forces.  |
| Return Application        | An application that has been suspended pending the receipt of additional information from the requestor. The processor will send a notice to the requestor outlining what is needed to complete the application.  |
| SCD                       | <b>Service-Connected Disability</b> compensation evidences the Veteran has an approved compensation claim due to a service-connected disability. (Service Connected Discharge will be written to avoid any confusion within this chapter).                            |
| VIS                       | <b>Veterans Information Solution</b> provides access to electronic Servicemember discharge data.  |

## 1. General Procedures, Continued

**b. Systems Access for Determining Eligibility and Entitlement**

The processing of COEs and Restoration of Entitlements (ROE) requires the use of various systems to perform an accurate determination. The complete list of the access to required systems is below. For a Loan Specialist to perform COE and ROE tasks, it is necessary for Regional Loan Center (RLC) management to provide access to the listed systems. In addition to WebLGY, the three systems that are utilized most frequently are SHARE, GI Loans, and VIS.

| System Name                              | Purpose of Access  | How to Gain Access  |
|--|--|---|
| Veterans Information Portal (VIP)/WebLGY | Access the COE work bucket and perform COE determinations                              | The employee registers in VIP, and then the supervisor sends an email request to the <a href="#">Program Management &amp; Data Integration (PMDI) support inbox</a> , including the application access needs and the employee's role. |
| GI Loans                                 | Research losses prior to year 2000 and order physical files                            | The supervisor sends an email request to the <a href="#">PMDI support inbox</a> , including the application access needs and the employee's role.   |
| SHARE                                    | Provides service information, SCD, funding fee exemption, pension, fiduciary, and COS. | RLC management must request access through Common Security Employee Manager (CSEM) and/or <a href="#">VA Form 20-8824e</a> .  |

*Continued on next page*

**1. General Procedures, Continued**

**b. Systems Access for Determining Eligibility and Entitlement, continued**

| <b>System Name</b>  | <b>Purpose of Access</b>   | <b>How to Gain Access</b>  |
|---|--|--|
| Veteran Information Solution (VIS)  | Assist with determining Active Duty time and additional information necessary to meet the LOS requirement. Provides access to electronic Servicemember discharge data. | RLC management through the local Information Security Officer will approve access.   |
| VIRTUAL/Veterans Benefits Management System (VBMS)/Veterans Appeals Control and Locator System (VACOLS) | Assist with determination of surviving spouse eligibility, funding fee status, and appeals   | RLC management must request access through Common Security Employee Manager (CSEM) and/or <a href="#">VA Form 20-8824e</a> . |
| VA Loan Electronic Reporting Interface (VALERI)   | Verify status of prior loan and/or existing loan   | VALERI helpdesk ( <a href="mailto:VALERHelpdesk.vbaco@va.gov">VALERHelpdesk.vbaco@va.gov</a> )                               |
| Contract Assurance – Portfolio Loans/Debt Management  | Obtain information regarding foreclosure debts and acquired loans  | RLC management must select a point of contact (POC).   |
| COGNOS  | Verify status of prior loan  | RLC management will request access through <a href="#">PMDI support inbox</a> .  |

*Continued on next page*

## 1. General Procedures, Continued

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### c. VA Form 26-1880

VA Form 26-1880, [Request for a Certificate of Eligibility](#), is the official application for determination of eligibility for the VA Home Loan program. Without a properly completed VA Form 26-1880 on file, VA will not be able to determine a Veteran's eligibility for the program.

All necessary fields of [VA Form 26-1880](#) must be legibly completed and the form must be signed and dated by the Veteran or his/her legal representative (i.e., a VA-approved power of attorney or a fiduciary assigned through the courts.)

If an application is submitted through [eBenefits](#), it is not necessary for the Veteran to submit [VA Form 26-1880](#). The Veteran's information is transferred from eBenefits and the VA employee can then access the record in WebLGY.

**Note:** If the Loan Specialist notes that [VA Form 26-1880](#) is signed by someone other than the Veteran, he/she must verify the signatory is VA-approved. Check the Beneficiary Identification and Records Locator System (BIRLS) inquiry screen in SHARE to verify the signatory and then, follow up with the Veteran to ensure the application was submitted with their knowledge.

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### c. Timeliness Requirements

Because the timeliness of the COE determination is paramount to providing the Veteran with notification of eligibility for a VA-guaranteed home loan, a timeliness requirement has been established.

RLCs are responsible for issuing a COE determination within 5-business days of receipt (assigned to a Loan Specialist) of the COE application. The timeliness criteria for acceptable performance are meeting the 5-business day requirement at least 98 percent of the time, on a monthly basis.

Paper COE applications (mailed, faxed, emailed, or in person) must be entered into the ACE system within 2-business days of the mailroom receipt date, and the application received date must be recorded in the "Details" page in the ACE system. Then, the Loan Specialist will have 5-business days from the date assigned to process the COE determination.

**Note:** A determination is defined as a returned application, an issued COE, a denial letter, or a case pending Veteran Service Center (VSC) referral. Any other status is not considered a determination for the timeliness requirement.

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*Continued on next page*

## 1. General Procedures, Continued

### d. Escalation Procedures

On a case-by-case basis, a case must be escalated to RLC management (Loan Production Officer (LPO)/Assistant LPO) prior to escalation to Central Office (CO). The escalation must include RLC Management’s analysis of the determination.

The following steps must be completed prior to submitting an escalated case to CO:

| Step | Action   |
|------|--|
| 1    | Document in the “note” function of the COE record the reason the case needs to be escalated. For a list of case types that will be escalated, see Appendix A.  |
| 2    | RLC management will review the employee’s decision and concur or non-concur on the employee’s recommendation, prior to submitting the case to CO for review.   |
| 3    | <p>If the case needs to be referred to CO, RLC management must prepare a comprehensive report of findings, which includes a recommendation for the outcome of the determination.</p> <p>Cases should be submitted to the CO email box at <a href="mailto:LoanPolicy.VBAVACO@va.gov">LoanPolicy.VBAVACO@va.gov</a>.</p> <p>If the case does not need to be escalated, based on RLC management review, document the case notes and do not forward to CO.</p> |
| 4    | <p>Provide CO Loan Policy with the case analysis (to include recommendation) within the 5-business day processing timeframe for COEs.</p> <p>If notification to CO is outside of the 5-business day processing timeframe, local management must include an explanation for the delay in the case recommendation.</p>   |
| 5    | Once a final recommendation is submitted, CO will advise the station within 2-business days from receipt of the escalation of the appropriate action to take. The time that the case is under CO review does not count against the RLC’s COE determination timeliness.   |

*Continued on next page*

## 1. General Procedures, Continued

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**e. COE Issued in Error** The COE is a critical document in determining whether the Veteran is eligible for the benefit, and the loan amount the Veteran is eligible for. It is vital that every effort is taken to ensure the accuracy of each COE determination.

- If VA issues a COE in error and the loan is closed, VA will honor that COE and no other transaction, to include Interest Rate Reduction Refinance Loans (IRRRLs), cash-out refinances or purchases, will be permitted based upon the error COE.
- If a COE was issued in error and the Veteran requests an ROE, then no restoration of entitlement can be granted. A COE will not be issued in this instance, unless the Veteran can provide additional supporting documentation to establish their eligibility for the benefit.
- In the event that a COE is issued in error and the Veteran has not closed on the loan, the RLC that issued the COE must immediately notify the Veteran and the lender, verbally and in writing, of the error and document WebLGY.
- If a COE was issued in error, to include the green paper COEs, the Veteran must establish eligibility.

In all instances above, the Loan Specialist must place a thorough explanation of the error in the notes section of the COE reference number. Additionally, the Loan Specialist must make the necessary change to documentation that caused the error. If the error was system generated, the RLC management must notify VA CO immediately of the error.

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## 2. Determining Eligibility – Active Duty Servicemember

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**Change Date**

May 23, 2017, Change 2

- This section has been updated to add language regarding the uncharacterized COS as acceptable in General COS and IRR COS cannot be used for R/NG COS (it must be R/NG time).
- 

**a. ADSM  
Defined**

An ADSM is considered a Veteran eligible for VA home loan benefits if he or she served on active duty in the Army, Navy, Air Force, Marine Corps, or Coast Guard for at least the minimum required LOS, and was discharged with an acceptable COS.

An ADSM is also a Veteran who previously served or is currently serving on active duty full time. This includes both officers and enlisted personnel.

ADSM does not include Selected R/NG members who serve(d) full time, unless he or she served under the authority in Title 10 of the U.S. Code. Eligibility requirements for this group are discussed later in this chapter.

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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### **b. LOS Requirements**

For Veterans whose service included any part of the period **before** September 8, 1980 (enlisted personnel), or October 17, 1981 (officers), the minimum required LOS is as follows:

- 90 days or more, any part of which occurred during wartime. If the discharge documents reflect 90 or more days of continuous active duty service with an acceptable COS, the Veteran is eligible, regardless of the narrative reason for discharge.

**OR**

- 181 continuous days or more during peacetime. If the discharge documents reflect 180 or more days of continuous active duty service with an acceptable COS, the Veteran is eligible, regardless of the narrative reason for discharge.

A greater LOS requirement has been established for Veterans who:

- Enlisted (and service began) **after** September 7, 1980, or
- Officers whose service began **after** October 16, 1981.

Such Veterans are subject to the 2-year requirement and must have completed either:

- 24 months or more of continuous service, or
- The full period for which ordered to active duty, but not less than 90 days (any part during wartime) or 181 continuous days (peacetime).

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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**c. Specifics on the 2-year requirement**

Generally, both enlistment and commencement of active duty in a regular component of the Armed Forces must have occurred after September 7, 1980, for the 2-year requirement to apply (the 2-year requirement does not apply if the individual was already serving in the Armed Forces on or before September 7, 1980, when an overlap occurs). However, the 2-year requirement applies to individuals who enlisted before September 7, 1980 if:

- They were separated from service without completing the 90 or 181 continuous days active duty requirement, then began active duty after September 7, 1980, regardless of any Reserve duty prior to that date.

**OR**

- Enlistment was under the Delayed Entry Program and active duty began after September 7, 1980.

**OR**

- The Veteran was an officer whose service began after October 16, 1981.

Refer the case to local RLC/Regional Office management if the applicant has enlisted service in other than a regular component of the Armed Forces and it is unclear whether the 2-year requirement applies.

---

**d. LOS Exception Note**

If an ADSM is later discharged without having met the full 2-year requirement, and no valid LOS exception exists, eligibility is lost. It may be possible for a Veteran to have been eligible when a prior VA loan was obtained while on active duty, and then no longer be eligible to participate in the program after having been discharged.

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

**e. Wartime and Peacetime Defined**      Wartime and peacetime, as used in the General Rule for Eligibility, refer to the following periods of time:

| <b>Wartime</b>  | <b>Peacetime</b>  |
|---|---|
| World War II<br>September 16, 1940 – July 25, 1947  | Post-World War II period<br>July 26, 1947 – June 26, 1950 |
| Korean conflict<br>June 27, 1950 – January 31, 1955   | Post-Korean period<br>February 1, 1955 – August 4, 1964   |
| Vietnam era*<br>August 5, 1964 – May 7, 1975  | Post-Vietnam period<br>May 8, 1975 – August 1, 1990       |
| Gulf War / GWOT<br>August 2, 1990 – undetermined  |   |
| [*The Vietnam era begins February 28, 1961, for certain individuals who served in the Republic of Vietnam.] |   |
| <b>Note:</b> An expansive list for all periods is located in Appendix B.                                    |   |

*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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**f. Other  
Qualifying  
Service**

Active duty pursuant to Executive Order 10957, dated August 10, 1961, is considered active duty in a non-training assignment. The DD-214 denotes separation from active duty status, but not from membership in the R/NG component.

**Example 1:** John served 90 days active duty, 89 days in peacetime, and 1 day during the Korean conflict. He is eligible.

**Example 2:** Katie enlisted in 2003, for 24 months, but was discharged for pregnancy after 18 months. She neither completed 24 months of continuous service, nor completed the period for which she was ordered to active duty. Katie is not eligible.

**Example 3:** Ernest was a National Guard member activated in 2005, under Title 10 U.S.C. orders. His DD-214 narrative states that he completed the term for which he was ordered to active duty. Ernest completed at least 90 days during wartime, and he completed the period for which he was ordered to active duty. Ernest is eligible.

**Example 4:** Jane, a National Guard member, completed 90 days active duty as AGR under Title 10 U.S.C. in 1979. In 1981, she received another active duty assignment under Title 10. The orders called for 24 months, but she was released after 18 months so she could attend college. She is not eligible based on her 1979 service because she did not complete 181 days (which is required during a peacetime era), and she is not eligible based on her 1981 service because she did not complete the full term for which she was ordered to active duty.

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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### g. Cadets

Military academy cadets can be screened for eligibility using the General Rule of Eligibility for ADSMs.

- The length and COS requirements for enlistees also applies to cadets.
- Cadet discharge information may be entered on the DD-214, or it may consist of a letter from the academy itself.
- Transcripts alone are not sufficient evidence of service.
- Service as a cadet that is contiguous with service as an enlistee may be considered to be a single LOS.

**Note:** Cadet service does not include ROTC membership. Membership in ROTC does not qualify for the VA home loan guaranty benefit.

**Example:** Hugo was a Naval Academy cadet for 18 months. He withdrew from the academy and entered into active duty where he served for 6 months. Both his time at the academy and his discharge from active duty service was honorable. Hugo is eligible.

---

### h. Service with Allied Countries in World War II Exception

A Veteran who served in the active military or naval service of a government allied with the United States in World War II under conditions other than dishonorable is eligible, if he or she meets **all** of the following conditions:

- The applicant served 90 days or more, any part of which occurred during World War II, or by reason of injury or disability incurred in service in line of duty served less than 90 days, and
  - The applicant's service was at a time when the government allied with the United States was at war with the common enemy, and
  - At the time of entrance into such active service, the applicant was a citizen of the United States, and
  - The applicant is a resident (citizenship not required) of the United States when application is made, and
  - The applicant has not applied for, or received, the same or similar benefits from the government in whose forces he or she served.
- 

*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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**i. Qualifying Allied Countries**

- United Kingdom of Great Britain and Northern Ireland,
- Australia,
- New Zealand,
- Canada,
- India,
- Republic of South Africa,
- China, and
- France.

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**j. Service with Allied Countries in World War II Application Materials**

1. [VA Form 26-1880](#), *Request for Certificate of Eligibility*,
2. Original Discharge or other release documents, and
3. Signed affidavit showing that applicant:
  - Was a citizen of the United States at the time of entrance into the qualifying active service,
  - Is a resident of the United States at the time of application, and
  - Has not applied for or received the same or similar benefit from the government on whose forces he or she served, or stating what, if any, such benefits have been received.

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**k. What to Include in Referral**

Referrals should include all application materials and a complete statement of facts when the applicant believes he or she may be eligible despite benefits received from another government.

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember, Continued

**I. Specifics on Service in the Canadian Armed Forces**

Types of acceptable active service include:

- Canadian Army - including Canadian Women's Army Corps.
- Royal Canadian Air Force - including Women's Division of the Royal Canadian Air Force.
- Royal Canadian Navy - including Royal Canadian Naval Reserve, Royal Canadian Naval Volunteer Reserve, and Women's Royal Canadian Naval Service.

Nurses have the same status as commissioned officers in the above services.

Payment of a war service gratuity, and a re-establishment credit to discharged personnel under the Canadian War Service Grants Act of 1944, are not considered similar to VA loan benefits, and thus are not a bar to eligibility.

All discharges are considered issued under conditions other than dishonorable except those described in the following chart. Any type of discharge described in this chart bars eligibility.

**m. Unacceptable Types of Discharges for Canadian Armed Forces**

| Service                  | Authority  | Reference                     | Reason for Discharge  |
|--------------------------|--|-------------------------------|---|
| Royal Canadian Army      | Routing Order  | 1029(7)<br>1029(8)<br>1029(9) | Convicted by a civil power during service<br>Misconduct<br>Sentenced to be discharged with ignominy |
| Royal Canadian Navy      | King's Regulations<br>Royal Canadian Navy (K.R.)(R.C.N.) | Article 7.80<br>14.14         | Misconduct<br>Dismissal with or without disgrace  |
| Royal Canadian Air Force | King's Regulations (Air K.R.) (Air)                      | Paragraph 150(a)<br>150(b)    | Misconduct<br>Convicted by a civil power  |

*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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|   |   |
|---|---|
| <b>n. Replacing<br/>Lost<br/>Canadian<br/>Armed Forces<br/>Discharge<br/>Certificates</b> | A Veteran may replace a lost discharge certificate by written request to:<br><br>Canadian Military Attaché (as indicated by his or her service)<br>Canadian Embassy<br>Washington, D.C. |
|---|---|

The request must include:

- Full name,
- Service number,
- Rate or rank at time of discharge,
- Place and date of enlistment,
- Place and date of discharge, and
- Any other pertinent identifying information.

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*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember, Continued

**o. Exception  
for Service  
During World  
War II**

Service in the following organizations, services, programs, and schools qualify as active duty for purposes of applying the General Rule for Eligibility, subject to any conditions or dates specified.

| Type of Service  | Qualifying Dates/Conditions, if any   |
|--|---|
| Women's Army Corps, Women's Army Auxiliary Corps (WAAC), Women's Air Force Service Pilots (WASP) and similar service | From date of commission or enlistment, on or after July 1, 1943, if the Secretary of the service determines it is active military service. Service in the Women's Army Corps, WAAC, WASP, and as an Engineer Field Clerk is certified as active military service. Discharge other than honorable or general discharge bars eligibility. |
| Women's Reserve of the Navy or Marine Corps  | From date of commission or enlistment, on or after July 30, 1942.   |
| Women's Reserve of the Coast Guard   | From date of commission or enlistment, on or after November 23, 1942.   |
| Army Nurse Corps (female)  | While employed in active service under the Department of the Army or the Air Force, or civilian employees who served in defense of Bataan and Corregidor from January 2, 1942, to February 3, 1945.   |
| Navy Nurse Corps (female)  | While employed in active service under the Department of the Navy.  |
| Dietetic and Physical Therapy personnel (female)   | Appointed with relative rank on or after December 22, 1942, or commissioned on or after June 22, 1944. Does not include students and apprentices.   |
| Commissioned Officers of the Coast and Geodetic Survey   | While assigned during World War II to duty: <ul style="list-style-type: none"> <li>• On projects for the Army, Navy, or Air Force in areas outside the continental U.S. or in Alaska, or</li> <li>• In coastal areas of the U.S. determined by the Army, Navy, or Air Force to be of immediate hazard.</li> </ul>                       |

*Continued on next page*

**2. Determining Eligibility – Active Duty Servicemember,**  
Continued

**o. Exception for Service During World War II,**  
continued

| Type of Service  | Qualifying Dates/Conditions, if any  |
|--|--|
| Commissioned Officers of the Coast and Geodetic Survey, Environmental Science Services Administration (ESSA) and their successor agency, National Oceanic and Atmospheric Administration (NOAA)... | ...Who served on full-time duty on or after July 29, 1945.   |
| Merchant Marine seamen...  | ...Who served in active oceangoing service from December 7, 1941, to August 15, 1945.  |
| Civilian crewmen of the U.S. Coast Guard and Geodetic Survey (U.S.C.GS) vessels: Derickson, Explorer, Gilbert, Hilgard, E. Lester Jones, Lydonia, Patton, Surveyor, Wainwright, or Westdahl...     | ...Who served on one or more of these vessels while conducting cooperative operations with and for the U.S. Armed Forces either: <ul style="list-style-type: none"> <li>• In Atlantic areas outside U.S. inland waters (including Atlantic and Gulf of Mexico coastal waters) from December 7, 1941 through May 8, 1945, OR</li> <li>• In Pacific areas outside of U.S. inland waters (including Pacific coastal and Alaskan coastal waters) from December 7, 1941 through August 14, 1945.</li> </ul> |
| Civil service crewmembers aboard U.S. Army Transport Service and Naval Transportation Service vessels...   | ...In oceangoing service.  |
| Civilian Navy Identification Friend or Foe (IFF) Technicians...  | ...Who served in the Combat Areas of the Pacific between December 7, 1941, and August 15, 1945, aboard a U.S. Navy vessel deployed in the Pacific Ocean beyond the continental limits of the U.S., and were employed by the Hazeltine Electronics Corporation under a valid contract with the U.S. Navy.   |

*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember, Continued

**o. Exception  
 for Service  
 During  
 World War  
 II (continued)**

| Type of Service  | Qualifying Dates/Conditions, if any   |
|--|---|
| United States Merchant Seamen...   | ...Who served on blockships in support of Operation Mulberry.   |
| U.S. civilian employees of American Airlines...  | ...Who served overseas as a result of American Airlines' contract with the Air Transport Command between December 7, 1941, and August 14, 1945.                             |
| U.S. Civilian Flight Crew and Aviation Ground Support Employees of United Airlines...  | ...Who served overseas as a result of United's contract with the Air Transport Command between December 7, 1941, and August 14, 1945.                                       |
| U.S. Civilian Flight Crew and Aviation Ground Support Employees of Consolidated Vultee Aircraft Corp. (Consairway Division)...       | ...Who served overseas as a result of a contract with the Air Transport Command between December 7, 1941, and August 14, 1945.  |
| U.S. Civilian Flight Crew and Aviation Ground Support Employees of Pan American World Airways and its subsidiaries and affiliates... | ...Who served overseas as a result of Pan American's contract with the Air Transport Command and Naval Air Transport Service between December 7, 1941, and August 14, 1945. |
| U.S. Civilian Flight Crew and Aviation Ground Support Employees of Eastern Airlines-Military Transport Division...                   | ...Who served overseas as a result of a contract with the Air Transport Command between December 7, 1941, and August 14, 1945.  |
| U.S. Civilian Flight Crew and Aviation Ground Support Employees of Northwest Airlines...   | ...Who served overseas as a result of a contract with the Air Transport Command between December 7, 1941, and August 14, 1945.  |
| Officers or enlisted personnel on retired list...  | ...Ordered to active duty by the Army, Navy, or Air Force subsequent to being placed on the retired list.   |

*Continued on next page*

**2. Determining Eligibility – Active Duty Servicemember,**  
Continued

**o. Exception  
for Service  
During World  
War II**  
(continued)

| Type of Service   | Qualifying Dates/Conditions, if any  |
|---|--|
| U.S. civilians of the American Field Service...   | ...Who served overseas under U.S. Armies and U.S. Army Groups between December 7, 1941, and May 8, 1945.   |
| Members of the American Volunteer Group (Flying Tigers)...  | ...Who served honorably in China between December 7, 1941, and July 18, 1942, and provide honorable discharge document or letter, or identification as honorably discharged in credible publication or document.   |
| Members of the American Volunteer Guard, Eritrea Service Command...   | ...Between June 21, 1942, and March 31, 1943. Must have been honorably discharged.   |
| Members of "the Civilian Personnel Assigned to the Secret Intelligence Element of the Office of Strategic Services (OSS)" | N/A  |
| Members of the "Guam Combat Patrol"   | N/A  |
| Members of the "old" Philippine Scouts (a component of the U.S. Armed Forces  | NA   |
| Members of the "New" Philippine Scouts and Philippine Commonwealth Army...  | ...Enlistment under section 14 of the Armed Forces Voluntary Recruitment Act of 1945, Public Law 190, which created the "new" Philippine Scouts, does not qualify. Service in the Philippine Commonwealth Army, including the recognized guerrillas, does not qualify. |
| Members of the Army Specialized Training Program or Navy College Training Program...                                      | ...Does not include members of the Army Specialized Training Program Reserve.  |

*Continued on next page*

## 2. Determining Eligibility – Active Duty Servicemember,

Continued

**p. Exception for Service During World War II and/or Later**

Service in the following organizations, services, programs and schools qualify as active duty for purposes of applying the General Rule for Eligibility, subject to any conditions or dates specified.

| Type of Service  | Qualifying Dates/Conditions, if any  |
|--|--|
| Cadets of the U.S. Military Academy, U.S. Coast Guard Academy, and Air Force Academy, and midshipmen of the U.S. Naval Academy | N/A  |
| Commissioned Officers of the Public Health Service Regular and Reserve on or after November 11, 1943...                        | ...Who are detailed with the Army, Navy, or Coast Guard, <b>or</b> served in time of war outside the continental limits of the U.S. or Alaska, <b>or</b> served in Commissioned Corp. of the Public Health Service between July 29, 1945, and July 3, 1952, <b>or</b> served full-time after January 31, 1955. |

**q. Specifics on Commissioned Officers of the Public Health Service**

All commissioned officers of the Public Health Service were separated from active duty on July 3, 1952, unless they were detailed with the U.S. military.

- The DD-214 or other evidence of separation on July 3, 1952, will indicate the authority for separation as Executive Orders 9575 and 10367 and Public Law 82-313.
- Those on detail with the U.S. military on July 3, 1952, were released from active duty at the expiration of their detail period.
- For service after January 1, 1955, documentation of active duty consists of PHS Form 1867, *Statement of Service-Verification of Status of Commissioned Officers of the U.S. Public Health Service*, which is issued only at or after the time of discharge or release from active duty.
- Commissioned officers still on active duty must provide documentation of such, signed by, or at the direction of, the adjutant or personnel officer or commanding officer of the unit or higher headquarters.

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## 2. Determining Eligibility – Active Duty Servicemember,

Continued

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**r. Applicability of Other Exceptions**

The exceptions for a Veteran discharged or released for a SCD, an unremarried surviving spouse of a Veteran who died while in service or from a SCD, a spouse of a serviceperson missing in action or prisoner of war or exceptions to the 2-year requirement apply to eligibility through these other types of qualifying service.

---

**s. General Notes Pertaining to Exceptions**

- If the DD-214 reflects multiple potential exceptions in the narrative, the Veteran only needs to qualify for a single exception.
- Examples of DD-214 narratives that are not exceptions include the following:
  - Physical standards (includes a failure to meet),
  - Disability incurred while on unauthorized absence,
  - Volunteered to serve with National Guard / Reserves,
  - Resignation,
  - Voluntary – Miscellaneous reasons,
  - Conscientious objector,
  - Erroneous entry, and
  - Substance abuse failure.

**Note:** AGR members who have been activated under Title 10 U.S.C. orders must have a narrative that indicates the Veteran completed the term to which ordered to active duty.

**Example:** Chang enlisted in 1987, and was discharged after 7 months. His DD-214 narrative stated “COG, Dyslexia”. Though Chang does not meet the requirements established for the COG exception, he does meet the CIWD exception because Dyslexia was listed in the narrative. Therefore, Chang is eligible.

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## **2. Determining Eligibility – Active Duty Servicemember,**

Continued

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### **t. COS Requirements**

A Veteran must complete at least one satisfactory period of service to be deemed eligible. If a Veteran is discharged with an unsatisfactory COS, but had a previous or subsequent tour that was satisfactory, the Veteran may still qualify using the satisfactory tour. For enlisted Servicemembers, a reenlistment or extension will satisfy that the COS was satisfactory.

An acceptable COS includes:

- Honorable,
- General, and
- Under Honorable Conditions.

In instances where the DD-214 has a COS of Uncharacterized, it is treated as General.

**Note:** The Department of Defense (DOD) is responsible for annotating the discharge status on the DD-214 (or other separating documentation). Based on experience, each Secretary of the DOD may use different language to represent the discharge status for a Veteran. VA employees making eligibility determinations should pay close attention to the description of a Veterans' COS to ensure compliance with VA requirements.

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### 3. Determining Eligibility – Reservists & National Guard

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**Change Date**

May 23, 2017, Change 2

- This section has been updated to provide clarification that IRR COS is not sufficient to meet VA’s COE requirement and correspondence courses do not count towards creditable service time.
- 

**a. General Rule for Eligibility – R/NG**

Members of the R/NG, who have neither a qualifying **tour** as an ADSM, nor a qualifying Title 10 U.S.C. activation, must have 6 creditable years of service and receive an Honorable discharge to be eligible.

**Note:** If a member of the R/NG has a qualifying tour as an ADSM, use that tour to determine eligibility.

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**c. Selected Reserve Defined**

Selected Reserve describes a member or unit within the Ready Reserve designated by their respective services and approved by the Joint Chiefs of Staff as so essential to initial wartime missions that they have priority over all other reserves. All Selected Reservists are in an active status. The Selected Reserve also includes individuals in active duty for training status.

Selected Reserve members participate actively in training periods (drills) and serve on active duty for ADT each year. This includes reserve members of the Army, Navy, Air Force, Marine Corps, and Coast Guard. This category also includes members of the Army National Guard and Air National Guard.

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**d. AGR Defined**

Some Selected Reserve members may also be designated as AGR. Such members have been ordered to active duty at some point in their R/NG career. It is necessary to determine which type of orders an AGR served under (e.g. Title 10 U.S.C. or Title 32 U.S.C.). If the service is performed under Title 32 U.S.C., then the 6-year requirement applies.

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### **3. Determining Eligibility – Reservists & National Guard,**

Continued

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**e. Individual  
Mobilization  
Augmentee  
(IMA)  
Eligibility**

IMA members perform their inactive training duty with an active duty organization and are not typically assigned to a Reserve or Guard unit. As members of the Selected Reserve, they are subject to immediate, involuntary order to active duty whenever a Presidential reserve call-up is invoked under Title 10, United States Code, Section 12304 (10 U.S.C. 12304). They are also subject to involuntary order to active duty in time of war or national emergency when declared by the President or Congress under the provisions of 10 U.S.C. 12301, 12302, or 12303. IMA members activated under this Title would qualify as if they were an ADSM.

---

**f. IRR  
Eligibility**

The period of IRR service is not creditable toward the 6-year requirement for R/NG members, nor does it count toward the service requirements established for ADSM. Also, IRR COS does not count. The R/NG time COS must be Honorable.

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**g. Procedures  
for  
Determining  
Eligibility**

- Step 1: Does the Veteran have a qualifying tour as an ADSM as per the General Rule of Eligibility for ADSM?
  - Yes. Go no further. Issue the COE using the enlistee status.
  - No. Go to step 2.
- Step 2: Has the Veteran been activated under Title 10 U.S.C. orders?
  - Yes. Apply the General Rule of Eligibility for ADSM and if eligible issue the COE as ADSM. If not eligible, go to step 3.
  - No. Go to step 3.
- Step 3: Does the Veteran have a qualifying tour as per the General Rule of Eligibility for AGR?
  - Yes. Issue the COE utilizing the AGR status.
  - No. Go to step 4. Review the list of exceptions (Topic 7).
- Step 4: Are there any exceptions that might apply?
  - Yes. Review the criteria for the exception and ensure it does apply to the Veteran.
  - No. Applicant is not eligible.

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### 3. Determining Eligibility – Reservists & National Guard,

Continued

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**h. COS  
Requirements  
– R/NG**

If discharged, R/NG members must have received an Honorable discharge for their reserve service. A discharge of General, Under Honorable Conditions, Under Other Than Honorable Conditions, Bad Conduct, or Dishonorable is not acceptable. If the member is still actively participating, no COS determination is required.

An Honorable COS must be provided for each separate tour or component. If an R/NG member has a gap in tours with the same component, or changes components, each separate tour must be qualified in order for it to count toward the 6-year requirement. Care must be taken to ensure that a document that evidences a COS applies to the period of service in question.

**Example 1:** Jim joined the National Guard and served 6 creditable years. However, he received an Under Honorable Conditions discharge. Jim is not eligible.

**Example 2:** Lauren is currently a member of the National Guard. Her statement of service letter indicates she has been a member and actively participating for 7 continuous years. No COS is mentioned. Lauren is eligible.

**Example 3:** After acquiring 5 years of creditable reserve service, Geraldine was discharged in 2007, with an Honorable discharge. In 2008, she joined the Army Reserves for 2 years. She attended drills and earned inactive duty for training (IDT) points for both years, and was honorably discharged. Geraldine is now eligible since she has at least 6 creditable years of service and an Honorable discharge for each tour served.

**Example 4:** Mortimer served in the Army Reserve for 3 years and was discharged. A year later he again enlisted in the Army Reserves and served for 3 more years. Mortimer has evidence of his honorable discharge for the second tour, but does not have documentation evidencing the COS of his first tour. Mortimer has not provided sufficient evidence to be considered eligible.

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*Continued on next page*

### 3. Determining Eligibility – Reservists & National Guard,

Continued

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**h. COS  
Requirements  
– R/NG,  
(continued)**

**Example 5:** Mortimer provides additional evidence in the form of an honorable discharge from the time he spent in the IRR. Mortimer still has not provided sufficient evidence to be considered as eligible since time spent in the IRR is not creditable, nor is the COS for IRR service applicable.

**Example 6:** Mortimer presents a case whereby he claims he evidently served honorably on the first tour in the Reserve; otherwise he would not have been eligible to enlist for a second time. The basis for such a claim is invalid. A reenlistment or subsequent enlistment is not sufficient evidence that a previous tour was served honorably.

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**i. LOS  
Requirements  
– R/NG**

R/NG members must complete 6 creditable years of service.

**Note:** For Army, Navy, Air Force, or Coast Guard R/NG Veterans, membership in the Reserves or National Guard begins on the date the enlistment contract is signed, even if the member does not report for training for several months. The Marine Corps does not consider the Veteran a member of its Selected Reserve until he or she begins active-duty training.

The period of service served as a member of the IRR is not creditable for qualifying purposes.

If an R/NG member has a qualifying tour as an ADSM, the member should be granted eligibility based upon that tour. This allows the Veteran to utilize the lower funding fee established for ADSM.

If an AGR member has been activated under Title 10 U.S.C., the General Rule for Eligibility for ADSM applies.

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*Continued on next page*

### 3. Determining Eligibility – Reservists & National Guard,

Continued

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**j. Creditable Service Defined**

For a period of R/NG service to be deemed creditable, the Veteran must have received at least one point, in addition to the automatic 15 membership points, during the anniversary year. The first and the last year may have been prorated. As a result, those years may not have the 15 membership points. However, the prorated membership points plus the IDT or ADT may allow the Veteran to have a creditable year.

The anniversary year covers the 12-month period commencing on the month and day that the Veteran began service. If a Veteran entered service on March 3, each anniversary year runs from March 3 to March 2 of the following year.

To calculate a qualifying year, add membership points and ADT and IDT/weekend drill points, which must equal at least 16 points. Correspondence course points must not be added because they are not qualifying points.

**Example 1:** Geraldine enlisted in the Reserve on July 3, 2001. She attended one drill in November 2001, and did not return the rest of the year. She received points for the year, therefore the year (July 3, 2001 through July 2, 2002) is deemed to be creditable.

**Example 2:** Geraldine did not drill for the next 13 months, but did attend drills regularly thereafter until her discharge on July 2, 2007. Her point statement reflected IDT points for 5 years and membership points for 6 years. Geraldine is not eligible since she did not earn qualifying points for 6 years.

**Note:** The 6 years of service need not be continuous, nor in the same component or unit.

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**k. Retired R/NG Members**

Members of the Reserves or Guard who have completed 20 years of service often receive a ‘20-year letter’, which verifies the successful completion of 20 years as an active R/NG member.

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### **3. Determining Eligibility – Reservists & National Guard,**

Continued

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**I. R/NG  
Members Still  
Serving**

R/NG members must provide a statement of service letter signed by or at the direction of the adjutant or personnel officer or commanding officer of the applicant's unit to verify current service. The statement of service must clearly indicate:

- The Veteran's full name,
  - Social security number (last 4 digits is acceptable),
  - The date of entry into active duty,
  - The duration of lost time, if any,
  - The name of the command providing the information,
  - The type of orders the Veteran is serving under (typically Title 10 U.S.C. or Title 32),
  - Whether the Veteran is serving in a training status, and
  - No COS is required.
-

## 4. Activated Reservist and National Guard Members

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**Change Date** May 23, 2017, Change 2

- This section has been updated to revise the requirement for documentation for NG to include both the NGB22 and the NGB 23.

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**a. Activated R/NG Members Defined** R/NG members typically perform their duties under an inactive duty training status; IDT consists of weekend drills. When an R/NG member is activated, the member may be serving under an ADT status, or may be serving in a duty status that is not part of any training exercise (e.g. mobilization).

---

**b. Exception** If an R/NG member has been activated in a non-training status, the member may be eligible to qualify using the General Rule for Eligibility that covers ADSM. To qualify, the following conditions must exist:

- Activation must be under Title 10 U.S.C.,
- Activation cannot be for training purposes,
- The member must meet the General Rule for Eligibility LOS requirements established for ADSM, and
- The member must meet the General Rule for Eligibility COS requirements established for ADSM.

**Example 1:** In 1991, Clyde’s National Guard unit was activated under Title 10 U.S.C. orders for a non-training purpose. Clyde served for 5 months and was given a General discharge after having completed the period to which he was ordered to active duty. Clyde is eligible because he met the 90 days for ADSM requirement.

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## 4. Activated Reservist and National Guard Members, Continued

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**b. Exception,**  
continued

Example 2: In 1994, Ben’s National Guard unit was activated under Title 32 U.S.C. orders for a non-training purpose. Ben served for 10 months and was honorably discharged after having completed the period to which he was ordered to active duty. Ben is not eligible because his service is considered active duty for training under Title 32 U.S.C. However, he did accrue points that may be counted toward the 6-year requirement.

In some cases, the DD-214 for an R/NG member who was activated under Title 10 U.S.C. in a non-training status erroneously indicates the period of service was for active duty training. If there is uncertainty about the accuracy of a training declaration on a DD-214, the Loan Specialist will escalate the case to RLC management for review. The RLC management may confer with CO for clarification, and make a determination.

---

**c. Reserve vs.**  
**National**  
**Guard – A**  
**Comparison**

Reserve members who have been activated typically fall under Title 10 U.S.C. orders since unlike the National Guard; Reservists are not subject to activations by the state. However, the type of orders must be verified so as to ensure the member was not activated under an authority other than Title 10 U.S.C.

**Example 1:** Carl was a member of the Army Reserve and in 1991, was activated for a non-training purpose and served for 95 days before being honorably discharged. Carl provided a copy of his orders as evidence that his activation was under Title 10 U.S.C. Carl is eligible.

**Example 2:** Murphy was a member of the Naval reserve. He was activated due to the potential commencement of a war action in 1990, but his orders were not issued under the authority of Title 10 U.S.C. His unit was demobilized without having the orders convert to Title 10 U.S.C. Murphy is not eligible.

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#### 4. Activated Reservist and National Guard Members, Continued

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**d. Other  
Activation  
Classification**

National Guard members may be activated under other classifications of orders as well as Title 10 U.S.C. Typically, the Guard member will be activated either under Title 10 U.S.C. or Title 32. Any classification of activation orders may be for training purposes only.

**Example:** Clive was a member of the National Guard. In 2003, he was activated for a non-training purpose and served for 95 days before being honorably discharged. Eligibility cannot be determined for Clive until it can be established that he had been activated under Title 10 U.S.C. orders.

---

**e. Activation  
for Training  
under Title 10**

Activations for the purposes of training, even under Title 10 U.S.C., only count toward the 6-year requirement. AGR members activated for training cannot have such service used for qualifying via the General Rule for Eligibility for ADSM.

**Example:** Jeremiah was a member of the Naval Reserve. He was activated in 2008, served for 6 months, and was honorably discharged. His DD-214 indicated he had been activated for MOS training. Jeremiah's service only counts toward his 6-year requirement.

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*Continued on next page*

## 4. Activated Reservist and National Guard Members, Continued

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**f. Tacking  
Rule – R/NG**

If the period of a Title 10 U.S.C., non-training activation is not sufficient to meet the LOS requirements established under the General Rule for Eligibility for ADSM, the period of service counts toward the 6-year requirement for R/NG members.

If the R/NG member is subsequently activated again in a non-training status under Title 10 U.S.C., the period of service may be tacked together with previous non-training Title 10 tours in an attempt to meet the LOS requirement. Once the minimum LOS requirement has been met, the R/NG member may qualify using the General Rule of Eligibility for ADSM. The tacked tours must all have an Honorable discharge in order to make the R/NG eligible.

**Example 1:** Marci was activated for 60 days under Title 10 U.S.C. orders in a non-training capacity. She was demobilized and granted an Honorable COS. Marci is not eligible because her service was less than 90 days.

**Example 1a:** After 1 year, Marci was again activated under Title 10 U.S.C. orders in a non-training capacity for wartime service. Once Marci reached the day 30 of her activation, she became eligible while still active. She remained eligible up to the moment she was discharged.

**Example 1b:** Marci was Honorably discharged from the second tour after a total of 45 days of service. Her DD-214 narrative disclosed that she completed the period to which she was ordered to active duty. Marci remains in an eligible status.

If Marci received anything other than an Honorable discharge for the second tour, or if the DD-214 narrative failed to reflect that Marci completed the period of service for which she was called to active duty, she would lose her eligibility.

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*Continued on next page*

## 4. Activated Reservist and National Guard Members, Continued

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**g.**  
**Documenting**  
**R/NG Service**

Official documentation that verifies the completion of 6 years of creditable service may include, but is not limited to:

| <b>Component</b>                            | <b>Form</b>   |
|---|---|
| Army National Guard &<br>Air National Guard | NGB 22 – <i>Report of Separation &amp; Record of Service</i><br>AND<br>NGB 23 – <i>Retirement Points Accounting</i> |
| Army Reserve                                | Chronological Statement of Retirement Points  |
| Navy Reserve                                | Annual Retirement Point Record  |
| Air Force Reserve                           | Points Summary Record   |
| Marine Corps Reserve                        | Reserve Retirement Credit Report  |
| Coast Guard Reserve                         | Reserve Retirement Points Statement   |

**Note:** Many applicants may obtain supporting documentation by submitting a completed SF 180, [\*Request Pertaining to Military Records\*](#), to the address indicated on the back of that form, or online through the U.S. National Archives and Records Administration.

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## 5. Rules for Calculating Length of Active Duty Service

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**Change Date**      May 23, 2017, Change 2

- This section has been updated to revise grammar and formatting.

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**a. Purpose**      The General Rule for Eligibility requires active service of 90 days, 181 continuous days, or 24 continuous months, depending on applicant's circumstances. This section contains the rules and procedures necessary for determining the length of an applicant's active duty service.

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**b. Procedures for Calculating Length of Active Service**      The following steps are used to calculate the length of a Veteran's active duty service. Rules for analyzing lost time, travel time, whether time is qualifying or not, and whether tacking applies, can be found under appropriate headings following this chart.

| <b>Step</b> | <b>Action</b>   |
|-------------|---|
| 1           | Identify period(s) of active service by comparing the entry date onto active duty with the separation date.   |
| 2           | If the Veteran has more than one period of active service, add the periods together if necessary to establish eligibility permitted under the tacking rule, which is described below. |
| 3           | Evaluate reasons for any lost time.   |
| 4           | Exclude (deduct) non-qualifying lost time.  |
| 5           | Deduct other non-qualifying types of time.  |
| 6           | If necessary to establish eligibility, obtain certification of travel time.   |
| 7           | Add certified travel time.  |

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*Continued on next page*

## 5. Rules for Calculating Length of Active Duty Service,

Continued

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### c. Tacking Rule

Two or more periods of active service, any part of which occurred during wartime with an acceptable COS, may be added together to total the 90 days active service required during wartime.

Tacking may not be used to establish eligibility under the 181 continuous days during peacetime requirement or the 24 continuous months requirement because separate periods are not considered to be continuous.

**Example:** In 1992, Karen's reserve unit was ordered to active duty in the Persian Gulf. She served 75 days. In 1995, Karen was ordered to active duty, and sent to the Republic of Haiti in support of Operation Uphold/Maintain Democracy. She served 45 days. Karen is eligible for a regular COE because she completed 90 days of active service during wartime (Persian Gulf War) by "tacking" the two periods of active service together.

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### d. Lost Time

If the Veteran's proof of military service contains no reference to lost time, it will be assumed there was none.

Certain types of lost time must be deducted from the period of active duty service. When deduction of lost time would render the applicant ineligible, and the reason for the lost time is not clearly indicated on the discharge papers, determine the reason for the lost time by consulting the appropriate branch of the service or permitting the Veteran to provide documentation.

Lost time does not constitute a break in an otherwise continuous period of active duty. It merely reduces the LOS.

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### e. Qualifying Lost Time

This is time lost for reasons other than those considered as non-qualifying. For enlisted ADSMs, this time is generally already added to the end of the service requirement. As a result, this time is not excluded.

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## 5. Rules for Calculating Length of Active Duty Service,

Continued

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**f. Non-  
Qualifying  
Lost Time**

The following lost time must be excluded (deducted) from the period of active duty:

- Periods of agricultural, industrial and indefinite furlough,
- Time under arrest in the absence of acquittal,
- Time the applicant was determined to have forfeited pay by reason of absence without official leave, or
- Time spent in desertion or while undergoing sentence of court martial.

Reference 38 C.F.R. 3.15

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**g. Other Non-  
qualifying  
Time**

The following time may not be included in the period of active service:

- Time spent as a temporary member of the Coast Guard Reserve, even if the applicant was on active full-time duty with pay,
  - Time between the date of induction, of enlistment in the Reserves, or of commission, and actual entrance upon active service, unless applicant was issued orders placing him or her on active duty for authorized travel, and
  - Periods of active duty for training (ACDUTRA or ADTNG).
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## 5. Rules for Calculating Length of Active Duty Service,

Continued

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### **h. Travel Time**

Certified travel time may be included in the period of active service for an applicant whose discharge or separation papers indicate at least 83 days, but less than 90 days, active service during wartime, or at least 174 days, but less than 181 days, continuous active service during peacetime.

Travel time must be certified by the applicant's branch of service and may include:

- Authorized travel to and from active duty, or
- Travel required to proceed home by the most direct route, beginning after midnight on the date of discharge or release.

An applicant dissatisfied with the certification may submit a statement to VA explaining his or her objection to the service department's travel determination and/or determination of:

- The location of the Veteran's home or place of residence upon discharge or release from active duty,
- The length of travel time allowed for the Veteran to reach home upon discharge or release from active duty, or
- The amount of authorized travel time to the place of entry upon active duty.

Submit the applicant's statement and any pertinent evidence to the service department for recertification. An applicant dissatisfied with the recertification will be advised of his or her right to apply to the Chairman, Board of Correction of Military Records of the service department.

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### **i. Service for Pay Purposes**

Many discharge or separation papers provide the LOS for pay purposes. This should not be relied upon as a measure of active duty service.

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## 6. Surviving Spouse

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**Change Date** May 23, 2017, Change 2

- This section has been updated to revise the DIC funds that are not acceptable to include 1151 and pension.

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**a. Surviving Spouse Definition** Unmarried surviving spouses of Veterans who die on active duty, or later from service-connected causes, may also be eligible for the VA-guaranteed home loan benefit. Also, a surviving spouse of a Veteran who dies on active duty or from service-connected causes may still be eligible if remarried on or after age 57, and on or after December 16, 2003.

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**b. Basic Eligibility** The VSC must first determine that the applicant is a surviving spouse, eligible for or in receipt of certain types of DIC. In addition, the surviving spouse must meet VA's definition of a surviving spouse, as described below under Basic Eligibility.

The surviving spouse of a Veteran, who died while in active service or from a SCD, that is not a qualified Veteran in their own right, is eligible regardless of the LOS of the deceased Veteran. (See Exception 2 of this section.)

Eligibility may also be granted to the spouse of an active-duty member who is listed as missing in action (MIA) or a prisoner of war (POW) for at least 90 days. Eligibility under this MIA/POW provision is limited to one-time use only.

Surviving spouses of Veterans who died from service connected causes may also be eligible if any of the following conditions are met: (1) the Veteran was rated totally disabled for 10 years or more immediately preceding death; or (2) was rated totally disabled for not less than 5 years from date of discharge or release from active duty to date of death, or (3) the Veteran was a former prisoner of war who died after September 30, 1999, and was rated totally disabled for not less than 1 year immediately preceding death.

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## 6. Surviving Spouse, Continued

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### **b. Basic Eligibility,** continued

Surviving spouse entitlement is determined using a [VA Form 26-1817, Request for Determination of Loan Guaranty Eligibility - Unmarried Surviving Spouses](#). A review must first be made to determine if the surviving spouse is eligible based on his/her own service. If the surviving spouse is determined to be a qualified Veteran in their own right, then process as a normal entitlement with a [VA Form 26-1880, Request for a Certificate of Eligibility](#).

If the surviving spouse has Veteran status as a result of his/her own military service, then the surviving spouse should attempt to qualify as a Veteran. If he/she cannot qualify as a Veteran, then the application should be determined whether he/she qualifies as a surviving spouse.

If the surviving spouse is submitting a loan application for an IRRRL, there is no need to submit a COE application, as long as the surviving spouse appeared on the loan to be refinanced with the Veteran. If the surviving spouse was not on the loan, he/she would only be permitted to complete a cash-out refinance, upon qualification as a surviving spouse.

A surviving spouse with their own entitlement may be exempt from paying a funding fee, if in receipt of DIC. The DIC must be awarded as primary, secondary, ancillary or Chapter 38. If the surviving spouse is in receipt of 1151 or pension, they do not qualify for the VA home loan benefit.

The Loan Specialist must review information in SHARE, Virtual VA, and VBMS to determine whether the surviving spouse is receiving DIC.

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### **c. Escalation**

The process of issuing COEs is multi-pronged and there are instances where a case will need to be escalated to CO Loan Policy for review and determination. In those instances, local management must review the case and contact CO Loan Policy for guidance.

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*Continued on next page*

## 6. Surviving Spouse, Continued

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**d.**  
**Exception 1:**  
**Remarried**  
**Surviving**  
**Spouse**

A remarried surviving spouse must apply to the Pension Management Center of jurisdiction to determine eligibility for continued receipt of DIC. Upon redetermination of a qualifying grant for DIC, the spouse may reapply to the Atlanta RLC for eligibility for home loan benefits.

A remarried, surviving spouse whose marriage is void or annulled by a court, is not considered a remarriage; i.e., does not make the surviving spouse ineligible. A surviving spouse who remarries on or after attaining age 57 and on or after December 16, 2003, may be eligible for the home loan benefit.

**Example 1:** Jane, the surviving spouse of a Veteran who died in active service during the Vietnam era was remarried in 1980, and then divorced in 1985. She is eligible, and remains so unless she remarries.

**Example 2:** John, the surviving spouse of a Veteran who died in active service during the Gulf War era and is in receipt of DIC was remarried at age 58. He is eligible, and remains so after his marriage.

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**e.**  
**Exception 2:**  
**Total**  
**Disability and**  
**POW**

Eligibility for home loan benefits is extended to the surviving spouse of a Veteran:

- Who was rated totally disabled for a period of 10 or more years immediately preceding death, but did not die from a SCD, is eligible for home loan benefits;
  - Who was rated totally disabled for a period of not less than 5 years from the date of discharge or other release from active duty;
  - Who was a former POW who died after September 30, 1999, and the disability was rated totally disabled for a period of not less than 1 year immediately preceding death; and
  - Is in receipt of a qualifying DIC benefit award (primary, secondary, ancillary, or Chapter 38). DIC benefits awarded from 38 U.S.C. 1318 or 1151 do not qualify for the VA-guaranteed home loan benefit.
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## 6. Surviving Spouse, Continued

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**f. Exception 3: Spouse of Serviceperson Determined MIA or POW** The spouse of a serviceperson who is listed for more than 90 days as MIA or a POW is eligible as long as the Serviceperson remains in such status and the spouse remains married to the Serviceperson.

For purposes of this exception, MIA/POW includes a Servicemember captured in the line of duty by a hostile force or forcibly detained or interned in the line of duty by a foreign government or power.

**Note:** The spouse is limited to one use of the VA home loan benefit, pursuant to 38 U.S.C. 3701(b)(3).

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**g. Special Procedures** Special procedures for processing a surviving spouse electronic application created in the WebLGY Portal:

| Step | Action   |
|------|--|
| 1    | Review the completed, signed, and dated <a href="#">VA Form 26-1817</a> in correspondence. If the 26-1817 is not in the system, a return application will be sent requesting that one be uploaded prior to proceeding.   |
| 2    | Research SHARE and possibly VBMS to determine eligibility of the surviving spouse.   |
| 3    | If the surviving spouse is eligible, the Loan Specialist will process the COE to show entitlement code "06" and email to the lender.   |
| 4    | If the surviving spouse is not eligible, the request will be denied and the proper letter will be uploaded to correspondence section in WebLGY. A statement to this affect will be placed in "Notes", and a copy emailed to the lender and the appropriate attachments, including an appeal form, sent by mail to the surviving spouse (if both addresses are provided). |

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**h. Entitlement** The entitlement of the spouse is independent from that of the Servicemember. Therefore, the spouse's entitlement is not reduced by any prior use of entitlement by the Servicemember, and the Servicemember entitlement is not reduced by any use of entitlement by the spouse.

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## 7. Length of Service Exceptions for Active Duty Servicemembers

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**Change Date** May 23, 2017, Change 2

- This section has been updated to remove R/NG exception and renumber the topics and place R/NG exception under Topic 8.

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**a. Exceptions For ADSM** There are exceptions to the minimum LOS requirements for ADSM. Only two exceptions are applicable to those Veterans who are not subject to the 2-year requirement. All exceptions apply to those Veterans subject to the 2-year requirement.

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**b. Exception 1: Discharge for a SCD** A Veteran discharged or released for a SCD is not subject to a minimum LOS requirement. A discharge for a SCD is the only exception for R/NG members.

The Veteran must have been discharged or released specifically due to the SCD. If the Veteran was discharged or released from service for a reason other than a SCD, this exception does not apply.

The subsequent awarding of SCD compensation by VA is not evidence that a Veteran was discharged due to a SCD, regardless of the percentage of the rating.

DD-214 or NGB 22 Narrative may include:

- Discharge for SCD,
- Disability with severance pay,
- Disability without severance pay,
- Disability – Retired list, and
- Temporary Disability Retired List.

**Example 1:** Jose was injured on his second day of recruit training. The injury was determined to be service-connected and resulted in his discharge for disability. Jose is eligible.

**Example 2:** Rupert was injured during his first week of USMC recruit training and was thereby deemed to be ineligible for the military occupational specialty (MOS) for which he had contracted, but was otherwise fit for duty. The Marines offered Rupert an alternative MOS, but he instead opted to be discharged since no other MOS appealed to him. Rupert was not discharged due to a SCD, so he is not eligible.

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## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**b. Exception 1: SCD**  
(Continued)

**Example 3:** Irving enlisted in 2003, and was discharged 2 months later due to hardship. At the time of discharge, Irving was awarded SCD compensation. Irving is not eligible. Though he was recognized as having a SCD, the disability was not the reason for his early discharge.

**Example 4:** George enlisted in 1986, and was honorably discharged 5 months later. The narrative on his DD-214 stated that he had been placed on the Temporary Disability Retired List. George is eligible. Though the term 'temporary' was used, the Discharge for Disability exception still applies since the disability was the specific reason for George's discharge.

VA SCD compensation documentation is not adequate evidence to indicate a Veteran was discharged due to a SCD. The following are required documents to determine a SCD exception:

Application Materials for SCD exceptions include:

1. [VA Form 26-1880, Request for a Certificate of Eligibility](#),
2. Official service records/documents (or data contained in internal electronic systems) substantiating discharge or release for a SCD, and
3. A DD-214.

Refer to your local station management if:

- The Veteran claims discharge or release for a SCD and documentation is unclear,
- The adequacy of documents submitted to verify service is in question, or
- Doubt exists for any other reason.

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## **7. Length of Service Exceptions for Active Duty Servicemembers, Continued**

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**c. Exception 2: Veteran is Currently on Active Duty**

This exception applies to ADSMs who are currently on active duty.

An enlistee who is currently serving on active duty must only meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement.

- The 24-month requirement does not apply until the Veteran has been discharged.
- The COS is automatically considered to be honorable.

If the Veteran has a qualifying prior active duty tour, that tour can be used for qualification purposes.

**Example:** Wilbur enlisted in the Army 90 days ago (wartime) and is still serving on active duty. Wilbur is eligible.

A statement of service signed by or at the direction of the adjutant or personnel officer or commanding officer of the applicant's unit is required as proof of military service. An electronic signature on the document is acceptable. The statement of service must clearly indicate:

- The Veteran's full name,
- Social security number (last 4 digits is acceptable),
- The date of entry onto active duty,
- The duration of lost time, if any, and
- The name of the command providing the information.

If the statement of service being provided is for an activated member of the R/NG, it must include the type of orders under which the Veteran is serving (typically Title 10 U.S.C. or Title 32) and whether the Veteran is serving in a training status. If VA systems indicate that person is on active duty and has been for the required length of time, a conditioned COE can be issued without the documentation noted above.

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*Continued on next page*

## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

**d. Subsequent Discharge** If the Veteran is later discharged prior to completing the minimum LOS required for the era of service, or is discharged under Other Than Honorable, Bad Conduct, or Dishonorable conditions, the Veteran is no longer eligible. Please be aware that a COS indicated as Other than Honorable or Bad Conduct will be submitted to a VSC for review in order to determine if an upgrade to an acceptable COS can be made. These cases would follow the escalation process stated in section 1c of this Chapter.

**Example:** Mike enlisted in 1992, and served 90 days on active duty. At that point he became eligible and used his home loan benefit. However, he was discharged for misconduct after having served just 18 months. His COS was Under Honorable Conditions. Therefore, while Mike was once eligible and received a valid COE, he is no longer eligible since he did not complete the required 24 months of service.

**e. Special Procedures for "Still on Active Duty" Exception**

The procedures below apply to ADSMs who have not met the 2-year requirement, but are eligible because they are still on active duty and have met the 90 or 181 day requirement of the General Rule for Eligibility.

| If  | Then  |
|---|---|
| Applicant is eligible by reason of this exception and is still on active duty...  | ...COE should be conditioned to read, "Valid unless discharged or released subsequent to date of this certificate. A certification of continuous active duty as of date of note is required."   |
| Veteran subsequently fails to complete 2 years or the full period for which ordered to active duty, or is dishonorably discharged, and is no longer eligible... | <ol style="list-style-type: none"> <li>1. Do not restore entitlement used for a loan while in service or allow the use of any remaining entitlement. (IRRRLs do not require restoration or updated proof of eligibility. Therefore, the Veteran may still obtain an IRRRL).</li> <li>2. Do not return any COE received for updating or with a restoration request.</li> <li>3. Notify the Veteran in writing of the reason for lost eligibility, including information on appeal rights.</li> </ol> |

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## **7. Length of Service Exceptions for Active Duty Servicemembers, Continued**

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**f. Exception 3: Compensable SCD** An ADSM must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the compensable SCD exception.

This exception applies when an enlistee was discharged for reasons other than a SCD, but was later determined to have a compensable SCD.

**Example 1:** Warren enlisted in 1999, and was discharged for failing to meet physical standards 15 months later. He was later determined to have a compensable SCD. Warren is eligible.

**Example 2:** Franklin enlisted in 1986, and served 63 days before being discharged due to an erroneous entry. He was later determined to have a compensable SCD. Franklin is not eligible since he did not meet the 90 day (war time) or 181 day (peacetime) requirement.

**Example 3:** Clarabelle enlisted in the National Guard and completed 4 years of creditable service. As per her NGB 22, she was discharged due to a SCD. She never served on active duty, and was never activated under Title 10 U.S.C. orders. Clarabelle is eligible since she was specifically discharged from the Guard due to a SCD.

**Example 4:** Jasper enlisted in the National Guard and was discharged after 3 years due to a lack of participation. Subsequent to his discharge, he was awarded a compensable SCD claim. Jasper is not eligible since he was not discharged due to a SCD.

**Example 5:** Elton served 12 days in the Air Force. As per the narrative on his DD-214, Elton was discharged due to a personality disorder. He was subsequently awarded a 100 percent rating from VA for a SCD related to the personality disorder. This should be referred to the VSC to determine whether he could have been discharged for a SCD.

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*Continued on next page*

## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**g. Exception  
4: Early Out**

An early-out discharge under 10 U.S.C. 1171 is available only:

- To enlisted persons, within 3 months before expiration of the term of enlistment or extended enlistment.
  - Does not apply to Public Health Service (PHS) or National Oceanic and Atmospheric Administration (NOAA) since only officers serve in these organizations.
- ADSM with an early-out discharge after serving 21 months of a 3-year enlistment does not meet the requirement, and
- ADSM with an early-out discharge after 21 months served of a 2-year enlistment must fall under this exception to be eligible.

Qualifying reasons include:

- Overseas Returnee,
- Separation from medical holding detachment,
- Acceptance into ROTC,
- Secretarial Authority,
- Released within 3 months of End of Active Obligated Service,
- To accept reserve commission, and
- Non-retention on active duty.

**Example 1:** Gus enlisted in 1984, for 2 years. He was discharged 22 months later under Secretarial Authority. Gus had evidence that his enlistment period was 2 years. Gus is eligible.

**Example 2:** Derek enlisted in 1992, for 3 years. He was discharged after 23 months so he could accept a reserve commission. Though he completed more than 21 months of service, Derek is not eligible since his enlistment term was greater than 2 years.

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*Continued on next page*

## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**h. Exception 5: Convenience of the Government (COG)**

This exception applies to Army Veterans who served at least 20 months of a 2-year enlistment. Veterans who enlisted for ONLY 2 years can use this exception. If the enlistment was for a longer period, the Veteran cannot use the exception. The Veteran must provide evidence of the 2-year enlistment.

Veterans who were discharged for a qualifying COG reason prior to the 24 month mark are in this category. Be sure to review the DD-214 narrative.

Qualifying reasons include:

- COG,
- Parenthood,
- Separation to attend training,
- Surviving son or daughter, and
- Army Veterans discharged for body fat or weight control failure may utilize the COG exception provided they meet the COG requirements (Army only).

**Note:** A discharge for pregnancy is not the same as a discharge for parenthood.

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**i. Exception 6: Reduction in Force (RIF)**

An ADSM must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the RIF exception.

A RIF discharge is the result of a reduction in the size of the military.

The RIF discharge must have been involuntary. The discharge is presumed to have been involuntary unless documentation indicates otherwise.

Qualifying DD-214 narratives include:

- Reduction in Force,
  - Strength Reduction, and
  - Early Transition.
- 

*Continued on next page*

## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**j. Exception 7: Hardship** An ADSM must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the hardship exception.

Ideally, box 25 of the DD-214 should indicate one of the following:

- 10 U.S.C. 1173,
- ARMY 635-200 Ch6,
- USAF 36-3208 Sect 3c,
- NAVY 1910-110 or 3620210, or
- USMC Article 6407.

If box 25 does not reflect any of the above references, refer the case to local station management for determination.

Qualifying DD-214 narratives include:

- Hardship,
  - Dependency,
  - Sole parent, and
  - Humanitarian.
- 

**k. Exception 8: EPTS** An ADSM must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the EPTS exception.

EPTS does not include a failure to meet physical standards. A physical standards failure can occur at any time during a Veteran's career. Typically, such a designation reflects an inability to pass a physical fitness test.

Qualifying DD-214 narratives include existing prior to service, and failure to meet procurement medical fitness standards. Medical fitness standards failure indicates the Veteran did not meet the minimum qualifications for enlistment, and that the medical reason for such failure was not discovered until after the date the Veteran was sworn into service.

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## **7. Length of Service Exceptions for Active Duty Servicemembers, Continued**

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**k. Exception 8: EPTS**  
(continued)

**Example 1:** Mervin enlisted in 1993, and served 120 days. Mervin was discharged for a condition that existed prior to service. Since Mervin completed more than 90 days of service during wartime, he is eligible.

**Example 2:** Archibald enlisted in 1982, and was discharged after 150 days for failing to pass the physical fitness test. Archibald is not eligible since he was discharged for failing to meet the physical fitness standards of his branch, not because of a medical reason.

---

**l. Exception 9: CIWD**

An ADSM must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the CIWD exception.

The CIWD discharge is the result of a physical or medical condition that was not characterized as a disability, but did interfere with the performance of duty.

By definition, CIWD reasons are not disabilities. The DD-214 narrative may directly state ‘Condition Interfered With Duty’ or may instead only reflect the actual condition.

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## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**l. Exception 9:** Qualifying DD-214 narratives may include, but are not limited to: **CIWD,**  
(continued)

- Condition Interfered With Duty,
- Medical condition, not a disability,
- Physical condition, not a disability,
- Personality disorder,
- Failure to medically qualify for flight training,
- Chronic airsickness,
- Chronic seasickness,
- Enuresis,
- Sleepwalking,
- Dyslexia,
- Severe nightmares,
- Claustrophobia, and
- Disability without severance pay.

The subsequent award of a SCD rating by VA does not alter the discharge status of a Veteran who was discharged due to a CIWD reason. The Veteran must still meet the LOS requirements established for the CIWD exception.

**Example:** Rudolph was discharged after 21 days due to sleepwalking. He was later awarded SCD compensation by VA for an injury incurred when he walked into a door while sleepwalking. Rudolph is not eligible for the CIWD exception because he did not meet the LOS requirement, nor was he eligible based upon the SCD rating by VA. The military discharged Rudolph because of the condition, not because of a disability.

---

**m. Exception 10: Expiration of Term of Service**

A person must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the Expiration of Term of Service exception.

A DD-214 narrative that states ‘Expiration of Term of Service’ indicates the Veteran completed the full term which he or she was ordered to active duty. This typically applies to Activated Guard / Reserve personnel (must have been activated under Title 10 U.S.C. and not in a training capacity).

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## 7. Length of Service Exceptions for Active Duty Servicemembers, Continued

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**m. Exception 10: Expiration of Term of Service,**  
(continued)

This exception can also apply to an ADSM and it does not require evidence of a 2-year enlistment.

Qualifying DD-214 narratives include:

- Expiration of Term of Service,
- Completion of Required Active Service, and
- Release Due to Demobilization.

**Example 1:** Abner was a National Guardsman who was activated under Title 10 U.S.C. orders in 2007. He served for 11 months and was discharged. His DD-214 narrative indicated he was released due to a demobilization of his unit. Abner is eligible since he served 90 or more days in wartime and completed the time for which he was ordered to active duty.

**Example 2:** Stanley was a National Guardsman who was activated under Title 10 U.S.C. orders in 2004. He served for 13 months in Iraq, and was discharged. His DD-214 narrative indicated he was released due to misconduct. Stanley is not eligible since he did not complete the term of required service. Note that his 90 or more days of service in Iraq did not make Stanley eligible.

**Example 3:** Fenwick's DD-214 reflects 1 year, 11 months of active duty service commencing in 1986. The narrative states "Completion of Required Active Service". Though Fenwick did not complete the requisite 24 months, he is eligible since he completed the full term for which he was ordered to active duty.

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**n. Exception 11: Sole Survivor**

A person must meet the 90 day (war time) or 181 day (peacetime) minimum LOS requirement to warrant the Expiration of Term of Service exception.

The narrative of a DD-214 may provide the following language: Veteran was discharged or released from a period of active duty of 90 days or more by reason of a sole survivorship discharge.

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## 8. Length of Service Exceptions for Reservist and National Guard

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**Change Date** May 23, 2017, Change 2

- This section has been updated to re-number the topics and place R/NG exception under Topic 8.

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**a. Exception for R/NG** The R/NG only has one exception for completion of the 6-year LOS requirement.

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**b. Exception 1: Discharge for a SCD** A discharge for a SCD is the only exception for R/NG members.

The Veteran must have been discharged or released specifically due to the SCD. If the Veteran was discharged or released from service for a reason other than a SCD, this exception does not apply.

The subsequent awarding of SCD compensation by VA is not evidence that a Veteran was discharged due to a SCD, regardless of the percentage of the rating.

DD-214 or NGB 22 Narrative may include:

- Discharge for SCD,
- Disability with severance pay,
- Disability without severance pay,
- Disability – Retired list, and
- Temporary Disability Retired List.

**Example 1:** Rhonda was injured on her second day of training while on active duty. The injury was determined to be service-connected and resulted in her discharge for disability. Rhonda is eligible.

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## 9. Rules for Determining Character of Service

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**Change Date**     May 23, 2017, Change 2

- This section has been updated to re-number the topic and move an example from R/NG COS to Active Duty Servicemember COS.

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**a. Active Duty Servicemember COS Requirements**     A Veteran must complete at least one satisfactory period of service to be deemed eligible. If a Veteran is discharged with an unsatisfactory COS, but had a previous or subsequent tour that was satisfactory, the Veteran may still qualify using the satisfactory tour. For enlisted Servicemembers, a reenlistment or extension will satisfy that the COS was satisfactory.

An acceptable COS includes:

- Honorable,
- General, and
- Under Honorable Conditions.

**Note:** The Department of Defense (DOD) is responsible for annotating the discharge status on the DD-214 (or other separating documentation). Based on experience, each Secretary for DOD may use different language to represent the discharge status for a Veteran. VA employees making eligibility determinations should pay close attention to the description of a Veterans' COS to ensure compliance with VA requirements.

**Example:** Phillip enlisted in 1984, and served in the Navy for 2 years. At the end of his tour, he reenlisted for another 2 years. Up to the point of reenlistment, Phillip's service was satisfactory. 6 months after Phillip re-enlisted, he was subjected to a court martial. Phillip was ultimately discharged under a Dishonorable COS. Even though Phillip was discharged under dishonorable conditions, Phillip is eligible based upon the completion of his first satisfactory 24-month tour.

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## 9. Rules for Determining Character of Service, Continued

**b. R/NG COS Requirements**

If discharged, R/NG members must have received an Honorable discharge for their reserve service. A discharge of General, Under Honorable Conditions, Under Other Than Honorable Conditions, Bad Conduct, or Dishonorable is not acceptable. If the member is still actively participating, no COS determination is required.

An Honorable COS must be provided for each separate tour or component. If an R/NG member has a gap in tours with the same component, or changes components, each separate tour must be qualified in order for it to count toward the 6-year requirement. Care must be taken to ensure that a document that evidences a COS applies to the period of service in question.

**c. Acceptable Forms of Verification**

A Veteran or Servicemember’s COS is a critical element in the determination of eligibility for the home loan benefit. Each classification of a Veteran or Servicemember may have alternative forms of documentation that demonstrate an acceptable COS during a period of military service. Following are a list of acceptable alternative forms of verification for each classification of Veteran or Servicemember:

| Service       | Forms of Verification  |
|---------------|--|
| ADSM          | <ul style="list-style-type: none"> <li>▪ DD-214</li> <li>▪ Statement of Service Letter</li> <li>▪ VIS – Veteran information solution: may be used to confirm active duty service.</li> <li>▪ SHARE</li> <li>▪ Discharge certificate (DD-256)</li> </ul>      |
| R/NGs members | <ul style="list-style-type: none"> <li>▪ DD-214</li> <li>▪ DD-256 (Discharge certificate)</li> <li>▪ DD-257 (General discharge certificate)</li> <li>▪ Discharge orders</li> <li>▪ SHARE</li> <li>▪ Statement of Service Letter</li> <li>▪ NGB-22</li> </ul> |
| Veterans      | <ul style="list-style-type: none"> <li>▪ DD-214</li> <li>▪ DD-256 (Discharge certificate)</li> <li>▪ DD-257 (General discharge certificate)</li> <li>▪ SHARE</li> <li>▪ VIS</li> <li>▪ Discharge certificate</li> </ul>                                      |

*Continued on next page*

## 9. Rules for Determining Character of Service, Continued

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**c. Acceptable  
Forms of  
Verification,  
continued**

**Note:** A leave and earning statement does not constitute acceptable proof of a military personnel's COS.

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**d. Subsequent  
Discharge**

If the Veteran is later discharged prior to completing the minimum LOS required for the era of service, or is discharged under Other Than Honorable, Bad Conduct, or Dishonorable conditions, the Veteran is no longer eligible.

Do note that a COS that is Other than Honorable or Bad Conduct will be submitted to a VSC for review in order to determine if an upgrade to an acceptable COS can be made.

**Example:** Mike enlisted in 1992, and served 90 days on active duty. At that point, he became eligible and used his home loan benefit. However, he was discharged for misconduct after having served just 18 months. His COS was Under Honorable Conditions. Therefore, while Mike was once eligible and received a valid COE, he is no longer eligible since he did not complete the required 24 months of service.

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## 10. Entitlement Background Information

**Change Date**

May 23, 2017, Change 2

- This section has been updated to re-number the Topic.

**a. History of Entitlement Maximums**

Use this as a reference to determine the maximum amount of entitlement authorized by law during any particular period of time.

| Maximum Entitlement   | Beginning Date    |
|---|-------------------|
| \$2,000   | June 22, 1944     |
| \$4,000   | December 28, 1945 |
| \$7,500   | July 12, 1950     |
| \$12,500  | May 7, 1968       |
| \$17,500  | December 31, 1974 |
| \$25,000  | October 1, 1978   |
| \$27,500  | October 1, 1980   |
| \$36,000  | February 1, 1988  |
| \$36,000<br>or<br>\$46,000 for certain loans greater than \$144,000 | December 18, 1989 |
| \$36,000<br>or<br>\$50,750 for certain loans greater than \$144,000 | October 13, 1994  |
| \$36,000<br>or<br>\$60,000 for certain loans greater than \$144,000 | December 27, 2001 |

*Continued on next page*

## 10. Entitlement Background Information, Continued

**a. History of Entitlement Maximums, continued**

| Maximum Entitlement   | Beginning Date    |
|---|-------------------|
| \$36,000<br>or<br>25 percent of Federal Home Loan Mortgage Corporation (FHLMC) Conforming Limits  | December 10, 2004 |
| \$36,000<br>or<br>25percent of FHLMC Conforming Limits<br>OR 125 percent of the area median price not to exceed 175 percent of 12 U.S.C. 1454(a)(2) (\$1,094,625) | July 30, 2008     |

**b. Bonus Entitlement**

Bonus entitlement is a fluctuating amount, and may only be changed by Congressional action. The exact amount of the bonus entitlement that is available depends on the county where the subject property is located. The bonus entitlement is \$68,250 and any loan amount made using this authority must exceed \$144,000. VA allows for a greater loan limit when the subject property is located within a high-cost county, which in turn has the effect of increasing the amount of entitlement that a Veteran has available.

The level of bonus entitlement for non-high cost areas is set at \$68,250, which provides for a full guaranty on additional financing up to \$273,000 ( $68,250 \times 4 = \$273,000$ ). When coupled with the base entitlement, the bonus entitlement provides for a combined entitlement of \$104,250, which translates into a maximum guaranteed loan amount of \$417,000 ( $\$144,000 + \$273,000 = \$417,000$ ).

The level of bonus entitlement in high-cost areas is set at 25 percent of the loan limit amount in the county. The maximum guaranty amount will be based on the One-Unit (single-family residence) limit, as prescribed by the Federal Housing Finance Agency.

## 11. Restoration of Entitlement

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- Change Date** May 23, 2017, Change 2
- This section has been updated to re-number the Topic, reformat and add closing disclosure as an acceptable document for proof that the property disposal.
- 

**a. General Rule for Restoration of Entitlement** In order to restore the entitlement that was used to obtain a current or prior VA-guaranteed loan, at least **one** of the following four sets of conditions must be satisfied:

### **DISPOSAL AND REPAYMENT**

- The property which secured the old VA loan has been disposed of by the Veteran or has been destroyed by fire or other natural hazard, and
- The loan has been paid-in-full, or if VA has suffered a loss on the loan, the loss has been paid-in-full, or VA has been released from liability as guarantor or insurer.

### **REFINANCE**

- The old VA loan has been paid-in-full (or will be paid-in-full by the new loan),
- The Veteran will be using his or her entitlement to obtain a new loan secured by the same property which secured the VA loan paid-in-full, and
- The new loan will refinance a mortgage or other lien on the property.

### **ONE-TIME RESTORATION**

The old VA loan has been paid-in-full, but the property securing it has not been disposed of (and the conditions for REFINANCE above are not met). These conditions of restoration can be used by the Veteran one time only. After such use, any future restoration will require the Veteran to dispose of all property previously financed with a VA loan.

### **SUBSTITUTION OF ENTITLEMENT**

A qualified Veteran has agreed to assume the loan and substitute his or her entitlement for that of the Veteran whose entitlement is currently tied to the loan.

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*Continued on next page*

## 11. Restoration of Entitlement, Continued

**b. Specifics on "Disposal and Repayment"**

The following chart explains restoration under "Disposal and Repayment" conditions in further detail.

| Issue               | Explanation  |
|---------------------|--|
| Timing              | The timing of the disposal of the property and repayment of the loan does not matter; either can occur before or after the other, or at the same time, as long as both have occurred prior to restoration.   |
| Disposal            | Disposal includes either: <ul style="list-style-type: none"> <li>• Sale of the property, including sale by assumption, or sale by installment sales contract, under which the Veteran retains legal title to the property subject to the right of the purchaser to acquire legal title upon satisfying all contract terms (the loan paid-in-full), or</li> <li>• Transfer of the deed (e.g. quit-claim deed).</li> </ul> |
| Proof of Disposal   | Evidence of disposal: <ul style="list-style-type: none"> <li>• <a href="#">VA Form 26-1880</a>: Veteran's declaration of ownership of property previously encumbered by a VA loan,</li> <li>• Closing disclosure, HUD-1 settlement statement or similar documentation, or</li> <li>• Warranty deed evidencing transfer of ownership.</li> </ul>  |
| Relocation Contract | A signed contract under a company plan to purchase a borrower's home when he or she is transferred will meet the disposal requirement once the loan is paid-in-full. A signed contract alone does not meet the disposal requirement. Consult local RLC management in such cases.   |

*Continued on next page*

## 11. Restoration of Entitlement, Continued

**b. Specifics on "Disposal and Repayment"**  
(continued)

| Issue                                | Explanation   |
|--------------------------------------|---|
| Evidence of Loan Payoff              | <p>The following are acceptable as conclusive evidence of a paid-in-full loan:</p> <ul style="list-style-type: none"> <li>• Evidence in the electronic information systems the loan is paid-in-full.</li> <li>• Canceled Loan Guaranty Certificate or notice from the lender.</li> <li>• Station's determination that the loan is statistically paid-in-full.</li> <li>• Other reliable evidence (e.g. California escrow closing statement, closing disclosure or HUD-1 settlement statement that clearly indicates payment of the loan in full).</li> <li>• A cancelled security deed that clearly identifies the subject VA loan (VA Loan Identification Number), or describes the property and loan in sufficient detail so as to ensure the deed is for the subject VA loan.</li> <li>• Contact with the holder confirming paid-in-full status.</li> <li>• For prior direct loans; check with the portfolio oversight unit.</li> </ul> <p><b>Note:</b></p> <ul style="list-style-type: none"> <li>• A credit report entry is not sufficient evidence a loan has been paid-in-full because reporting may not show a mortgage not yet reported, but recently closed.</li> <li>• A warranty deed evidencing property transfer only evidences the conveyance of real property; it does not verify the loan has been paid-in-full.</li> <li>• A closing disclosure/settlement statement must be reviewed so as to ensure the VA loan was paid off as part of the transaction, and not merely assumed by the borrower (loan taken 'subject to').</li> </ul> |
| Loans Coded "Not Reported As Active" | Loans coded "Not Reported As Active" may be coded as Paid-in-Full.  |

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## 11. Restoration of Entitlement, Continued

**b. Specifics on "Disposal and Repayment"**  
 (continued)

| Issue                     | Explanation   |
|---------------------------|---|
| Repayment of Loss         | <p>Entitlement can be restored if:</p> <ul style="list-style-type: none"> <li>• The Government has paid a claim for guaranty or insurance and the Veteran has fully repaid any loss incurred by the Government due to such claim payment, OR</li> <li>• VA accepted, or authorized the holder to accept, a voluntary conveyance of the property (deed-in-lieu of foreclosure) and the Veteran fully repays any loss incurred by the Government due to such conveyance.</li> </ul> <p>Where a joint loan is involved, the Veteran must only repay his/her portion of the guaranty that was allocated.</p> <p>VA's waiver or compromise of the right to collect indebtedness from the Veteran does not satisfy this requirement, nor does discharge of debt through bankruptcy. Actual repayment of the Government's loss is required for restoration of entitlement.</p> |
| Release of VA's liability | <p>When the Secretary of Defense accepts a conveyance and assumes, but does not pay off, the loan, evidence that DoD has acquired the property and assumed the loan is construed as releasing VA from liability as guarantor or insurer.</p>  |

*Continued on next page*

## 11. Restoration of Entitlement, Continued

**c. Specifics on Refinance** The following chart explains restorations associated with a refinance:

| <b>Issue</b>  | <b>Explanation</b>  |
|---------------|---|
| Applicability | <ul style="list-style-type: none"><li>• The Veteran may obtain a restoration of entitlement in cases where a VA Cash-Out or Regular Refinance loan is being sought, and the Veteran currently has a VA loan on the subject property, OR</li><li>• The Veteran previously had a VA loan on the subject property, and there is currently some type of lien on the property.</li></ul> |
| Designation   | VA designates such loans as a 'Cash-Out Refinance' when cash proceeds are obtained at the closing, or as a 'Regular Refinance, if the borrower does not obtain cash proceeds from the transaction. 'Regular Refinance' is the designation VA uses to describe what the mortgage industry often refers to as a 'Rate & Term Refinance'.  |

*Continued on next page*

## 11. Restoration of Entitlement, Continued

**c. Specifics on Refinance**  
 (continued)

| Issue        | Explanation   |
|--------------|---|
| Requirements | <p>The Cash-Out or Regular Refinance VA loan must be used to refinance either:</p> <ul style="list-style-type: none"> <li>• An existing VA loan,</li> <li>• A conventional or FHA loan, or</li> <li>• Any other type of lien that is secured by the subject property.</li> </ul> <p>A Cash-Out or Regular Refinance can only be performed in cases where there is an existing lien on the subject property; if the property is held 'free &amp; clear', a VA refinance cannot occur.</p> <p>There is no seasoning requirement for a lien that is to be paid off with a VA refinance.</p> <p>A Cash-Out or Regular Refinance loan requires the borrower to meet all qualifying criteria established for VA purchase loans, to include occupancy requirements.</p> <p>The Veteran must provide a signed certification that the property to be refinanced is the same property for which the Veteran previously used the entitlement to be restored.</p> |

*Continued on next page*

## 11. Restoration of Entitlement, Continued

**d. Any Other Type of Lien That is Secured by the Subject Property**

| Issue          | Explanation  |
|----------------|--|
| COE Conditions | <p>The issued COE will contain a condition which states that the COE is only valid for a refinance of the subject property.</p> <p>The Veteran must provide a signed certification that the property to be refinanced is the same property for which the Veteran previously used the entitlement to be restored.</p> |
| IRRRLs         | IRRRLs do not require a restoration; therefore, they are not within the scope of this discussion.  |

**e. Restoration of Entitlement Examples**

The following chart provides examples for restoration of entitlement.

|                  |   |
|------------------|---|
| <b>Example 1</b> | Jebediah bought a home in 1985, using a portion of his VA entitlement. He sold the property and paid his loan in full in 1987. The entitlement encumbered on Jebediah’s VA loan can be fully restored.  |
| <b>Example 2</b> | Rafael does not sell the subject property, but he does execute a quit-claim deed. He has effectively disposed of the property, but the encumbered entitlement cannot be fully restored until the VA loan is paid-in-full.   |
| <b>Example 3</b> | <p>Jake purchased a property in Memphis using his VA entitlement. Jake lost his property to foreclosure, whereby VA incurred a loss. Jake cannot obtain a restoration of the entitlement encumbered on the subject property until the loss has been paid-in-full. However, Jake may have the ability to use his remaining entitlement.</p> <p><b>Note:</b> The new loan amount and county loan limits would both be factors in future eligibility considerations.</p> |

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## 11. Restoration of Entitlement, Continued

**e. Restoration of Entitlement Examples**  
(continued)

|   |   |
|---|---|
| <b>Example 4</b>                              | Bentley sold his home and allowed Cornelius to assume his VA loan. Cornelius did not substitute entitlement, but he did assume the liability for the loan. Though Bentley no longer owns the property and is not liable for the loan, his entitlement remains encumbered until the loan has been paid-in-full.  |
| <b>Example 5 - Regular/Cash-Out Refinance</b> | Sally purchased a home with a VA loan and then refinanced the loan with an FHA loan. She now wants to refinance the same home back to a VA loan. She can obtain a restoration for refinance only to use with a regular refinance on her existing property.  |
| <b>Example 6 - Regular/Cash-Out Refinance</b> | John has an existing VA loan and wants to obtain a VA cash-out refinancing loan. He can obtain restoration since the requirement for the prior VA loan to be paid-in-full is considered met when closing of the new loan occurs.  |
| <b>Example 7 – One-Time Restoration</b>       | Jody purchased a home with a VA loan using all of her entitlement, and then refinanced it to a conventional loan. She now wants to purchase another home to occupy, using a VA loan. Jody can do so under "one-time" restoration conditions. However, she may not be granted restoration again to purchase another home until both of those properties are disposed of and paid-in-full.  |
| <b>Example 8 - Disposal and Repayment</b>     | Anthony purchased a home with a VA loan, then sold it by assumption and obtained a release of liability, but did not obtain a substitution of entitlement. The loan was subsequently foreclosed, and VA paid a claim to the lender. No debt/loss was established against Anthony; however, he cannot have the entitlement he originally used to purchase the home restored unless he repays the Government for the loss incurred. Anthony can use remaining entitlement to purchase another property. |

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## 11. Restoration of Entitlement, Continued

**f. Waiver of Restoration Requirements**

One or more of the requirements for restoration of entitlement may be waived by the Secretary **only** if the Veteran was a victim of disastrous circumstances caused by conditions beyond his or her control. "Disastrous" usually pertains to acts of nature. If station management believes such action is warranted, they must submit the case to CO Loan Policy for consideration, accompanied by a full development of the pertinent facts, emailed to LoanPolicy.VBAVACO@va.gov.

**g. Procedures for Restoration**

Process requests for restoration of entitlement as follows:

| Step | Action  |
|------|---|
| 1    | Process by the RLC or RO of jurisdiction.   |
| 2    | Require submission and review of: <ul style="list-style-type: none"> <li>• <a href="#">VA Form 26-8106</a>, and</li> <li>• <a href="#">VA Form 26-1880</a> or electronic application.</li> </ul> Supporting documents concerning the Veteran's service when required to substantiate entitlement.<br><br>For restoration under "refinance" conditions, also require certification that the property to be refinanced is the same as the one for which Veteran used the entitlement to be restored.                    |
| 3    | For insufficient or incomplete applications, request additional information using system letters and suspend processing pending receipt of requested materials.<br>Also, suspend processing if prior eligibility was established while Veteran was on active duty, Veteran has since been discharged or released, and evidence that service was "other than dishonorable" is needed.<br>Do not suspend processing for incomplete <a href="#">VA Form 26-1880</a> when incomplete items are not pertinent to the case. |
| 4    | Determine the status of the previous loan(s).   |
| 5    | If restoration is approved, code electronic system and issue the COE.   |
| 6    | Send the updated COE and any original discharge or separation papers submitted to the Veteran.  |

## 12. How to Process a Certificate of Eligibility

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**Change Date**      May 23, 2017, Change 2  
 • This section has been updated to re-number the Topic.

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**a. Purpose**              The purpose of this section is to direct the procedure regarding mailroom date stamped [VA-Form 26-1880](#), *Request for a Certificate of Eligibility*. This section contains the rules and procedures necessary for processing manual paper generated certificates.

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**b. Background**            The Automated Certificate of Eligibility (ACE) system provides a field on the “Details” page for the Loan Specialist to enter the application received date, which is the date the COE request was received in person, by mail, fax or email. This information is vital for accurate reporting.

---

**c. Steps to Process**            Any COE request received in person, by mail, fax, or email must be entered into the ACE system, and the application received date must be recorded in the “Details” page within ACE. The following steps outline this procedure.

| Step | Action   |
|------|--|
| 1    | On the “Create Certificate of Eligibility Record” page, enter the Veteran’s social security number (SSN) and select the Search button.   |
| 2    | Click the word “Accept” for the correct Veteran.   |
| 3    | When the system opens a Veteran record to process, go to the “Details” page of the Eligibility Record and enter the Application Postmarked Date from the envelope or packaging, if provided.                     |
| 4    | In the App. Received Date field, enter one the following:<br>Date stamp received by the station mail room.<br>Received date from the email system.<br>Date stamp from station reception desk, if hand delivered. |
| 5    | Finalize processing the COE as directed in this chapter.   |

**Note:** These COE requests shall be worked in the date order received. However, if there are special circumstances as with electronic applications, then the request may take priority (i.e. impending closing).

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## 12. How to Process a Certificate of Eligibility, Continued

### c. Steps to Process

Appeals are escalated to the Board of Veterans Appeals (BVA) and BVA is responsible for reviewing and making a ruling. VA CO does not govern this process but, as needed, will serve as a consultant to field offices. The steps below outline how an Appeal of a COE should be received and processed.

| Step | Action   |
|------|--|
| 1    | <p>RLC receives Notice of Disagreement (NOD) and must document the date stamp in the notes of when the NOD was first received.</p> <p>Verify that the NOD is within 1 year of the original denial letter.</p>  |
| 2    | Using the reference number and the social security number, verify that the Veteran does not have another reference number with relevant information attached.  |
| 3    | <p>Verify in VACOLS that no other appeals have been submitted. A pending decision may affect a request for a COE.</p> <p>If there is an appeal pending that will affect the COE determination, notify the Veteran that VA will wait until a decision has been made on the previous appeal.</p> |
| 4    | <p>Review NOD. Upload NOD into WebLGY and verify that the NOD indicates a disagreement with VA's decision.</p> <p>If the NOD does not indicate disagreement, notify the Veteran of what is needed and document the system notes.</p>   |
| 5    | <p>Determine if the COE can be issued. If a COE can be issued, do not record this as an appeal.</p> <p>If a COE cannot be issued, upload the NOD and complete the SOC, as required.</p>  |
| 6    | Create the applicable SOC letter. Mail the final letter to the Veteran, including <a href="#">VA Form 646</a> , <i>Statement of Accredited Representative in Appealed Case</i> , and POA (as necessary).   |
| 7    | Document all action(s) in the necessary system of record (i.e. WebLGY and/or VACOLS).  |
| 8    | If Form 9, <i>Appeal to Board of Veterans' Appeal</i> , is received within 60-calendar days, Form 8, <i>Certification of Appeal</i> , must be completed, VACOLS updated, and the paper appeal file sent to BVA with overnight tracking.  |

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## **12. How to Process a Certificate of Eligibility, Continued**

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**c. Steps to Process,**  
continued

**Note:** If a Veteran's appeal is denied by BVA, the Veteran may have the right to appeal further to the Court of Appeals (COA). The RLC of jurisdiction is not involved in the appeal to the COA. The Veteran requests the BVA location to hear the appeal.

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## Appendix A. Certificate of Eligibility Case Types that are Escalated

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**Change Date**

May 23, 2017, Change 2

- This section has been updated to remove case types that the RLCs no longer need to escalate.
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The list of case types that require escalation to CO. This is NOT an exhaustive list. In instances that the RLC is unsure, they should consult CO before escalation.

| Number | Case Type   |
|--------|---|
| 1      | Veteran Service Center referrals                                |
| 2      | Veteran Appeals to Denied COE Applications                      |
| 3      | VA Employee or VA Employee Spouse COE Application               |
| 4      | Loan Production Officer escalation (after consultation with CO) |

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## Appendix B. Quick Reference Table for VA Eligibility

**Change Date**

May 23, 2017, Change 2

- This section has been updated to clarify Vietnam service.

**a. Basic Eligibility Quick Reference Table**

The table below provides a quick reference to some of the most commonly eligible Veterans. This table is NOT exhaustive. A Veteran’s eligibility for home loan benefits may only be determined by VA.

| <b>Era</b>   | <b>Dates</b>  | <b>Time Required</b>  |
|--------------|---|---|
| WW II        | September 16, 1940 - July 25, 1947  | 90 days   |
| Post WW II   | July 26, 1947—June 26, 1950   | 181 days  |
| Korean       | June 27, 1950 - January 31, 1955  | 90 days   |
| Post Korean  | February 1, 1955 – August 4, 1964   | 181 days  |
| Vietnam      | August 5, 1964 – May 7, 1975<br><br><i>Note:</i> The Vietnam Era began 2/28/1961 for those individuals who served in the Republic of Vietnam. | 90 days   |
| Post Vietnam | May 8, 1975 – September 7, 1980   | enlisted—181 days   |
|              | May 8, 1975 – October 16, 1981  | officers—181 days   |
|              | September 8, 1980 – August 1, 1990  | enlisted—2 years**  |
|              | October 17, 1981 – August 1, 1990   | officers—2 years**  |
| Gulf War     | August 2, 1990 - present  | 2 years **<br><br><b>**Note:</b> The Veteran must have served 2 years, ADSM at least 90 days or R/NG - the full period which called or ordered to active duty (at least 90 days during wartime ). |

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**Appendix B. Quick Reference Table for VA Eligibility, Continued**

**b. Additional Eligibility Quick Reference Table**

The table below provides a quick reference to some additional types of eligible Veterans. This table is NOT exhaustive. A Veteran’s eligibility for home loan benefits may only be determined through a review of all documentation.

| <b>Other Eligible Persons</b>   | <b>Time Required</b>   |
|---|--|
| Active Duty Member<br><b>Note:</b> Certificate valid only while Veteran remains on active duty. | 90 days (181 during peacetime)   |
| Reserves/Guard  | 6 years in Selected Reserves   |
| Unmarried Surviving Spouses   | No time requirement. Veteran must have died on active duty or from a SCD. The surviving spouse of a Veteran who dies on active duty or from service-connected causes, who remarries on or after age 57, and on or after December 16, 2003, may also be eligible. |
| POW/MIA Spouses   | The spouse of an active duty member who is listed as MIA or a POW for at least 90 days. Eligibility under the MIA/POW provision is limited to one time only.   |