

CONTENTS

CHAPTER 1. INTRODUCTION

PARAGRAPH	PAGE
1.01 Purpose.....	1-2
1.02 Background.....	1-2
1.03 Prerequisites.....	1-2
1.04 Loan Limits and Interest Rates.....	1-2
1.05 Types of Land Ownership.....	1-3
1.06 Definitions.....	1-3

### 1.01 PROGRAM PURPOSE

The purpose and intent of the Native American Direct Loan Program is to enable Native American Veterans to use their Department of Veterans Affairs (VA) home loan benefit for the purchase, construction, or improvement of dwellings on Federal Trust Lands.

### 1.02 BACKGROUND

Congress authorized the Native American Direct Loan Program (NADL) as a pilot program in 1992. Under the terms of the authorizing statute (Public Law 102-547), VA was directed to make direct mortgage loans to eligible Native American Veterans for the purchase, construction, or improvement of homes on Federal Trust Land. Private mortgage financing has historically been rarely available on Federal Trust Land because the land is subject to a number of restrictions. These restrictions are established by Federal statute and administered by the United States Bureau of Indian Affairs or by Federally-recognized tribes. In recognition of the fact that Native American Veterans who had, through their service to the Nation, earned home loan benefits, but were unable to use them on Federal Trust Land, Congress mandated that VA make financing available to eligible Native American Veterans.

### 1.03 PREREQUISITES

Before VA may even begin to consider taking an application from an individual Native American Veteran two conditions must be met:

- a. The Tribe must be Federally-recognized. Tribes that are recognized by a State, but not by the Federal Government, are not eligible for this program.
- b. VA and the tribe or sovereign body governing the Federal Trust Land where the home is or will be located must enter into a Memorandum of Understanding (MOU). This document sets out the rights and responsibilities of both Government's with respect to access to the land, default and foreclosure proceedings, and other legal rights and obligations. See Chapter 2 for more detail.

### 1.04 LOAN LIMITS AND INTEREST RATES

- a. Loans made under this program are capped at \$80,000; however, VA is authorized to make direct loans to Native American Veterans for the purpose of purchasing, constructing, or improving housing on Federal Trust land which exceed this amount in certain situations. Under 38 U.S.C §3762(c)(1)(B), the Secretary may make loans that exceed that amount if the housing costs in that area are significantly higher than average nationwide housing costs (including the higher limits for Alaska, Guam, Hawaii, and the U.S. Virgin Islands). Information on the current

effective loan limits on VA-guaranteed home loans may be found here:

[http://benefits.va.gov/homeloans/purchaseco\\_loan\\_limits.asp](http://benefits.va.gov/homeloans/purchaseco_loan_limits.asp)

b. Interest rates for loans made under the program are the same as the rates offered on VA's vendee loans, and have, historically, trended lower than market rates. The current interest rate may be found here: <http://benefits.va.gov/homeloans/nadl.asp>.

### 1.05 TYPES OF LAND OWNERSHIP

This section summarizes the basic types of land ownership commonly found on Native American trust land. All of these types of land ownership are eligible for the NADL Program. Program requirements and processing procedures vary depending upon the way land is held. The definitions provided in §1.06., further clarify the legal aspects of homeownership and identify unique arrangements that exist in Alaska, California, Hawaii, and Oklahoma. Requirements for eligibility of the trust land and the types of land ownership, are also discussed in § 3.03 of this manual. As a general rule, real estate transactions (lien recording, eviction, foreclosures, etc.) are governed by tribal law.

a. Land Held in Trust for Tribes. Tribal trust lands are held in trust for the tribe by the Federal Government. The U.S. Department of the Interior, through the Bureau of Indian Affairs (BIA), administers the Federal Government's trust responsibilities. Tribal trust land cannot be alienated (taken out of trust status) or encumbered (this includes mortgages) without BIA approval. As a general rule, BIA does not get involved in VA mortgage loan transactions. Tribes may lease or otherwise assign portions of the tribal trust land for the use of specific individuals or purposes, but ownership, through the Federal Trust, remains with the tribe. Generally, tribal courts, together with the BIA, have jurisdiction over key real estate transactions (lien recording, leasing, eviction, and foreclosure procedures) in tribal trust land.

b. Land Held in Trust for Individual(s). This is also referred to as "allotted" land. Allotted trust land is held in trust by the Federal Government for individual Native Americans. Tribes generally have no property interest in allotted trust lands. However, like tribal trust land, allotted trust lands cannot be alienated or encumbered without the approval of the BIA.

c. Native Alaskan Corporate Villages. Most trust land in the State of Alaska is organized into village and regional corporations in which enrolled Natives received corporate stock.

d. South Pacific Territorial Land. Much of the land on the island territories of American Samoa, the Commonwealth of the Northern Marianas, and Guam, as well as, land on the Hawaiian Islands which has been designated by Hawaiian state government as "homeland" is considered trust land eligible for use under the NADL Program.

### 1.06 DEFINITIONS

a. Alaskan Native Lands. While there is at least one Indian Reservation in Alaska, generally Alaskan Natives (Indian, Eskimo, and Aleut) hold land in a unique manner, established by the Alaska Natives Claims Settlement Act of 1971. This Act was a Congressional response to the conflict between non-Indians seeking to develop Alaska and Natives who claimed extensive tracts of aboriginal territory. The Act extinguished all aboriginal rights to lands in Alaska and established, under State law, village and regional corporations in which enrolled Natives received corporate stock. These corporations selected land for use by the enrolled Alaskan Natives which is protected against alienation.

b. Allotted Trust Land. Land or any interest in land held in trust by the United States Government for the benefit of individual Native Americans or held by individual Native Americans subject to Federal restrictions against alienation or encumbrance. Also known as land held in trust for individuals.

c. Consultation. The process of Government-to-Government dialogue between VA (or, in the case of an existing MOU, the Departments of Housing and Urban Development (HUD) or Agriculture (USDA)) and the Native American tribes, pursuant to [Executive Order 13175](#), regarding proposed VA action intended to secure meaningful and timely tribal input. This is not the same as meeting with tribal representatives to negotiate an MOU or to work out issues related to closing a NADL. Field stations involvement in consultation will be directed by VA Central Office. When engaging in consultation, Native American tribes are:

- (1) To receive timely notification of the proposed VA action;
- (2) To be informed of the potential impact on Native American tribes of the proposed VA action;
- (3) To be informed of those VA officials who may make the final decisions with respect to VA's action;
- (4) Entitled to have the input and recommendations of Native American tribes on proposed VA actions under consideration by the officials responsible for the final decision; and
- (5) To be advised of any rejection of tribal recommendations on such action from the VA officials making the decisions and the basis for the rejection.

d. Default. The failure by a borrower to make any payment or to perform any other obligation under the terms of a loan for a period of more than 30 days.

e. Department. The United States Department of Veterans Affairs (referred to as VA or the Department).

f. Dwelling. For the purposes of this program, dwelling means a single-residential or multi-residential property that does not contain more than four living units, and manufactured homes

that are or will be permanently affixed to a lot in which the Veteran has a meaningful ownership interest.

g. Eviction. The legal process by which the occupant of a dwelling who is in violation of their lease and/or mortgage terms is removed from occupancy of the property.

h. Federal Trust Land. Defined by statute (38 U.S.C. 3765) as:

- (1) Land that is held in trust by the U.S. Government for Native Americans;
- (2) Land subject to restrictions on alienation imposed on Indian or Native Hawaiian lands by the U.S. Government;
- (3) Land in Alaska owned by a Regional or Village Corporation; or,
- (4) Land that is, by cultural tradition, communally-owned and located on an island in the Pacific Ocean.

i. Foreclosure. The legal process by which title to a given property is transferred from a homeowner in default to the holder of the note. On fee-simple and mortgaged allotted trust properties, this may include conveyance of the land, as well as, the structure. On tribal trust or leased allotted trust land, the structure would be conveyed to the note holder, as well as the tenant's leasehold interest in the land, but title to the land itself would remain in trust.

j. Fractionated Ownership. A term used to note ownership of a property in the name of more than one individual. It is typically used in conjunction with allotted or individual trust lands to describe situations in which, over time and through division of inheritance, multiple parties have a claim to a single property.

k. Land Assignments. The practice, by some tribes, of granting an unrecorded interest in land to tribal members. Assignments are not normally recorded against title to the land and are not usually recognized as legally valid unless they are recorded.

l. Lease. A written agreement between the owner of the real property and another party detailing the specific terms by which the use and possession of the real property is granted by the owner to the other party. Leases may be between the tribe and a tribal member or between tribal members.

m. Lease Assignment. The transfer or the conveyance of an existing valid lease to a third party, who becomes the new lessee. Generally, an assignment must cover the entire leasehold interest.

n. Leasehold Encumbrance. A mortgage, deed of trust, or other lien on the leasehold interest given to secure repayment of a loan obtained by the lessee.

o. Leasehold Interest. The interest conveyed by the tribe to the borrower under the lease, or the borrower's interest in the land. It consists of the right to the quiet enjoyment of the leased premises for the term of the lease, subject to the requirements of the lease.

p. Native American. Defined by statute (38 U.S.C. 3765) as follows:

(1) An Indian, as defined in the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450b(d));

(2) A Native Hawaiian, as defined in the Hawaiian Homes Commission Act (Public Law 67-34; 42 Stat.108);

(3) An Alaska Native, as defined in the Alaska Native Claims Settlement Act (43 U.S.C. 1602(b)); and

(4) A Pacific Islander, as defined in the Native American Programs Act of 1974 (42 U.S.C. 2991 et seq.).

q. Native American Housing Authority. Any entity that is authorized to engage in or assist in the development of operation of housing for Native Americans. Such an organization is established either by the power of self-government by an Indian Tribe independent of State law; or by operation of State law providing specifically for housing authorities for Native Americans, including regional housing authorities in the State of Alaska.

r. Principal Residence. The dwelling where the borrower maintains (or will maintain) a permanent place of abode, and typically spends (or will spend) the majority of the calendar year. A borrower may have only one principal residence at any one time.

s. Rancheria. A term used synonymously with "reservation" in the State of California.

t. Restricted Land. Any land or any interest in land which is held by an individual Indian or Tribe and is subject to Federal restrictions against alienation or encumbrance. This land can only be alienated or encumbered with the approval of the Secretary of the Interior, as mandated by Federal law.

u. Secretary. The Secretary of the U.S. Department of Veterans Affairs.

v. Sublease. A lease from a lessee to another individual. Certain leases may permit a lessee to create several leases in place of the original lease (also known as "spin-off leases"). Each of these subleases may then be assigned to another lessee.

w. Title Status Report. A report issued by the Land Titles and Records Office of the Bureau of Indian Affairs (which has administrative jurisdiction of the specific Indian land indicating the type of land ownership, listing any restrictions or encumbrances on the land, the current owners, and any specific conditions or exceptions).

x. Tribe.

(1) Any Federally-recognized “tribal organization” as that term is defined in the Indian Self-Determination and Education Assistance Act (25 U.S.C. 450(b)(1));

(2) The Department of Hawaiian Homelands;

(3) In the case of Alaska Natives, Regional and Village Corporations, as such terms are defined in the Alaska Native Claims Settlement Act (43 U.S.C. 1602);

(4) The Pacific Island Territories of Guam, the Commonwealth of the Northern Marianas (CNMI), and American Samoa.

y. Tribal Government. The governmental authority of a Federally-recognized Indian Tribe, the Department of Hawaiian Homelands, Alaskan Regional and Village Corporations, and the territorial governments of American Samoa, Guam and the Northern Marianas. A list of Federally-recognized tribes may be found here: <http://vbacolgy1/nadldb/default.aspx>.

z. Tribal Land.

(1) Land or any interest therein held by the United States in trust for a tribe, band, community, group, or pueblo of Indians subject to Federal restrictions against alienation or encumbrance;

(2) Land reserved for BIA administrative purposes when it is not immediately needed by a tribe, band, community, group, or pueblo;

(3) Lands held by the United States in trust for an Indian corporation chartered under § 17 of the Act of June 18, 1934 (48 Stat.984); 25 U.S.C. 476; and

(4) Assignments of tribal land.

CONTENTS

CHAPTER 2. THE MEMORANDUM OF UNDERSTANDING (MOU)

PARAGRAPH	PAGE
2.01 Legal Requirements.....	2-2
2.02 MOU Process.....	2-2
2.03 Review and Approval of MOUs.....	2-2
2.04 MOU Storage.....	2-3
2.05 Loan Application in Absence of MOU.....	2-3
2.06 Electronic Documentation of Native American Direct Loan Files.....	2-3

## 2.01 LEGAL REQUIREMENTS

Pursuant to 38 U.S.C. § 3762, the law requires that before any direct loan may be made to an eligible Native American Veteran under this program, the Department of Veterans Affairs (VA) and the tribal/territorial government with jurisdiction over the land on which the home is or will be located must have entered into a Memorandum of Understanding (MOU). The MOU must provide that the Veteran must have or acquire a meaningful ownership interest in the property to be used as security for the loan. “Meaningful interest” in this context includes ownership of the property, a lease for a period of years which exceeds the mortgage by at least 14 years, or a life estate. In addition, the MOU should incorporate reference copies of the loan instruments that are to be used in the loan program. Finally, the MOU establishes the rights and responsibilities of both VA and the tribal/territorial government with regards to access to the property for purposes of conducting necessary construction and/or foreclosure related inspections by VA and/or its agents, as well as the rights and obligations of all parties with regard to foreclosure and eviction procedures to be followed.

## 2.02 MOU PROCESS

a. In general, Regional Loan Center (RLC) staff, with legal guidance from their Office of Regional Counsel and oversight from VA Central Office (VACO), shall conduct the preliminary outreach with the appropriate tribal authorities. Formal negotiation to draft the MOU will occur between the tribal government and VACO. VACO will ensure the MOU contains the legal provisions necessary to protect the interests of the Federal Government. It is important to remember that Federally-recognized tribes are considered to be sovereign nations, state law may be useful, but does not control real estate transactions on Federal Trust land.

b. Submission and Review of a Complete MOU Package. A completed MOU package should contain the following (1) an MOU; (2) a tribal resolution adopting the MOU; (3) a copy of the tribal leasehold documents; and (4) the relevant portions of the tribal housing/foreclosure codes. As necessary, the RLC should accept any documents submitted by the tribal government and, prior to submitting them to VACO, ensure that all of the abovementioned documents have been submitted by the tribe. VACO will review the completed package submitted by the RLC to determine that it meets the requirements found in [38 U.S.C. § 3762](#) and [38 CFR §36.4527](#).

## 2.03 REVIEW AND APPROVAL OF MOUs

a. Ultimate Responsibility. Ultimate responsibility for executing an MOU rests with VACO. The Director, Loan Guaranty Service has delegated authority to sign MOUs on behalf of the Secretary. VACO will review the submission and obtain concurrence from the Office of General

Counsel (OGC) and, if for some reason, VACO or OGC do not concur, VACO will contact the RLC for assistance, as necessary.

b. Execution and Notice. Once VACO and OGC concur in approving the MOU, VACO will assign a numeric identifier for each MOU. This number is to be used for all coding and recordkeeping purposes.

c. Bureau of Indian Affairs (BIA) Approval of MOUs Not Necessary. BIA, by agreement with VA, is not considered a party to the MOU. Approval of the MOU is completed upon signature by authorized tribal representatives and VA. Signatory authority for MOUs is delegated to the Director, Loan Guaranty Service. Copies of signed MOUs should be forwarded to the appropriate local BIA Regional Office for their records immediately after VACO approval.

#### 2.04 MOU STORAGE

Upon execution of an MOU, VACO will upload the complete MOU package into both the NADL Consolidated [website](#) and the Native American Direct Loan (NADL) Communications Management [website](#).

#### 2.05 LOAN APPLICATION IN ABSENCE OF MOU

If the RLC receives an application for a direct loan on Federal trust land, and there is no record of an executed MOU for that particular tribal/territorial organization, the station should immediately advise the applicant in writing that his/her application cannot be processed until an MOU is executed between their tribal government and VA. RLC staff should take this opportunity to contact the appropriate tribal government and establish an MOU.

#### 2.06 ELECTRONIC DOCUMENTATION OF NATIVE AMERICAN DIRECT LOAN FILES

a. All NADLs must be electronically uploaded into WebLGY. A mandatory stacking order has been established for VA NADL purchase loans/cash-out refinances and interest rate reduction loans (IRRRLs).

b. The stacking order for NADL purchase loans/cash-out refinances is as follows:

<b>Order</b>	<b>Document</b>
1	Letter of Commitment to Veteran
2	Purchase or Lease Agreement
3	Certificate of Eligibility, or proof of military service (DD-214 or NGB-22)
4	Title Status Report (TSR), if available
5	HUD-1, <i>Settlement Statement</i>
6	VA Form <a href="#">26-6393</a> , <i>Loan Analysis</i>
7	VA Form <a href="#">26-8497</a> , <i>Request for Verification of Employment</i> , and other verifications of income such as paystubs and tax returns

8	All original credit reports obtained in connection with the loan and any related documentation such as explanation for adverse credit, if required
9	Credit Alert Reporting Verification System (CAIVRS): borrower/co-borrower
10	Uniform Residential Loan Application (URLA) with revised VA Form <a href="#">26-1802a</a> , <i>HUD/VA Addendum to URLA</i> . These forms may be signed and dated any time from the date of initial application to the date of loan closing. These forms must be properly completed and legible, but do not have to be typed.
11	Evidence of compliance with Notice of Value requirements; such as, final compliance inspection, termite certification, and/or warranty
12	Archeological Survey and exhibits, if available
13	VA Form <a href="#">26-0592</a> , <i>Counseling Checklist for Military Homebuyers</i> , if applicant is on active duty
14	Truth in Lending Agreement (TILA)
15	Good Faith Estimate (GFE)
16	Other necessary documents (ex. Power of Attorney)

c. The stacking order for IRRRLs is a follows:

Order	Document
1	Letter of Commitment to Veteran
2	HUD-1, <i>Settlement Statement</i>
3	VA For <a href="#">26-8923</a> , <i>Interest Rate Reduction Refinancing Loan Worksheet</i>
4	CAIVRS: borrower/co-borrower
5	Statement signed by the Veteran acknowledging the effect of the refinancing loan on the Veteran's loan payments and interest rate. <ul style="list-style-type: none"> <li>• The statement must show the interest rate and monthly payments for the new loan versus that for the old loan.</li> <li>• The statement must also indicate how long it will take to recoup ALL closing costs (both those included in the loan and those paid outside of closing).</li> </ul> If applicable, the Veteran's statement may be combined with the lender's certification that the Veteran qualifies for the new monthly payment which exceeds the previous payment by 20 percent or more.
6	URLA with revised VA Form <a href="#">26-1802a</a> , <i>HUD/VA Addendum to URLA</i>  These forms may be signed and dated anytime from the date of initial application, to the date of loan closing. These forms must be properly completed and legible, but do not have to be typed.
7	VA Form <a href="#">26-0503</a> , <i>Federal Collection Policy Notice</i>
8	VA Form <a href="#">26-0592</a> , <i>Counseling Checklist for Military Homebuyers</i> , if applicant is on active duty
9	TILA
10	GFE
11	Other necessary documents (ex. Power of Attorney)

- c. All existing NADL files must be uploaded to WebLGY.

CONTENTS

CHAPTER 3. ELIGIBILITY

PARAGRAPH	PAGE
3.01 Eligible Loan Purpose.....	3-2
3.02 Eligibility of the Veteran.....	3-2
3.03 Eligibility of the Land and Types of Land Ownership.....	3-3
3.04 Eligibility of the Property.....	3-4

### 3.01 ELIGIBLE LOAN PURPOSE

The purpose of loans made under this program is to permit eligible Veterans to purchase, construct, or improve a dwelling located on Federal Trust land. Loans may also be made under this program to simultaneously purchase and improve a dwelling, or to refinance an existing Department of Veterans Affairs (VA) direct loan made under this program, with an Interest Rate Reduction Refinance Loan (IRRRL).

- a. IRRRLs. IRRRLs must lower the existing interest rate by at least one percent.
- b. Other Refinancing Loans. Refinancing a loan that is not a Native American Direct Loan (NADL) is not permitted. However, if the primary purpose of the proposed new loan is to improve or repair the property, refinancing of an existing lien, as an incidental part of the transaction, is permitted.
- c. Ineligible Loan Purposes. A Veteran may only use a NADL to purchase, build, or improve a dwelling in which the Veteran has an ownership interest in which he or she occupies as a home.

### 3.02 ELIGIBILITY OF THE VETERAN

- a. Veteran Status. A Veteran, or the qualified unremarried surviving spouse of a Veteran, applying for a NADL must meet the basic Veteran eligibility requirements for home loan benefits (See 38 U.S.C. §3702). He or she must also be a member of a Federally-recognized tribe and hold a meaningful ownership interest in the dwelling or lot.
- b. Tribal Membership.
  1. The Veteran must provide documentation that he or she is an enrolled member of a Federally-recognized tribe. The form of this documentation may be different from tribe-to-tribe, but, whatever form it takes, it must be clear that the individual is recognized as an enrolled member of a Federally-recognized tribe. The property to be improved with the proceeds of the loan may be located on land under the control of the Veteran's tribe or another Federally-recognized tribe, provided:
    - (a) the Veteran resides on, and has a meaningful ownership interest in, the dwelling or lot to be improved ("Meaningful interest" may be any sort of interest which meets the requirements of [38 CFR 36.4354](#)); and
    - (b) the Federally-recognized tribe with control or jurisdiction over the property in question recognizes the Veteran as a Native American subject to its authority. There may be cases in

which a Veteran who is a member of one tribe elects to reside on land which is under the control or jurisdiction of another. This set of circumstances is most commonly found where a Native American Veteran, who is a member of one Federally-recognized tribe, marries a Native American who is a member of another Federally-recognized tribe. In such cases, as with tribal recognition of an individual member, forms of proof and/or documentation may differ from tribe to tribe. The Loan Specialist may accept whatever documentation clearly documents that the tribe recognizes the individual as a Native American subject to its jurisdiction.

2. A Veteran who is not Native American, but who is married to a Native American non-Veteran may also be eligible. Both the non-Native American Veteran and the Native American spouse must reside on Federal Trust land and both must have meaningful ownership interests in the dwelling or lot to be improved. Such cases should be forwarded to the Loan Production Officer at the RLC of jurisdiction for review.

3. Tribal membership documentation may differ among different tribal governments. Whatever form it takes, this documentation should be on official letterhead of the tribal/territorial government and be specific in stating that the applicant is a member of that tribe. If it is not clear, the Regional Loan Center (RLC) should request clarification from the tribal government. A copy of such documentation should be placed in the loan file. RLCs should exercise flexibility when determining what documentation is acceptable. For example, if the tribal leasehold application process requires that the individual prove that he or she meets the criteria for tribal membership, the RLC and the tribe may agree upon a blanket letter from the tribe stating that all those individuals who obtain leasehold are members of that tribe.

c. Credit and Income. Prior to approving a NADL, VA must evaluate each Veteran borrower's credit history and ability to repay the loan obligation. RLC staff should follow the underwriting standards set out in [VA Pamphlet 26-7, Lender's Handbook](#). Underwriting is discussed in Chapter 4 of this manual.

### 3.03 ELIGIBILITY OF THE LAND AND TYPES OF LAND OWNERSHIP

- a. The contemplated property must be on Federal Trust Land which is:
  1. Held in trust by the U.S. Government for Native Americans;
  2. Subject to restrictions on alienation imposed on Indian or Native Hawaiian lands by the U.S. Government;
  3. Owned by an Alaskan Regional or Native Village Corporation; or
  4. By cultural tradition, communally-owned and located on an island in the Pacific Ocean.
- b. The Veteran must have a Meaningful Ownership Interest in the Property. Meaningful ownership interest may mean an allotment from the Bureau of Indian Affairs (BIA), a leasehold

estate, a life estate, or other interest in trust land and any improvements thereon which permits the use, occupancy, and enjoyment of that land and any improvements by the grantee. This interest must be conveyed:

1. As security for a loan made under 38 CFR § 36.4527;
2. By the grantee to a third party subject to the approval of the tribal organization and VA; and
3. By VA or other foreclosing mortgagee, subject to the provisions of an MOU entered into by VA and the tribal/territorial government. In most cases, the interest will be either a recorded leasehold from the tribal/territorial government to the Veteran, approved by the appropriate BIA office (on tribal lands), or an allotment from either the tribe/territorial government or BIA to the individual tribal member.

c. In most cases, Veterans will be acquiring a leasehold estate. However, depending on the tribal government rules and procedures, other types of estates may be possible and RLCs must ensure that the interests of the Federal Government, the Veteran, and the tribal governments are protected. Consult with the Office of Regional Counsel to determine the sufficiency of title. See Chapter 4 about more information about sufficiency of title.

d. Spousal Property Interest.

1. General. Generally, if the Veteran's spouse has a meaningful ownership interest in the dwelling or lot, then that spouse must also be included on the loan. If the spouse does not have a meaningful ownership interest in the dwelling or lot, then the Veteran may obtain a loan in his/her name only.

2. Community Property Issues. In general, RLCs must be aware that different tribes may handle community interests in different ways and ensure that VA's legal interest is protected in the event of foreclosure or the death of a Veteran. Any questions on how to handle community interest should be directed to the Office of Regional Counsel.

### 3.04 ELIGIBILITY OF THE PROPERTY

a. Lien Requirements. All NADLs must be secured by a first lien, except for NADLs to improve a dwelling, which may be secured by a second lien. In some cases, where a Veteran has an existing first lien held by their tribal housing authority, it may be permissible for VA to accept a second lien position. VA will not require that the Veteran pay off the existing loan or include it in a new loan with the home improvement loan in order to provide VA a first lien position, if, by doing so, the Veteran would lose favorable terms on his or her existing loan. If you have questions around second lien position, contact VACO.

1. Example. A Veteran wishes to obtain an improvement loan of approximately \$5,000 at the prevailing VA rate of four percent, but has an existing tribal loan securing the property which

bears an interest rate of two percent. Requiring the Veteran to pay off or incorporate this loan as part of the new VA direct loan at the higher rate would result in a significant increase in his or her interest rate on the first loan. Accordingly, VA will accept a second lien position in such circumstances, provided there is sufficient value in the property to cover both liens.

b. Minimum Property Requirements (MPRs). MPRs for NADL loans are the same as for VA-guaranteed home loans: the dwelling must be safe, sanitary, and sound. Construction methods may vary, and there may not be local building codes. The vast majority of NADLs are construction loans, rather than for the purchase of existing housing stock. Issues related to the review and approval of construction plans/specifications, compliance inspections, staged disbursements to contractors, and other related topics are addressed in Chapter 9.

CONTENTSCHAPTER 4. PROCESSING THE APPLICATION

PARAGRAPH	PAGE
4.01 Basic Requirements.....	4-2
4.02 Interest Rate.....	4-2
4.03 Funding Fee.....	4-2
4.04 Maximum Loan Amount.....	4-2
4.05 Loan Maturity.....	4-3
4.06 Title.....	4-3
4.07 Lien Requirements.....	4-3
4.08 Processing a NADL.....	4-4
4.09 Application Processing—Generally.....	4-4
4.10 Application Processing—Loans in the South Pacific.....	4-5
4.11 Rejected Applications.....	4-6
4.12 Approved Applications.....	4-6
4.13 Contractors/Vendors.....	4-6
4.14 Pay-outs.....	4-6
4.15 How to Order Pay-outs.....	4-7
4.16 Partial Payments.....	4-7
4.17 Underwriting Responsibilities.....	4-7
4.18 Native American Documentation.....	4-7
4.19 Appraisal/Credit Report Fee.....	4-8
4.20 Interest Rate Reduction Refinancing Loans (IRRRLs).....	4-8
4.21 Loan Docket/VA Loan Identification Number (LIN).....	4-8
4.22 Application Maintenance.....	4-8
4.23 Third-Party Processing.....	4-9

#### 4.01 BASIC REQUIREMENTS

a. By law, the Department of Veterans Affairs (VA) may only approve a Native American Direct Loan (NADL) when it is possible to determine that the Veteran is a satisfactory credit risk and has present/anticipated income that bears a proper relation to the contemplated terms of repayment.

b. VA's underwriting standards are incorporated into VA regulations at 38 CFR § 36.4337 and explained in Chapter 5 of this manual. This chapter addresses all other basic requirements involved in processing the application for a VA NADL. Guidance on how to treat income, debts and obligations, credit history, and so on, and how to present and analyze those items on VA Form 26-6393, *Loan Analysis*, can be found in [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*.

#### 4.02 INTEREST RATE

The interest rate for NADLs will be the same rate as those set by VA for loans purchased through the vendee loan program. The current interest rate may be found online at the following address: <http://benefits.va.gov/homeloans/nadl.asp>.

#### 4.03 FUNDING FEE

a. Native American Veterans must pay a funding fee of 1.25 percent of the total loan amount unless the Veteran is exempt due to receipt of disability compensation (or who, but for the receipt of active duty or military retirement pay, would be entitled to receive compensation). Additionally, the surviving spouse of a Veteran who died in service, or from a service-connected disability, would also be exempt from paying the funding fee.

b. The funding fee for an eligible Reservist or National Guard Native American Veteran is based on length of service in the armed forces pursuant to Public Law 102-547, and will be two percent of the total loan amount.

c. The funding fee for a NADL Interest Rate Reduction Refinance Loan (IRRRL) will be 0.5 percent of the total loan amount.

#### 4.04 MAXIMUM LOAN AMOUNT

a. Indexed Maximum Loan Limits. Loans made under this program are capped at \$80,000; however, VA is authorized to make direct loans to Native American Veterans for the purpose of purchasing, constructing, or improving housing on Federal Trust land which exceed this amount in certain situations. Under 38 U.S.C §3762(c)(1)(B), the Secretary may make loans that exceed that amount if the housing costs in that area are significantly higher than average nationwide housing costs (including the higher limits for Alaska, Guam, Hawaii, and the U.S. Virgin

Islands). Information on the current effective loan limits on VA-guaranteed home loans may be found here: [http://benefits.va.gov/homeloans/purchaseco\\_loan\\_limits.asp](http://benefits.va.gov/homeloans/purchaseco_loan_limits.asp).

b. **Maximum Loan Amount.** The maximum loan amount is limited to the lesser of the purchase price or reasonable value of the property, plus the VA funding fee, if financed. If the sales price or contract costs exceed the reasonable value of the property, the Veteran will be notified that it will be necessary for the difference to be paid in cash from his or her own resources at closing. The Veteran may also choose to renegotiate the sales price to an amount equal to the reasonable value of the property.

c. **Maximum IRRRL Amount.** The maximum loan amount for an IRRRL is limited to the sum of the existing loan balance, 0.5 percent funding fee, and loan closing costs; usually paid in connection with an IRRRL.

#### 4.05 LOAN MATURITY

a. The maturity of any loan secured by a first lien may not exceed 30 years and 32 days. The maximum maturity of a loan secured by a second lien (e.g. a home improvement loan) will be 15 years and 32 days.

b. Every loan must be repayable within the estimated economic life of the property securing the loan when such information is available. In the case of a loan for repairs, alternations, or improvements costing less than \$5,000, an appraisal is not required and the economic life will not be a factor.

#### 4.06 TITLE

In most cases, Veterans will be acquiring a leasehold estate; however, depending upon tribal statutes and practices, other types of property ownership may be possible. Regional Loan Centers (RLC) must attempt to ensure that the interests of the Federal Government, the Veteran, and the tribal government are protected. Consult with the Office of Regional Counsel, as necessary.

#### 4.07 LIEN REQUIREMENTS

a. All NADLs must be secured by a first lien, except for NADLs to improve a dwelling, which may be secured on a second lien basis. In some cases, in which a Veteran has an existing first lien held by their tribal housing authority, it may be permissible for VA to accept a second lien position. In a case where VA will accept a second lien position, the RLC should refer that case to the Chief of Loan Policy, VA Central Office (VACO). The request from the RLC should include justification for VA accepting a second lien position. VA will not require that the Veteran would lose favorable terms on his or her existing loan.

1. Example. A Veteran wishes to obtain an improvement loan of approximately \$5,000, at the established VA interest rate of five percent, but has an existing tribal loan securing the property, which bears an interest rate of three percent. Requiring the Veteran to pay off or incorporate this loan with a new VA direct loan at the higher rate could result in a significant increase in his or her interest rate and loan payment. Accordingly, it will be permissible to accept second liens under these circumstances provided there is sufficient value in the property to cover both liens.

#### 4.08 PROCESSING A NADL

a. Once the RLC has determined that there is a Memorandum of Understanding (MOU) in place with the Veteran's tribe, the RLC should verify that the Veteran meets the VA eligibility requirements as outlined in regulation and in Chapter 3.02, *Eligibility of the Veteran*, of this manual before processing the loan application.

b. Additionally, underwriting of a NADL should follow the same guidelines as guaranteed loans. The RLC should reference [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*, for more guidance.

c. If the Veteran is found to be eligible, an acknowledgement letter requesting completion of the following documents should be sent to the Veteran within 5-business days of such determination:

1. VA Form 26-1802a, HUD/VA Addendum to Uniform Residential Loan Application. Application forms must be signed and dated by all borrowers planning on being responsible for the mortgage debt,
2. VA Form 26-1880, Request for Certificate of Eligibility,
3. VA Form 26-8497, Verifications of Employment,
4. VA Form 26-8497a, Verifications of Deposit,
5. VA Pamphlet 26-93-1, *VA Direct Home Loan for Native American Veterans Living on Trust Lands*;
6. Manufactured home requirements, as necessary, and
7. Other pertinent documents, as necessary.

#### 4.09 APPLICATION PROCESSING – GENERALLY

Upon receipt of the Veteran's completed application, the underwriter will then determine whether the Veteran is eligible. Within 5-business days from receipt of the completed application, stations will send the Veteran:

a. A letter acknowledging receipt of the application and outlining the information required to continue processing the application, such as the following:

1. Title Status Report,
2. Lease Agreement (if the Veteran's interest is a leasehold interest),
3. Photocopy of Certificate of Degree of Indian Blood or tribal membership card,
4. Water/Sewer Report,
5. Environmental/Archaeological Survey (if required),
6. Purchase Contract,
7. Construction Contract,
8. Construction Bids,
9. Water/Septic Qualify Certificate, and
10. Other pertinent documents, such as:
  - (a) Good Faith Estimate of Settlement Charges,
  - (b) Truth in Lending Disclosure Statement, and
  - (c) New Construction Requirements Letter.

#### 4.10 APPLICATION PROCESSING – LOANS IN THE SOUTH PACIFIC

a. Before underwriting the loan, station personnel need to:

1. Prequalify the applicant;
2. Obtain building permits (county or local government will furnish all verifications regarding property and local building codes); and
3. Contact the building inspector.

b. The underwriter should then:

1. Order a credit report to determine creditworthiness. Credit standards discussed elsewhere in this chapter will apply. However, the absence of credit is not a derogatory factor and RLCs should use every reasonable effort to confirm that the Veteran is a satisfactory credit risk for a loan on Federal trust land;

2. Prepare the loan analysis ([VA Form 26-6393](#));

3. Issue a Certificate of Eligibility, if one is not already in the file; and
4. Check SHARE for evidence of service-connected or non-service-connected benefits.

#### 4.11 REJECTED APPLICATIONS

If the loan is denied, a letter should be sent to the Veteran explaining the reasons for denial and a copy placed in the loan file. The technician should use this opportunity to contact the Veteran to provide an explanation of the denial and to discuss ways the Veteran may improve their ability to qualify in the future. The original Veteran's loan file should be maintained for a period of 25 months from the date of denial.

#### 4.12 APPROVED APPLICATIONS

- a. If the loan is approved, the RLC should take the following steps:
  1. Send a letter to the Veteran advising him or her that the loan has been approved;
  2. Order an appraisal in WebLGY, as a Type 1 loan;
  3. Enter the loan commitment data on the [NADL Loan Commitment Website](#);
  4. Establish a date for the Veteran to sign the applicable loan contract or construction loan closing, as applicable.

#### 4.13 CONTRACTORS / VENDORS

RLCs are responsible for sending the "Bid Acceptance" letter to notify each contractor/vendor that the Veteran's loan has been approved and that the contractor/vendor's bid has been accepted. The letter should outline the cost of the project and specify the work to be done. A copy of the contractor/vendor's bid proposal should be attached to the letter. The "Bid Acceptance" letter should be sent within 5-business days of receiving notification that a contractor/vendor has been selected. The RLC should work with the contractor to establish a timeframe for the completion of the work.

#### 4.14 PAY-OUTS

- a. Accounts. The Administrative Loan Accounting Center (ALAC) will maintain two separate accounts to pay requested funds to vendors, contractors, and suppliers. These accounts are:
  1. Obligation Account. This account will hold the NADL funds and will be used to pay the vendors, contractors, and sub-contractors during the construction process. For existing homes, it is used to pay the seller of the property.
  2. Suspense Account. This account will hold funds from the Veteran or the tribe (e.g., appraisal fees, prepaid interest, hazard insurance, etc.) or downpayment funds.

#### 4.15 HOW TO ORDER PAY-OUTS

All vendors must have a vendor code before any payouts can be made by ALAC. Stations are to request payouts by submitting a completed voucher, SF 1034, *Public Voucher for Purchases and Services Other Than Personal*, or appropriate designated form, to ALAC. When submitting the initial payment request, stations should attach a copy of the loan approval letter. Payments will not be released to contractors/vendor's until the following conditions have been met:

1. The work has been completed;
2. The completed work is verified by the Veteran, VA representative, or an approved compliance inspector; and
3. The lien waiver is signed and returned to VA.

#### 4.16 PARTIAL PAYMENTS

Partial payments may be released prior to completion of work, but at least 10 percent of the total bid amount should be withheld.

#### 4.17 UNDERWRITING RESPONSIBILITIES

VA loan production staff is responsible for underwriting NADLs using the credit underwriting standards set out in VA Pamphlet 26-7, *Lender's Handbook*, and in accordance with 38 CFR 36.4337. VA underwriters are specifically responsible for:

- a. Developing all credit information;
- b. Properly obtaining all required verifications and the credit report;
- c. Ensuring the accuracy of all information on which the loan decision is based; and
- d. Complying with the laws and regulations governing VA's underwriting standards and with VA's underwriting policies, procedures, and guidelines, as well as certifying as to compliance with all of the above.

#### 4.18 NATIVE AMERICAN DOCUMENTATION

The Veteran must provide evidence from the tribal authority (or equivalent) that he or she is recognized as a member of that tribe or group. Non-Native American Veterans who are married to Native Americans, must provide evidence that both the Veteran and his/her spouse will reside on Trust land and that the spouse has a meaningful ownership interest in the dwelling or lot.

#### 4.19 APPRAISAL AND CREDIT REPORT FEE(S)

A fee sufficient to cover costs of an appraisal and credit reports should be collected from the Veteran up front. Payment should be provided by certified funds, i.e., money order or cashier's check. The funds will be deposited in the Native American Loan Fund and used for the sole purpose of obtaining an appraisal and a Residential Mortgage Credit Report. If the actual costs of the appraisal and credit report differ, adjustments may be made at closing. If the application is disapproved as a result of the initial screening, the funds will be returned to the applicant.

#### 4.20 INTEREST RATE REDUCTION REFINANCING LOANS (IRRRLs)

RLCs are permitted to process an application for an IRRRL based on minimal documentation. If the prevailing VA interest rate for NADLs drops to at least one percent lower than an existing NADL, the RLC should contact the borrower and ask if the borrower would like to pursue an IRRRL. The RLC should prepare a comparison sheet, similar to that used by lenders for guaranteed IRRRLs, and provide it to the borrower for his/her review. If the borrower is interested in pursuing the IRRRL, the borrower should sign and date the comparison sheet. The comparison sheet will serve as acknowledgment that the borrower understands the effects of refinancing the existing NADL. A new case number should be assigned for the IRRRL. Interest rates for loans made under the program are the same as the rates offered on VA's vendee loans, and have, historically, trended lower than market rates.

#### 4.21 LOAN DOCKET / VA LOAN IDENTIFICATION NUMBER (LIN )

Applications for direct loans will be placed in a loan docket similar to those for guaranteed loans. A VA LIN will be assigned by the Construction and Valuation section. NADLs will be identified as Type 1 loans.

#### 4.22 APPLICATION MAINTENANCE

a. The Communication Management System (CMS) is a web-based central repository for NADL communications. NADL CMS will document interaction between Loan Guaranty Service employees, the Office of Tribal Government Relations, and Native American Tribes, by creating a central repository for all contact information, housing data, and pertinent documents such as MOUs.

b. The system is accessible through <http://vbacolgy1/nadldb/default.aspx> and is required to be used by all internal VA stakeholders as a central location for vital Tribal data.

c. Required information to be entered:

1. Key tribal contacts,
2. Names and addresses,

3. Phone numbers,
4. Job titles, and
5. Outreach results.

#### 4.23 THIRD-PARTY PROCESSING

A third party may be authorized to process credit packages on VA's behalf. A fee of up to \$300, plus the anticipated cost of a credit report and appraisal, may be assessed to the Veteran for this service. Authorized third parties will be permitted to work with local entities to establish a network of such individuals or groups. Stations should use their own judgment and knowledge of local conditions in determining the acceptability of such entities. There is no formal approval letter for this process and a letter over the Loan Guaranty Officer's signature is sufficient. The letter should include the name and telephone number of a contact at the RLC, a copy of VA's latest credit standards, a copy of this manual, and a notice advising them that VA retains the right to terminate their participation if their work is deemed unsatisfactory. Stations having questions concerning third-party approvals should consult with VA Central Office, the Chief of Loan Policy.

CONTENTS

CHAPTER 5. CREDIT STANDARDS

PARAGRAPH	PAGE
5.01 General.....	5-2
5.02 Denials/Interest Rate Reduction Refinance Loans (IRRRLs)/ Withdrawals.....	5-2
5.03 Income of a Spouse.....	5-3
5.04 Tribal Downpayment / Buydown Assistance.....	5-3

### 5.01 GENERAL

a. The following topics relate to credit underwriting guidelines. Please bear in mind that this section provides guidance on how to treat income, debts and obligations, and credit history. This chapter does not deal with every possible circumstance that will arise; therefore underwriters must apply reasonable judgment and flexibility in administering this important Veteran benefit.

b. Underwriting standards found in [Chapter 4](#) of VA Pamphlet 26-7, *Lender's Handbook*, should be consulted in addition to the specific underwriting requirements and alternative forms of documentation that are outlined in this chapter.

c. These guidelines should be followed whenever possible. Alternative types of credit and income may include, but are not limited to:

1. Credit.

(a) Tribal alternative credit (i.e., tribal liens, tribal rentals).

(b) Tribal Health Services.

(c) Goods and services offered by Tribal organizations (i.e., insurance, home repairs).

(d) Cash purchases (many Veterans may not have checking or savings accounts, but prefer to pay for all purchases in cash).

2. Income. Stations may consider reducing the residual income figure on VA Form [26-6393](#), *Loan Analysis*, by five percent if the applicant has access to goods and services offered by the tribe which results in a savings to the applicant, and if there is a clear indication that he or she will continue to receive the benefits of these services. Stations should also determine whether or not the applicant will be exempt from sales tax, county taxes, and other taxes. For a discussion of other types of income see § 5.03 below.

### 5.02 DENIALS / INTEREST RATE REDUCTION REFINANCE LOANS (IRRRLs) / WITHDRAWALS

a. Disapproval. If, after supervisory review, it is determined that the loan is denied, the Veteran will be notified of the determination and the reasons for this decision. It would be helpful to the Veteran if this denial letter included potential actions the Veteran might take to be able to qualify for a loan at some point in the future.

b. IRRRLs. IRRRLs require minimal documentation and should be processed and underwritten using the same standards as IRRRLs made in the home loan guaranty loan program.

c. Withdrawal. An application may be withdrawn by the Veteran upon his or her written request at any time prior to the actual closing of the loan, but such withdrawal will not relieve the Veteran of an obligation to pay any charges that have been incurred. Stations will acknowledge a Veteran's request for withdrawal by letter. Stations may also cancel cases if it becomes apparent that the loan will not be closed. A locally-developed letter, clearly stating the reasons for cancellation, may be used for this purpose. Any funds received from the Veteran that have not been expended will be refunded.

#### 5.03 INCOME OF A SPOUSE

a. Regional Loan Center (RLC) staff must verify and treat the income of a spouse who will be contractually obligated on the loan the same as the Veteran's income. In the event that the land is located on a trust land which is considered subject to community property laws, information concerning a spouse may be requested and considered in the same manner as for the applicant, even if the spouse will not be contractually obligated on the loan. Such a scenario should be exceedingly rare; RLC staff members are encouraged to seek guidance from either Regional Counsel or Central Office should such a case arise.

b. Special Concerns Regarding Spousal Status on Federal Trust Land.

1. If the spouse is to be on the mortgage, the spouse must be on the title/lease.

2. If the spouse is on the lease and the Veteran wants to obtain a loan without the spouse, the Veteran must have the spouse removed from the lease. If this isn't possible, the underwriter should check with Regional Counsel before rejecting the loan to determine if VA's interest is satisfied.

3. If the Veteran buyer is a non-Native American, the spouse must be on the loan.

#### 5.04 TRIBAL DOWNPAYMENT / BUYDOWN ASSISTANCE

Tribal downpayment or buydown assistance is acceptable. The VA underwriter should request documentation from the tribe regarding the applicable type of assistance. i.e., gift with no repayment, soft second mortgage with a forgivable period of time, promissory note with repayment requirements, etc.

CONTENTS

CHAPTER 6. CONSTRUCTION AND HOME IMPROVEMENT LOANS

PARAGRAPH	PAGE
6.01 Overview.....	6-2
6.02 Basic Methods of Handling Construction Financing.....	6-2
6.03 The Builder.....	6-2
6.04 Documentation Requirements.....	6-2
6.05 Construction Inspections.....	6-3

## 6.01 OVERVIEW

Borrowers may use the proceeds of a Native American Direct Loan (NADL) to build homes that meet their individual needs and are not required to follow any one specific floor plan or design model. Construction loans may range from small to relatively large sums. The time to complete the improvement may extend over a substantial length of time, and the contractor may not be willing to defer payment until the construction is fully completed. If the contractor insists on payment before the project is completed, partial disbursements may be made from the loan proceeds as the improvement progresses. The principles and procedures outlined in this chapter for construction loans may be applied to repair, alteration, or improvement loans. Direct loans for the purchase of an existing dwelling loan may include the cost of repairs, alterations, or improvements, if the cost meets the reasonable value requirements.

## 6.02 BASIC METHODS OF HANDLING CONSTRUCTION FINANCING

a. Turnkey. Stations should encourage turnkey projects whenever possible to minimize risk to the Department of Veterans Affairs (VA). If a Veteran's application has been approved and the builder is willing to complete the construction or improvements prior to disbursement of the loan funds, VA will issue a commitment to, or on behalf of, the Veteran stating the terms and conditions under which it will make the loan to the Veteran upon completion of the proposed construction or improvements.

b. Staged Disbursements. In the case of a construction or home improvement loans in which it has been determined that staged disbursements are necessary, payments will be made in accordance with a stage-payment plan. Payments will be made only upon completion of significant and easily distinguishable items in the construction or improvement contract. The payments are to be computed so that a minimum of ten percent of the construction amount is withheld until the final payment.

## 6.03 THE BUILDER

Borrowers are given maximum flexibility in selecting their contractor, but must use a licensed contractor. The contractor must be licensed in the State or approved by the tribe which has jurisdiction over the land on which the house is being constructed.

## 6.04 DOCUMENTATION REQUIREMENTS

a. Borrowers must submit detailed plans and specifications to VA for review.

1. Plans and specifications for new construction must be developed by an architect and/or the proposed general contractor. The architect must be State-Certified and the plans and specifications must be stamped by an architect or engineer with such certification. The plans must detail exactly what the contractor proposes to do. The plans should show elevations

## Chapter 6: Construction and Home Improvement Loans

and include a floor and plot plan. The specifications must state model types and exact materials or processes to be used.

2. VA may require that the plans and specifications for home improvement be developed by an architect or contractor, depending upon the nature of the work.

3. Any person developing work plans and specifications must possess sufficient expertise to effectively undertake that effort.

b. Site Map and Legal Description of the Property. The borrower is responsible for determining the property's legal description (if one does not exist), at his/her cost, by having a survey of the exterior boundaries of the property performed by a license land surveyor.

c. Plot Plan. The borrower must provide a plot plan showing the location of the structure with setbacks, driveways, water/sewer lines and other relevant details. This plan should include the finished grade elevations at the property corners and building corners. The plan should, where feasible, indicate the required flood elevation.

d. Construction Contract. The borrower and the contractor must have a construction contract that specifies the terms of the construction project. At a minimum, the contract must describe the work to be performed, include the dates when the work will start and be completed, state the total amount to be paid to the contractor, and must detail the construction drawdowns. Construction draws will be made in four to six payments. VA or its agent will release funds only upon satisfactory completion of the construction phase. A ten percent hold back is required, and the final payment will not be disbursed until the construction is completed, and an acceptable final inspection report is received. The full contract amount must never be disbursed before the final inspection report is received or before the loan closes. The contract must also provide for binding arbitration on disputes.

e. Change Orders. Change orders are required when the construction deviates from the approved plans and specifications. If the change order results in a cost increase, the borrower must place additional monies into the construction escrow account for payment of the approved change. If a change order results in a cost decrease, the difference will be applied to prepay the mortgage principal after completion of the work.

#### 6.05 CONSTRUCTION INSPECTIONS

The purpose of VA inspections during construction is to ensure that all onsite and offsite improvements have been acceptably completed according to the plans and specifications, and VA Minimum Property Requirements are met.

a. Qualified State/Local Licensed Inspectors. Only qualified State/local licensed inspectors (e.g., VA inspectors) can perform the construction inspections. The inspector must be a disinterested third party and cannot be personally or financially related to the builder, borrower, or other interested party. The tribal staff may conduct the inspections if they are qualified and acceptable to VA.

- b. Costs of Inspections. Inspectors may charge, per inspection, the amount approved by the VA office for the area.
  
- c. Contractor's Responsibility. When needed, the contractor is responsible for contacting the inspector directly to schedule inspections.
  
- d. Final Inspection. The contractor must schedule a final inspection with the inspector when construction is completed. The inspector will determine whether construction is satisfactorily completed according to the plans and specifications, and must complete the final Compliance Inspection Report. Photos of the exterior and interior work are required. Release of the final escrow draw will depend upon the successful completion of this inspection.
  
- e. Compliance Inspection Report. All compliance inspections will be reported on [VA Form 26-1839](#), *Compliance Inspection Report*.

CONTENTS

CHAPTER 7. CLOSING NATIVE AMERICAN VETERAN DIRECT LOANS

PARAGRAPH	PAGE
7.01 Approval of Loan Closers.....	7-2
7.02 Responsibility of Loan Closer.....	7-2
7.03 Expenses, Fees, and Charges of Loan Closing.....	7-2
7.04 Assignment of, and Request for, Loan Closer.....	7-3
7.05 Preparation and Transmittal of Case to Loan Closer.....	7-3
7.06 Estate of Veteran.....	7-4
7.07 Execution and Recording of Debt and Security Instruments.....	7-4
7.08 Loan Proceeds Request.....	7-5
7.09 Shipment of Papers and Final Report of Loan Closer.....	7-5

### 7.01 APPROVAL OF LOAN CLOSERS

Loan closers may be title or abstract companies, banks, realtors, escrow agents or attorneys. In general, approval will be based on proven competence, experience, and facilities necessary to enable the loan closer to perform the services required. Stations should coordinate with the particular tribal housing office or similar organization to determine if there are qualified individuals within the organization who can serve as loan closers. If a loan closer cannot be found, appropriate station personnel will conduct the loan closing.

### 7.02 RESPONSIBILITY OF LOAN CLOSER

Except as noted in section 7.01 above, loan closers are not agents or employees of the Department of Veterans Affairs (VA). They will be accountable to VA for legal sufficiency and for a prompt and proper closing in accordance with this chapter. The scope of services and requirements for proper loan closing depends upon such variables as the type of transaction to which the loan relates (e.g., construction or purchase loan), condition of title to the affected property, local laws, custom, and other factors.

### 7.03 EXPENSES, FEES, AND CHARGES OF LOAN CLOSING

a. Fees to be Paid by Borrower. The borrower must pay the following loan closing costs to the parties indicated:

1. A funding fee of 1.25 percent of the total loan amount should be deposited in the Native American Direct Loan (NADL) obligation account. (For Interest Rate Reduction Refinance Loans (IRRRLs) the funding fee will be 0.5 percent.) All or part of the funding fee may be paid in cash at loan closing or included in the loan amount without regard to the reasonable value of the property or the maximum loan amount. In computing the fee, any amount included in the loan to enable the borrower to pay such fee will be disregarded.

(a) Such fee will not be collected from a Veteran who is receiving compensation or who, but for the receipt of retirement or active duty pay, would be entitled to receive compensation or from a surviving spouse described in 38 U.S.C. 3710(b)(2).

(b) If the Veteran elects to pay the funding fee from his or her own resources and not finance it in the loan, it will be forwarded to the station with the loan closing documents. In cases where the funding fee is financed, stations will have to advise the Administrative Loan Accounting Center (ALAC) so that the appropriate accounts can be credited. For example, in a case where the purchase price is \$80,000 but the Veteran will be financing the funding fee, the note will reflect \$81,000 (\$80,000 plus \$1,000 funding fee). However, the actual check prepared will be in the amount of \$80,000, the purchase price. The voucher requesting the check should indicate that the Veteran is financing the fee and the amount so ALAC can take proper action.

(c) If a third party is designated to process the loan package on VA's behalf, a processing fee to that third party is not to exceed \$300, plus the cost of any credit report required and appraisal. (For an IRRRL, the fee is \$50 and no credit report or appraisal will normally be required.)

2. Costs or expenses normally paid by a purchaser incident to loan closing including, but not limited to, the following:

(a) Fees of VA's designated appraisers and compliance inspectors (does not apply to an IRRRL);

(b) Recording fees or other charges incident to recordation;

(c) That portion of assessments and other similar items for the current year chargeable to the borrower; and

(d) Hazard insurance premiums if such insurance is available. For IRRRLs, any existing escrow account can be transferred to the new account. If VA is servicing the loan, stations will need to coordinate with the appropriate finance activity to effect the transfer. In the event the existing direct loan is being serviced by a contract servicer, stations should contact Contract Assurance – Portfolio Loans for assistance in establishing the escrow on the new account.

(e) A fee to the loan closer, if closing is conducted by a third party. The fee must not exceed an amount that is reasonable and customary in the area for the service rendered. No service or brokerage fee may be charged against the Veteran borrower by any third party for procuring a direct loan.

b. Arranging for Payment by Borrower. Charges or costs payable by the borrower, except for the funding fee described above, must be paid in cash and may not be paid out of the proceeds of the loan. Accordingly, the loan closer must arrange with the Veteran or other parties concerned for the payment of all expenses, fees, and charges incurred in the closing of the loan. Such arrangements should be made at the earliest practical stage of the loan closing process to avoid future misunderstandings and delay.

#### 7.04 ASSIGNMENT OF, AND REQUEST FOR, LOAN CLOSER

The loan closer should be designated as soon as possible so that this information is available at the time the Veteran is notified of loan approval. Such an approval letter should contain the name and address of the loan closer.

#### 7.05 PREPARATION AND TRANSMITTAL OF CASE TO LOAN CLOSER

A cover letter should be prepared in duplicate and used to transmit the case to the loan closer. The letter should request acknowledgment of receipt of the package. The letter

should also request the loan closer to provide information, as soon as possible, as to the approximate date of loan closing and any other pertinent matters regarding the transaction. In each case, the package forwarded to the loan closer should contain:

- a. Full information of the name and address of the Veteran and any other person who will sign the evidence of debt and/or security instrument;
- b. The legal description of the property that will secure the direct loan and a street address, if available;
- c. The amount and term of the loan, the interest rate, and the amount of monthly payments;
- d. Explanation of the type of loan and the purpose to which it relates;
- e. Approved forms to be completed to evidence debt and security in the transaction (security instruments);
- f. Copies of the lender's Notice of Value and VA Form 26-1880;
- g. Repayment information; and
- h. Any other forms that may be required.

#### 7.06 ESTATE OF VETERAN

In most cases, Veterans obtaining loans under this program will be acquiring a leasehold estate. A common type of leasehold estate on trust lands runs for 25 years with an automatic renewal provision for another 25 years. However, some tribes may grant leases for 50, 65, or 99 years. In no case will a loan be approved in which the lease does not extend for at least 14 years beyond the term of the loan without consulting the Loan Policy office. Loan closers must provide evidence to VA that a proper estate, consistent with the terms of the Memorandum of Understanding (MOU), has been obtained by the Veteran. Typically, this will involve a certification and evidence of recordation.

#### 7.07 EXECUTION AND RECORDING OF DEBT AND SECURITY INSTRUMENTS

The security instruments used in connection with vendee loans will be used with Native American Direct Loans. Minor modifications may be necessary. Each station should have the security instruments reviewed by Regional Counsel prior to their use to determine that they are consistent with local laws and the applicable MOU. The debt and security instruments enclosed in the package are to be executed by all persons necessary to create a valid obligation (debt) of the Veteran and of such other persons as VA directed for that particular case; e.g., spouse, endorser, co-borrower, surety, guarantor, etc. They must also be sufficient to create a valid lien of the required dignity on the proper estate in

the property. In order to avoid incorrect computation of interest accruals, it is important that the loan instruments be dated as of the date of actual settlement. However, in those jurisdictions where it is an established practice to execute and record lien instruments in advance of actual disbursement of loan proceeds, such practice can be pursued if it is determined that it will not impair the validity or dignity of the lien held by VA. In such cases, interest will commence with the actual date of disbursement of loan proceeds in the case of purchase loans, and loan closers will be instructed to advise VA promptly of the date the disbursement was actually effected. The loan closer must present the appropriate documents to the tribal or other authorities for recording. Typically, the documents will be recorded in the area Bureau of Indian Affairs Title Office.

#### 7.08 LOAN PROCEEDS REQUEST

When the case has progressed to a point where the loan closer is satisfied the loan will close, he or she will notify VA. The loan closer should set forth any special problems encountered or questions concerning the closing of the loan and specify what funds will be needed by the Veteran at closing. The loan closer should also specify the date fixed for disbursement of the loan proceeds for delivery to the payees. This information should be received by VA at least 15 days before the scheduled closing date. VA Form 26-1880 will be used for this purpose.

#### 7.09 SHIPMENT OF PAPERS AND FINAL REPORT OF LOAN CLOSER

- a. Within 30-calendar days after loan closing, the loan closer must mail the note or bond for the amount of the loan to VA by registered mail with request for return receipt. the following papers:
- b. All other papers should be mailed to VA when all services required for the formal closing of the loan have been completed. These papers should accompany the loan closer's final accounting and be executed in duplicate. Such accounting should be in letter form and briefly summarize the transaction with respect to monies received and disbursed and note any pertinent facts relative to the transaction.
- c. Upon receipt, the closed-loan documentation should be reviewed to determine if the charges are acceptable, evidence of funding fee payment is present, and that the loan is in compliance with the terms of this directive.
- d. A memorandum will be prepared to Regional Counsel requesting they review the legal instruments to determine if they are sufficient to legally establish the loan. Once the review has been completed and it has been established that no further action is necessary, the security instruments should be placed in safekeeping in accordance with station procedures.

CONTENTS

CHAPTER 8. PROCESSING PAYMENTS/VOUCHERS

PARAGRAPH	PAGE
8.01 Establishing Obligations and Requesting Increases / Decreases to Existing Obligations.....	8-2
8.02 Native American Direct Loan (NADL) Setup Sheet Requirements.....	8-3
8.03 NADL Interest Rate Reduction Refinance Loan (IRRRL) Requirements for New Loan Obligations and Old Loan Pay-offs.....	8-4
8.04 Preparing Vouchers, Generally.....	8-4

8.01 ESTABLISHING OBLIGATIONS AND REQUESTING INCREASES /  
DECREASES TO EXISTING OBLIGATIONS

a. General. Regional Loan Centers (RLCs) must ensure that funds are obligated by the Administrative and Loan Accounting Center (ALAC) for all direct loans. There are two procedures which must be followed for (1) establishing initial obligations and requesting increases/decreases in established obligations and (2) establishing a NADL Setup Sheet. There is an additional procedure required for Interest Rate Reduction Refinancing NADLs. These procedures are outlined below.

b. Information to be Provided to ALAC. Field station personnel must provide a copy of the NADL approval or loan commitment letter to designated ALAC personnel within 1-business day of the letter being issued. The only exception to this 1-business day timeliness standard is NADL approvals/commitment letters issued locally in remote areas where e-mail is unavailable. In such cases, the letters must be provided to ALAC within 1-business day of the field personnel's return to the RLC/Regional Office. These letters should be provided even if the Veteran has not selected the contractor, or if the contractor does not yet have a vendor number.

c. To Establish NADL Obligations. In addition to a copy of the loan commitment letter being sent to the Veteran, the RLCs must provide ALAC with the following information:

1. Veteran's name,
2. Address of subject property,
3. Loan number,
4. Loan amount (itemize break-out for expenses), and

5. The vendor's name, address, and vendor/tax identification number, if available. If this information is not available at the time the loan commitment is issued, the RLC must provide this vendor-related information as it becomes available.

d. To Request NADL Increase / Decrease to Obligated Funds. RLCs must provide ALAC with the following information by e-mail or fax:

1. Loan number,
2. Amount of increase or decrease, and
3. The final total loan amount.

## 8.02 NATIVE AMERICAN DIRECT LOAN (NADL) SETUP SHEET REQUIREMENTS

ALAC is responsible for boarding all NADL loans with the service provider. Once the NADL has closed, the RLC must send the following documents to ALAC:

a. NADL Originations.

1. Setup Sheet. This document must include the following:

- (a) Indication of loan type (Direct),
  - (b) The new VA loan number, homeowner(s) name(s), and all other pertinent data associated with the homeowner(s),
  - (c) The new principal balance and escrow balance,
  - (d) The fund and cohort year, and
  - (e) The preparer's signature and date.
2. Closing Document (HUD-1) which includes the new VA loan number.
3. VA Form 26-8497a, Request for Verification of Deposit, or the Unapplied Deposit Detail Table (UDDT) screen.
4. Obligation number, to be retrieved by the finance activity.

b. Interest Rate Reduction Refinancing NADLs.

1. Setup Sheet. This document must include the following:

- (a) Indication of loan type (Direct/IRRRL),
  - (b) The new VA loan number, homeowner(s) name(s), and all other pertinent data associated with the homeowner(s), and
  - (c) The previous VA loan and servicer provider numbers.
2. HUD-1, which includes the new VA loan number.
3. VA form 26-8497a, Request for Verification of Deposit, or the UDDT screen.
4. Obligation number, to be retrieved by the finance activity.

8.03 NADL INTEREST RATE REDUCTION REFINANCE LOAN (IRRRL)  
REQUIREMENTS FOR NEW LOAN OBLIGATIONS AND OLD LOAN PAY-OFFS

The RLC will e-mail the documents listed below to designated ALAC personnel. All IRRRL requests must be forwarded to ALAC. ALAC will process payments to the service providers and to vendors, as needed.

- a. New NADL. All new NADL requests must include:
  1. Veteran's name,
  2. Property address,
  3. New loan number,
  4. Cohort year of new loan,
  5. Loan amount (itemize break out of expenses),
  6. Old loan number,
  7. Cohort year of original loan,
  8. Payoff amount, and
  9. Payoff date.
- b. Request IRRRL Old Loan Payoff. All requests must include:
  1. Veteran's name,
  2. New loan number,
  3. Old loan number,
  4. Payoff amount,
  5. HUD-1 for new loan, and
  6. Invoices, if any, from vendor(s) (example: title company).

8.04 PREPARING VOUCHERS, GENERALLY

a. General. Vouchers for refund of fees will be prepared on Standard Form (SF) 1047, Public Voucher for Refunds, and vouchers for payment of travel expenses incurred by a

salaries appraiser or compliance inspector will be claimed on SF 1012, Travel Voucher. All other vouchers will be prepared on SF 1034, Public Voucher for Purchases and Services Other Than Personal. Except for vouchers covering disbursement of loan proceeds, a voucher may cover disbursements in connection with more than one application fee or more than one loan, provided the same payee is involved. In such cases, the voucher will identify each application and loan number and the amount chargeable. In every case, the name of the Veteran and the loan number must be shown on the voucher. ALAC will take appropriate action to effect adjustment between appropriations and funds. When preparing vouchers or indicating disposition of any funds received, it is important to note that these receipts and expenditures are in connection with the NADL program.

b. Vouchers For Loan Disbursement. All vouchers for loan disbursements will be drawn to the order of the Veteran-borrower or the joint order of the Veteran-borrower and the payee or payees named on the SF 1034. The designation of the loan closer as joint payee with the Veteran-borrower will be optional. Such vouchers will direct that checks be mailed to the loan closer. Vouchers will be completed to show the following data under "Articles or Services":

1. Name of Veteran-borrower,
2. Purpose of payment,
3. Location of property or proposed construction,
4. Loan number and date of approval,
5. Amount of approved loan,
6. Signatory, and
7. Statement: "The amount to be paid per this voucher is or will be supported by properly executed documents and papers issued in relation to the particular loan."

c. Vouchers for Final Disbursements of Loan Proceeds. The voucher covering the final disbursement of the loan will be prominently identified as such. No supporting documents will be attached to such vouchers. Such vouchers will be certified for payment by the RLC Finance Officer even though he or she has not received notice of the transfer of the funds. Vouchers will be submitted to ALAC for processing. ALAC will verify vouchers for loan number and vendor information, and will also ensure that sufficient funds are available on the obligation before processing. Disbursement vouchers will post to FMS and update standard general ledger accounts.

d. Vouchers for Loan Closing Disbursements. Vouchers for disbursing the loan will be prepared on the basis of a schedule which will ensure the receipt of the checks by the loan closer not less than 1-business day prior to the date set for the closing of the loan.

To ensure timely payment, vouchers should be sent to Finance no less than 10-business days prior to loan closing.

e. Distribution of Vouchers. Vouchers will be distributed in the following manner:

1. The original voucher will be forwarded to the Finance Officer.
2. One copy will be filed in the RLC with jurisdiction's direct loan docket. In the case of vouchers covering payment of items chargeable to more than one application fee or loan, a copy will be filed in the docket pertaining to one application or loan and an appropriate cross-reference filed in the other pertinent dockets.

CONTENTS

CHAPTER 9. CLOSING NATIVE AMERICAN DIRECT LOANS

PARAGRAPH	PAGE
9.01 Approval of Loan Closers.....	9-2
9.02 New Construction.....	9-2
9.03 Contractor/Builder.....	9-2
9.04 Construction Process.....	9-3
9.05 Inspections.....	9-5
9.06 Unforeseen Circumstances During Construction.....	9-6

## 9.01 APPROVAL OF LOAN CLOSERS

The information in this chapter describes the procedure used when working with Native American Veterans applying for loans to build or remodel a home on trust land. We typically see two types of construction loans: new construction and remodel/rehabilitation. The application processing and underwriting are identical for both loan types.

## 9.02 NEW CONSTRUCTION

The predominant types of ‘new construction’ on trust land usually fall into the following two categories:

- a. Conventional Construction. This type of construction is often referred to as “stick built,” and identifies a home being built from the ground up using the conventional construction process at the building site.
- b. Manufactured and Modular Homes. A manufactured or modular home is built on a permanent frame and is made to be moved in one or more sections. It must be built to be lived in year round by a single family and there must be permanent eating, cooking, sleeping and sanitary facilities. A single-wide manufactured (mobile) home must be at least 10 feet wide, with a minimum floor area of 400 square feet; double-wide units must be at least 20 feet wide, with at least 700 square feet of floor space. (Note: A modular home is not the same as a manufactured home. Although the parts or sections of a modular home are built in the factory and then moved to the building site, the home must still be put up and completed at the building site. For purposes of this chapter, the term ‘manufactured home’ will also apply to modular construction.)

## 9.03 CONTRACTOR / BUILDER

- a. Selection Process. Whether new construction or remodeling, the process for selecting contractors remains the same. All contractors and subcontractors must be licensed by the appropriate licensing authority in that locality, and acceptable to both the tribe and the Department of Veterans Affairs (VA). Tribal preference must be a consideration for approval of selected contractors and vendors.
- b. Bondable Contractors. Every effort should be made to use bondable contractors for new “stick built” construction and major remodel/rehabilitation loans. If possible, the contractor should also provide a performance bond to guaranty completion of the project.
- c. Veteran Responsibility. It is ultimately the Veteran’s responsibility to select qualified contractors and vendors of his or her choice. All contractors and vendors must submit evidence of qualification and licensing to VA for review and approval.
- d. Bonding Waiver. If a Veteran chooses a builder that is not licensed, or will not agree to obtain a performance bond, VA may consider waiving these requirements on a case-by-case basis. Waiver requests must be reviewed by the Loan Guaranty Officer (LGO) and will be

based on the overall circumstances surrounding the project. When making the decision to grant a waiver, the LGO should consider the following factors:

1. Tribal approval (controlling authority for Tribal housing stock),
2. Builders with Tribal preference that have performed similar work,
3. Verify to the extent possible that they have no mechanics or supplier liens pending,
4. Documented references (including references from suppliers) and verifiable experience,
5. No negative experiences reported to Better Business Bureau Tribal Housing Authority, or other similar entity,
6. Credit checks (check Dun & Bradstreet for incorporated builders or run credit checks on builders not incorporated), and
7. Debarment sanctions.

#### 9.04 CONSTRUCTION PROCESS

a. Procuring Bids from Contractors. When bids are procured, it is ideal to have at least three bids for each job, or from each vendor. In some parts of the country this may be extremely difficult due to the scarcity of qualified contractors. In most cases, the borrower has already selected some, or all of the contractors. Unless we suspect something is amiss, or the party they've chosen is not a licensed contractor, VA should accept their choice.

b. Payment Structure. In some cases, VA may need to negotiate the payment structure. For example, perhaps the contract from the manufactured home dealer requires a 30 percent downpayment with balance due when the home is delivered. VA may renegotiate on behalf of the Veteran, and offer a 20 percent downpayment with 60 percent due at time of delivery and the balance after the final property inspection takes place.

c. Participation by VA. There can be any number of situations that may require participation by VA to protect the interest of the Veteran and/or the government. Individual judgment, and local policy, will identify these situations as they arise and identify the most appropriate course of action.

d. Verifying bids. VA will contact the contractors/vendors to re-verify the bid amounts, as well as the work that is to be completed. They will verify that all contractors are properly licensed as required by the appropriate governing authority.

1. Bid Acceptance. A "Bid Acceptance Letter" will be sent to each contractor/vendor as formal notification that their bid has been accepted and the Veteran's loan has been approved. It also outlines the cost of the project and specifies the work to be completed. This letter is

## Chapter 9: Closing Construction Native American Direct Loans

accompanied by the contractor's original bid proposal. VA will work with the contractor/vendor to establish a timeframe for the completion of the work.

2. Plans and Specifications. After the approved bids are in place for the project, it is necessary to have the plans and specifications submitted for the proposed construction, approved by a Construction and Valuation (C&V) representative. C&V personnel are the subject experts and they will work out the details of the materials and construction processes with the contractors. Please note that it may be necessary to obtain C&V approval on individual items as they are received instead of obtaining approval for the entire project at one time. If there are no issues, the C&V representative will return the file to the Loan Specialist. Upon receiving approval from C&V, the Loan Specialist will work toward final loan approval.

e. Construction Loan Closing. Closing a construction loan is done in two stages. The Veteran will initially sign a Real Estate Construction Loan Agreement and a Construction Loan Promissory Note. Signing these documents establishes a legal obligation between the Veteran and VA. It also commits the Veteran's entitlement to the loan. The Real Estate Construction Loan Agreement allows VA, through the Administrative and Loan Accounting Center, to commit and disburse funds for the construction project prior to the final mortgage loan closing.

f. Release of Funds (Draws).

1. Shipping and Material Costs. With prior VA approval, the lender may make one initial draw for building components to be shipped and stored on site. A progress payment may be made for up to 90 percent of the invoiced building materials value, including shipping costs. VA may disburse payments for building materials or components to be shipped and stored on site, provided satisfactory evidence that:

- (a) The borrower has acquired title to the material;
- (b) The material is stored and protected from weather in a bonded-storage yard, or other suitable place as may be approved by VA;
- (c) The material is insured to cover its full value; and
- (d) The material will be used for this contract.

2. Acknowledgement. VA will require an acknowledgement of payment and release of liens (Lien Waiver) from the contractor, all subcontractors, and suppliers. As security, VA may make a first deed of trust on the property. Contractors are responsible for any materials lost while stored at the building site and contractors must be insured for such losses.

3. Number of Draws. No more than one initial, and four construction, draws should be made. However, if VA gives approval of a longer construction period, additional draws are permitted. The schedule for draws should be negotiated between the borrower, contractor, and VA at the time the construction period is established or extended. VA, or its agent, will release funds only upon satisfactory completion of the proposed construction, pursuant to the Loan Agreement and Draw Request. VA may not release funds for any work until they have

received a completed VA Form 26-1839, *Compliance Inspection Report*, certifying that the work has been completed in compliance with the accepted plans, specifications, and architectural exhibits.

(a) First Construction Draw. Released upon completion of the foundation, footings or basement.

(b) Intermediate Draws. Additional construction draw requests can occur only for each stage of construction as shown on the initial bid form. As an example:

(1) Second Draw. Upon completion of the framing.

(2) Third Draw. Once interior construction is closed (sheetrock is installed and all electrical and plumbing work has been inspected).

(3) Fourth Draw (Final Payment). After a final inspection has been satisfactorily completed and the property is acceptable for occupancy.

4. Written Approval. VA is responsible for obtaining written approval from the borrower before each draw payment is provided to the builder. At VA's option, a holdback will not be required when a subcontractor is 100 percent complete with a work item, the work completed is acceptable to the inspector, and the subcontractor provides the necessary waivers.

g. Compliance. Improvements must be satisfactorily completed in compliance with industry standards, local practices, and to the satisfaction of the inspector. If acceptable, the inspector completes a Compliance Inspection Report, and sends it to VA for review.

## 9.05 INSPECTIONS

VA may determine that additional compliance inspections are required throughout the construction period to ensure that the work is progressing in a satisfactory manner. In no case will disbursements be made until VA is in receipt of an acceptable compliance inspection, signed authorization from the Veteran, and a signed Lien Waiver from the contractor/vendor.

a. Inspector Qualifications. All construction inspections must be performed by an inspector licensed by the appropriate licensing authority in that locality, and acceptable to both the Tribe and VA. The inspector must be a disinterested third party and cannot be personally or financially related to the builder, borrower, or other interested party, as approved by the lender. VA staff may do the construction inspections if they are qualified and acceptable to the Tribe and the borrower. VA retains the right to reject inspectors based on poor quality of work. Inspector fees may not exceed what is reasonable and customary for the area per draw, and may not exceed the maximum number of draw requests.

b. Final Inspection. This step will be approved when all work has been satisfactorily completed in compliance with industry standards, local practices, and to the satisfaction of the fee inspector. The borrower must provide notification to VA requesting final inspection and

indicating that the work is satisfactorily completed. Upon receipt of the borrower's notification, VA will schedule an inspection. The inspector will visit the site, conduct the inspection to determine whether the construction has been completed according to the accepted exhibits, and complete the Compliance Inspection Report marked "Final." The inspector will return the report to VA.

1. Photographs. The final inspection report must be accompanied with photos representative of the work completed. Exterior photos showing site work, all sides of the dwelling, and the interior, are required.

2. Escrow Funds. If the final inspection discloses any minor items that do not affect health and safety, or livability and occupancy, of the dwelling, and circumstances such as weather conditions prevent timely completion, VA will retain escrow account funds equal to one and one-half times the amount estimated to complete the work. Completion of this work is normally limited to 90 days and may be verified by videotape, photos, or an additional compliance inspection, if required by VA.

#### 9.06 UNFORESEEN CIRCUMSTANCE DURING CONSTRUCTION

Be aware that in unusual circumstances, unforeseen problems during construction can cause the cost to complete the home to rise above the borrower's ability to pay. If the borrower cannot obtain the needed cash to complete construction (i.e., from other sources, gifts from the tribe or family members, sale of personal property), Central Office should be contacted for further instructions.

CONTENTS

CHAPTER 10. OTHER PROGRAMS

PARAGRAPH	PAGE
10.01 How to Use this Chapter.....	10-2
10.02 Specially Adapted Housing (SAH) Grants and Native American Direct Loan (NADL) Benefits.....	10-2
10.03 Downpayment (or Homeowner) Assistance Programs.....	10-2

### 10.01 HOW TO USE THIS CHAPTER

This chapter addresses some of the most common situations in which a Veteran may combine his or her benefit under the Native American Direct Loan (NADL) Program with benefits or assistance from other Government or non-profit programs.

### 10.02 SPECIALLY ADAPTED HOUSING (SAH) GRANTS AND NADL BENEFITS

a. SAH grants are grants available from the Department of Veterans Affairs (VA), available to Veterans with certain service-connected disabilities to help build a new specially adapted home, adapt a home they already own, or buy a home and modify it to meet their disability-related requirements.

b. SAH and NADL are separate benefits. SAH benefits may be used in conjunction with other loan programs (such as those available from the United States Departments of Housing and Urban Development or Agriculture). However, when a Veteran combines SAH and NADL benefits to purchase or construct a home, SAH and NADL program personnel are encouraged to work together to ensure that the Veteran receives the maximum benefit from his or her available funds.

c. A Veteran may be eligible for both SAH and a NADL, yet only apply for one of the two benefits. When VA personnel believe that a NADL applicant may be eligible for SAH benefits, they should consult with the local SAH Agent. Similarly, when SAH Agents receive an application from a Veteran proposing to construct or modify a home on trust land, they are encouraged to consult with local NADL personnel.

d. Veterans who apply for SAH and NADL benefits as part of the same purchase or construction transaction must meet the requirements of both programs. However, because each Tribal government has its own property laws, Veterans residing on trust land have more flexibility than other SAH applicants to satisfy the requirement that they possess a sufficient interest in the property. VA personnel are reminded that, when an SAH grant is used on Federal trust land, a leasehold estate that meets the terms and conditions of the NADL program is sufficient for both NADL and SAH.

### 10.03 DOWNPAYMENT (OR HOMEOWNER) ASSISTANCE PROGRAMS

a. Downpayment Assistance Program. A downpayment assistance program provides money to a borrower for the specific purpose of assisting him or her in making a downpayment. Downpayment assistance funds are given either with no expectation of repayment, or as a subordinate lien that may be forgiven after the buyer occupies the property for a specified period of time.

b. Limitations on the Use of Downpayment/Homeowner Assistance Programs. Downpayment or Homeowner Assistance Programs that are sponsored or funded by Tribal governments, State and/or local governments, and Federal Agencies are acceptable for use in conjunction with a NADL. Downpayment and Homeowner Assistance Programs which are not

December 2, 2014

VA Manual 26-13  
Chapter 10: Other Programs

sponsored or funded by a governmental entity are not acceptable for use in conjunction with a NADL.

CONTENTS

CHAPTER 11. OUTREACH

PARAGRAPH	PAGE
11.01 Statutory Requirements.....	11-2
11.02 Required Activities.....	11-2
11.03 Establishing Outreach Goals.....	11-2
11.04 Outreach Coordination.....	11-2

### 11.01 STATUTORY REQUIREMENTS

Title 38 U.S. Code § 3762 requires that VA shall conduct an outreach program to inform and educate Native American Veterans of the availability of direct housing loans for Native American Veterans who live on trust lands.

### 11.02 REQUIRED ACTIVITIES

The law requires that VA personnel:

a. Attend conferences and conventions in order to work with the following organizations to provide information and training to tribal organizations and Native American Veterans regarding the availability of housing benefits and in assisting such organizations and Veterans with respect to such housing benefits:

1. The National Congress of American Indians,
2. The National American Indian Housing Council, and
3. The Department of Hawaiian Homelands.

b. Produce and disseminate information to tribal governments, tribal Veterans Service Organizations, and tribal organizations regarding the availability of such benefits.

1. Assist tribal organizations and Native American Veterans with respect to such benefits.
2. Outstation loan guarantee specialists in tribal facilities on a part-time basis, if requested by the tribal government.

### 11.03 OUTREACH GOALS

In order to meet the statutory requirements outlined above, VA Central Office has determined that each Regional Loan Center (RLC) with Federal Trust land within their jurisdiction is expected to achieve the following goals on an annual basis:

a. Must make contact with every federally recognized tribe in their jurisdiction, as well as related housing entities, at least once per year, and document content of discussion and contact information in the Contact Management System.

b. Must attend 3 outreach events each year, in person, choosing such events to maximize the exposure of the program.

### 11.04 OUTREACH COORDINATION

In order to reach their annual outreach goals, RLC staff should coordinate outreach efforts with partners within VA, with other Federal Agencies, and with Tribal Representatives.

a. Coordination within VA. There are a number of offices within VA which are charged with conducting outreach to tribal Veterans. These include the following:

1. The Office of Tribal Government Relations, within the Office of Intergovernmental Relations, has staff located across the country, with corresponding jurisdiction over tribal areas in the States listed below. This office's website is:

<http://www.va.gov/TRIBALGOVERNMENT/index.asp>.

2. Eastern Region. Eastern Region is responsible for outreach with Tribes in the following States: Alabama, Arkansas, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland Massachusetts, Mississippi, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Virginia, Vermont, and West Virginia.

3. Central Region. Central Region is responsible for outreach with Tribes in the following States: Iowa, Kansas, Michigan, Minnesota, Montana, Nebraska, North Dakota, South Dakota, Wisconsin, and Wyoming.

4. South Western Region. South Western Region is responsible for outreach with Tribes in the following States: Arizona, Colorado, New Mexico, Oklahoma, Texas, and Utah)

5. Western Region. Western Region is responsible for outreach with Tribes in the following States: Alaska, California, Idaho, Nevada, Oregon, and Washington.

6. VHA Office of Rural Health (<http://www.ruralhealth.va.gov/>)

7. VA Center for Minority Veterans (<http://www.va.gov/centerforminorityveterans/>)

b. Coordination with Other Federal Agencies. There are a number of Federal Agencies also charged with administering housing programs for Native Americans. Among these are the Department of Housing and Urban Development Office of Native American Programs, the Department of Agriculture Rural Housing Service, and the Department of the Interior Bureau of Indian Affairs. Regional Offices are encouraged to work with these agencies' field offices.

c. Coordination with Tribal Representatives.

1. Tribal Veterans Representatives (TVRs). The most direct method to conduct outreach is through the TVR program. This program requires permission from the individual tribe to allow the TVR an avenue to work with fellow Veterans. They receive training on VA benefits from The VA Learning University and Veterans Health Administration Employee Education Service, in conjunction with local VA staff and subject matter experts. Beyond that, they act as the liaison between various tribal entities and the VA staff. They are trusted by the tribe, the Veteran and the Veteran's family.

2. Tribal Housing Offices. These Offices are part of the tribal Government and are tasked with working with all tribal members in finding and placing them into affordable and quality living arrangements. They need to be experts in all sources of funding for tribal housing,

including grants. Often times, Veterans come to them and the TVRs for assistance. They might be especially useful in assisting VA negotiate the required Memorandums of Understanding.