



# **VA GUARANTEED LOAN PROGRAM**

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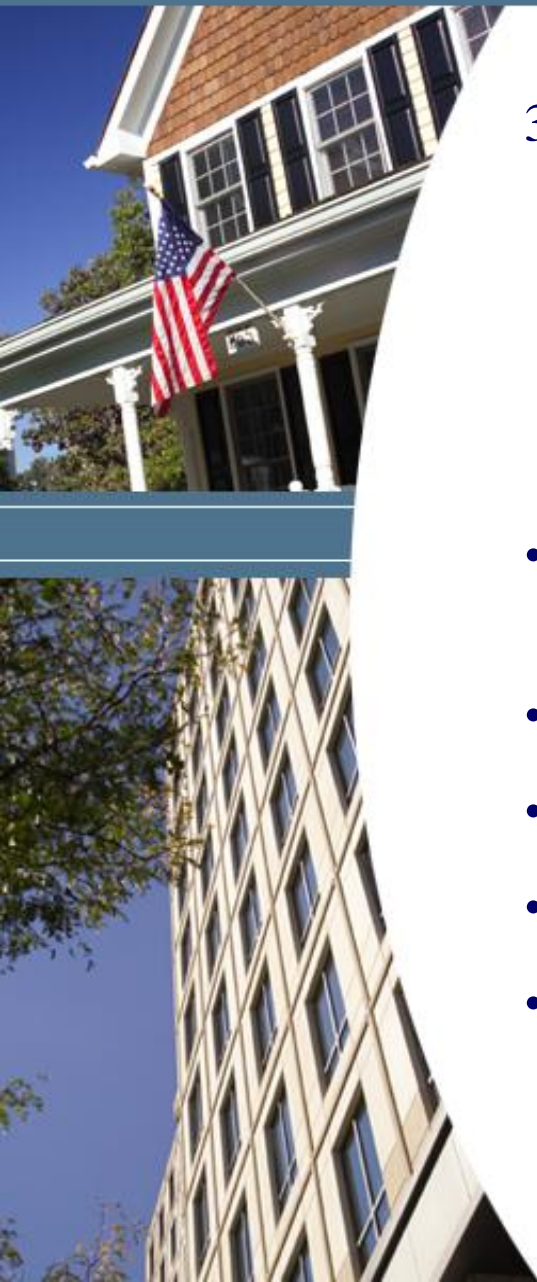
## A. What Does a VA Guaranty Mean to the Lender?

1. Protection Against Loss. VA guarantees a portion of the loan, identified on the VA Loan Guaranty Certificate (LGC) by percentage and dollar amount. If a loss ultimately occurs on the loan, VA will reimburse the loan holder for all or part of such loss,
  - Limited by the stated percentage and dollar amount of the guaranty
  - Limited by any VA maximums for reasonable and customary foreclosure expenses, and
  - Subject to the lender's compliance with applicable law and regulations.

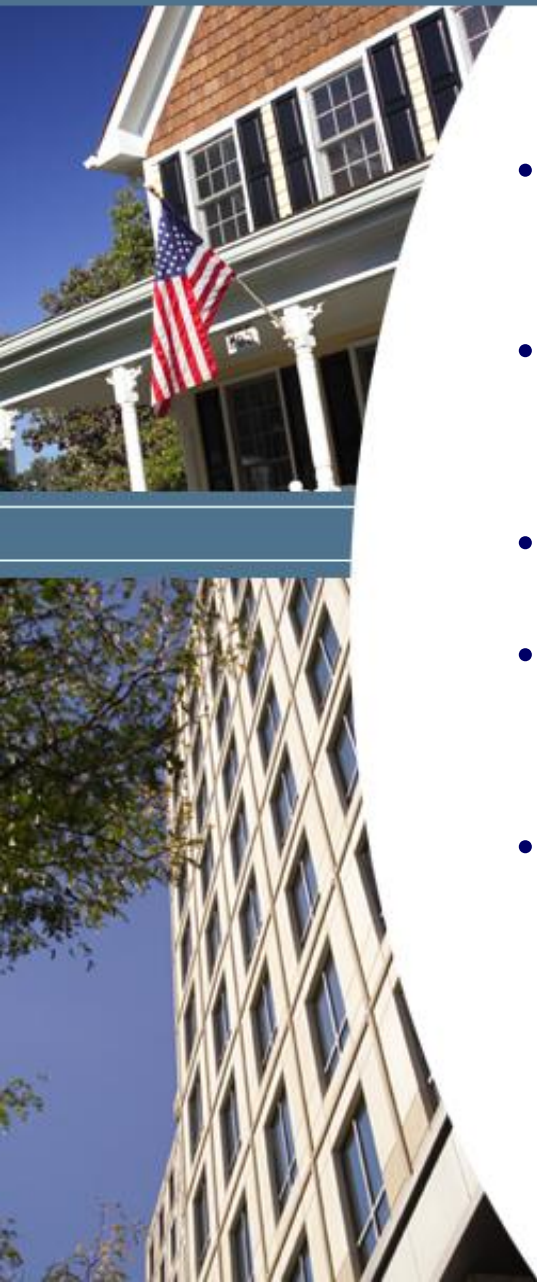
## 2. Total Loss of Guaranty in Certain Circumstances.

Willful fraud or material misrepresentation by the lender or holder, or by an agent of either, will relieve VA of liability for payment of any claim on the loan. VA also has no liability in the case of

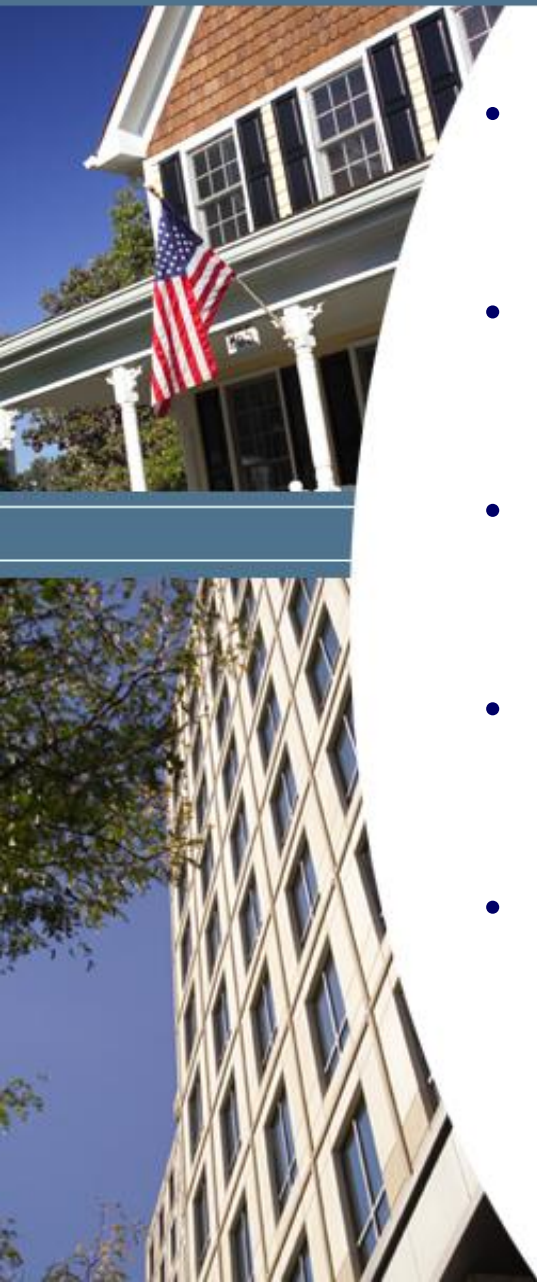
- Forgery on the note, mortgage, loan application or other loan documents, or
- A Certification of Eligibility or discharge papers that are counterfeited, falsified or not issued by Government.

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3. Partial Loss of Guaranty. A holder of a VA loan who fails to comply with applicable law and regulations may receive only partial payment of a claim. Examples of noncompliance which may lead to a partial loss of the guaranty include:
- Failure to obtain and retain the required lien on the property to secure the loan;
  - Failure to include the power to substitute trustees;
  - Failure to procure and maintain insurance coverage;
  - Failure to advise VA as to default;
  - Failure to provide notice of intention to begin foreclosure;

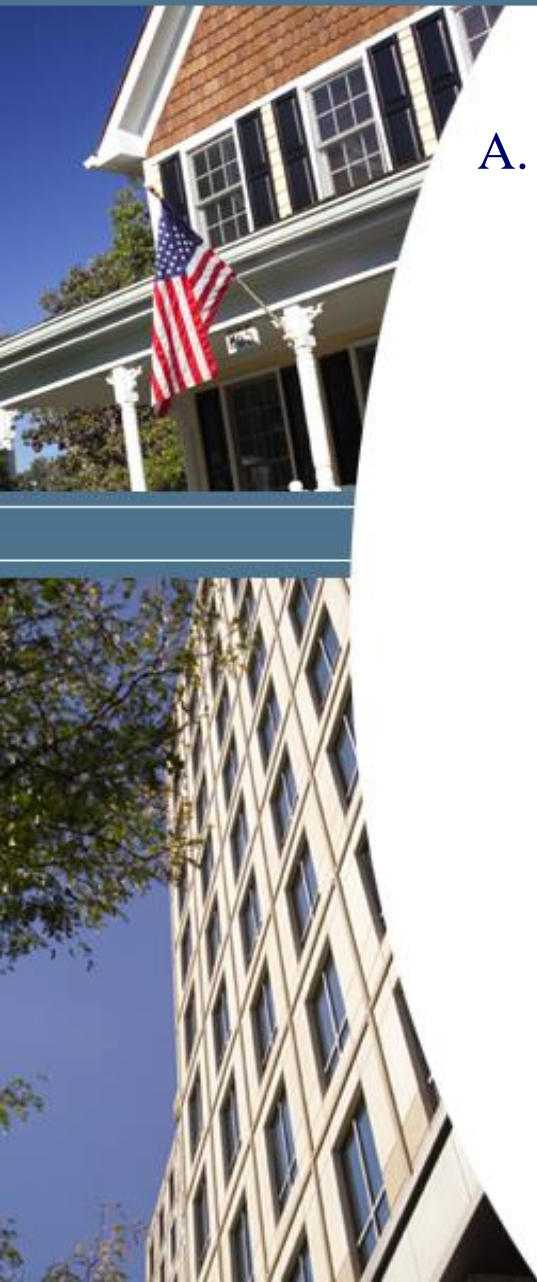
# THE VA GUARANTY

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- Failure to provide notice to VA in any suit or action, or notice of sale;
  - Improper release, conveyance, substitution or exchange of security;
  - Lack of legal capacity of a party to the transaction;
  - Failure to assure that escrowed funds are expended in accordance with the agreement; and
  - Failure to take into consideration limitations upon the quality of the estate or property.


# ELIGIBLE LOANS USES

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- To purchase or construct a home to be owned and occupied by the veteran.
  - To refinance an existing VA guaranteed loan for the purpose of lowering the interest rate.
  - To refinance an existing mortgage loan secured by a lien of record on a home owned and occupied by the veteran.
  - To simultaneously purchase and improve a home to be occupied by the veteran.
  - To improve a home owned and occupied by the veteran by adding a solar heating or solar heating and cooling system, or through the application of a residential energy conservation measure.

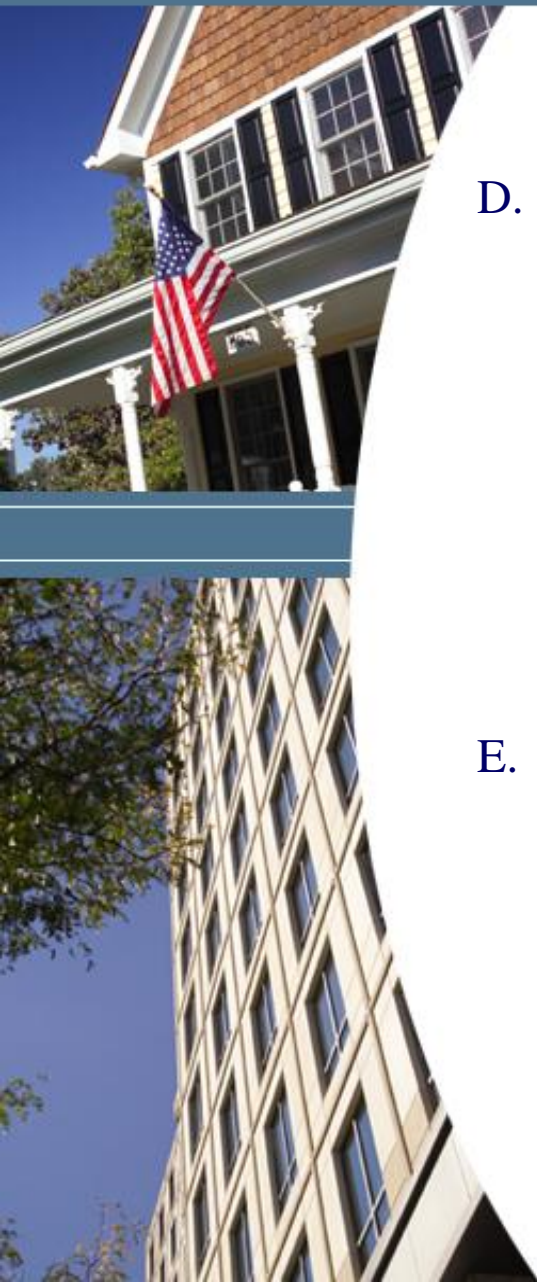
# GENERAL RULES


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- A. VA has no specified dollar amount for the maximum loan it will guaranty. The maximum loan amount is the reasonable value of the property indicated on the Notice of Value (appraisal) and the lender's needs in terms of secondary market requirements.
1. Lenders who sell their VA loans in the secondary market must limit the size of those loans to the maximum loan amounts prescribed by Ginnie Mae or whatever conduit they use to sell the loans.
  2. VA limits the amount of the loan to the reasonable value of the property shown on the Notice of Value, plus the cost of energy efficiency improvements up to \$6,000, plus the VA funding fee, with some exceptions for refinance loans and Graduated Payment Mortgages.

# GENERAL RULES

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- B. No down payment is required by the VA unless the purchase price exceeds the reasonable value of the property, or the loan is a Graduated Payment Mortgage. The lender may, however, require a down payment if necessary to meet secondary market requirements.
  
  - C. The Amount of the VA Guaranty is the lesser of the veteran's available entitlement as indicated on the Certificate of Eligibility (which can be increased up to an amount equal to 25% of the Freddie Mac single family conventional conforming loan limit for certain loans over \$144,000), or the maximum potential guaranty from the maximum guaranty table (highest possible guaranty is 25% of the Freddie Mac single family conventional conforming limit).

# GENERAL RULES

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- D. The law requires a veteran obtaining a VA guaranteed loan to certify that he or she intends to personally occupy the property as his/her home. As of the date of certification, the veteran must either personally live in the property as his/her home, or intend, upon completion of the loan closing and acquisition of the dwelling, to personally move into the property and use it as his/her home within a reasonable time (defined as 60 days after the loan closing).
- E. Interest rates and discount points are negotiated between the lender and the veteran. Points must be reasonable and may not be financed in the loan except with Interest Rate Reduction Refinance Loans (IRRRLs). Discount points may be rolled into the loan only in the case of a refinance loan, and is subject to some limitations.

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- F. Real property securing a VA guaranteed loan must be located in the United States, its territories or possessions (Puerto Rico, Guam, Virgin Islands, American Samoa and the Northern Mariana Islands).
  - G. The veteran must pay a funding fee to help defray costs of the VA home loan program. The funding fee may be financed in the loan.
  - H. Closing costs payable by the veteran are limited by regulation to a specific list of items plus a 1% flat charge by the lender. Closing costs cannot be financed in the loan except on certain refinancing loans. Any other party, including the seller, may pay any closing costs on behalf of the veteran.

## WHO CAN MAKE VA LOANS?

- 1. Prior approval lenders --- VA does the underwriting**
- 2. Supervised Lenders (i.e., banks, credit unions, insurance companies)**
- 3. VA Approved Nonsupervised Lenders with Automatic Authority (analogous to HUD Direct Endorsement authority)**
- 4. VA recognized Agents of a VA Automatic Lender**

## 1. VA underwriting standards are flexible.

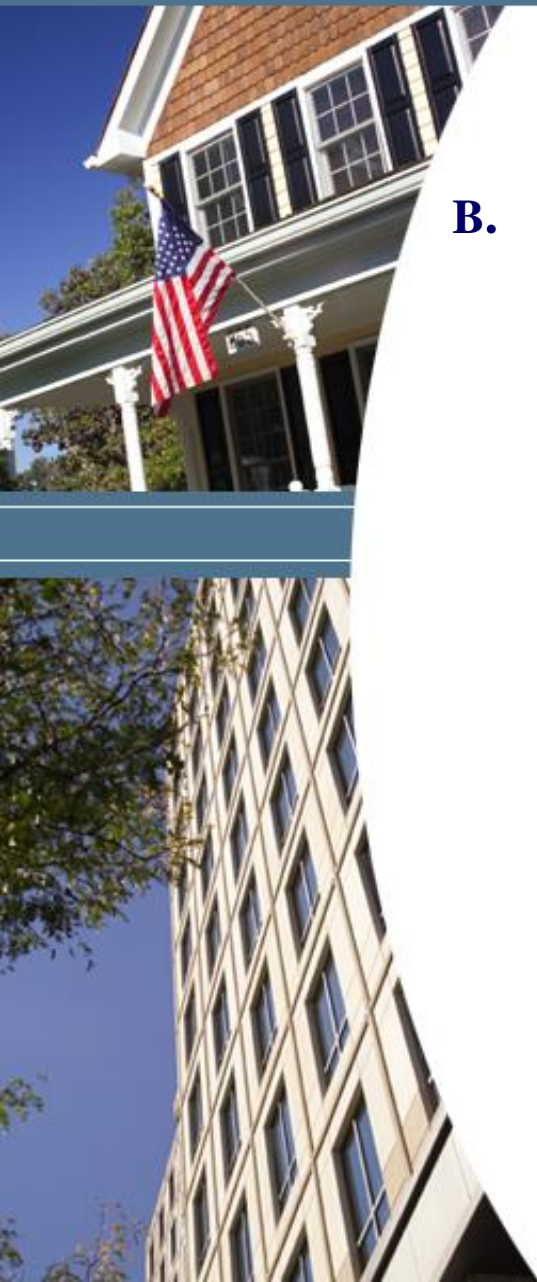
The veteran must have:

- Satisfactory credit and
- Satisfactory repayment ability, including
  - ✓ Stable Income
  - ✓ Residual Income (net effective income minus monthly shelter expense) in accordance with regional tables, and
  - ✓ Acceptable ratio of total month debt payments to gross monthly income (a ratio in excess of 41% requires closer scrutiny and compensating factors).

## NEW REGULATIONS

**A.** VA recently completed the largest revision of the VA Loan Guaranty regulations in the history of the VA Home Loan Program. To move the Home Loan Program and its participants into the new regulatory environment, the VA is transitioning servicers in a phased approach over an approximately 11-month timeframe. As VA brings servicers into the new regulatory environment, they are subject to the new regulations, which are found at the new 4800 series in 38 CFR part 36. All servicers not yet brought into the new regulatory environment are governed by the existing regulations in 38 CFR 36.4300 through 36.4393.

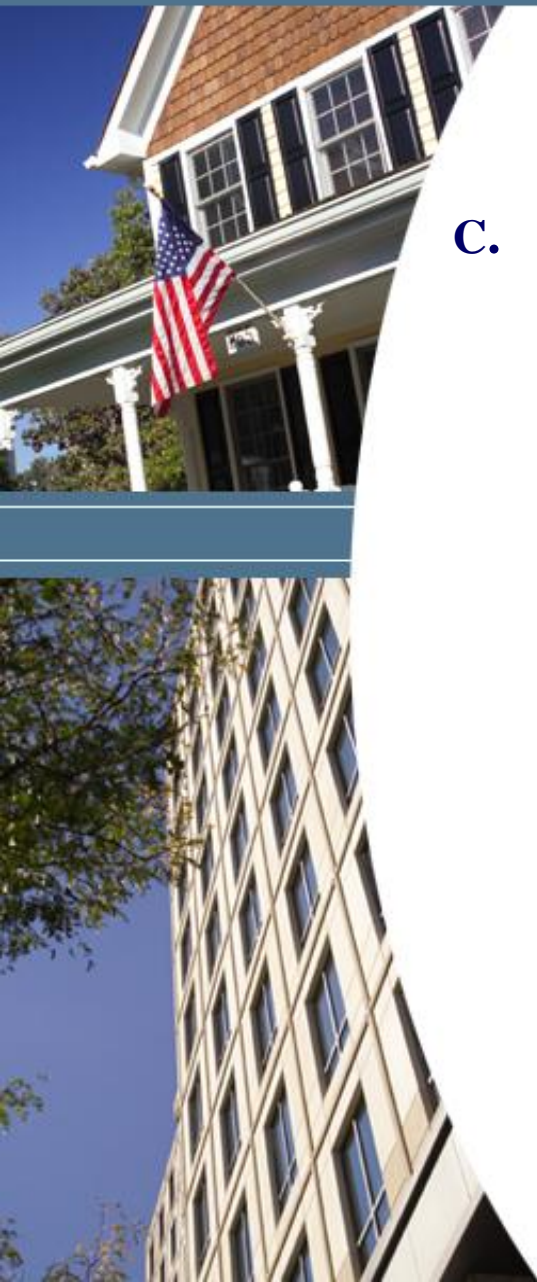
## NEW REGULATIONS

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- B.** New VA Loan Electronic Reporting Interface (VALERI) system. The VA has also established a new web-based system, called the VA Loan Electronic Reporting Interface (VALERI) system, to support VA employees and loan servicers operating in the new regulatory environment. VALERI is accessed through the VA's Servicer Web Portal.

1. VALERI Provides:

- ✓ Paperless reporting;
- ✓ Incentives paid for loss mitigation triggered by electronic reporting.
- ✓ Online access to payment and status information;
- ✓ Streamlined and standardized processes;
- ✓ Automatic payment of routine claims; and
- ✓ Better tools to work with VA.

## NEW REGULATIONS

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- C. VA has also published a new Servicing Guide to provide procedural and VALERI system guidance to VA loan servicers.
1. The new Servicing Guide spells out, in significantly greater detail, the roles and responsibilities for VA, VA Loan Administration staff, and the loan servicer.
  2. Under its redesigned environment, the VA has delegated more program responsibilities to the loan servicer, increasing the servicer's decision-making authority in several areas, including the following (these are detailed in the new Servicing Guide):

## NEW REGULATIONS

- ✓ Delinquent loan servicing
- ✓ Loss mitigation activities
- ✓ Appraisal review and determination of fair market value
- ✓ Determination of net value
- ✓ Determination of bid type and bid amount at foreclosure
- ✓ Loan assumptions and releases of liability; and
- ✓ Partial releases of security
- ✓ It is important to note that servicers who do not have VA Automatic Authority cannot process releases of liability. Also, authority to review appraisals and issue an NOV on a loan requires VA Automatic Authority and participation in the Servicer Appraisal Processing Program (SAPP).

## NEW REGULATIONS


### D. General Loan Servicing

Lenders are required to service VA Loans in conformity with procedures customarily used by prudent lenders in servicing portfolios of similar conventional and government loans, and in compliance with all applicable local, State and Federal statutes, such as RESPA, as amended, as well as with the regulations governing the VA Home Loan Program.

1. Specifically, a VA Loan Servicer must comply with VA requirements in the following areas:

## NEW REGULATIONS

- ✓ Servicing operations requirements
- ✓ Quality Control procedures
- ✓ Requirements for responding to written borrower inquiries; and
- ✓ Electronic reporting requirements

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- A. VA is authorized to, and will impose, sanctions against those who take actions that are detrimental to the VA loan guaranty program. The type and severity of the sanction imposed is based on the type of participant (for example, lender, servicer, builder, appraiser, broker, real estate agent, etc.) and the nature of the actions (for example, fraud, significant deficiencies in performance, etc.)**
- B. Sanctions may be imposed in the form of civil money penalties and/or the participant's full or partial exclusion from participation in the VA loan guaranty program for a certain period of time.**