

GUIDANCE ON ELIGIBILITY AND UNDERWRITING ISSUES AS A RESULT OF HURRICANE KATRINA

Restoration of Entitlement

The basic requirements for restoration are disposal of the property and evidence the VA guaranteed loan has been paid in full. As a result of Hurricane Katrina VA will be flexible in applying the procedures for restoration.

If a veteran reports a prior VA loan on a property that a lender proposing to make a loan confirms was in the affected area and was destroyed or likely not to be salvageable VA will consider the requirement for disposal of the property to have been met. Documentation supporting these cases may be varied. Lenders contemplating a loan for a veteran should be flexible and use their judgment when determining if the documentation indicates the property was destroyed or is not salvageable. Regarding the requirement that the loans be paid in full, VA will presume insurance will likely pay off the mortgage obligation. It is recognized there will be cases where this does not happen; however, VA is willing to assume this risk. In instances where the condition of the property may not be readily apparent, lenders should still forward whatever documentation/evidence they have to the Winston-Salem Eligibility Center, along with VA Form 26-1880, Request for Certificate of Eligibility, for a determination.

There will be instances where veterans will seek restoration of entitlement prior to considering obtaining a new loan. VA personnel will advise veterans that they will need to provide documentation similar to that mentioned in the preceding paragraph.

All such restoration requests, both those where a lender is assisting and those submitted by veterans, will be processed by the Winston-Salem Eligibility Center. That office will keep track of restorations involving Hurricane Katrina affected veterans. Lenders can contact the Eligibility Center by calling 1-888-244-6711.

Credit

Lenders should be able to review credit reports and determine if derogatory credit occurred subsequent to Hurricane Katrina (August 2005). If the credit report indicates satisfactory credit prior to August 2005, and any derogatory credit subsequent to that date can be related to the effects of the hurricane, it should still be possible to determine the veteran is a satisfactory credit risk.

Income

Lenders should be advised that VA will be flexible with regard to documentation requirements. If prior employment can't be verified (business records destroyed, etc.), but the veteran has a current position in the same or similar field, it still may be possible to consider the income. W-2s and tax returns may be obtained from the IRS to confirm prior employment and income. If that cannot be done on a timely basis, it is possible the credit report will indicate the veteran's prior employment. Short-term employment will be considered in light of the circumstances. Although it is anticipated that lenders will make every effort to obtain documentation on prior employment, VA will be flexible on documentation requirements. In all cases where traditional documentation cannot be obtained, lenders should document their efforts.

Assets

Because "hard copy" bank records may be unavailable, lenders should encourage borrowers to access their financial institution's websites to try and download statements confirming assets needed to close the loan. As above, lenders should document their efforts to verify assets and make every effort to ensure that the veteran will have funds to complete the transaction.

Liabilities

With regard to the continued mortgage obligations on the prior loans securing properties that have been destroyed or damaged, VA will accept that the record may show late payments as a result of Hurricane Katrina. Lenders should not consider the outstanding mortgage obligation on destroyed or seriously damaged properties when determining a veterans' ability to make payments on a new loan. We will take the position that insurance settlements are likely to pay off remaining obligations. If the veteran was three or more months delinquent on his/her loan prior to the hurricane and the property has been destroyed, it would not be prudent for a lender to make a new loan unless they can show and document extenuating circumstances.

Summary

The above is meant to be general guidance only. Each case is different and will ultimately need to be evaluated on its own merits. The guiding principle should be a desire to ensure every qualified veteran obtains the benefit he or she deserves. Lenders can check the Federal Emergency Management Agency (FEMA) site at <http://www.fema.gov/news/disasters.fema> to determine if the veteran lives in or did live in an area affected by the Hurricane. Lenders should be advised to DOCUMENT their decisions so that persons doing post-closing reviews will be able to follow the rationale for loan approval. While lenders are encouraged to use their automatic authority to the maximum extent possible, it is recognized there will be instances where they may be uncertain if the loan meets VA credit guidelines. In those cases lenders are reminded that they can submit such cases to VA for prior approval. A letter from the underwriter should accompany such submissions explaining why the loan is being forwarded to VA.

Please note the guidelines above are applicable only for veterans who have been impacted by Hurricane Katrina. In all other cases, lenders are expected to follow the normal documentation and restoration procedures spelled out in the VA Lender's Handbook. Any questions regarding this guidance should be directed to William White in Loan Policy at william.white@vba.va.gov