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St. Paul Loan Notes

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 Loan Production Section
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With Respect of Those Heroes Who Protect Our Freedoms
A Monthly VA Home Loan Information Newsletter for Real Estate Professionals and Lenders

From the Loan Production Staff

The Loan Production Staff is happy to bring you the 4th edition of the St. Paul Loan Notes. As with our previous editions of this newsletter, we hope to provide you with informative and interesting topics regarding the VA Home Loan Program.

One of our most important missions at the St. Paul Regional Loan Center is to be accessible and responsive as we provide timely, accurate, and cost-effective service to veterans and their families. We would not be able to do that without the help of the Real Estate Professionals and Lenders. A special thanks goes out to you, for your support in providing VA home loans to those veterans and service members who sacrifice so much in order that we Americans may enjoy the freedoms that we are privileged to have.

Your concerns, comments, and questions are important to us. Please contact us with any issues that you would like addressed and we would be happy to discuss them with you. You can contact us by e-mail at RLCTT@vba.va.gov or call us at 1-800-827-0611 ext 3716.

St. Paul Regional Loan Center
 Quality/Training Team

Reserve Status and Certification Statement

When activated with the Reserves or National Guard, those veterans whose loans are in process or ready to close may be subject to a sharp reduction in income. It is important to recognize that activated reservists whose incomes are reduced may be unable to qualify for the loan they are seeking. Therefore, except in cases where the veteran is currently serving on active duty and qualifying income is derived from such service, lenders must determine if a veteran is a member of a Reserve or National Guard unit.

To accomplish this, lenders must obtain a statement which affirms that a veteran-applicant's status relative to membership in the Reserves or National Guard, has been ascertained and considered. If the veteran is in a unit with actual orders for mobilization, the loan must be underwritten on the basis of the veteran's income on active duty. Keep in mind, there are no clear-cut procedures that can be applied to all cases. Evaluate all aspects of each individual case, including credit history, accumulation of assets, overall employment history, etc., and make the best decision for each loan regarding the use of income in qualifying for the loan.

Weigh the desire to provide a veteran their benefit with the responsibility to ensure the veteran will not be placed in a position of financial hardship. If any questions arise regarding unusual circumstances concerning

a mobilized service member's income, please contact the appropriate VA Regional Loan Center for assistance.



VA Form 26-8937 Verification of VA Benefits

In order for the Funding Fee to be waived for those veterans receiving VA compensation, a VA Form 26-8937 must be submitted to the appropriate Regional Loan Center. This form has recently changed its title name from *Verification of VA Benefit Related Indebtedness* to *Verification of VA Benefits*. The new form dated November 2005 supersedes the old form dated August 2004. The old form should not be used.

The new form includes a certification by the borrower as well as a new box for VA to check if the veteran is exempt from the funding fee due to entitlement to VA compensation benefits upon discharge from military service.

You can obtain a copy of the new form at <http://www.va.gov/vaforms/>.

Question Forum

Q: Can a VA loan be used to buy a manufactured or double-wide modular home?

A: VA does allow loans for manufactured homes as long as they are on a permanent foundation and on a lot that is taxed as real estate. Manufactured homes that are not on a permanent foundation and taxable lot are an eligible VA loan purpose, however, it may be very difficult to find a lender who will fund that type of loan.

Q: For a VA loan, is it allowable for the seller to pay the buyer's closing costs?

A: Yes, it is allowable for a seller to pay the buyer's closing costs. VA regulations limit the fees the veteran can pay when obtaining a loan. Normal discount points and payment of the buyer's closing costs are not considered a seller concession. A seller concession (limited to 4%) is anything of value added to the transaction by the seller for which the buyer pays nothing additional which the seller is not customarily expected or required to pay or provide. The problem is concessions are offered by builders or sellers as a competitive tool. In extreme cases, the concessions may entice unwary and unqualified veterans into home mortgages they cannot afford. The concessions may disguise the veteran's inability to qualify for the loan.

Q: I filed Chapter 7 bankruptcy recently. Can I apply for a VA loan with that on my record?

A: Generally a Chapter 7 bankruptcy can be disregarded once it has been discharged more than 2 years.

If the bankruptcy was discharged within the last 1 to 2 years, it is probably not possible to determine

that the applicant or spouse is a satisfactory credit risk **unless** the applicant or spouse has obtained consumer items on credit subsequent to the bankruptcy and has satisfactorily made the payments over a continued period. Also, the bankruptcy would have to be caused by circumstances beyond the control of the applicant or spouse such as unemployment, prolonged strikes, medical bills not covered by insurance, etc., and the circumstances are verified.

If a borrower or spouse has been discharged in bankruptcy within the past 12 months, it will not generally be possible to determine whether the borrower or spouse is a satisfactory credit risk.

Q: The mortgage company I work for has a VA loan where the original file was lost. Will VA accept a copy package for insuring purposes if we have a letter certifying all copies are true and correct of originals?

A: A copy package would be acceptable for guaranty purposes. Be sure to indicate in your loan file that the copies are true and correct of originals. Please be aware that you no longer need to send in guaranty packages to VA unless the case was a prior approval. You are now able to guarantee the loan under the VA Portal through TAS/WBLS. The site is: <http://vip/vba.va.gov>. Once into the site click on Requester, WBLS, Submit Guaranty Request and follow the fill-ins.

Q: We have a veteran borrower who is purchasing ownership of a private business and would like to use this self-employment income to qualify for a VA loan. Is this possible?

A: Income from self-employment may be used for qualifying purposes when the borrower has been self-employed for at least 2 years. If the borrower has related experience and/or extensive specialized training, consideration may be given after one year. The guidelines regarding self-employment income can be found in Chapter 4.2 part J of the *VA Lender's Handbook*.

Q: Where can I find information about lender approval, automatic authority or agents?

A: All of this information is contained in Chapter One of the *VA Lender's Handbook*, located on the national web site at www.warms.vba.va.gov/pam26_7.html. A check list and specific points to consider when applying for automatic underwriting authority can also be found there.

Q: I have a veteran borrower who is receiving gift funds to help pay his closing costs. Should they be verified in the donor's or applicant's bank account?

A: There is no specific requirement in the *VA Lender's Handbook* regarding this. However, the lender must obtain a gift letter at a minimum. Many lenders obtain verification of the veteran's receipt of funds from the donor.

Q: Can I "construct" a home with a VA loan OR only buy an existing home with a VA loan?

A: You may construct a home or buy a home with a VA approved loan. If you construct a home you usually will need to obtain a bridge loan from a lender and then refinance that loan at 100% into a VA loan at the time of completion of the construction.